

## **UC Berkeley**

### **Cal-in-Sac Undergraduate Research on Diversity and Entrepreneurship**

#### **Title**

Contract Local! An examination of San Francisco's Local Business Enterprise Program

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# CAL-IN-SACRAMENTO FELLOWSHIP PROGRAM, FALL 2021 DIVERSITY AND ENTREPRENEURSHIP IN CALIFORNIA

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*Title:* Contract Local! An examination of San Francisco's Local Business Enterprise Program

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In the spring of 2021, IGS launched a two-year Diversity and Entrepreneurship Fellowship Program. Cal-in-Sac Fellows conducted original research focused on the challenges and opportunities facing women- and POC-owned small businesses and diverse entrepreneurs in California. This series includes Op-Eds, blogs, policy briefs and other research products that capture key findings of the students' research. Learn more at <https://igs.berkeley.edu/matsui-center/fellowships/cal-in-sacramento>.

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In San Francisco, the Local Business Enterprise (LBE) program rewards small, SF-based businesses by mandating all contractors with the City do a certain percentage of their business with certified LBEs. This participation requirement can ensure that high value contracts spread the wealth to smaller businesses unable to complete them on their own, building local business experience, resumes, and resources and ultimately making them more competitive for contracts, public or private.

However, the outcomes of this LBE program may not be representative of the actual firms participating. Reviewing contract data from fiscal year 2018 to the current year, we found that a significant discrepancy exists between the share of contract value for women-owned businesses (WBEs) and male-owned businesses<sup>1</sup>. On average, male contractors are awarded higher value contracts, the effects of which are most prominent for firms not owned by minorities.

While a not-insignificant portion of the firms awarded contracts have not been associated with a particular gender or racial group, affecting most prominently the number of contracts awarded, the average and median contract values still support this conclusion. However, this data does not support a conclusion that, all else held equal, female contractors will earn less per contract than male contractors.

Traditionally male-dominated fields, such as engineering and construction, have very high contract values, but are relatively scarce. While the barriers women, and particularly women of color, face in 'breaking into' these industries cannot be ignored, at present the value gap could reasonably be a result of industry-specific gender and racial dynamics, and not a result of any particular feature of San Francisco's contracting process. Additional refinement of data by industry is necessary to determine whether there is an industry-based cause for this discrepancy.

Interestingly, while minority status is associated with lower contract value for male-owned businesses, the opposite is true for women-owned businesses. Women of color have higher average and median contract values than their white counterparts, and while they still are awarded lower value contracts to their male counterparts, and make up a lower share of contract value, this gap is less prominent than for white contractors. Again, without industry-specific data, we cannot determine what the cause of this difference is.

While industry-specific effects may be present, another possible cause could be the recent programs, such as the \$120 million Dream Keeper Initiative, to support economic growth in communities of color, and particularly for women of color. One contractor who works closely in this field recounts that after the murder of George Floyd and Breonna Taylor last summer, the contracts to support these communities, such as for community engagement efforts, were more

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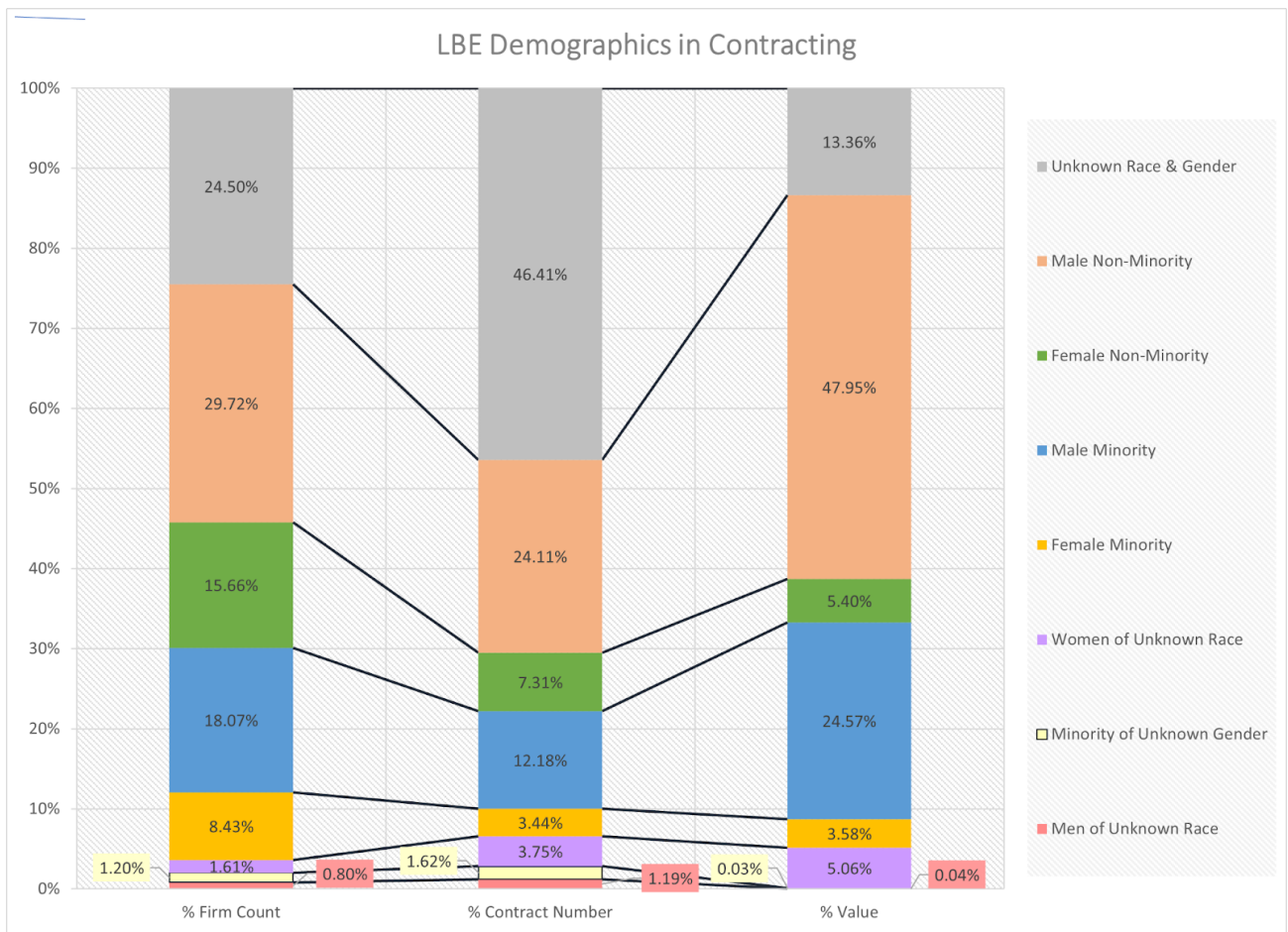
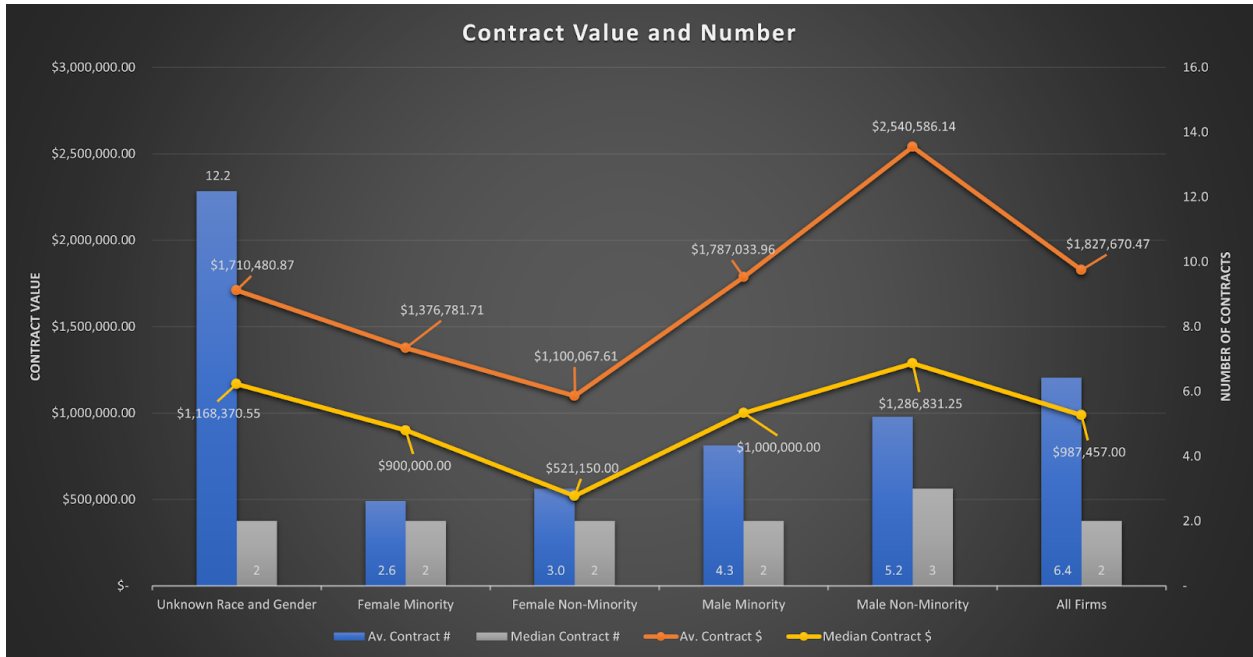
<sup>1</sup> In the course of this investigation, no nonbinary contractors were found. This does not mean they do not exist, but unfortunately the baseline demographics collected by the city or Census Bureau do not acknowledge them, hence usage of Male/Female.

common and higher value. While it remains too early to tell, this could be a factor behind the average value trend.

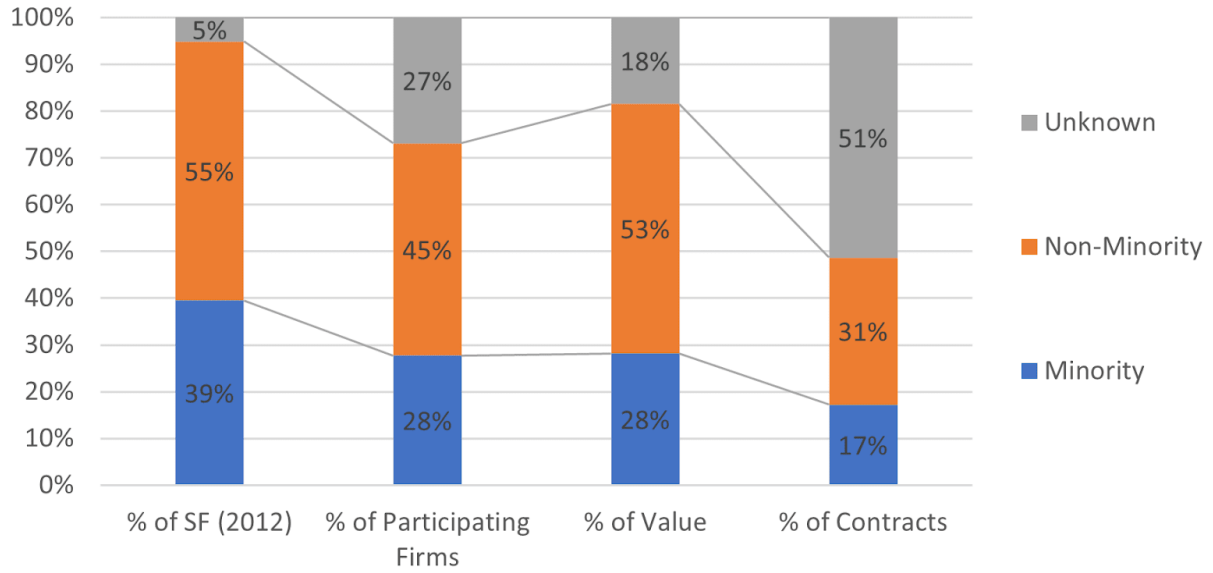
In interviews with business owners and procurement experts, several symmetrical effects were identified which may be affecting the participation rates seen in this data. Primary among them is the upfront cost of submitting a bid, or documentation to receive LBE status. Without a specific individual to manage these administrative tasks, or without specific expertise in this field, the additional burden can be nearly prohibitive for smaller businesses, especially if additional stressors (such as a pandemic and economic recession) are present.

However, several business owners reported satisfaction with the overall process's perceived fairness and thoughtfulness. Consistent, available rubrics and timely feedback, while not always received, did lead contractors to believe that there was little, if any, room for bias in the bidding process.

The participation requirement of the LBE program encourages large firms to reach out to and develop connections with smaller, local, and oftentimes Minority- or Women-owned businesses. It supports the return of municipal funds to the communities they originate from, and promotes the growth of local businesses. Industry-specific data and a more robust review of gender and race among contractors is necessary to illuminate underlying causes for the observed differences. However, this data raises some questions about the capability of these programs to return these funds in a way which reflects the diversity of San Francisco's business and contracting community.



### MBE



### WBE

