

# Exploring the Effects of Discretion, Discrimination, and Oversight on the Inclusiveness of Small Business Contracting

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August 31, 2020

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**Funding:** *This work was supported by a grant from the Ewing Marion Kauffman Foundation and the Rutgers Center for Urban Entrepreneurship & Economic Development.*

# **Exploring the Effects of Discretion, Discrimination, and Oversight on the Inclusiveness of Small Business Contracting**

## **Abstract**

In 2017, U.S. federal agencies awarded over \$86 billion in contracts to small businesses owned by members of under-represented groups (minorities, women, service-disabled veterans, and certified businesses located in economically distressed areas). The vast scale and scope of public procurement coupled with policies for supporting small disadvantaged businesses may drive federal agencies towards greater inclusiveness in awarding contracts, which may shape broader societal patterns of economic participation and social equity. However, the level of inclusiveness varies considerably across different federal agencies. The authors posit that differences in three key organizational mechanisms associated with federal agencies' decision-making processes — administrative discretion, workplace discrimination, and legislative oversight — influence an agency's level of inclusiveness in awarding contracts. They test these ideas using the annual small business procurement activities of 41 federal agencies, large and small, from 2002-2011. The authors find empirical evidence for economically significant effects of discretion, discrimination, and oversight on an agency's inclusiveness in awarding contracts and discuss the scholarly, managerial, and policy implications.

**Keywords:** representative bureaucracy; decision-making processes; inclusiveness; contracting; small businesses

Small businesses are a vital engine for economic growth and job creation in the U.S. economy. According to a 2018 report by the Small Business Administration (SBA), “There are currently over 30 million small businesses and they create two out of every three net new jobs in the private sector each year, and more than half of all Americans either work for or own a small business.”<sup>1</sup> The 2017 fiscal year marked the first time in U.S. history that federal agencies awarded over \$105 billion in prime contracts or about 23.9% of all annual public procurement dollars to small businesses. This includes over \$86 billion awarded to firms owned by members of under-represented groups (minorities, women, service-disabled veterans, and certified businesses located in economically distressed areas).<sup>2</sup> The vast scale and scope of public spending and the enactment of policies for supporting small disadvantaged businesses may drive federal agencies towards increasing inclusiveness in awarding contracts, which may shape broader societal patterns of economic participation and social equity (McCrudden, 2004).

However, prior research indicates that independent of agency size and mission, the level of inclusiveness in awarding contracts appears to vary considerably across different federal agencies (Brunjes & Kellough, 2018; Fernandez et al., 2013; Smith & Fernandez, 2010). We aim to extend prior research in a new direction by exploring how differences in three key organizational mechanisms associated with federal agencies’ decision-making processes — administrative discretion, workplace discrimination, and legislative oversight — influence an agency’s level of inclusiveness. Specifically, we investigate the following research question:

*How do discretion, discrimination, and oversight affect federal agencies’ inclusiveness in contracting with under-represented groups of small business owners?*

Our research builds upon the theory of representative bureaucracy, which provides a lens for understanding the often tenuous complementarity between elected officials, administrators,

and the voting public. The nature of these relationships is actively scrutinized and one aspect of keen interest to researchers is the pivotal role of the unelected bureaucrat, who must simultaneously serve the public, while also complying with oversight from legislators (Svara, 2001). Adding complexity to this ongoing discourse is the rapid pace of privatization in the federal government, which blurs the lines between externally-contracted organizations and internal decision-makers in the funding agencies (Savas, 2000). As noted from the outset of our study, record-breaking levels of private contracting (over \$105 billion in FY17) continue to reinforce the complex dynamics between the interests and alignment of elected officials and voters. The recent growth in private contracting is reigniting debates over the tradeoffs between the size and efficiency of government (Angelopoulos et al., 2008).

In this context, the theory of *representative bureaucracy* defines the relevant organizational mechanisms and predicts privatization outcomes (Bradbury & Kellough, 2011; Fernandez et al., 2013; Smith & Fernandez, 2010). According to the theory, *passive representation* is evident when the public sector workforce is demographically similar to the constituency it serves (Selden, 1997). *Active representation* occurs when the public workforce exercises *administrative discretion* in line with the social norms, beliefs, and values of the groups from which the workforce is drawn (Krislov, 1974; Long, 1952; Mosher, 1982; Van Riper, 1958).

In this study, we develop three main ideas. First, we posit that when greater *administrative discretion* concentrates decision-making power in a small group of agency executives, the contracting outcomes are less likely to be inclusive in terms of procuring from a supplier base composed of diverse small business owners (Marvel & Resh, 2015; Meier & Bohte, 2001). Second, *workplace discrimination* represents an individual's perception that

unfavorable “selective and differential treatment is occurring” because of their ethnicity (Roch & Edwards, 2017; Sanchez & Brock, 1996: 704), gender, (Cohn, 2000; Dolan, 2000; Heilman & Eagly, 2008; Park, 2013; Smith & Monaghan, 2013), or disability status (Clair et al., 2005). We posit that the prevalence of workplace discrimination within a federal agency will hinder the agency’s efforts to create an inclusive environment internally, which is likely to limit the agency’s ability to procure externally from a diverse set of small business owners. Third, we incorporate *legislative oversight* as the process wherein the U.S. Congress monitors, evaluates, and reviews executive branch administrators’ compliance with legislative goals. We posit that, to the extent that the demographic composition of Congressional membership reflects various constituencies (minorities, women, veterans, business owners), Congress will exercise their legislative oversight in ways that encourage federal agencies to procure from these constituencies (Kelleher & Yackee, 2008).

The three main ideas are tested using the annual small business procurement activities of 41 federal agencies, large and small, from 2002-2011. The outcomes measured are the annual shares of a federal agency’s contracts awarded to small disadvantaged businesses (SDBs), women-owned small businesses (WOSBs), service-disabled veteran-owned small businesses (SDVOSBs) and certified small businesses located in Historically Underutilized Business Zones (HUBZones). The results provide empirical evidence for economically significant effects of discretion, discrimination, and oversight on an agency’s inclusiveness in awarding contracts to SDBs, WOSBs, SDVOSBs, and firms in HUBZones.

## **Theory**

Small business ownership by members of under-represented groups has been shown to have a positive social impact on the communities where they operate (Inouye, Joshi, et al., 2020).

Specifically, these business provide employment for minorities and other under-represented groups in much higher proportion than other firms (Bates, 1988; Fairchild & Robinson, 2004). Employment, of course, has other positive social impacts (Fairchild & Robinson, 2008) and at least one study demonstrates a relationship between higher rates of Black entrepreneurship and lower rates of youth violent crime (Parker, 2015).

Social entrepreneurship, often referred to as social enterprise, is a form of entrepreneurship that has dual or triple motivations: economic, social and environmental (Elkington & Hartigan, 2008; Peredo & McLean, 2006; Robinson, 2006; Robinson et al., 2019). Some under-represented groups of business owners would identify themselves as social entrepreneurs. However, many would not call themselves social entrepreneurs although they are intentional about whom they hire, where they locate their business, and how they interact with their local community. The policies that support these strategic choices can have a positive impact on society (Robinson, 2007).

There is also the “parity” argument (Obuko & Mark, 2015) put forth by the U.S. Department of Commerce’s Minority Business Development Agency (MBDA). The parity argument suggests that government policy should promote the development of under-represented group entrepreneurship because it will increase job-creation and wealth creation within these groups. Government policies may be especially impactful when they help immigrant entrepreneurs from ethnic minority communities obtain technical training and commercial assistance from federal agencies (Inouye, Joshi, et al., 2020). In addition, government programs for encouraging research and development (R&D) grants for small business innovation and technology transfer activities may also play an essential role in increasing overall access to alternative non-dilutive, non-equity funding sources for owners of small high-tech businesses

(Joshi, 2014). If, through such policies and programs, the number of these entrepreneurs can increase to a level that matches their proportion in the entire population, so many jobs will be created that it will wipe out most if not all of the unemployment rate for these groups (minority, women, and veterans) (Obuko & Mark, 2015, p. 16).

The combination of these approaches by entrepreneurs from under-represented groups changes the social and economic opportunities within minority communities and neighborhoods at various levels. In this paper, we focus on the ability of public procurement policies to bring about social change by fostering a more inclusive economy and increasing the number of under-represented groups involved in public contracting and small business procurement.

### **Overview of Small Business Procurement Programs**

Hundreds of federal procurement rules are captured in the Federal Acquisition Regulation (FAR) but ultimately, final purchasing decisions are made by contracting officers who wield significant administrative discretion over which suppliers are awarded contracts (Brunjes, 2020; Girth & Lopez, 2019; Kim & Brown, 2012; Nelson, 2017).<sup>3</sup> For example, SDBs, WOSBs, SDVOSBs, and HUBZone-certified firms all qualify for federal procurement set-aside programs (for a summary, see table 1). Under FAR (subpart 19.502-2),<sup>4</sup> federal contracting officers are required to reserve all procurement between \$3,000 and \$150,000 for small business participation. In addition, these officials have considerable discretion in creating suitable evaluation mechanisms for awarding contracts (FAR, subpart 13.106-2).<sup>5</sup> This indicates that contracting officials may indeed operate with wide latitude when awarding these smaller contracts, which enables active representation to occur.

**Table 1. Overview of Small Business Procurement Programs**

<b>Small Business</b>	<b>Small Disadvantaged Business (SDB)</b>	<b>Women-Owned Small Business (WOSB)</b>	<b>Service-Disabled Veteran-Owned Small Business (SDVOSB)</b>	<b>Historically Underutilized Business Zone (HUBZone)</b>
<i>Certification</i>	Self-Certification	Self-Certification	Self-Certification	SBA Certification
<i>Purpose of Program</i>	To help provide a level playing field for small businesses owned by socially and economically disadvantaged people or entities.	To help provide a level playing field for women business owners, the government limits competition for certain contracts in industries where women-owned small businesses (WOSB) are under-represented.	To provide procuring agencies with the authority to set acquisitions aside for exclusive competition among service-disabled veteran-owned small business concerns.	To help small businesses in urban and rural communities gain preferential access to federal procurement opportunities.
<i>Contracting Goal</i>	5% government-wide	5% government-wide	3% government-wide	3% government-wide
<i>Eligibility</i>	<ul style="list-style-type: none"> <li>• Firm must be at least 51% owned and controlled by U.S. citizens who are economically and socially disadvantaged, including African Americans, Hispanic Americans, Asia-Pacific Americans, Subcontinent Asian Americans, and Native Americans.</li> <li>• Firm should not already have participated in the 8(a) program.</li> <li>• Owner's personal net worth ≤ \$250K, average adjusted gross income for three years ≤ \$250K</li> <li>• Owner's assets ≤ \$4 million</li> <li>• Owner manages day-to-day operations and also makes long-term decisions.</li> <li>• Show potential for success and be able to perform successfully on contracts.</li> </ul>	<ul style="list-style-type: none"> <li>• Firm must be at least 51% owned and controlled by women who are U.S. citizens.</li> <li>• Have women manage day-to-day operations and also make long-term decisions.</li> </ul>	<ul style="list-style-type: none"> <li>• Firm must be at least 51% owned and controlled by one or more service-disabled veterans.</li> <li>• Have one or more service-disabled veterans manage day-to-day operations and also make long-term decisions.</li> <li>• Eligible veterans must have a service-connected disability.</li> </ul>	<ul style="list-style-type: none"> <li>• Firm must be at least 51% owned and controlled by U.S. citizens, a Community Development Corporation, an agricultural cooperative, a Native Hawaiian organization, or an Indian tribe.</li> <li>• Have its principal office located in a historically underutilized business zone (HUBZone).</li> <li>• Have at least 35 percent of its employees live in a HUBZone.</li> <li>• Four types of areas can be recognized as HUBZones: (1) Qualified Census Tracts; (2) Qualified Non-Metropolitan Counties; (3) Qualified Reservations; (4) Qualified Base Closure Areas.</li> </ul>
<i>Benefits</i>	<ul style="list-style-type: none"> <li>• Price evaluation adjustment (PEA) of up to 10 percent when bidding on federal contracts in certain industries or services where SDBs are under-represented because of discrimination</li> <li>• Encourages prime contractors to use certified SDBs as subcontractors through mandated evaluation factors and optional monetary incentives.</li> </ul>	<ul style="list-style-type: none"> <li>• Set-asides are for 83 industries in which WOSBs are significantly under-represented.</li> </ul>	<ul style="list-style-type: none"> <li>• SDVOSBs are preferred over all other types for VA contracts.</li> <li>• SDVOSBs can generally receive set-aside contracts and sole source contracts for awards ≤ \$6.5 million for manufacturing or ≤ \$4 million for all other industries.</li> </ul>	<ul style="list-style-type: none"> <li>• Certified HUBZone small businesses are given a 10% PEA in open government contract and subcontract competitions</li> <li>• Certified businesses are also eligible for HUBZone set-aside and sole source contracts</li> </ul>

Sources: SBA, (Dilger et al., 2018)



For contracts above \$150,000, officials may set these awards aside for small businesses as well, but are further required to engage in competitive negotiations or sealed bidding. While this limits administrative discretion by mandating the evaluation of the lowest price (for competitive sealed bidding), contract officials must still deem the winning bid to be responsive in terms of timeliness and the feasibility of the awardee executing the contract. For competitive negotiations, officials are authorized to consider additional criteria such as quality and management capability when evaluating proposals (see FAR part 15).<sup>6</sup> Because agency officials are responsible for negotiating the terms and conditions for these proposals, this still allows the possibility for active representation to occur.

Previous research finds that despite substantial regulation, federal agencies often interpret and implement the same policies quite differently; this may be especially prevalent when agencies interface with small, private firms (Joshi et al., 2017). For example, the SBA recognizes that although rules and regulations provide valuable oversight, the sheer volume of work necessitates placing much of the responsibility for individual contracts with federal agencies. Because these agencies have distinct missions, they rely on different workforces to pursue mission-specific goals and objectives. The theory of representative bureaucracy predicts that if agencies' workforces exhibit differences in their respective levels of diversity, then there will likely be differences in passive and active representation.

### **The Theory of Representative Bureaucracy**

The theory of representative bureaucracy provides a particularly useful lens for viewing the decision-making processes implemented in the previously described federal procurement programs. There are two main tenets of this theory. First, *passive representation* occurs when an agency is demographically similar to the community that it serves and second, passive

representation is likely to produce benefits (*active representation*) for the individuals within that community (Fernandez, 2020; Krislov, 1974; Long, 1952; Meier, 1993; Meier & Nigro, 1976; Mosher, 1982; Selden et al., 1998; Van Riper, 1958).

Given that the federal government has made significant progress in diversifying its workforce (passive representation) over the past two decades (Choi, 2010, 2011, 2013; Liang et al., 2020), the theory of representative bureaucracy predicts that the share of federal contracts awarded to under-represented social groups will increase accordingly. Although this prediction is tested extensively in prior studies on gender and minority representation, the results only explain the active representation of some under-represented social groups and not others. Disentangling these mixed findings is critical for administrators and legislators who may seek to influence the diversity of corporate America through programs like SDB, WOSB, and SDVOSB, as well as for taxpayers who ultimately fund such programs. To address this gap in the literature, we now turn to reviewing salient aspects of the theory of representative bureaucracy and then integrating this research on under-represented groups with related research on social identity and disabilities.

***Representation of ethnic minorities.*** There is strong existing evidence for a positive relationship between passive and active ethnic minority representation (Bradbury & Kellough, 2007; Brunjes & Kellough, 2018; Meier & Stewart Jr, 1992; Pedersen & Nielsen, 2020; Smith & Fernandez, 2010). Prior research generally supports the claim that passive ethnic minority representation is positively related to an increase in the percentage of federal contract dollars awarded (active representation) to SDBs and SBA 8(a) certified small businesses (Fernandez et al., 2013; Smith & Fernandez, 2010). In addition, more recent large-scale empirical research on public-private funding indicates that the likelihood of securing follow-on R&D grants (active

representation) increases as passive ethnic minority representation within a federal agency increases (Joshi et al., 2017).

***Representation of women.*** The evidence, however, is not as clear regarding the effects of gender representation (Keiser et al., 2002; Meier & Nicholson-Crotty, 2006; Park, 2013; Pedersen & Nielsen, 2020). Prior research indicates that an overall increase in the percentage of female employees in federal agencies has no significant relationship with awarding contracts to WOSBs. In fact, counter to the theory of representative bureaucracy, a higher percentage of female federal agency employees in the Senior Executive Service (SES) is negatively related to the share of contract dollars awarded (Brunjes & Kellough, 2018; Fernandez et al., 2013). A related study finds that federal agency workforce gender diversity (i.e., passive gender representation) positively influences the likelihood of WOSBs receiving follow-on R&D grants (Joshi et al., 2017). In other contexts (i.e., education industry), passive gender representation is also positively related to active gender representation (Keiser et al., 2002). Given these mixed results, the theory of representative bureaucracy appears to adequately describe ethnic minority representation, but offers limited explanations for the variation in results for gender representation (Inouye, Robinson, et al., 2020).

### **The Social Identity Perspective**

Compared to firms owned by minorities and women, far less is known about other types of under-represented businesses, such as firms owned by service-disabled veterans. Despite the significant amounts of governmental assistance (VA home loans, federal hiring preferences, ADA compliance, Section 8 housing assistance, etc.) directing resources towards SDVOSBs, surprisingly little empirical research exists on the contracting activities of these firms (Clark III & Moutray, 2004; Solomon et al., 2013). Since prior research on representative bureaucracy does

not explicitly consider SDVOSBs, we revisit the social psychology literature for an explanation of possible variation in contracting activities. This stream of research offers useful descriptions about how the representation of businesses owned by disabled individuals may differ when compared to the representation of businesses owned by minorities or women. Social categorization (Tindale & Winget, 2019; Turner, 1985) and social identity theory (Hodgetts et al., 2020; Tajfel et al., 1979) suggest that people categorize themselves and others into groups using available knowledge of group characteristics and that this categorization defines a person's self-schema or sense of one's self. The groups that people belong to define their behavior and their decisions to act individually or collectively. Specifically regarding procurement, race or gender are only part of a person's identity, and at any given time, multiple views of the self (some of which may be conflicting) may influence contracting decisions (Fernandez et al., 2013).

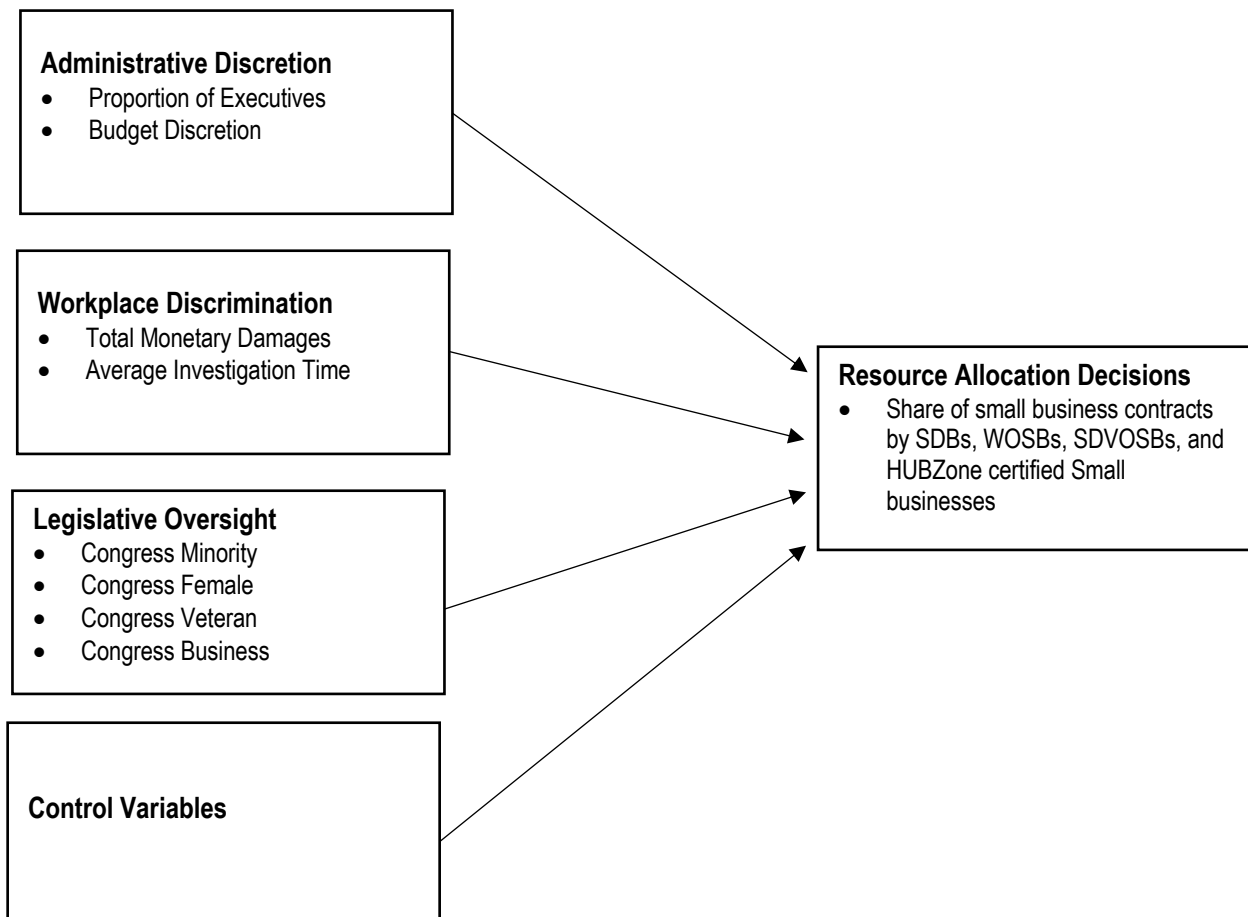
***Representation of veterans with disabilities.*** While ethnicity and gender are “visible” characteristics that may define a person's social identity, disabilities are not always readily apparent. Yet, research finds that disabled individuals do experience the stigma (social isolation, status loss, career advancement, etc.) arising from this identity which is oftentimes quite painful (Beart et al., 2005; Cytowska & Zierkiewicz, 2020). Prior studies focus largely on visible social identities (primarily ethnicity or gender) and the behavior of others who react to those identities. However, what occurs when a person has a disability that is difficult to notice, such as an intellectual disability or minor physical disability? For individuals with nonvisible disabilities, the effects are internal and occur while he or she considers how to manage the effects of the disability around others. These individuals may choose to hide their disability or choose to reveal their disability and avoid suppressing its effects (Clair et al., 2005). If agency bureaucrats with visible or nonvisible disabilities hold and assert a strong social identity linked to their

disabilities, then this may shape their decision-making in awarding contracts to businesses owned by disabled individuals (Gade & Wilkins, 2012).

### Small Business Procurement with the US Federal Government

Based on the preceding arguments, we present a framework (see figure 1) that expands Sowa and Selden's (2003, p. 704) concept of the relationship between administrative discretion and government representativeness. The framework introduces the *proportion of executives* and *budgetary discretion* as proxies for administrative discretion across federal agencies (Dolan, 2002, 2004). We also incorporate the construct *workplace discrimination* and use *total monetary damages* and *average investigation time* as signals of workplace discrimination (Wakefield & Uggen, 2004).

**Figure 1. Model for Share of Small Business Procurement in the U.S. Federal Government**



These signals capture an agency's diversity climate, which may influence resource allocation decisions for under-represented groups of business owners (Choi, 2013; Moon & Christensen, 2020). We add *legislative oversight* as a construct of interest. This is measured as the percentage of minorities, females, and veterans in Congress along with the percentage of members of Congress who have a business background. Prior research finds that people with urban business experience tend to see the value or potential for opportunities in urban areas where others may not (Robinson, 2007). The framework utilizes the main variables from Fernandez et al. (2013) as control variables.

## **Methods**

### **Sample and Data Collection**

We use variables collected from four online databases managed by the U.S. federal government. Data on contracting dollars awarded comes from the Federal Procurement Data System Next Generation (FPDS-NG).<sup>7</sup> Agency personnel data comes from the Office of Personnel Management (OPM).<sup>8</sup> We also include workforce discrimination data from the U.S. Equal Employment Opportunity Commission (EEOC),<sup>9</sup> and HUBZone data from the SBA.<sup>10</sup> Our sample timeframe is from 2002-2011, which spans multiple Presidential administrations. Our unit of analysis is the federal agency, and we incorporate a total of 41 unique agencies. The sample size after taking into account missing data is 353 observations. Hence, our data is an unbalanced panel structure. We use the FPDS, OPM, EEOC, and HUBZone databases to construct and compute the following variables, as described below.

***Dependent variables.*** Our analysis encompasses four primary dependent variables, *SDB*, *WOSB*, *SDVOSB*, and *HUBZone* that serve as proxies for active representation. We include all four variables since federal agencies make procurement decisions to achieve target shares for

each type of firm. Each dependent variable represents the proportion of the federal agency's total dollars spent on procurement contracts awarded to its respective business type (SDBs, WOSBs, SDVOSBs or HUBZone).<sup>11</sup>

***Explanatory variables.*** We categorize explanatory variables into three groups: Administrative Discretion, Workplace Discrimination, and Legislative Oversight. Each explanatory variable captures a distinct dimension of passive representation. In the Administrative Discretion category, the *Proportion of Executives* is the percentage of the total agency employees who are in positions defined as SES based on their federal civil service pay grade.<sup>12</sup> *Budget Discretion (log)* is the base 10 logarithm of the total agency budget divided by the number of agency executives, which represents the amount of budgetary discretion per agency executive. In the Workplace Discrimination category, *Total Monetary Damages* is the amount (in \$ millions) that agencies paid out in the previous fiscal year to settle employment discrimination suits and *Average Investigation Time* is the average amount of time (in months) required to investigate employment discrimination complaints filed in the previous fiscal year. In the Legislative Oversight category, *Congress Minority*, *Congress Female*, *Congress Veteran*, and *Congress Business* are time-varying variables that measure the percentage of the 535 members of Congress (Representatives and Senators) who are minorities, female, veterans, or have a business background, respectively.<sup>13</sup>

***Control variables.*** To account for alternative explanations and differences across agencies, we include a range of control variables that may plausibly influence federal procurement decisions. Following prior research (Fernandez et al., 2013), we include *Minority Executives*, *Female Executives*, *Minority Employees*, *Female Employees*, and *Employees with Disabilities* as proxies for passive representation. Each variable represents the percentage of the

total agency workforce classified by the OPM for the respective groups. To capture variation in the agencies' institutional environment, we include three binary controls for *Cabinet-Level* agencies, the existence of an *SDB Office* and a *Mentor Protégé Program* within an agency. We control for increases in bureaucratic artifacts by including the number of pages of new Executive Branch rules/regulations added in the Federal Register in a given fiscal year (*Federal Rules*). *Allocation* is a time-varying control variable for any given agency's proportion of the total federal budget. We also control for supplemental funds allocated for emergency response by fiscal year, since any disaster relief allocations may increase the discretionary dollars available for procurement. *Supplemental Budget (log)* is the base 10 logarithm of the total amount of the agencies' supplemental budget for emergency response. Finally, to account for changes over time, we include dummy variables for the fiscal year of the observations (2002-2011).

**Model specification.** Our study considers four sets of contracting decisions based on each agency's scorecard that evaluates their prime and subcontracting goals (*SDB*, *WOSB*, *SDVOSB*, and *HUBZone*).<sup>14</sup> Similar to Fernandez et al. (2013), we assume that contracting officers in agencies make decisions about awarding a contract with knowledge of the other programs. Hence, the errors from each regression are not independent of each other, which results in the possibility of endogeneity (Greene, 2000). In order to empirically control for this, we analyze our data using the Seemingly Unrelated Regression (SUR) technique (Fusi & Feeney, 2020; Zellner, 1963) to estimate the four regressions simultaneously allowing the residuals to correlate:

$$Y_1 = \alpha_0 + \alpha_r X_r + \alpha_c X_c + \alpha_1 Z_1 + \varepsilon_1 \quad (1)$$

$$Y_2 = \beta_0 + \beta_r X_r + \beta_c X_c + \beta_2 Z_2 + \varepsilon_2 \quad (2)$$

$$Y_3 = \gamma_0 + \gamma_r X_r + \gamma_c X_c + \gamma_3 Z_3 + \varepsilon_3 \quad (3)$$

$$Y_4 = \delta_0 + \delta_r X_r + \delta_c X_c + \delta_4 Z_4 + \varepsilon_4 \quad (4)$$



where  $\text{cov}(\varepsilon_1, \varepsilon_2, \varepsilon_3, \varepsilon_4) \neq 0$ .

The dependent variables  $Y_1$ ,  $Y_2$ ,  $Y_3$ , and  $Y_4$  represent *SDB*, *WOSB*, *SDVOSB*, and *HUBZone* respectively. In each equation,  $X_r$  represents a vector of explanatory variables,  $X_c$  represents a vector of control variables, and  $Z$  represents the identifying variables. *SDB Office* and *Congress Minority* are identifying variables in  $Y_1$ , *Mentor Protégé Program* and *Congress Female* in  $Y_2$ , *Mentor Protégé Program* and *Congress Veteran* in  $Y_3$ , and *Mentor Protégé Program* and *Congress Business* in  $Y_4$ .

## Results

### Descriptive Statistics and Correlations

Table 2 below presents the means, standard deviations, minimum, maximum, and correlations among our variables. Our explanatory variable, *Proportion of Executives*, is negatively correlated with the proportion of contracts awarded to *SDB*, *WOSB*, *SDVOSB*, and *HUBZone* ( $p < 0.05$ ). We check multi-collinearity diagnostics across all four models and find that the average variance inflation factor for our variables is 1.78 and no variable exceeds 3.61, indicating that multi-collinearity is not an issue in any of our models.

### Results from SUR Models

We report the results from the four SUR models of our empirical analysis in table 3. Models 1-4 (see table 3) examine the relationship between our explanatory variables and dependent variables: *SDB*, *WOSB*, *SDVOSB*, *HUBZone*. The dependent variables represent the percentage of agency contract dollars awarded to that type of small business in a given fiscal year. For easier of interpretation these results, we plot these values in figure 2.

**Table 2. Descriptive Statistics and Correlations**

Variable	Mean	S.D.	Min	Max	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.	15.	16.	17.	18.	19.	20.	21.	22.	23.
<b>Dependent Variables</b>																											
1. Small Disadvantaged Business	11.56	10.40	0.00	100.00	1.00																						
2. Woman-Owned Small Business	6.48	5.38	0.00	42.36	<b>0.59</b>	1.00																					
3. Service Disabled Veteran-Owned Small Business	1.80	3.12	0.00	22.16	<b>0.20</b>	<b>0.27</b>	1.00																				
4. HUBZone-Located Small Business	2.09	2.84	0.00	20.73	<b>0.39</b>	<b>0.38</b>	<b>0.17</b>	1.00																			
<b>Explanatory Variables</b>																											
<b>Administrative Discretion</b>																											
5. Proportion of Executives (%)	2.91	4.15	0.08	26.79	<b>-0.12</b>	<b>-0.13</b>	<b>-0.12</b>	<b>-0.18</b>	1.00																		
6. Budget Discretion log (\$/executive)	6.44	0.85	1.76	8.51	<b>-0.16</b>	<b>-0.14</b>	-0.05	0.05	<b>-0.28</b>	1.00																	
<b>Workplace Discrimination</b>																											
7. Total Monetary Damages (\$ millions)	0.58	1.09	0.00	7.57	-0.02	-0.02	<b>0.34</b>	<b>0.27</b>	<b>-0.23</b>	<b>0.32</b>	1.00																
8. Average Investigation Time (months)	7.18	3.07	0.00	18.52	0.09	-0.01	<b>-0.19</b>	0.03	<b>-0.15</b>	0.07	0.09	1.00															
<b>Legislative Oversight</b>																											
9. Congress Minority (%)	13.37	1.00	11.59	15.14	0.07	0.09	<b>0.22</b>	0.10	-0.04	0.06	<b>0.17</b>	<b>-0.19</b>	1.00														
10. Congress Female (%)	15.45	1.44	13.46	17.38	0.10	<b>0.16</b>	<b>0.35</b>	0.10	-0.03	-0.01	<b>0.20</b>	<b>-0.23</b>	<b>0.83</b>	1.00													
11. Congress Veteran (%)	22.80	2.64	19.07	28.60	-0.08	<b>-0.14</b>	<b>-0.32</b>	<b>-0.11</b>	0.04	0.02	<b>-0.20</b>	<b>0.24</b>	<b>-0.89</b>	<b>-0.93</b>	1.00												
12. Congress Business (%)	40.79	5.64	34.21	48.79	0.03	<b>0.12</b>	<b>0.23</b>	0.07	0.00	<b>-0.14</b>	<b>0.13</b>	<b>-0.13</b>	<b>0.35</b>	<b>0.47</b>	<b>-0.60</b>	1.00											
<b>Control Variables</b>																											
13. Minority Executives (%)	17.11	10.22	0.00	70.25	<b>0.22</b>	<b>0.23</b>	-0.06	-0.01	-0.02	0.02	-0.01	<b>0.15</b>	<b>0.14</b>	<b>0.15</b>	<b>-0.15</b>	0.08	1.00										
14. Female Executives (%)	30.00	8.68	6.67	60.00	-0.01	0.09	0.06	<b>-0.17</b>	<b>0.14</b>	-0.01	<b>-0.11</b>	-0.10	<b>0.22</b>	<b>0.27</b>	<b>-0.25</b>	<b>0.12</b>	<b>0.46</b>	1.00									
15. Minority Employees (%)	36.69	9.78	20.47	72.48	<b>0.11</b>	<b>0.12</b>	-0.03	<b>-0.14</b>	0.01	<b>-0.23</b>	<b>-0.19</b>	-0.08	0.08	0.09	-0.08	0.04	<b>0.37</b>	<b>0.38</b>	1.00								
16. Female Employees (%)	50.19	10.56	26.48	70.76	0.00	0.06	0.06	<b>-0.16</b>	<b>0.19</b>	<b>-0.19</b>	<b>-0.19</b>	0.03	-0.03	-0.03	0.03	-0.04	<b>0.30</b>	<b>0.41</b>	<b>0.52</b>	1.00							
17. Employees with Disabilities (%)	3.29	2.60	0.20	11.66	<b>0.14</b>	<b>0.16</b>	<b>0.35</b>	0.07	-0.07	0.00	<b>0.21</b>	<b>-0.12</b>	<b>0.57</b>	<b>0.80</b>	<b>-0.65</b>	<b>0.16</b>	<b>0.25</b>	<b>0.22</b>	<b>0.19</b>	<b>0.15</b>	1.00						
18. Cabinet-Level	0.48	0.50	0.00	1.00	<b>0.18</b>	<b>0.15</b>	0.08	<b>0.24</b>	<b>-0.27</b>	<b>0.39</b>	<b>0.48</b>	<b>0.29</b>	-0.03	-0.02	0.03	-0.02	<b>0.14</b>	-0.08	<b>-0.31</b>	<b>-0.23</b>	0.01	1.00					
19. Federal Rules	103.55	22.90	71.00	138.00	0.08	0.08	<b>0.24</b>	0.01	-0.02	-0.01	<b>0.11</b>	<b>-0.14</b>	<b>0.24</b>	<b>0.63</b>	<b>-0.45</b>	<b>0.17</b>	0.09	<b>0.20</b>	0.05	0.00	<b>0.63</b>	0.01	1.00				
20. Allocation (%)	2.74	8.65	0.00	56.50	<b>-0.11</b>	<b>-0.13</b>	-0.03	-0.01	<b>-0.12</b>	<b>0.36</b>	<b>0.29</b>	0.07	-0.01	-0.01	0.01	0.00	<b>-0.12</b>	<b>-0.21</b>	<b>-0.13</b>	<b>-0.20</b>	0.01	<b>0.30</b>	0.00	1.00			
21. Supplemental Budget log (\$)	8.99	3.04	0.00	10.29	-0.02	-0.02	<b>-0.11</b>	0.03	0.08	<b>-0.14</b>	-0.06	0.10	<b>-0.57</b>	<b>-0.44</b>	<b>0.45</b>	0.04	<b>-0.15</b>	<b>-0.22</b>	-0.02	0.00	<b>-0.30</b>	0.00	<b>-0.21</b>	0.00	1.00		
22. SDB Office	0.62	0.49	0.00	1.00	-0.03	-0.02	-0.05	<b>0.18</b>	0.03	<b>0.42</b>	<b>0.38</b>	<b>0.12</b>	-0.06	-0.04	0.06	-0.04	<b>-0.20</b>	<b>-0.30</b>	<b>-0.22</b>	0.03	<b>0.51</b>	0.01	<b>0.23</b>	0.01	1.00		
23. Mentor Protege Program	0.25	0.43	0.00	1.00	<b>-0.19</b>	<b>-0.24</b>	0.10	-0.07	<b>-0.13</b>	<b>0.50</b>	<b>0.28</b>	0.08	-0.01	0.00	0.01	0.00	<b>-0.13</b>	<b>-0.20</b>	<b>-0.25</b>	<b>-0.22</b>	0.01	<b>0.22</b>	0.01	<b>0.32</b>	0.00	<b>0.18</b>	1.00

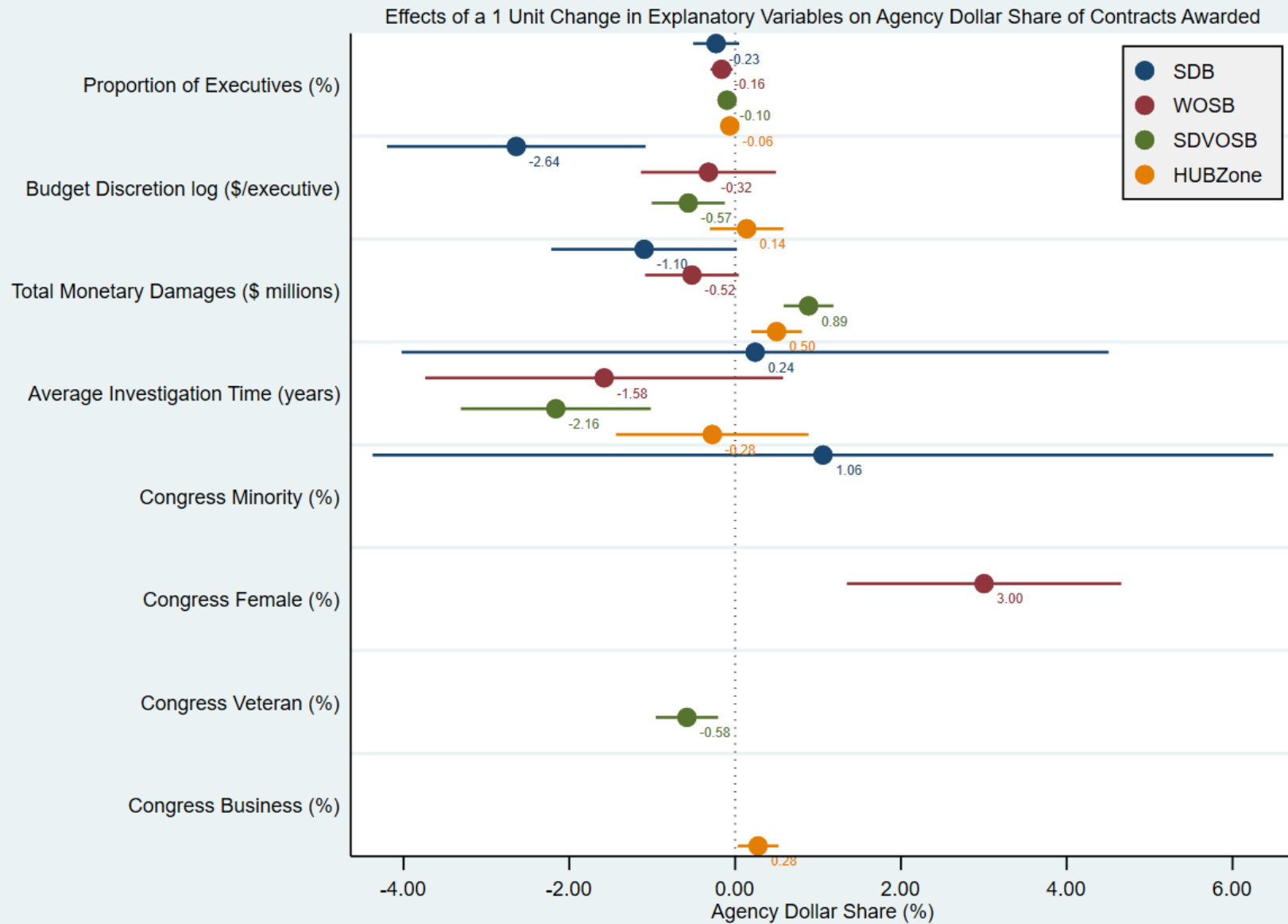
N = 353; p<0.05 in bold

**Table 3. Seemingly Unrelated Regression Results**

Dependent Variable	Model 1	Model 2	Model 3	Model 4
Explanatory Variables	SDB	WOSB	SDVOSB	HUBZone
<b>Administrative Discretion</b>				
Proportion of Executives (%)	-0.230 (0.142)	-0.163** (0.068)	-0.098*** (0.036)	-0.065* (0.037)
Budget Discretion log (\$/executive)	-2.640*** (0.796)	-0.322 (0.416)	-0.565** (0.225)	0.139 (0.227)
<b>Workplace Discrimination</b>				
Total Monetary Damages (\$ millions)	-1.098* (0.571)	-0.522* (0.288)	0.886*** (0.153)	0.500*** (0.155)
Average Investigation Time (months)	0.241 (2.176)	-1.580 (1.102)	-2.164*** (0.585)	-0.276 (0.593)
<b>Legislative Oversight</b>				
Congress Minority (%)	1.060 (2.772)			
Congress Female (%)		3.002*** (0.845)		
Congress Veteran (%)			-0.582*** (0.192)	
Congress Business (%)				0.277** (0.126)
<b>Control Variables</b>				
Minority Executives (%)	0.187*** (0.063)	0.079** (0.032)	-0.044*** (0.017)	0.012 (0.017)
Female Executives (%)	-0.178** (0.077)	-0.046 (0.039)	0.018 (0.021)	-0.066*** (0.021)
Minority Employees (%)	0.128* (0.068)	0.037 (0.035)	-0.032* (0.018)	-0.008 (0.019)
Female Employees (%)	-0.054 (0.063)	0.006 (0.032)	0.054*** (0.017)	-0.008 (0.017)
Employees with Disabilities (%)	0.185 (0.427)	0.050 (0.214)	0.271** (0.113)	-0.037 (0.115)
Cabinet-Level	6.648*** (1.417)	2.966*** (0.681)	0.234 (0.361)	0.903** (0.366)
Federal Rules	-0.037 (0.150)	-0.266*** (0.084)	-0.125*** (0.044)	-0.077 (0.051)
Allocation (%)	-0.126* (0.067)	-0.065* (0.034)	-0.041** (0.018)	-0.045** (0.018)
Supplemental Budget log (\$)	0.154 (0.709)	0.640*** (0.187)	0.308*** (0.106)	-0.075 (0.066)
SDB Office	-0.204 (1.170)			
Mentor Protege Program		-2.012*** (0.619)	0.968*** (0.369)	-1.029*** (0.360)
Fiscal Year Dummies	Included	Included	Included	Included
Constant	15.977 (29.980)	-13.147 (8.406)	30.163*** (8.389)	1.639 (2.814)
Observations	353	353	353	353
R-squared	0.190	0.223	0.354	0.199
Degree of freedom	6	6	6	6
Chi square	235.3	235.3	235.3	235.3
Log Likelihood	-3888	-3888	-3888	-3888

Note. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1; Standard errors in parentheses

**Figure 2. Proportion of Agency's Total Dollars Spent on Contracts**



In terms of Administrative Discretion, as shown in table 3 and figure 2, our analyses indicate that a 1% increase in the *Proportion of Executives* in an agency is associated with a 0.16% decrease (model 2:  $\beta=-0.163$ ,  $p<0.05$ ) in the share of awarded contracts to *WOSBs*, a 0.10% decrease (model 3:  $\beta=-0.098$ ,  $p<0.01$ ) to *SDVOSBs*, and a 0.07% decrease (model 4:  $\beta=-0.065$ ,  $p<0.1$ ) to *HUBZones*. In table 3 (model 1), we see that the coefficient for the *Proportion of Executives* is negative ( $\beta=-0.230$ ), but not significant for *SDB*. We also find negative relationships between the *Proportion of Executives* and the amount of contract dollars awarded to *WOSBs*, *SDVOSBs*, and *HUBZones*. As shown in table 3 and figure 2, we find that a one order of magnitude increase in *Budget Discretion (log)* in an agency is associated with a 2.64% decrease (model 1:  $\beta=-2.640$ ,  $p<0.01$ ) in the share of awarded contracts to *SDBs* and a 0.57% decrease (model 3:  $\beta=-0.565$ ,  $p<0.05$ ) to *SDVOSBs*.

In terms of Workplace Discrimination, as shown in table 3 and figure 2, we find that a 1-unit (\$1 million) increase in *Total Monetary Damages* in an agency is associated with a 1.10% decrease (model 1:  $\beta=-1.098$ ,  $p<0.1$ ) in the share of awarded contracts to *SDBs*, a 0.52% decrease (model 2:  $\beta=-0.522$ ,  $p<0.1$ ) to *WOSBs*, a 0.89% increase (model 3:  $\beta=0.886$ ,  $p<0.01$ ) to *SDVOSBs*, and a 0.50% increase (model 4:  $\beta=0.500$ ,  $p<0.01$ ) to *HUBZones*. As shown in table 3 and figure 2, we also find that a 1-unit (1 month) increase in *Average Investigation Time* in an agency is associated with a 2.16% decrease (model 3:  $\beta=-2.164$ ,  $p<0.01$ ) in the share of awarded contracts to *SDVOSBs*.

In terms of Legislative Oversight, as shown in table 3 and figure 2, we find that a 1% increase in *Congress Female* in the U.S. Congress is associated with a 3.00% increase (model 2:  $\beta=3.002$ ,  $p<0.01$ ) in the share of awarded contracts to *WOSBs*. A 1% increase in *Congress Veteran* in the U.S. Congress is associated with a 0.58% decrease (model 3:  $\beta=-0.582$ ,  $p<0.01$ ) to

*SDVOSBs*. We also find that a 1% increase in *Congress Business* in the U.S. Congress is associated with a 0.28% increase (Model 4:  $\beta=0.277$ ,  $p<0.05$ ) to *HUBZones*. In table 3 (model 1), we see that the coefficient for *Congress Minority* is positive ( $\beta=1.060$ ), but not significant.

In our control variables, as shown in table 3, our results indicate that a 1% increase in *Minority Executives* in an agency is associated with a 0.19% increase (model 1:  $\beta=0.187$ ,  $p<0.01$ ) in the share of awarded contracts to *SDBs*, a 0.08% increase (model 2:  $\beta=0.079$ ,  $p<0.05$ ) to *WOSBs*, and a 0.04% decrease (model 3:  $\beta=-0.044$ ,  $p<0.01$ ) to *SDVOSBs*. This is similar to Fernandez et al. (2013), which also finds a positive relationship between passive ethnic minority representation (for executives) and active ethnic and gender representation. We also find that a 1% increase in *Female Executives* in an agency is associated with a 0.18% decrease (model 1:  $\beta=-0.178$ ,  $p<0.05$ ) in the share of contracts awarded to *SDBs*, a 0.07% decrease (model 4:  $\beta=-0.066$ ,  $p<0.01$ ) to *HUBZones*, and no significant effect on *WOSBs* and *SDVOSBs*. This differs from prior results (Fernandez et al., 2013), which find that an increase in female executives is related to a *decrease* in the dollar share awarded to *WOSBs*.

***Economic significance.*** By searching through an official source for federal spending data (the USA Spending user interface to FPDS-NG),<sup>15</sup> we determine that in fiscal year 2011, 65 federal agencies made a total of 2,142,152 contract awards, for an average of 32,960 contract awards per agency. Out of 2,142,152 contracts, 109,092 contracts were awarded to *SDBs* (for a total amount of \$25,667,898,920), 9,904 contracts were awarded to *WOSBs* (for a total amount of \$1,578,191,472), 57,469 contracts were awarded to *SDVOSBs* (for a total amount of \$13,292,606,879), and 47,554 contracts were awarded to *HUBZone* businesses (for a total amount of \$9,710,317,003). Accordingly, in fiscal year 2011, the average dollar amounts per contract awarded were; *SDBs* (\$235,287), *WOSBs* (\$159,349), *SDVOSBs* (\$231,300), and

*HUBZone* (\$204,196). Our model predicts that a 10% increase in the *Proportion of Executives* in an agency is associated with a 1.6% decrease in the share of awarded contracts to *WOSBs*, a 1% decrease to *SDVOSBs*, and a 0.7% decrease to *HUBZones*. Thus, on average, a 10% increase in the *Proportion of Executives* in an agency results in a decrease of \$84 million to *WOSBs*, \$76 million to *SDVOSBs*, and \$47 million to *HUBZones*. A one order of magnitude increase in *Budget Discretion (log)* in an agency is associated with a 2.64% decrease in the share of awarded contracts to *SDBs* and a 0.57% decrease to *SDVOSBs*; which, on average, translates into a decrease of \$205 million and \$43 million to *SDBs* and *SDVOSBs*, respectively.

In terms of Workplace Discrimination, a 1-unit (\$1 million) increase in *Total Monetary Damages* in an agency is associated with a 1.10% decrease in the share of awarded contracts to *SDBs*, a 0.52% decrease to *WOSBs*, a 0.89% increase to *SDVOSBs*, and a 0.50% increase to *HUBZones*. Therefore, on average, a 1-unit increase in *Total Monetary Damages* in an agency results in a decrease of \$85 million to *SDBs*, \$27 million to *WOSBs*, and an increase of \$68 million to *SDVOSBs*, and \$34 million to *HUBZones*. A 1-month increase in *Average Investigation Time* in an agency is associated with a 2.16% decrease to *SDVOSBs*; this translates into a decrease of \$165 million, on average, to *SDVOSBs*.

In terms of Legislative Oversight, a 1% (5.35 members) increase in *Congress Female* is associated with a 3.00% increase in the share of awarded contracts to *WOSBs*; this translates into an increase of \$158 million, on average, to *WOSBs*. A 1% increase in *Congress Veteran* in U.S. Congress is associated with a 0.58% decrease to *SDVOSBs*; this translates into a decrease of \$44 million, on average, to *SDVOSBs*. Finally, our model predicts that a 1% increase in *Congress Business* is associated with a 0.28% increase to *HUBZones*; this corresponds to an increase of \$19 million, on average, to *HUBZone*-certified firms.

## Discussion

In this article, we extend prior research, which considers federal procurement utilizing the theory of representative bureaucracy to predict the inclusiveness of contracting for small businesses owned by members of under-represented groups (Brunjes & Kellough, 2018; Fernandez et al., 2013; Smith & Fernandez, 2010). Although these earlier studies analyzed passive and active representation in an observable and relevant political context, each noted the need for further research in new directions. Our study addresses these calls by investigating: *how do discretion, discrimination, and oversight affect federal agencies' inclusiveness in contracting with under-represented groups of small business owners?*

In answering this question, we make three contributions. First, we empirically examine administrative discretion by introducing measures that quantify agency executives' span of control and how it influences the inclusiveness of awarding contracts to small businesses. Second, we introduce SDVOSBs and HUBZone-certified small businesses as previously under-researched groups of interest. In doing so, we add two key dimensions of *workplace discrimination* as factors which can significantly affect federal contracting. Third, by tying in the representation of Congress alongside 41 agencies over a ten-year span, we introduce *legislative oversight* as a measure of active representation at higher levels of government. The combination of these three dimensions helps us understand how much these mechanisms can support or restrain the ability for public procurement to address social change and economic inclusion.

### Administrative Discretion

While it is understood that administrative discretion is a mechanism through which governmental bureaucracies develop and implement public policy (active representation), it is also known that much of this power resides in unelected administrators and executives



(Kennedy, 2014; Vinopal, 2020). As a result, principal-agent problems may arise since, unlike elected officials, administrators are not necessarily held accountable for their decisions via elections (Karjalainen et al., 2009; Kauppi & Van Raaij, 2014; Marvel & Resh, 2015; Sowa & Selden, 2003). Passive representation is thought to mitigate this and act as a reconciliation mechanism where responsible administrative discretion is shaped and motivated by how closely aligned the bureaucracy is with its constituency (Bishu & Kennedy, 2020; Selden et al., 1998).

Administrative discretion is directly influenced by an administrator's span of control. Therefore, if we assume that there are finite levels of discretionary power to be had, an increase in the proportion of senior-level executives dilutes the administrative discretion available to any one administrator. Less discretionary power equates to less active representation, as evidenced by fewer contract dollars being awarded. This is consistent with earlier findings that administrators who perceive themselves to have greater administrative discretion, are more likely to engage in active representation for minorities (Chand, 2020; Sowa & Selden, 2003).

In line with this, an increase in budget discretion is associated with an increase in administrative discretion. If senior level executives have larger budgets to allocate, then they should have increased financial means to actively represent these small business categories. However, our empirical findings challenge this notion. An increase in budget discretion is associated with a significant decrease in the share of contracts awarded to SDBs and to SDVOSBs. This finding is somewhat surprising and counter-intuitive. Having larger budgets overall may be associated with larger contracting needs which cannot be effectively solved using small businesses. Our results indicate that it is not safe to assume that larger discretionary budgets equate to increased administrative discretion. Additional research is needed to explore how budget allocation may affect contracting outcomes (Kioko et al., 2011).

## **SBA Small Business Procurement Scorecard**

The annual SBA procurement scorecard assesses how well agencies achieve small business contracting goals set forth by government statute.<sup>16</sup> The scorecard has four subcategories aside from general small businesses, which are assessed for both prime and subcontracting goals: SDBs, WOSBs, SDVOSBs, and HUBZone-certified small businesses. Our contribution in this area lies across three fronts. Using the SBA scorecard as a frame, we delve deeper into the active representation of WOSBs, SDVOSBs and HUBZone-certified firms.

**WOSBs.** For WOSBs, we reported that due to probable dilution of power at the senior executive level, an increase in the proportion of executives in an agency is associated with a significant reduction in share of contracts awarded. While this is not direct evidence of active representation for gender, it is plausible that active representation can more easily occur when female executives have less competition for resources or have a larger span of control. Our finding is consistent with previous research, which hinted that queen bee behavior or self-categorization may be taking place (Fernandez et al., 2013; Turner, 1985). Previous research also suggests that it is unlikely women would discriminate against other women as they compete for a smaller total number of managerial positions, but finds it more likely that women align their behavior according to the norms of a male-dominated workforce and strong procurement history (Fernandez et al., 2013). Our result does not reveal any ongoing discrimination, but it does indicate that increased competition for scarce resources (span of control or administrative discretion) may significantly contribute to the likelihood that senior executive level women feel more pressure to conform to historical norms.

**SDVOSBs.** This small business subcategory is formally assessed by the SBA's scorecard, but, to the best of our knowledge, has not been studied empirically using the theory of

representative bureaucracy as a frame. While previous research has explicitly considered both race and gender, veteran and/or disabled statuses are also distinct social identities, which merit further study. Since race and gender are directly “visible” identities, it may be easier to make judgments and observe discriminatory behavior. One reason why other social identities seem to lag behind in terms of small business contracting shares may be due to the lack of clear visibility as is the case for certain mental or physical disabilities (Oliver, 1995; Watson & Vehmas, 2019). That said, these other social identities intersect within each individual, and as alluded to in previous research, a single self-schema may take priority over others (e.g., race over gender identity) or perhaps even indirectly interfere with how an individual makes contracting decisions (Fernandez et al., 2013; Smith et al., 2020). It is entirely plausible that veteran or disability status as self-schemas may also take precedence depending on the environmental cues for any given contracting officer. We contribute to this nascent research stream by explicitly adding SDVOSBs (and also HUBZone-certified small businesses) in situations where multiple social identities may define a business owner’s core identity (Gade & Wilkins, 2012; Jones & McEwen, 2000; Miller & Keiser, 2020).

We introduce two explanatory variables under the category of workplace discrimination. The first is total monetary damages awarded in employment discrimination cases. These damages are an indicator of the diversity climate in an agency (Choi, 2010, 2011, 2013). If an agency has greater monetary damages, this is associated with a significant decrease in contracts for SDBs and WOSBs, and a significant increase in contracts for SDVOSBs and HUBZone-certified firms. The effects of monetary damages may be signals for bureaucrats and executives who have knowledge (from training or internal memoranda) of any settlements or lawsuits that

have taken place. They may be more receptive to “unofficial affirmative action” for SDVOSB applicants if significant damages result in excessive training or redirect administrative focus.

The second explanatory variable we introduce is average investigation time for discrimination claims by agency. This variable estimates the organizational culture of the agency. The longer the average investigation time, the more the agency may be willing to challenge claims. In addition, longer investigation times could result from larger and more complex claims against the agency, which may require prolonged due diligence. In both situations, the agency is allocating additional resources to the investigation. Resources are finite and therefore it is not surprising that, while not directly related to SDVOSB contracting, resources may be diverted elsewhere. Additionally, the increased scrutiny of discrimination claims against an agency may plausibly lead administrators who actively represent SDVOSBs to shy away from the behavior. Interviews with contracting officers reveal that most administrators opt to avoid oversight, additional levels of justification of the award, or mandatory wait times when presented with an easier option (Nelson, 2017). Additional scrutiny from investigations of discrimination may increase oversight and the levels of justification required.

***HUBZone-certified firms.*** While HUBZone certification is location-based and does not specifically target minority-owned businesses, this SBA program does focus on tribal lands and economically distressed urban areas, which are often disproportionately populated by ethnic and racial minorities. Although HUBZone-certified small businesses are not necessarily owned by members of “visible” minorities, administrators who are aware of the large monetary damages associated with discrimination by their agency may make efforts to participate in active representation of that subcategory through their contracting decisions.

## **Legislative Oversight**

Our third contribution is to introduce legislative oversight as a measure of active representation at the higher levels of government. While elected officials do not make the individual decisions to award federal contracts, the legislature provides oversight and policy guidance via the FAR to ensure that the bureaucracy carries out procurement according to expectations. Previous research has generally not focused on the role of elected officials in contracting decisions, but we make the case that variation in this body of politicians should be included as a salient factor (Bosio et al., 2020; Schooner et al., 2008; Telgen et al., 2012).

We find that an increase in female representation among members of Congress is associated with a significant increase in the share of contracts awarded to WOSBs. This finding provides additional new evidence that may explain why previous research finds no effect or a negative effect from representation of female senior executives (Fernandez et al., 2013). It is possible that those with direct supervision over contract decision-making are not necessarily willing to conduct active representation of their own accord, but become more proactive in awarding contracts to WOSBs if there are more females participating in legislative oversight. Being one level removed, as well as having greater public accountability with voters may enable female legislators to exert greater influence than previously thought. Future research on gender representation should investigate the mechanisms that drive contracting decisions and include all levels of oversight in the process.

Interestingly, an increase in veteran representation among members of Congress is associated with a significant decrease in the share of contracts awarded to SDVOSBs. At first glance, this is a surprising result because one would expect that contracting would increase due to a more representative legislature. However, interviews with contracting officers reveal stark differences in contracting processes between defense and civilian-affiliated agencies.

Administrators from defense agencies conduct applicant screening in a more regimented manner and prior research finds that coming from a defense culture and/or being a veteran is linked to a lower likelihood of exercising administrative discretion in the contracting process (Nelson, 2017). In addition, the War on Terror was ramping up during our sample timeframe and veterans in Congress may have been more likely to promote an external focus of resource allocation towards funding military operations as opposed to an internal focus on the U.S. economy and small business concerns. These two factors may help explain the negative relationship uncovered between veteran membership in Congress and SDVOSB contracting.

Lastly, an increase in members of Congress with business or finance employment experience is associated with a significant increase in the contracting dollars awarded to HUBZone-certified small businesses. The majority of interviews conducted with contracting officers indicate a business-minded mentality in their approach to contracting. This research revealed that administrators would likely approach most decisions from an outcome perspective versus a process perspective, despite the presence of the FAR which is far more process-driven (Nelson, 2017). One contracting officer even stated,

“The government should try and structure the regulations around the commercial market place --the way private companies do business. This has always been my desire, and it would decrease the burden and excess of documentation and paperwork required. When we do contracting, we do it from a very business minded perspective, so the regulations don’t really help a lot with that kind of stuff.” (Nelson, 2017, p. 59)

If contracting administrators, as a whole, desire the process to be modeled after the private sector, it is likely that these bureaucrats would be more receptive to oversight from members of Congress who have relevant backgrounds in business or finance. Likewise, as the percentage of members of Congress with business backgrounds increases, they are more likely to exercise legislative oversight, especially regarding small business contracting in their home states, which would directly impact their ability to deliver benefits to their constituents.

## **Policy Recommendations**

These results lend support for practical changes to current policy. Using the logic that a more representative bureaucracy will lead to more equitable resource distribution, we expect to see equitable results and yet we do not. Applying the same policy for women, “disadvantaged” (including minority-owned and 8a companies), veteran and HUBZone-certified small businesses is short-sighted and more nuanced policies and practices are required. If the goal is to increase the contract dollars going to entrepreneurs in a socially inclusive manner, our findings demonstrate varying levels of success across federal agencies.

As administrative discretion increases, we find less inclusive contracting outcomes. This is likely due to larger budgets financing larger projects, which generally favor larger and more experienced contractors. In order to promote inclusivity, agencies should maintain relatively tall organizational structures. Tall structures decrease administrative discretion by limiting the span of control (smaller budgets) for individual administrators. Bureaucrats will individually have less power, which will bring small businesses increased opportunities to compete for relatively smaller projects so they too can gain the experience and growth required to complete larger projects going forward. In addition, a tall structure also encourages checks and balances across agency levels which, in turn, increases the opportunities for active representation to occur promoting a more inclusive policy implementation.

Given that our results indicate higher internal workplace discrimination is associated with less inclusive external procurement (for WOSBs and SDBs), we recommend that agencies continue to push for increased workforce diversity. As reported in previous research, agencies which value ethnic diversity and leverage gender homophily have more inclusive public/private business partnerships (Joshi et al., 2017). Procurement is a type of public/private partnership

which is supposed to increase inclusive and socially representative business, but it falls short when the agencies face increased workplace discrimination from within their own organizations. If the agencies improve internal workforce diversity, they will decrease discrimination, increase passive representation, and thereby increase the inclusiveness of their external procurement.

Recently congressional interest in the HUBZone program has deepened due to instances of fraud identified by the Government Accountability Office. In addition, the SBA revealed that the HUBZone program historically has not generated enough procurement in underutilized areas. \$6 billion spread over eight years across over 2,400 qualified areas has had minimal impact on a national scale.<sup>17</sup> However, our research indicates that more women in Congress results in increased legislative oversight and therefore more active representation by administrators resulting in more procurement contracts awarded to WOSBs. Especially in times when more women are serving as elected officials, we recommend that oversight be increased to further strengthen active representation. Increasing congressional oversight gives voice to related constituencies which we expect will move more resources (contracting set asides, etc.) toward job-creating small businesses.

## **Conclusion**

The theory of representative bureaucracy is built upon the assumption that members of social groups are exposed to similar experiences, and as a result, they hold similar beliefs and values (Fernandez, 2020; Fernandez et al., 2013). This is precisely why members of social groups are theorized to actively support in-group members when they are in positions of authority. Aside from minority representation however, previous research on government contracting either finds mixed results (as in the case of WOSBs) or has generally not considered other social identities such as SDVOSBs and HUBZone-certified small businesses. Our research



sheds new light on all three of these groups across existing governmental hierarchies and we provide measures for administrative discretion, which act as mechanisms to translate passive representation into active representation. The unelected bureaucrat holds considerable power in an increasingly privatized government system. It is imperative that researchers continue to explore the boundary conditions and core mechanisms for federal procurement outcomes as small business contracting in the U.S. reaches new record highs. By exploring and interpreting the economic impacts of changes to policy and institutional diversity, we provide insight into how discretion, discrimination, and oversight can inform the theory of representative bureaucracy in predicting the inclusiveness of federal procurement outcomes that address social change and economic opportunity.

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## Endnotes

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<sup>1</sup> <https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/sba-celebrates-65-years-service-americas-entrepreneurs-1>

<sup>2</sup> <https://www.sba.gov/about-sba/sba-newsroom/press-releases-media-advisories/federal-government-achieves-small-business-contracting-goal-fifth-consecutive-year-record-breaking>

<sup>3</sup> <https://www.acquisition.gov/browse/index/far>

<sup>4</sup> <https://www.acquisition.gov/content/19502-2-total-small-business-set-asides>

<sup>5</sup> <https://www.acquisition.gov/content/13106-2-evaluation-quotations-or-offers>

<sup>6</sup> <https://www.acquisition.gov/content/part-15-contracting-negotiation>

<sup>7</sup> <https://www.fpds.gov>

<sup>8</sup> <https://www.opm.gov/>

<sup>9</sup> <https://www.eeoc.gov/>

<sup>10</sup> <https://www.sba.gov/federal-contracting/contracting-assistance-programs/hubzone-program>

<sup>11</sup> <https://www.sba.gov/federal-contracting/contracting-assistance-programs/8a-business-development-program>

<https://www.sba.gov/federal-contracting/contracting-assistance-programs/women-owned-small-business-federal-contracting-program>

<https://www.sba.gov/federal-contracting/contracting-assistance-programs/service-disabled-veteran-owned-small-businesses-program>

<sup>12</sup> <https://www.opm.gov/policy-data-oversight/senior-executive-service/reference-materials/guidesesservices.pdf>

<sup>13</sup> <https://www.brookings.edu/multi-chapter-report/vital-statistics-on-congress/>

The use of *Congress Business* is based on the assumption that members of Congress with a self-reported prior career in business, will tend to be pro-business in exercising their legislative oversight and favor economic empowerment programs such as HUBZones.

<sup>14</sup> <https://www.sba.gov/document/support--small-business-procurement-scorecard-overview>

<sup>15</sup> [www.usaspending.gov](http://www.usaspending.gov)

<sup>16</sup> [https://www.sba.gov/sites/default/files/2018-02/FY11%20Final%20Scorecard%20Government-Wide\\_2012-06-29.pdf](https://www.sba.gov/sites/default/files/2018-02/FY11%20Final%20Scorecard%20Government-Wide_2012-06-29.pdf)

<sup>17</sup> <https://www.sba.gov/content/hubzone-program-report>