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Supplier diversification by executive order: Examining the effect reporting compliance, education and training, outreach, and proximity to leadership have on government procurement behavior with minority business enterprises

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ABSTRACT

Much of our understanding concerning the interaction between minority business enterprises (MBEs) and government procurement has focused on the legal aspects of set-asides. Therefore, it is difficult to ascertain what key determinants specifically affect government procurement behavior. In this paper, we investigate the implementation of an executive order that originated in 2009 to increase government expenditures on MBEs. We utilize implementation theory to hypothesize that after the intervention of the executive order, government expenditures on MBEs will increase. We also posit that government agencies closest to the governor (cabinet agencies) will spend more on MBEs than other agency types. Furthermore, we hypothesize that outreach, training and education, and reporting compliance will have a positive relationship with government expenditures on MBEs. Our findings suggest cabinet agencies have more expenditures on MBEs than colleges and universities; however, there was no significant difference between cabinet agencies and non-cabinet agencies. Moreover, there was no significant difference between non-cabinet agencies and colleges and universities with respect to their expenditures with MBEs. Our results also find that training and education as well as reporting compliance are positively associated with increased levels of government expenditures on MBEs. Unexpectedly, outreach was negatively associated with government expenditures on MBEs. We believe our findings may help government agencies and policy makers create and/or improve upon how they implement new policies directed at changing government procurement behavior.

1. Introduction

This paper primarily focuses on the intersection of government policy and minority business enterprises (MBEs). Despite the interest given to minority set-aside programs and minority businesses in general, assessing the success of public subsidization of minority businesses has consistently produced mixed results (Barrett et al., 1996; LaNoue, 1994; Zehrt, 2009). This article seeks to address this deficiency by examining the impact of agency characteristics and agency decisions on the implementation of a new policy directive designed to increase government expenditures on MBEs. Addressing this deficiency is important for two reasons. First, it provides an opportunity to examine empirically the interaction between government policy and private organizations with secondary data. Our research answers the call by the supply chain management community to incorporate more secondary data to improve the accuracy of research findings and build generalizable results (Calantone and Vickery, 2010). Second, it examines the key determinants that affect the implementation of a government policy directive.

We explore the effectiveness of implementing a government mandate procurement program with MBEs in Ohio, referred to as Executive Order 2008-S13 (2008). We examine this Executive Order to see if it is effective in changing the procurement behavior of 90 different government agencies that span three agency types in the state of Ohio: (a) cabinet, (b) non-cabinet, and (c) colleges and universities. Three agency decision components of the Executive Order are examined: buyer training and education, agency outreach to MBEs, and the threat of economic sanction for agencies that do not report their compliance metrics in a timely manner. Furthermore, this research examines the agency characteristic of "proximity to the leader" on government expenditures on MBEs. In addition to answering these questions, this study will draw broader inferences about the relevance and sustainability of

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government set-aside mandates in the 21st century and their ability to diversify government's supplier base.

Previous research suggests at least two sets of rationales for government mandates. First is the socially responsible rationale, that facilitating this access is not only the right thing to do, but will foster an environment in which all businesses have access to enter and compete fairly in the procurement process (Rawls, 1985; Snider et al., 2013). Second is the economic rationale, that a redistribution of government contract dollars to minority firms would provide business opportunities, thereby increasing those firms' long-run competitive viability (Bates, 2001; Marion, 2009). This leads some people to argue that mandates actually serve as an economic development tool, particularly in creating jobs for minorities (Bates, 1988, 2001). For example, recent statutory goals set by federal agencies are: 23% of prime contracts for small businesses; 5% of prime and subcontracts for small women-owned businesses; and 3% of prime and subcontracts for service-disabled-veteran-owned small businesses (www.sba.gov). In this study we do not argue for or against the rationale for government mandates. We accept that they exist and will continue to exist in some form in the future. Rather, we seek to understand the significance of a government mandate placed on procurement personnel and what aspects of the implementation processes affect change.

The state of Ohio MBE set-aside procurement program is explored in this paper for very specific reasons. First, Ohio implemented one of the most aggressive and comprehensive MBE set-aside programs in the United States (Executive Order 2008-S13). Second, according to Bendapudi (2009), Ohio, and specifically Columbus, the state capital, is ranked as one of the best test markets in America because of its proportion of diverse populations to the general population. Third, Ohio includes six cities with populations of at least 200,000 people, which makes Ohio a representative sample of the U.S. population. Lastly, as part of the implementation of Executive Order 2008-S13, a new data collection software system was introduced which enabled the authors to obtain data on the 90 agencies involved in the implementation of the executive order.

1.1. Overview of Ohio executive order 2008-S13

In an attempt to address the recurring disparity between MBEs and non-minority firms with government contracting opportunities (DJ Miller & Associates, 2001), then-Governor of Ohio Ted Strickland (D) introduced Executive Order 2008-S13 on June 25, 2008. Up until the executive order, state agency contract expenditures on MBEs in Ohio never rose above 3.1% on an annual basis (Carter, 2008–2011). Thus, the executive order was created to reinforce accountability to state agencies for the underutilization of MBEs in government contracting opportunities. The premise of the executive order is to augment state agency expenditures on MBEs to 15%. As part of the executive order, the state Equal Opportunity Division (EOD) is required to report to the governor the outcomes of the efforts of each state agency to achieve the goals set by their budget for expenditures on MBEs.

This article assesses the effect of implementing a government mandate on government contracting with MBEs. We examine the percentage change in expenditures over a four-year period. The analysis relied heavily on two unique data sets compiled by the state of Ohio. In order to accurately measure policy implementation success, the EOD developed a standardized measurement tool in the form of an MBE scorecard. The scorecard reflects the expenditures of each state agency in terms of both dollars and percentages with MBEs. The second data source is captured by the Office of Budget and Management (OBM). The OBM database captures agency characteristics, participation in outreach programs, training and education, and the timeliness of each agency's reporting documents to the governor's office.

The remainder of the article is organized as follows. First, we examine existing research on government programs assisting minority businesses. The next section leverages the implementation literature to develop the hypotheses. This is followed by a description of the data set and the methods used to analyze the data. The next section presents the analysis, the findings, and the theoretical and practical implications. We conclude with limitations of the study and areas for future research.

2. Theory and hypotheses

Government programs have been used to subsidize commercial enterprises for the past 100 years. Justifying or declaring the obsolescence of government programs such as those benefiting small businesses (Wallsten, 2000) and minority business enterprises (Rice, 1993; Marion, 2009) have been debated in the academic literature for decades. However, empirical studies to measure the effectiveness of these government programs have had mixed results. A recent survey of SBA firms completing one of the government programs identifies a number of flaws in implementation and administration (SBA.gov). Previous studies have not thoroughly evaluated the implementation process of government set-aside programs and what influence implementation has on the effectiveness of such programs to achieve their desired outcomes. Said differently, our focus is on the implementation of government set-aside programs and their ability to change agency procurement behavior with MBEs.

In order to investigate the effectiveness of Executive Order 2008-S13 (2008), the theoretical underpinning of implementation theory is used. The literature on implementation can be found in both the management literature and public policy literature. In the management literature, Coch and French (1948), in their seminal article on implementing change, found that successful implementation can be accomplished by effectively communicating the need for change and stimulating group participation in planning the change. Nutt (1986), by profiling 91 case studies, identified four implementation tactics used by managers: the intervention tactic, the participation tactic, the persuasion tactic, and the edict tactic. Nutt (1986) found that successful implementers using intervention carefully monitored the entire change process, regulating and controlling social and political issues as they arose. According to the persuasion tactic, implementation should hinge on experts who determine what should be done and use rational arguments to convince managers to go along (Nutt, 1989).

Implementation research in public policy originated with the work of Pressman and Wildavsky (1973), who measured implementation in terms of the relationship of policy between official documents and statutes. More precisely, policy implementation can be observed as the process of interaction between the setting of goals and the actions geared to achieve them (Pressman and Wildavsky, 1973). The authors postulate that the level of difficulty in the implementation process is often the predictor of whether the intended program should be carried out.

Building on the work of Pressman and Wildavsky (1973) and Mazmanian and Sabatier (1980) delineated policy implementation as the execution of the basic policy decision in the form of a statute; however, policy implementation is often structured as an executive order or court decision. Mazmanian and Sabatier (1980) asserted that authoritative and top-down decision makers are the starting point for policy development and implementation. They postulate that the influence of leadership holds great control over how effectively a policy will be implemented. Matland (1995) maintained that successful implementation is dependent upon the level of compliance that is obtained by subunits, and argued that policies under the umbrella of statutes, laws, or executive orders come from a top-down approach. Matland (1995) expanded upon the work of