

Women-Owned Small Businesses in Federal Subcontracting: Measures and Data

While the number and economic clout of women-owned businesses continue to grow across the country, the share of Federal contracting dollars awarded to women's business enterprises has not kept pace. As of 1999, women-owned firms comprised 38% of the business population, accounted for 25% of employment and contributed 18% of all firm revenues. The number of women-owned firms doubled between 1992 and 1999, employment tripled, and revenues skyrocketed four-fold.ⁱ In comparison, the share of prime Federal contract dollars awarded to women-owned small businessesⁱⁱ stood at 2.2% as of Fiscal year 1999, up from just 1.3% in FY1992, and the share of subcontracting dollars stood at 4.6% as of FY1999, compared to 0.7% in FY1992.ⁱⁱⁱ

There is no question that women-owned firms are under-represented in the Federal contracting arena. Some have surmised that this under-representation is because the capacity of women-owned businesses is not at the same level as that of other small businesses. This study looks at the issue of business capacity, focusing on the subcontracting arena in particular. It will answer these important questions: what share of Federal subcontracting is going to women-owned firms? Is this share representative of the total capacity of women-owned firms, or are women-owned firms being underutilized? How might data collection and programmatic action in the subcontracting arena be improved?

Women-Owned Firms in Federal Subcontracting

An analysis of data provided by the Federal Procurement Data Center (FPDC) for fiscal years 1999 and 2000 indicates that approximately 40% of all reported subcontracting dollars awarded during this period went to small businesses, and just under 5% went to women-owned small businesses.^{iv}

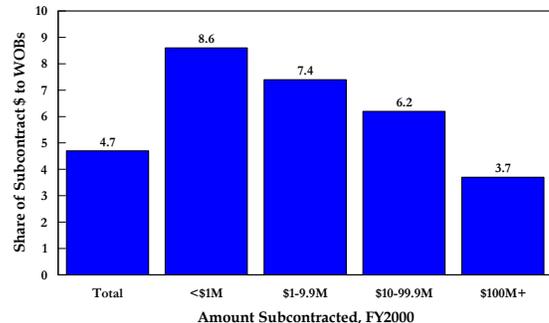
Share of Subcontracting Dollars Awarded To:	Fiscal Year	
	1999	2000
All Small Firms	40.79	39.74
Women-Owned Small Firms	4.61	4.68

The largest prime Federal contractors are utilizing women-owned subcontractors at a lesser rate than are the firms that have contracts of lower value. For example, while the overall share of reported Federal subcontracting to women-owned small firms was 4.7% in FY2000, it was 8.6% among the prime contractors that subcontracted less than \$1 million, but only 3.7% among prime contractors that subcontracted \$100 million or more.

An Analysis of Women-Owned Firm Capacity

In this analysis, the relative capacity of women-owned small firms compared to all small firms was estimated using data from the 1998 Survey of Small Business Finances, conducted by the Federal Reserve

Share of Subcontracting to Women-Owned Firms Declines as Value of Subcontracts Increases



Board. This survey interviewed over 3,500 small firms, and included an oversampling of women-owned firms.

Several measures of firm capacity were derived from the survey, including employment and revenue size of firm, cash on hand, and self-identification of the existence of limiting factors such as problems with financing, cash flow, technology and labor. An analysis of the relative capacity of women-owned small firms to all small firms indicates that between 14% and 24% of the overall business capacity in the U.S. is contributed by women-owned firms. It is decided that 20% is the best estimate of capacity, as cash on hand and the share

of firms with nationwide sales may be the best indications of ability to perform. On some measures, women-owned firms were in a relatively stronger position – a smaller percentage of women-owned firms experienced problems in labor, cash flow and technology than other small businesses.

A summary of the measures of relative capacity are shown in the table below:

Measures of Relative Capacity of Women-Owned Firms: % Share of Women-Owned vs. All Firms	
Number of Firms	24
Number of Employees	17
FY1998 Sales	14
FY1997 Sales	15
Cash on Hand	20
Firms with Nationwide Sales	20
Firms with Financing Problems	26
Firms with Labor Problems	19
Firms with Cash Flow Problems	19
Firms with Technology Problems	23

Conclusions and Recommendations

- The share of measurable Federal subcontract spending with women-owned small firms in 1999 and 2000 was just under 5% as a share of subcontracting among all firms, and was 12% as a share of small business subcontracting. The overall capacity of women-owned firms is approximately 20% of all small businesses. Therefore, there is an underutilization of women-owned businesses in Federal subcontracting. If parity with all small firms is 1, the current disparity ratio of women-owned small firms in the subcontracting arena is 0.6.
- Further research is needed to validate this calculation, as the data sources used were not as precise as desirable. In addition, more information collected on the type and value of subcontracts among firms receiving contracts under \$500,000 in value would be extremely useful, as would information at the industry level.
- While gathering additional information and conducting further research are important longer-term goals, there are efforts that Federal policy-makers can take now to ensure greater access for women-owned firms in Federal subcontracting. The National Women’s Business Council recommends that:
 - ✓ The Administration fully implement its October 2002 strategy on contract bundling, to ensure that procurement opportunities remain open to all small businesses, including women-owned businesses;

- ✓ That an important part of this effort be to focus on ensuring prime contractor compliance with subcontracting plans and goals; and that
- ✓ Prime contractors be held accountable for subcontracting goals, and penalized if these goals are not met.

Methodology

In order to determine the disparity ratio of women-owned enterprises in Federal subcontracting, an analysis of the share of women-owned firm performance in Federal subcontracting was performed, utilizing data provided by the Federal Procurement Data Center. Then, in order to determine any existing disparity, a ratio of performance to capacity was calculated. In the absence of the ability to collect data from the subcontracting firms themselves (the ideal scenario), a proxy was used, drawing from the most extensive small business survey database available: the Federal Reserve Board’s National Survey of Small Business Finance. Capacity was measured by looking at firm employment and revenue size, cash on hand, size of sales market (nationwide sales), and self-identification of key business problems (financing, cash flow, labor, technology).

The research was conducted for the National Women’s Business Council by MacroSys Research and Technology, a minority-owned business headquartered in Washington, DC. A copy of the report is available on the NWBC Web site.

The National Women’s Business Council is a bi-partisan Federal government council created to serve as an independent source of advice and counsel to the President, Congress, and the U.S. Small Business Administration on economic issues of importance to women business owners. Members of the Council are prominent women business owners and leaders of women’s business organizations. For more information about the Council, its mission and activities, contact: National Women’s Business Council, 409 3rd Street, SW, Suite 210, Washington, DC 20024; phone: 202-205-3850; fax: 202-205-6825; e-mail: nwbc@sba.gov, web site: <http://www.nwbc.gov>.

ⁱ NFWBO (now Center for Women’s Business Research). (1999). 1999 Facts on Women-Owned Businesses: Trends in the U.S. and the 50 States.

ⁱⁱ Women-owned small businesses include only those women-owned firms with 500 or fewer employees. Similarly, all small firms include only firms with 500 or fewer employees.

ⁱⁱⁱ Federal Procurement Data Center, as reported by US Small Business Administration, Office of Advocacy in State of Small Business reports. Note: prime contracts are direct contract awards from the government to a business, while subcontracts are those awarded by a prime contractor to another supplier.

^{iv} While the FPDC data has some limitations (it includes only firms with contracts valued at \$500,000 or more, only those with a subcontracting plan, and does not report any industry detail on the subcontractors), it is the most comprehensive source of subcontracting information.