Political Influence and Bureaucratic Discretion in Contracting with Minority-Owned Businesses

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Abstract

This paper examines the degree to which political influence and administrative discretion influences the award of government contracts to a disadvantaged business enterprise ("DBE"). A sample of 800 contracts issued by a major government agency over a ten-year period is used to examine the behavior of public officials and their tendency to favor either DBEs or non-DBEs. This study found some political influence in the agency's decision to award a contract and that influence favored the DBE.

Introduction

The study of the disadvantaged business enterprise ("DBE") in the government market has focused on either the regulations and procedures of government at the institutional level that create barriers for DBEs or have compared the management of DBEs versus non-DBEs to explain why DBEs may be at a competitive disadvantage. No study has examined the behavior of the public officials who influence an agency to determine the degree to which they may bias the agency's contract decisions to favor either DBEs or non-DBEs. This study examines the influence of public officials in the contract decisions of a major government agency within the milieu of a highly charged political environment, the City of Chicago. The agency under study is the Chicago Transit Authority which makes its contract decisions within an inherently political environment with various interest groups vying for control.

This void in the research is partially due to the public's belief that competition, price, and impartiality play a dominate role in the awarding of government contracts and therefore little effort is exerted to examine an agency's contract decisions, and the void is partially due to the fact that the public officials discretionary decisions are often hidden from public scrutiny and therefore exempt from examination. This paper presents and tests an elementary model to probe and search for proof of political influence and bureaucratic discretion in the awarding of government contracts and determines whether the influence favors DBEs or non-DBEs.

The agency under study is an appropriate choice to test the model for three reasons: (1) Local official used their discretionary power to increase the agency's DBE goal to 30% from FTA's[i] 10% requirement, (2) the agency is supported by state and county taxes and serves both the City of Chicago and 38 suburb cities thereby causing it to mediate the demands from numerous special interests, (3) the agency is controlled by politically appointed board members, and the public is suspicious that politicians maximize their own benefit at the expense of the public good

[i] Federal Transportation Administration.

Is the administration of the DBE Policy fair and impartial or are either shown favoritism? Are DBEs or non-DBEs given an advantage due to political influence or bureaucratic discretion? Will all firms, regardless of minority status, get equal treatment from both the politician and bureaucrat?

Literature Review

This study posits that government contracting must mediate competing political interests which vie for control of the bureaucracy to target contracts to a specific constituency for personal or political gain. The public shares the same suspicion. This literature review provides a brief survey of normative and empirical work to support the public's suspicions and the author's hypotheses by discussing purchasing norms, urban politics, contracts as political benefits, and political influence.

Regulation is the fundamental approach by which government contracting mediates competing political interests, but government contracting is criticized for its complexity, rigidity, and adherence to means over ends. ICMA (1) reports fours standards & procedures that tend to slow the purchasing process down, add rigidity, or complexity.

> "Procurement decision that can be defended on the basis of professional and technical standards. Widespread public notice of proposed contracts. Open hearings for major procurement decisions. Meticulous observance of administrative rules and procedures governing all steps in procurement, from initial notices to awards." (2)

Susan MacManus and her associates at the University of South Florida (3) conducted a comprehensive survey which showed that purchasing at all levels of government has a poor reputation within the business community. Only about one-third of the survey respondents believe that government attracts first-rate vendors . . . That government purchases high-quality goods and services at the lowest cost . . . [and] judge government purchasing practices as fair and impartial. (4)

> "Susan MacManus's ***Doing Business with Government*** indicates that all levels of government have done a poor job of working with the private sector by, for examples, offering information on how the governmental purchasing process works; educating small or minority-owned businesses in the ins and outs of the process; and making an effort to draw different kinds of businesses into the vendor pool." (5)

Conversely, the public believes regulation ensures that government awards contracts to the lowest responsible bidder, because regulation requires impartiality in the purchasing process, sets standards for equitable treatment of all firms, and mandates free and open competition for government contracts. Competition and impartiality are the standards for government contracting, but the current pressure to increase the number of DBE contractors has lead government to provide additional assistance to DBEs. This situation raises two policy questions:

> " . . . if small or minority-owned businesses cannot afford to compete because of their location, their inability to meet complicated and burdensome bid requirements, or their lack of capital, is the principle of fair competition being upheld? On the other hand, when small or minority-owned businesses receive preferences in bidding, or when ordinances require minority set-asides is the principle of impartiality being served?" (6)

These policy issues are partially mediated by the *Croson (7) and Adarand (8)* decisions (source) which require federal, state, and local government to justify their DBE goals by proving that racial discrimination in public contracting existed and that the discrimination could be cured by agency's DBE policy. As a result of the *Croson and Adarand* decisions, governments need to support their DBE policy with a disparity study to establish whether a significant disparity existed between the number of available and utilized DBEs justified their DBE policy.

Urban politics provides a theoretical framework to analyze the discretionary decisions of politicians and bureaucrats. Urban politics explains the geographical distribution of benefits such as jobs, grants, and contracts within a political system at the municipal level. It offers an explanation of how some people get more from government. Mladenka states the basic urban politics hypothesis:

> "...urban services are political sources that can be manipulated, redistributed, and withdrawn in the scramble for electoral advantage. Loyal wards are rewarded with superior services. Major service decisions are made by the machines, handed down to the bureaucracy, and implemented in accordance with the scheme that seeks to wring maximum political advantage from the distribution of finite service resources." (9)

One explanation of how urban services can be manipulated states that politicians control the bureaucrat's discretionary decisions. The other explanation states that bureaucratic rules best explain the distribution of urban services where professionalism dominates so that systematic bias is unlikely (10) (Miranda, 1994) and that distributive decisions are made by impartial administrators who rely upon technical-rational rather than political criteria.(11) The clash between who controls a municipality's distributive policies, the politician or the bureaucrat, is best illustrated by Mladenka when he reported the findings of interviews with 31 of 48 city of Chicago aldermen.

> These aldermen are disdainful of the notion that the bureaucracy may control the service distribution process and that professional managers rely upon technical-rational criteria to resolve distributional issues. Instead, they are confident of their ability to manipulate the administrative apparatus to secure superior services. Their power stems from their ability to deliver the vote, and they can count on the vote because they provide their constituents with tangible, material rewards. (12)

Mladenka succinctly states the reason for the clash for control: "Who gets what is simply a questions of who has influence." This study tests both explanations by the measuring political

influence and bureaucratic discretion in the same model to explain an agency's contract decisions.

Government contracts are viewed as political benefits by many political scientists as well as the public. Lowi, the first author to articulate the theory of distributive policies, describes government contracts as one of the three government benefits that can be targeted to individuals. The other benefits are jobs and grants. Lowi argues that the availability of benefits that can be distributed to a specific constituency places considerable power in the hands of the public officials by allowing them to make quicker allocation decisions, involve fewer actors, and make those decisions with less debate.

> These are policies [such as contracts] that are virtually not policies at all but are highly individualized decisions that only by accumulation can be called a policy. They are policies in which the indulged and the deprived, the loser and the recipient, need never come into direct confrontation. Indeed, in many instances of distributive policy, the deprived cannot as a class be identified, because the most influential among them can be accommodated by further disaggregation of the stakes. (13)

Lowi's three distinguishing characteristics of distributive politics define the type of benefit under study: government contracts. Individually, government contracts are small relative to the total budget; contracts are awarded to meet short-term needs; contract losers and winners generally do not confront one another, but when they do, both winner and losers could be accommodated by the procurement process. In addition, the contracts under study fit Lowi's "nickel-dime items" analogy.

> When a billion-dollar issue can be desegregated into many millions of nickel-dime items and each item can be dealt with without regard to the other, multiplication of interests and of access is inevitable, and so is reduction of conflict. (14)

The agency under study issues over 20,000 contracts per year with an aggregate value of approximately $500 million. This volume of contract activity provides the opportunity for politicians and bureaucrats to target contracts. In political science, targeting is the ability of a politician or bureaucrat to tactically channel a contract to a specific constituency. Rich provides a good explanation of targeting.

That government officials are wont to spread benefits widely is not an inevitable outcome. Governments can -- and do -- target funds to needy places and to needy people. The extent of targeting varies by level of government, across governments at the same level, and also over time within particular governments. (16)

In addition to the politicians and bureaucrats, this study posits that small, local firms are politically powerful and that these firms will use their political clout to win government contracts, i.e., political benefits.

> "The firms most critical of governmental procurement are those that are newly formed, small, and individually owned. These are the firms that are a major part of the local economy in small municipalities and counties, and as a group they are politically powerful in almost all local jurisdictions." (26)

Becker more poignantly expresses this viewpoint. Becker states that individuals belong to particular groups to use the groups political influence to curry political favors, and he states that "government correct[s] market failures with the view that they favor the politically powerful . . . produced by the competition for political favors." (28)

Does the local DBE community have sufficient political influence to get government contracts for its members? If public contracts are viewed as political benefits or the spoils of winning an election rather than a public good, then the concept of political influence becomes the principal function that defines "who gets what, when, how, and why," and the answer becomes the politician who exercises power will receive the rewards.

Research Methodology

The model includes eleven variables and uses logit analysis[ii] to model the response variable, change in contractor, as a function of political influence and bureaucratic discretion variables as shown in Table I. The model, called the Self-Interest Model, classifies the variables into five factors: political value of location, political value of era, change in elected and appointed officials, administrative review time, and contract justification. The period includes four city of Chicago mayors: Byrne, Washington, Sawyer, and Daley. The Self-Interest Model is used to analyze change in contractor between the incumbent and successful challenger for a pool of DBEs and non-DBEs and to analyze change in contractor between DBEs and non-DBEs.

[ii] Logit analysis is the statistical method that calculates a linear regression relationship between a binary response variable and categorical and continuous explanatory variables. The regression model used in this paper predicts the probability of change in contractor by taking into account the joint linear influences of all the significant and non-significant variables to determine the most likely threshold at which the change in contractor will occur.

(INSERT TABLE I)

Logit analysis models the response variable to explain the probability that the incumbent or DBE contractor wins a consecutive annual-order contract, i.e., Pr(WIN=0). The probability of the other event, the challenging contractor or non-DBE wins the annual-order contract, is found by a simple calculation in accordance with probability theory for two mutually exclusive events, i.e., Pr(WIN=1) = 1 - Pr(WIN=0).

The sample includes 800 annual-order contracts awarded by the Chicago Transit Authority from 1981 to 1992. The sample is drawn from the population of overmoney[iii], annual-order or commodity contracts[iv]. The principal criterion for selecting the sample of commodity contracts is to eliminate product and/or industry variation as a possible explanation of change in contractor from one year to the next year. TABLE II shows the typical array of annual-order or commodity contracts issued by the agency each year.

(INSERT TABLE II)

TABLE II shows that an average of 209 annual-order contracts were competitively bid annually, and these contracts represent 9 different commodities purchased by the agency. The sample used for this analysis includes 166 different annual-orders and 800 contracting events. This sample represents approximately 20% of all over-money, competitively bid[v] annual-order contracts issued by the agency during the ten-year period under study[vi].

Variable Definition[vii]

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iii "Overmoney" means the contract's dollar value exceeds $5,000.

iv Annual-order contracts cover the purchase of regularly used commodity-type products and services that are needed by the agency to provide daily transit services. Annual-order contracts cover the purchase of commodity-type products such as salt, fuel, paper, filters, glass, printing, and chemicals as well as cover many basic services such as lab testing, cleaning, repair, security, rental services, and delivery services. The agency's need for these products and services is predictable and routine reflecting the routine of providing daily transit services.

v The agency seeks competitive bids for the annual-order contracts on a yearly basis. Bids are solicited for contracts valued over $5,000, each year by mailing a bid solicitation package to the incumbent contractor and other interested firms in addition to publishing a public notice in the newspaper. Since the need is predictable and routine, practically no change is made in the bid solicitation from year-to-year.

vi For an in-depth discussion of the *policy model*, and all contracts executed by the agency during the study period and an in-depth explanation of the basis for sample selection, see my dissertation, ***Economic, Political, and Bureaucratic Factors Influencing a Public Agency's Contract Decisions.*** My dissertation identifies the commodities included in the sample and provides a detailed listing of the contracts included in the sample.

vii The paper presents an abbreviated description of each variable. For a detailed description of each variable, see the author's dissertation, "Economic, Political, and Bureaucratic Factors Influencing an Agency's Contract Decisions."

Response variable. The response variable is change in contractor. The unit of measure is the firm, and a dummy variable is created to identify whether the same firm or a different firm wins the annual-order contract. The response variable is intended to measure two different winning events: (a) the incumbent or DBE contractor wins a consecutive annual-order contract, or (b) a challenging firm or non-DBE wins the annual-order contract.

a. Political value of location factor

This research posits that the agency's contracts will be used as specialized benefits by the politician, that contracts will be targeted to firms located in wards whose alderman vote with the mayor. The political value of firms located in the city of Chicago and firms located outside the city are given values as shown in Table III.

(INSERT TABLE III)

Hypothesis (H:SIM1): Incumbent or DBE contractors are more likely to win consecutive annual-order contracts when located in wards whose alderman votes with the mayor.

b. Regime: political value of era factor

This research defines a political regime as the era when the chairman of the agency and president of the agency are the choice of the incumbent Mayor. Presence of a Political Regime is measured as a binary variable that is coded "0" to indicate that the contract was executed during a political regime and "1" is used to indicate that the contract was executed during period when the political regime was not present.

Hypothesis (SIM2A&B): Incumbent or non-DBE contractors are more likely to win a consecutive annual-order contract when a regime is in power.

c. Change in elected and appointed officeholders

Change in elected and appointed officeholder is measured by using a numerical value of "0" if the officeholder did not change since execution of the previous annual-order contract, and a numerical value of "1" if the officeholder changed since execution of the previous annual-order contract award. Nine variables are created to represent the changes among each of the following nine elected and appointed officeholders: Mayor of the city of Chicago, chairman of the agency, president of the CTA, vice president of purchasing, manager of the department that uses the good or service, budget manager, manager of DBE contract compliance, purchasing agent, and contract officer. For analysis purposes, the nine public officials are categorized into three cohesiveness measures: political, purchasing, and staff.

Table IV shows the basis for calculating the values for the cohesiveness variables where a numerical value is assigned to all possible combinations of changes in the officeholders. These tables show the degree to which the officeholders "hang together," and is hereinafter called "cohesiveness" and is measured on a scale of 1 to 8, where "8" indicates minimum cohesiveness among the officeholders, and "1" indicates maximum cohesiveness among the officeholders.

Maximum cohesiveness is when none of the officeholders change between consecutive annual-order contracts and minimum cohesiveness is when all of the officeholders change between consecutive annual-order contracts.

(INSERT TABLE IV)

Hypothesis (H:SIM3): Incumbent or DBE contractor are more likely to win a consecutive annual-order when the cohesiveness among elected and appointed officeholders is maximum.

d. Administrative review time

This study posits that the politicians and bureaucrats control the amount of time the agency takes to make a contract decision and posits that the time allocated to any particular contract decision is a function of its importance to the politician and bureaucrat. This study posits that the agency's administrator will render contract decisions for political allies quickly and delay contract decisions for political adversaries.

This study measures time between six critical milestones during the agency's contract process which produces five meaningful decision making phases: (1) pre-bid and bid solicitation, (2) bid evaluation, (3) review by purchasing agent, (4) executive staff's approval of the contract recommendation, and (5) contract execution by the agency's chairman. Time is measured in the actual number of days for each phase of the contracting process.

Hypothesis (H:SIM4) The incumbent or DBE contractor is most likely to win the consecutive annual-order contract when administrators quickly approve contracts.

e. Contract justification factor

A contract recommendation is a written report prepared by the contract officer for the review and approval by the purchasing agent, other executive management, and the agency's board. The written recommendation provides a surrogate measurement of administrative discretion exercised in the particular contract award decision. A short explanation is generally used to justify the award of a competitively-bid contract that is awarded to the lowest-overall-bidder, whereas a longer explanation indicates that factors other than price were considered in the award of the contract. This variable measures the length of the board recommendation as a continuous variable by counting of the number of lines in the recommendation. Several circumstances create the need for a longer explanation:

* low overall bidder is not a responsive or responsible bidder,
* low overall bidder is not compliant with the social goal of including DBE firms in the bid response,
* change of specifications or usage, such as, alternate product proposed
* extremely high or extremely low price change between contracts, or between bidders,
* lack of competition.

Hypothesis (H:SIM5): The incumbent or DBE contractor is more likely to win a consecutive annual-order when the remarks section is short.

Empirical Findings

Table V reports the number of contracts the agency awarded to DBEs and non-DBEs. The last four columns show the concentration of contracts with firms that won 2 or more contracts from the agency. DBEs are comparable with non-DBEs by having an average of 2.39 contracts/firm versus 2.46, respectively, but the concentration of contracts awarded to DBEs, 45.9%, is considerably higher than the concentration of contracts awarded to non-DBEs with 2 or more contracts at 28.2%. Table V shows that an increased number of contracts were being won by fewer DBEs which suggests that the agency's DBE policy may be developing a small pool of very successful DBEs rather than increasing the pool of DBEs.

(INSERT TABLE V)

Pool Comparison

Tables VI and VII show the mean and standard deviation values of the incumbent and challenger contractors for the pool of DBEs and non-DBEs, respectively, and by showing the Wilcoxon Rank Sum Test[viii] which compares the mean values of the two independent pools of contractors. Table VI shows that there is no significant difference between DBEs regardless of whether they win a contract as an incumbent or a challenger. Neither type of firms seems to enjoy the benefits of political influence or bureaucratic discretion. Table VII shows that the mean values for only two variables are significantly different between non-DBE incumbents and challengers. In both cases, bureaucratic discretion is found to favor the non-DBE incumbent because the agency prepared the bid documents and solicited bids 30 days faster for contracts won by non-DBE incumbents and the purchasing agent approved the recommendation for the non-DBE incumbents a week faster than contracts awarded to non-DBE challengers. These findings indicate the agency has greater familiarity and/or confidence in the non-DBE incumbent.

(INSERT TABLE VI)

(INSERT TABLE VII)

Table VIII shows the means, standard deviation, and Wilcoxon Rank Sum Test values, and the comparison between DBEs and non-DBEs reveals that seven of the eleven mean values are significantly different between the two independent pools, and DBEs had only one political advantage: DBEs were more likely to be located in a ward whose alderman voted with the

[viii] A statistical test for normality was performed for all variables, and the results showed that the data are not a sample from a normal distribution. Therefore the Wilcoxon Rank Sum Test is used to compare the independence of the two pools. The value shown in the column titled, "Wilcoxon Rank Sum Test" is the "Prob>|Z|" value. If the "Prob>|Z|" is less than 0.05, the predetermined significance level for this test, then the mean values for the two pools are different.

incumbent mayor. Conversely, non-DBEs are likely to benefit from political influence and bureaucratic discretion, because non-DBEs are more likely to win contracts during the presence of a political regime, during periods of high cohesiveness among the politicians, purchasing, and staff members as well as receive quicker contract approval from the agency's purchasing agent. In addition, the agency's bureaucrats use significantly more words to justify their decision to award contracts to non-DBEs which suggests that the agency's bureaucrats are willing to exert additional effort to find reasons to award to non-DBEs.

(INSERT TABLE VIII)

Logit Analysis

Logit analysis[ix] is the statistical method that calculates a linear regression relationship[x] between a binary response variable and categorical and continuous explanatory variables. Table IX reports the logit analysis[xi] that explains the difference between the incumbent and challenger for DBEs and non-DBEs in columns (a) and (b), respectively, and reports the logit analysis that explains the difference between DBEs and non-DBEs in column (c).

(INSERT TABLE IX)

Table IX shows that political influence and bureaucratic discretion explains the agency's contract decisions for all three pools. Among DBE firms, challengers realized a slight advantage if located in a ward where the alderman voted with the incumbent mayor. Among non-DBEs, political influence did not favor either the incumbent or challenger while bureaucratic discretion had a conflicting effect. Non-DBE incumbents received a quick approval by only executive staff and experienced an extended bid preparation/solicitation period and purchasing agent review. It was hypothesized that the incumbent would obtain quicker administrative approval at all levels due repeated purchase of a commodity-type product and advantageous "insider position" experienced by the incumbent. Possibly, the incumbent caused the delay during the bid preparation period by influencing the agency to revise the requirement to increase the incumbents proprietary position. However, a restrictive specification would cause some firms to protest the bid documents by writing to the purchasing agent thereby increasing his review time.

[ix] Logit analysis is used to test a linear multivariate regression model of the agency's contract decision-making process, and the coefficients for the explanatory variables show their relative contribution to explaining the probability of change in contractor. The multivariate regression model developed in this paper predicts the probability of change in contractor between DBEs and non-DBEs by taking into account the joint linear influences of all the significant and non-significant variables to determine the most likely threshold at which the change in contractor will occur. For an example of the threshold theory, see John Neter, William Wasserman, and Michael H. Katner, Applied Linear Regression Models, 2nd Edition, Irwin, Homewoood, Illinois 1989, p.583.

[x] Logit analysis allows us to establish four basic statistical relationships: (1) the factors that will most likely cause a change in contractor, (2) the direction of that change, (3) the factors' joint contribution to the probability of change in contractor, and (4) predictions from the set of observations.

[xi] A correlation matrix review was performed to reduce the negative effects of multicollinearity, and the highest R^2 value is 0.1935 which would have little impact on the interpretative value of the coefficient. Therefore all explanatory variables are used in the logit analysis.

Political influence is effective in explaining the difference between DBEs and non-DBEs. Table IX, column (c), shows that DBEs are more likely to win a contract when they are located in wards that vote with the incumbent mayor, when the power of the political regime is lowest, and when the political cohesiveness among the three political actors is weakest. These findings suggest that the ward alderman, possibly one of few advocates for the DBEs located in his or her ward, has a better chance of influencing the agency when the city's political power coalition is in transition and/the new coalitions are forming.

The contract justification variable partially confirms the presence of political influence and/or bureaucratic discretion, because recommendations to award contracts to DBEs use significantly fewer lines than recommendations to award contracts to non-DBEs. This suggests that contracts to DBEs are less controversial among the agency's bureaucrats than contracts awarded to non-DBEs, i.e., the politician and/or bureaucrat are more accepting of the agency 30% DBE participation goal at least during period of political transition and low cohesiveness among the political actors.

The actual probability of change in contractor as shown in Table X is calculated by using the logit coefficients to determine the most favorable conditions and the least favorable conditions under which a DBE will win a contract. Even though the logit analysis identifies[xii] four variables, the logit analysis explains only 12% of the change in probability of a DBEs success.

(INSERT TABLE X)

Conclusion

What does the public expect when an agency purchases routine goods and services year after year? Products the agency purchased for more than a decade before the study and continues to purchase. The public expects that the lowest responsible and responsible bidder will win the contract regardless of whether the firm is the incumbent contractor or a DBE. The public expects that no contractor will be given any special preference by the politician or bureaucrat, however slight, for standard, routine, and highly competitive commodity-type products. The public expects the agency to base its contract decisions on competitiveness and impartiality where technical-rational criteria dominate rather than political criteria. When some preference is found to influence a contract decision, however slight, the public becomes suspicious that the agency's contracts are being used as political benefits to reward allies for electoral support.

[xii] The estimated logit of the probability is calculated using the mean value for all variables with a p-value exceeding 0.05 and by using their maximum or third quartile and minimum or first quartile values for all variables with a p-value less than 0.05 in order to represent the most favorable and least favorable political circumstances under which the DBE wins a consecutive annual-order contract. The formula for calculating the probability can be found in ***SAS/STAT User's Guide, Volume 2, GLM-VARCOMP***, Version 6, Fourth Edition, Gary, NC, SAS Institute, 1990, p.1076.

In addition to the public's standard, the agency is expected to meticulously observe all ". . . administrative rules and procedures governing all steps in the procurement process, from initial notice to awards." (2) No favoritism should be found. Competitively bid contracts for standard products should not be prone to political influence or bureaucratic discretion. Finding clear evidence of political influence in the award of contracts to DBEs suggests that politician did influence the award of these standard, highly competitive, and highly regulated contracts. Finding some political influence among these routine purchases, however slight, suggests that more political influence and/or bureaucratic discretion may be exercised for other types of contracts which are not as strictly regulated as sealed bid items, e.g., professional services, sole source, negotiated contracts, and change orders. Three conclusions can be drawn from this study: (1) Political transition is the optimal time during which to seek change in a social program such as an agency's DBE policy; (2) Politicians control the bureaucrats. In the final analysis, Mladenka's findings could be correct when he found that ". . . (aldermen) are confident of their ability to manipulate the administrative apparatus to secure superior service." Consequently, if a DBE interest group wants to increase its benefits, then that group should support a politician; (3) All DBEs did not receive equal treatment. The study focused on only successful DBEs. Even though the agency achieved its 30% participation goal by 1991, the contracts were being concentrated in the hands of a few DBEs. This tendency to concentrate contracts in the hands of a few DBEs supports the political hypothesis that loyal wards are rewarded with superior services. This may be the drawback of political influence; rather than achieving equity for a DBE, politicians reward their friends in return for electoral support.

Sources

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(27) ICMA, ***Management Policies in Local Government Finance***, 1996, p375)
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TABLE I - SELF-INTEREST MODEL

$Pr(WIN=0)=B_0 + B_1WARD + B_2REGIME + B_3COH + B_4REVIEW + B_5JUST + U$, where

Pr(WIN=0) = Probability of an incumbent firm winning the consecutive annual-order contract;Pr(WIN=1) = Probability of a challenging firm winning contract for an annual-order; and [Pr(WIN=1) = 1 - Pr(WIN=0)].WARD = Political Value of Location FactorREGIME = Political Value of Era FactorCOH = Change of Elected and Appointed Officeholders FactorREVIEW = Administrative Review FactorJUST = Contract Justification Factor B_o = Intercept, B_1, B_2, B_3, B_4, B_5 = Coefficients, and U = The unexplained variance.

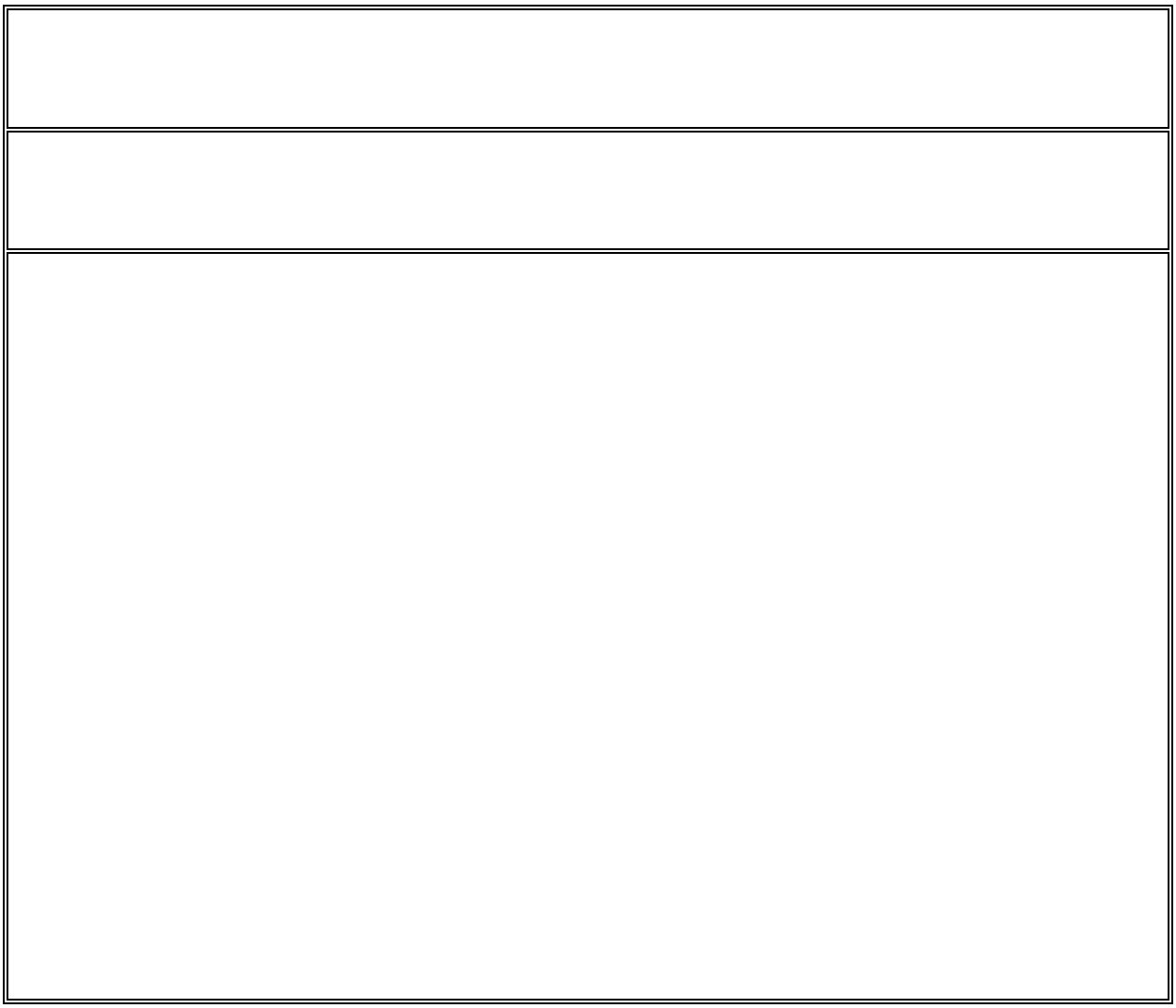

TABLE II - TYPICAL ARRAY OF ANNUAL-ORDER CONTRACTS PER YEAR

Commodity	Total Contract Value ($1,000)	less than $5,000	Sole Source	Competi-tively Bid	Total number of contracts
Bus parts & service	$36,312	3	9	44	56
Rail parts & service	$ 4,092	3	6	14	23
Business Services	$ 7,111	42	15	34	91
Supply and materials	$ 3,652	19	7	48	74
Rental Contracts	$ 2,575	14	10	17	41
Non-technical: paper	$ 1,140	2	0	6	8
Non-technical: printing	$ 660	3	1	9	13

Technical: chemicals	$ 1,242	4	2	14	20
Technical: electrical	$ 1,584	10	2	23	35
TOTALS	$58,368	100	52	209	361

TABLE III - METHOD FOR ASSIGNING VALUES TO EACH WARD AND OTHER LOCATIONS

FIRST YEAR OF MAYOR'S TERM IN OFFICE	LAST YEAR OF MAYOR'S TERM IN OFFICE	VALUE OF THE DUMMY VARIABLE CALLED "WARD"
WARD'S ALDERMAN VOTED IN FAVOR OF MAYOR'S POSITION	WARD'S ALDERMAN VOTES IN FAVOR OF MAYOR'S POSITION	5
WARD'S ALDERMAN VOTES AGAINST MAYOR'S POSITION	WARD'S ALDERMAN VOTES IN FAVOR OF MAYOR'S POSITION	4
WARD'S ALDERMAN VOTES IN FAVOR OF MAYOR'S POSITION	WARD'S ALDERMAN VOTES AGAINST MAYOR'S POSITION	4
WARD'S ALDERMAN VOTES AGAINST MAYOR'S POSITION	WARD'S ALDERMAN VOTES AGAINST MAYOR'S POSITION	3
SITE OF THE FIRM IS OUTSIDE OF THE CITY OF CHICAGO, BUT IN THE STATE OF ILLINOIS		2
SITE OF THE FIRM IS OUTSIDE OF THE CITY OF CHICAGO AND OUTSIDE OF THE STATE OF ILLINOIS		1

TABLE IV - COHESIVENESS MEASURE, where 0=no change in actor and 1=change in actor

Mayor, V.P. Purchasing, or DBE Manager	Chairman, Purchasing Agent, or Using Department Manager	President, Contract Officer, or Budget Manager	Political, Purchasing or Staff Cohesiveness
1	1	1	8
1	1	0	7
1	0	1	6
1	0	0	5
0	1	1	4
0	1	0	3
0	0	1	2
0	0	0	1

TABLE V - CONTRACTS AWARDED TO DBEs AND Non-DBEs								
	Total Contracts	**CONTRACT AWARDED:**			**FIRMS WITH 2 OR MORE CONTRACTS**			
YEAR		**To DBEs**	**To Non-DBEs**	**% TO DBEs**	**DBEs**		**Non-DBEs**	
					No. of Firms	**No. Of Contracts**	**No. of Firms**	**No. Of Contracts**
1982	12	0	12	0%	0	0	0	0
1983	48	3	45	6.3%	0	0	3	8
1984	76	4	72	5.3%	0	0	10	22
1985	68	2	66	2.9%	0	0	6	15
1986	99	12	87	12.1%	1	4	13	29
1987	70	10	60	14.3%	1	2	7	15
1988	101	26	75	25.7%	3	7	7	21
1989	132	36	96	27.3%	14	23	11	35
1990	95	25	70	26.3%	4	15	10	37
1991	91	28	63	30.8%	5	16	7	20
Total	792	146	646	18.43% Average	28	67	74	182
Average contracts per firm						2.39		2.46
Percent of total number of contracts						45.9%		28.2%

TABLE VI - INCUMBENT AND CHALLENGING DBE FIRMS					
Variable Name Variable Number	Incumbent		Challenger		Wilcoxon Rank Sum
	Mean	std. dev.	mean	std. dev.	
Political Value of Location (V5)	3.50	1.48	3.36	1.51	.7209
Political Value of Era (V6)	0.33	0.48	0.52	0.50	.0632
Change of Elected and Appointed Officials					
Political Cohesiveness (V56)	5.63	2.39	5.58	2.28	.7519
Purchasing Cohesiveness (V57)	4.58	2.54	4.54	2.52	.9202
Staff Cohesiveness (V63)	3.61	2.59	3.70	2.81	.8942
Administrative Review Time					
Pre-bid and Bid Solicitation (TDAYS1)	162 days	177 days	164 days	153 days	.8931
Bid Evaluation (TDAYS2)	70 days	93 days	63 days	107 days	.2512
Review by the Purchasing Agent (TDAYS3)	23 days	60 days	24 days	76 days	.3178
Executive Staff's Approval (TDAYS4)	14 days	9 days	17 days	29 days	.3327
Chairman's Contract Execution (TDAYS5)	47 days	56 days	65 days	5 days	.6584
Contract Justification	28 lines	26 lines	35 lines	34 line	.5155

TABLE VII - INCUMBENT AND CHALLENGING Non-DBE FIRMS					
Variable Name Variable Number	Incumbent		Challenger		Wilcoxon Rank Sum
	Mean	std. dev.	mean	std. dev.	
Political Value of Location (V5)	2.65	1.55	2.43	1.38	.2308
Political Value of Era (V6)	0.39	0.51	0.39	0.49	.8789
Change of Elected and Appointed Officials					
Political Cohesiveness (V56)	4.55	2.64	4.81	2.50	.2165
Purchasing Cohesiveness (V57)	4.07	2.57	4.01	2.50	.8563
Staff Cohesiveness (V63)	2.99	2.58	3.14	2.58	.2260
Administrative Review Time					
(TDAYS1)	137 days	97 days	161 days	138 days	.0552
(TDAYS2)	55 days	101 days	64 days	99 days	.4038
(TDAYS3)	20 days	98 days	25 days	66 days	.0002
(TDAYS4)	29 days	141 days	18 days	38 days	.0854
(TDAYS5)	53 days	151 days	52 days	229 days	.1358
Contract Justification	43 lines	42 lines	46 lines	44 lines	.1557

TABLE VIII - DBE VERSUS Non-DBE CONTRACTORS					
Variable Name Variable Number	DBE		Non-DBE		Wilcoxon Rank Sum
	mean	std. dev.	mean	std. dev.	
Political Value of Location (V5)	3.40	1.50	2.54	1.47	.0001
Political Value of Era (V6)	0.48	0.50	0.39	0.50	.0415
Change of Elected and Appointed Officials					
Political Cohesiveness (V56)	5.59	2.30	4.67	2.57	.0001
Purchasing Cohesiveness (V57)	4.55	2.51	4.05	2.54	.0260
Staff Cohesiveness (V63)	3.68	2.75	3.07	2.58	.0166
Administrative Review Time					
(TDAYS1)	164 days	158 days	148 days	118 days	.3689
(TDAYS2)	65 days	103 days	59 days	100 days	.1357
(TDAYS3)	24 days	73 days	23 days	85 days	.0002
(TDAYS4)	16 days	26 days	24 days	106 days	.5797
(TDAYS5)	42 days	63 days	54 days	194 days	.2904
Contract Justification	33 lines	33 lines	44 lines	43 lines	.0042

TABLE IX - INCUMBENT AND CHALLENGING DBE FIRMS						
Variable Name Variable Number	column (a)		column (b)		column ©	
	DBE FIRMS: Incumbents vs. Challengers (n=???)		NON-DBE FIRMS: Incumbents vs. Challengers (n=???)		DBE FIRMS VS. NON-DBE FIRMS (n=????)	
	coefficient	p-value.	Coefficient	p-value.	Coefficient	p-value
Political Value of Location (V5)	0.0727	.6169	0.0914	.1190	0.3386	.0001
Political Value of Era (V6)	-1.1129	.0366	0.0512	.7743	0.4157	.0502
Change of Elected and Appointed Officials						
Political Cohesiveness (V56)	-0.0120	.9051	-0.0104	.7765	0.1581	.0006
Purchasing Cohesiveness (V57)	0.1098	.3190	0.00512	.8934	0.0556	.2344
Staff Cohesiveness (V63)	-0.0154	.8754	-0.00268	.9475	0.0256	.5825
Administrative Review Time						
(TDAYS1)	-0.0006	.6841	-00.198	.0111	0.000158	.8416
(TDAYS2)	0.00165	.6318	0.000417	.6795	0.000282	.8465
(TDAYS3)	-0.00170	.7035	-0.00726	.0040	0.00213	.3244
(TDAYS4)	-0.0027	.8438	0.00725	.0090	-0.00522	.2121
(TDAYS5)	-0.00228	.6018	-0.00034	.5412	-0.00101	.5013
Contract Justification	-0.00370	.6252	-0.00153	.4642	-0.0112	.0007
Intercept	-1.0751	.2867	0.3334	.2498	-3.3100	.0001

Logit analysis calculates the regression equation to give the probability of the incumbent contractors shown in columns (a) and (b) and the DBEs in column (c).

Table X - CIRCUMSTANCES UNDER WHICH DBEs ARE MORE LIKELY AND LEAST LIKELY TO WIN AN ANNUAL-ORDER CONTRACT		
VAR NO.	**25.4% CHANCE OF WINNING A CONTRACT**	**13.1 % CHANCE OF WINNING A CONTRACT**
V5	DBE is located in the City of Chicago and its alderman always votes with the incumbent mayor.	DBE is located outside the state of Illinois
V6	A political regime is present where the agency's chairman and president are appointed by the incumbent mayor.	A political regime is not present, because the agency's chairman and president were chosen by the previous mayor.
V56	Political cohesiveness is relatively strong among the mayor, chairman, and president.	Political cohesiveness is relatively weak among the mayor, chairman, and president.
V53	The contract recommendation is relatively brief indicating a relatively simple and uncomplicated contract justification.	The contract recommendation is relatively long indicating a relatively complex and complicated contract justification.

ENDNOTES