TOOL 2.3

Considerations in Defining Criteria for 'Women-Owned Businesses'

» **GOAL:** Develop clear terminology and definitions that allow for the identification of women-owned businesses in procurement programs and policies

» **TARGET UNITS:** Procurement; Community Engagement

Developing a program to engage with women-owned businesses in a company supply chain begins with defining clear criteria for a business to qualify as 'women-owned'. This tool helps companies to identify the right combination of criteria in order to establish baselines, measure progress, and determine which local businesses are eligible for inclusion in procurement targets or preferential selection processes[23]. Clarity in procurement guidelines is a requirement for implementation, and helps to avoid accusations of fraud, bias, or tokenism or 'fronting', i.e., when women are nominally offered an ownership stake in a company, but with their de facto rights to exercise decision-making severely curtailed or overwritten.

Policymakers, researchers, and supporting organizations like training firms or NGOs may also find this tool useful in terms of providing guidance on how to target policies, programs, studies, and support. Finally, small business owners themselves can use this tool to clarify whether they fall into the category of a woman-owned business or a business primarily employing women.

Criteria for Evaluating the Gender-Inclusiveness of Potential Suppliers

1. Ownership

A business where at least 50% of equity is owned by a woman or women is the most often-cited definition of a women-owned business. However, it is not only the composition of ownership that matters—the criteria also may include how the company bylaws, voting arrangements, shareholder agreements, and other structures determine the exercise of ownership interests in practice. For example:

- Companies may have a proviso that grants veto power to a male owner—even if the other owners are female.
- Companies may grant a male owner the sole right to dissolve the company without requiring the assent of other owners.
- Companies may stipulate that if a woman owner wishes to sell her shares, she must give first right of refusal to a male.

[23] The guidance used to develop this tool comes from UN Women, *The Power of Procurement: How to Source from Women-Owned Businesses.*

In any of these scenarios, female shareholders will face severe constraints in exercising their ownership rights. The situation is further complicated by the fact that ownership is not static but evolves over time as the company capitalization changes. A business may start out as 100% women-owned and founded, but it may require capital to grow and seek out equity investors to meet this need. Equity investors often ask for restricted stock arrangements as a condition of coming on board to protect themselves against the perceived risk of investing. A common restriction from early-stage investors is to require the founders to remain actively engaged in the running of the business for the duration of the term. For these reasons, companies seeking to procure from women-owned businesses should look carefully at the structures of the businesses in question to understand how substantive the rights of female owners really are. Ideally, voting rights of female owners should be unencumbered and unconditional, with full ability to partake in decision-making, if the business in question is to qualify as a women-owned business[24].

2. Control

In addition to ownership rights, a woman-owned business should also be one in which women have authority in daily decisions about the management and operations of the company. For example, one or more of the senior officers of the company should be female. Typically, a woman should also hold the position of the highest officer (usually CEO). Again, it is important to look beyond titles. If the female CEO or managing director is required by the articles of incorporation to seek the consent of other (male) signatories to carry out actions like borrowing money, hiring staff, and signing contracts, then the woman in question does not have effective control of her business.

3. Independence

If a women-owned business could not operate without the licenses, permits, and/or insurance held by another business, that women-owned business would not be considered independent. Reliance on other close partners to carry out core operations runs the risk that the woman-owned business may be controlled by their affiliates, thus undermining the goal to economically empower women through gender-diverse contracting. The Women's Business and Enterprise National Council (WBENC)[25] and WEConnect International[26] both include independence stipulations in their eligibility

24 For example, to qualify as a women-owned small business under the U.S. Small Business Act, a business concern that otherwise meets the applicable size standards must be at least 51 percent unconditionally and directly owned and controlled by one or more women. For more information, click here.

25 The Women's Business Enterprise National Council (WBENC) is the largest certifier of women-owned businesses in the U.S. and a leading advocate for women business owners and entrepreneurs. For more information, click here.

26 WEConnect International is a global network that connects women-owned businesses to qualified buyers around the world. For more information, see Box 2B or WeConnect International.

criteria for defining women-owned businesses. An independent business concern can be defined as one in which:

- The woman or women owner(s)'s expertise must be indispensable to the business's potential success; and,
- The woman or women owner(s) have the ability to perform in their area of specialty/expertise without substantial reliance upon finances and resources (e.g., equipment, automobiles, facilities, etc.) of males or nonwoman business enterprises.

4. Valid Certification

There are several options for certifying suppliers as women-owned businesses. These include requiring self-certification by businesses that are seeking to register as company suppliers; requiring government certification; or using a third-party certification process in line with a set of recognized international standards. Each option has strengths and drawbacks. Self-certification may be the simplest to administer but may also prove ineffectual without verification of supplier paperwork and relies upon suppliers having the capacity for honest and critical self-assessment. Government certification creates a uniform standard aligned with relevant national policies and laws, but in practice the success of such an effort depends on government capacity and expertise to implement it. Third-party certification (for example through an organization such as WeConnect International) can present an additional expense for companies, but brings many advantages that the previous two options lack—the credibility of independent evaluation, the opportunity for suppliers to connect to regional or global communities of peers, and affiliation with a recognized standard, which in turn may help suppliers attract capital from mission-aligned investors.

5. Businesses Employing Majority Women

As stated in the introduction, the focus of this tool suite is primarily on helping companies to increase their engagement with women-owned businesses. However, if one of the goals of gender diversifying the supply chain is to create greater economic opportunities for women, then it follows that it is not only the percentage of female ownership of potential suppliers, but also the number and type of jobs they create for women, that should be of interest to companies. Evidence suggests mutuality between these two goals: women-owned businesses also tend to employ more women. In an International Trade Centre (ITC) survey of 20 developing countries, 40 percent of the firms owned by women employed mostly female workers, compared with just 22 percent of firms owned and managed by men[27].

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[27] International Trade Centre (2015), Unlocking Markets for Women to Trade. Source data from ITC NTM surveys in 20 developing countries, 2010 to 2014.

Companies may wish to track their impact on the indirect employment of women (i.e., employment created in supply chain businesses); suggested indicators are included in **TOOL 2.10**. Companies may also choose, for example, to require suppliers to include in their bid submission a gender breakdown of their current workforce and/or any targets or policies they have in terms of gender equality in the workforce. UN Women, for example, encourages suppliers to include information regarding the percentage of women (1) employed in the supplier's organization, (2) in executive and senior positions, and (3) shareholders. While such data are not a factor in the evaluation of tenders, UN Women uses them for statistical purposes to support its mandate to promote gender equality and women's empowerment. It states that "suppliers are invited to (1) become signatories to the ... [Women's Empowerment Principles (WEPs)] (for companies with more than 10 employees), or (2) sign the Voluntary agreement to promote gender equality and women's empowerment (for companies with fewer than 10 employees)"[28].

[28] UN Women, "Gender-responsive Procurement."