TOUGH LEAF

The State of Certified Subcontractor **Sourcing & Compliance 2026**

An industry perspective on the growing complexity of certified subcontractor sourcing, compliance verification, and participation tracking across pre-construction and construction.

TOUGH LEAF

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Executive **Summary**

Compliance related to certified subcontractor participation is not confined to bid day or project closeout. Across the construction industry, teams are adapting to continuous verification expectations, evolving participation standards, and increased transparency requirements. This report examines how sourcing decisions, documentation practices, and technology adoption are reshaping compliance workflows and what industry leaders are doing to prepare for what's ahead.

In this report, "certified subcontractors" refers broadly to small, local, and diversity-certified firms, including MBE, WBE, DBE, VOB, and SBE participants, among others.

Key Takeaways From This Report

- **Compliance is becoming more continuous.** Verification is no longer limited to bid or closeout, and teams are increasingly expected to maintain accurate participation and documentation throughout construction.
- **Many compliance challenges begin during pre-construction.** Early sourcing decisions, certification status, and bid-day assumptions often shape outcomes later in the project.
- **The regulatory landscape remains fragmented.** Federal, state, local, and private-sector participation standards continue to vary and shift, creating complexity for all parties.
- **AI-powered matching, verification, and outreach** workflows that accelerate sourcing and reduce manual effort are on the rise.
- **Certified subcontractor participation remains critical.** Small, local certified firms play a key role in meeting public- and private-sector goals, but often face administrative, staffing, and payment-related challenges.
- **Technology is changing how compliance is managed.** Digital platforms and data tools are enabling more consistent tracking, standardized documentation, and earlier identification of potential issues.

What This Means for 2026

- **General contractors** (primes) will need to embed compliance considerations into both pre-construction and during construction, with a greater emphasis on maintaining accurate, accessible documentation over time.
- **Owners** are likely to expect more visibility into participation and compliance progress during projects, rather than relying solely on one-time confirmations.
- **Certified Subcontractors** will need to manage certifications proactively, keep documentation current, and respond efficiently to information requests to remain competitive.

Recommended Actions Teams Should Take Now

1. **Standardize workflows** before bidding to capture subcontractor certifications, participation data, and key documentation.
2. **Monitor participation and compliance** metrics throughout construction to reduce surprises later in the project.
3. **Simplify sourcing and oversight** by improving coordination across teams and using technology to keep subcontractor information current and review-ready.

This report was developed by **Tough Leaf**, a construction technology platform that works with public agencies, private owners, general contractors, and certified subcontractors across pre-construction and construction.

Through our work supporting sourcing, verification, documentation, and participation tracking on active projects, we see firsthand how early assumptions made during pre-construction — and gaps in visibility during construction — can directly affect bid competitiveness, project execution, and compliance outcomes.

Across projects running through our platform, teams that adopt structured certified subcontractor sourcing and continuous compliance practices consistently receive **3.5X more competitive bids**, recover **an average of 55 project management hours per month during construction**, and reduce the time required to source and verify certified firms by **up to 70%**.

These observations reflect a broader industry shift toward compliance as an ongoing operational function in 2026 — it's no longer a one-time requirement — but an operational capability that influences cost, risk, and delivery from bid through construction.

The State Of Certified Subcontractor Sourcing & Compliance 2026: From Bid Through Construction

An industry perspective on the growing complexity of certified subcontractor sourcing, compliance verification, and participation tracking across pre-construction and construction.

Compliance Has Shifted From A Form To A Function

Certified subcontractor requirements have undergone significant changes in recent years, reshaping how the construction industry source, verify, and manage participation throughout a project. For both government agencies and primes, compliance is no longer confined to bid day or project closeout. It now influences decisions across pre-construction and construction as expectations for certification accuracy, documentation, and participation tracking continue to evolve.

What will drive changes in 2026?

The state and federal rules regarding compliance remain in flux. The DOT **issued revised DBE requirements**, prompting state DOTs to review subcontractors certification statuses under the new rules.

The recertification process could take **months** as DOTs review documentation. “These agencies [including State DOTs, airports, and transit authorities] are suspending their DBE programs because they cannot set meaningful goals or count participation until they know which firms remain certified under the new rules.”

In 2026, we will enter a post–affirmative action era, with adjustments to state and local contracting programs.

“Compliance is no longer a box to check at closeout — it now shapes who gets sourced, bid, and awarded work.”

Many Cities and States will continue to drive MWBE standards, requiring primes to adjust sourcing strategies and compliance approaches based on where they are working, while agencies work to maintain accountability within evolving guidelines.

While it has clearly pulled back, the Federal government remains a major player. Because there is less federal money in circulation, competition to obtain funds will increase and certified subcontractors can’t expect certification alone to guarantee success. Track record, quality, and performance will continue to determine outcomes.

Another pressure primes will face as they chase projects is increased scrutiny during construction and close-out. Compliance is no longer something verified once at bid and then forgotten about until closeout; sourcing decisions and participation commitments must hold up throughout the life of the project to meet agency expectations.

“Any prime contractor with a subcontracting plan can be selected for a subcontracting compliance review,” **according to the U.S. Small Business Administration**. “The review confirms the prime is following relevant regulations, processes, procedures, and the subcontracting plan.” In addition to reviews, primes are required to submit periodic reports, often annually or semi-annually, documenting subcontractor participation and performance.

The U.S. Government Accountability Office has also highlighted gaps in how subcontracting data is reviewed and reported across agencies, noting that many federal agencies do not consistently evaluate contractors’ achievement of subcontracting goals at the agency level. As a result, agencies are increasingly focused on improving data quality, consistency, and transparency.

Taken together, these dynamics mean compliance must be actively managed from day one through project closeout. Teams are increasingly expected to maintain accurate participation data and supporting documentation throughout construction, enabling timely reporting, reviews, and verification when requested.

“Participation isn’t just a number anymore.” said L.S. Brinker Senior Estimator Dan Pierce, “Owners want proof — during the project, not just at bid time.”

To meet these expectations, primes need to maintain clean, consistent data and be transparent about their spend. Waiting until a reporting deadline or project closeout to organize documentation increases effort and risk. When teams maintain visibility into compliance data throughout the project, they can respond more efficiently and avoid unwelcome surprises later.

Pre-Construction: Where Most Compliance Problems Begin

Pre-construction is a pressure cooker for everyone in the industry.

It starts with project sponsors who want to know that owners are progressing on viable projects. Owners then press their teams to move forward, which means getting RFPs out quickly so bids can be submitted and considered.

McKinsey details the impact of the pre-construction period from the owner's perspective. "Pre-construction excellence enables stakeholders to understand the full potential of cost and schedule improvements across a project, and then to build or transform the project delivery system to ensure this potential is delivered."

> "Sourcing decisions made under pre-construction pressure often determine compliance outcomes months later."

Yet primes and subcontractors face as much pressure as anyone during the cycle. They rush to meet the RFP response time, which is consistently insufficient, while still needing to assemble teams that meet certification requirements and participation goals.

In many jurisdictions, participation requirements are front-loaded into the bid process itself. Primes may be required to identify the certified subcontractors they intend to use and, in some cases, document outreach efforts as a condition of submitting a responsive bid.

For example, NYC procurements require primes to identify the certified subcontractors intended to meet a 30% participation target before a bid can be submitted; some California owners require documented outreach to all eligible certified firms listed in the directory under the applicable NAICS codes; and some New York State projects require bidders to report the date, time, and method of outreach to certified subcontractors as part of the bid package.

That means estimators need to crank out estimates quickly, often while identifying and sourcing certified subcontractors whose documentation, availability, and eligibility must be verified at bid time and hold up through the project. Sourcing decisions made during this period directly shape compliance outcomes: the wrong certifications, incomplete documentation, or late substitutions can undermine participation commitments long before construction starts.

The process is made even more difficult in today's market due to well-documented workforce shortages.

"Labor attraction is a predominant issue for construction firms, affecting both skilled and unskilled positions," according to **Deloitte**. They add that the current landscape of projects requires "specialized labor" and that "44 percent of the current skill requirements in infrastructure are expected to evolve over the next five years."

Employment shortages don't end in the field.

The estimating workforce is aging, notes a **Construction Dive article**. It adds, "… many estimators today are effectively doing the work of two or three people…"

Another wrinkle estimators often face: insufficient information. Creating an accurate estimate despite the scope being unclear or the documents being incomplete is practically impossible. Yet, this often occurs. This frequently results in unrealistic bid-day participation plans. Proposed bids are based on overly optimistic assumptions regarding labor and availability, and while structured to secure contracts, they often fail to account for execution constraints and compliance risks. In the end, the win can turn out to be a loss.

The challenges primes encounter in pre-construction aren't limited to estimates. Identifying and assembling a team that can successfully execute the project while satisfying the certification requirements adds another layer of complexity.

Bid-day plans are only as real as the subcontractor data behind them.

Insights from Tough Leaf Project Data:

Across active pre-construction projects, structured certified subcontractor outreach results in an average of **3.5× more competitive bids per package**, particularly in markets with constrained certified labor pools.

Participation targets commonly range from **20–35%**, yet bid-day plans often assume availability that does not reflect real-time market capacity, especially when certifications are jurisdiction-specific.

Certification requirements are complex, changing, and highly location-specific, particularly in today's environment where federal, state, and local agencies have differing requirements.

"A single project may need to comply with federal, state, and local regulations," **according to CMiC.**

Consequently, interpreting and complying with requirements associated with mismatched certifications presents a significant challenge.

"Estimators think they hit 30%, then realize the required certification is NY State, not NY City," said Holt Director of Business Operations & Performance, Jessica Rondash.

For subcontractors, gaining and maintaining proper MBE certification is time-consuming. "The paperwork felt excessive," said Bonanza Contracting Co-Owner Lateef Belfor. "At times I felt unfairly scrutinized."

Failure by subcontractors to maintain certification throughout the project can prove costly for both primes and owners.

Even administrative lapses such as late or inaccurate certified payroll reporting have led to **firms losing their place on major infrastructure projects**, triggering withheld progress payments or contract terminations that ripple through the entire construction schedule and budget. For agencies and project owners, early verification and ongoing tracking reduce exposure to these risks and increase confidence that participation commitments will hold through construction — helping protect both project continuity and future bid eligibility.

Pre-construction is a challenging time for everyone in construction. For primes, it's the root of most compliance concerns. For agencies, it's where participation outcomes are largely determined. If well-managed, many of these issues can be prevented before they affect the project.

"A single project may need to comply with federal, state, and local regulations."

What this means:

- **General contractors:** Early mistakes in sourcing or certification can derail the project before it begins, so ensure your teams are fully compliant and documentation is accurate from the start.
- **Owners/Agencies:** Verify subcontractor data and participation plans during pre-construction to reduce risk, stay on schedule, and meet regulatory goals.
- **Certified Subcontractors:** Keep certifications current and provide timely, accurate documentation to remain competitive and avoid costly compliance issues.

During Construction: Where Compliance Breaks Down

The construction industry is infamous for delivering projects late and over budget, and productivity pressures intensify once the work begins. Amid the daily demands of managing schedules, crews, and changing field conditions, teams must also maintain certification, documentation, subcontractor forms and participation requirements tied to certified subcontractor compliance.

"… engineers and constructors in many parts of the world are struggling to deliver even today's project pipeline," **notes McKinsey**. "An increase in productivity is hence needed to allow the industry to deliver projects with the same or fewer people per project."

To meet project schedules, primes and subcontractors need to remain focused on completing the work. During construction, compliance is not a one-time requirement but an operational necessity tied to ongoing documentation, reporting, and payment processes. When certified subcontractor compliance is deprioritized, issues tend to surface quickly, not just at closeout, but during the life of the project.

Tracking compliance during construction may seem unnecessary after teams are assembled and participation plans are approved. In practice, however, participation reporting, certified payroll, lien waivers, and other required documentation are often prerequisites for submitting pay applications. As a result, most compliance failures occur after the bid is awarded, making continued verification during construction essential.

Insights from Tough Leaf Project Data:

On projects where compliance is actively monitored throughout construction, teams **recover 40–60 project management hours per month,** avoid payment delays tied to missing documentation, and reduce compliance management costs by 30–50% compared to manual or consultant-led approaches.

Tough Leaf data shows that six of the top ten ENR construction firms average 22% of spend with certified subcontractors.

Those working in the field see this risk firsthand. “If compliance isn’t tracked during the job, you’re already too late,” said L.S. Brinker, Senior Estimator, Dan Pierce.

Multiple factors can contribute to noncompliance during the construction phase, including lapses in certification or insurance.

The lapses are costly in more ways than one. “A single incorrect additional insured endorsement can cost $8,500 per incident,” according to **The Contractor's Choice Agency**. “Missing waiver of subrogation language exposes contractors to $12,000+ in legal liability.”

The Contractor's Choice Agency adds, “Contractors dealing with frequent COI corrections face insurance premium increases of 15-30% at renewal, as carriers perceive poor certificate management as evidence of higher risk. Project delays from certificate mistakes average $3,500 per day, while expedited certificate processing adds $2,500-$7,500 annually to insurance costs.”

Falling out of compliance with insurance or certification can damage a firm’s reputation and strain business relationships. On government-funded projects, where agencies are required to enforce participation and compliance standards, these lapses can delay or interrupt payment processing, result in the loss of preferred status, and limit future opportunities — directly impacting a company’s bottom line.

Because of these risks, the ability to verify that certifications remain current and that compliance is maintained throughout construction becomes increasingly important. Visibility helps reduce uncertainty for primes while minimizing exposure to compliance-related risks and project disruptions.

“We needed to be confident the numbers we carried weren’t going to fall apart later because a sub didn’t meet requirements,” Rondash said.

A loss in certification often goes unnoticed during construction due to limited coordination between the office and the field. As plans shift and crews adapt to changing conditions, adjustments may be made without immediately recognizing their impact on certification status.

When these updates are not consistently communicated, documentation gaps can emerge. Without clear visibility across teams, certification changes may go unrecorded until they are reviewed later in the project.

When compliance issues are discovered late, teams may be forced to revisit documentation, reallocate work, or adjust participation plans, and these disruptions often result in rework.

Rework is one of the biggest threats to completing projects on budget and on schedule. It contributes "… an average of 52% of total cost growth in construction projects … often leading to overruns of up to 22%," according to **industry research**.

One way companies are trying to minimize risk is by performing mid-project verification. When this step is skipped, compliance issues can go unnoticed until they are more difficult and costly to resolve.

Finally, late or unclear payment reporting is another concern, especially on government projects where non-compliance can lead to disqualification from future public contracts.

The city of Atlanta **performed an audit** to learn "the extent to which minority-owned and female-owned enterprises were used as subcontractors on city contracts."

They recommended a few steps "To provide complete and accurate information about whether the city is meeting its EBO [equal business opportunity] participation goals…" The steps include "require primes and subcontractors to upload documentation showing proof of payment within three business days of payment receipt."

Subcontractor compliance must be maintained and monitored through the construction phase. While contractors are focused on field work, they need to continue to maintain the backend.

What this means:

- **General contractors:** Track certifications, insurance, and documentation continuously to avoid costly errors, delays, and reputational damage; and to ensure required subcontractor documentation is available to support owner reporting and payment submissions throughout the project.

- **Owners/Agencies:** Require visibility into compliance throughout construction, including proof of payment and certification tracking, to ensure projects stay on schedule, on budget, and meet participation goals.

- **Certified Subcontractors:** Stay current on certifications, insurance, and reporting obligations, and provide timely, accurate documentation to protect contracts and maintain credibility.

Government And Agency Viewpoint:
An Evolving Landscape

Government goals related to MBE/WBE/DBE/SBE participation continues to evolve, creating a landscape where requirements can shift from year to year. The changes were especially pronounced last year as a new administration assumed office, and further adjustments are expected in 2026 as agencies refine how participation standards are applied and measured.

In parallel, many state and local agencies are placing increased emphasis on engaging small and local businesses as a way to keep project dollars within the jurisdiction and support local economic activity. This focus on local participation has added another dimension to compliance expectations, particularly for projects governed by city- or state-specific programs.

The industry has long experience in adapting to new laws.

While constant change can create uncertainty for primes and subcontractors, the construction industry has long experience adapting to new laws and regulatory expectations.

“Requirements shift every year,” Pierce said. “What counted last cycle may not count this cycle.”

Prominent law firm, **Proskauer Rose**, which notes, “Government contractors are no strangers to being test subjects for Executive policy initiatives,” referencing to the current administration’s Executive Order on Ending Illegal Discrimination and Restoring Merit-Based Opportunity.

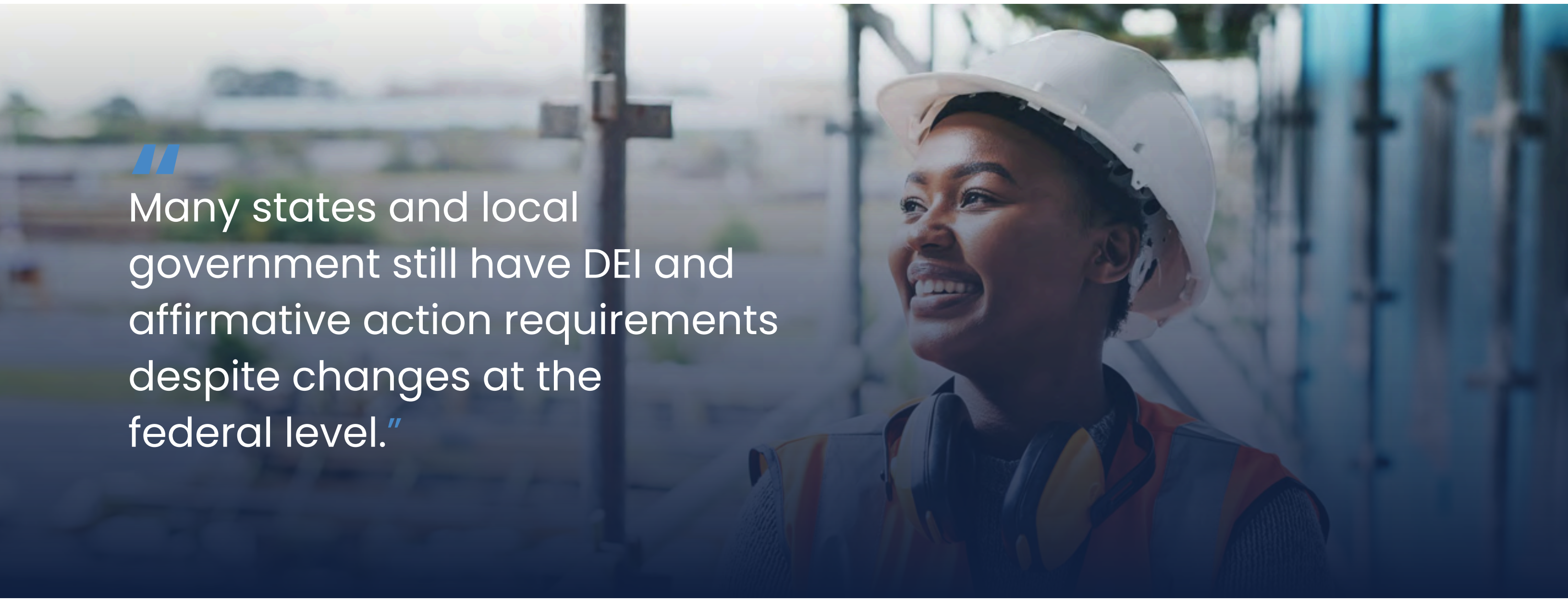
Historically, reporting expectations and oversight practices have varied across agencies and municipalities. The city of **Atlanta audit noted**, “Contract Compliance is responsible for tracking and monitoring EBO goal attainment on eligible contracts; however, the office has not proactively ensured that it has complete information to carry out its responsibilities.”

The GAO has highlighted long-standing challenges in how subcontracting participation is tracked and evaluated across agencies. In prior reviews, contracting officers from multiple agencies reported that subcontracting goal performance was not consistently identified or evaluated at the agency level, even when contractors self-reported unmet goals. These findings have reinforced the need for clearer documentation, stronger reporting processes, and more consistent oversight.

In response to tightened federal requirements and evolving agency expectations, compliance reviews are increasingly complemented by ongoing reporting and periodic documentation submissions throughout the life of a project.

Recent findings reinforce this shift toward continuous oversight. **New York City's FY25 Annual Report** on M/WBE Procurement highlights persistent challenges in participation tracking, inconsistent reporting, and delayed visibility into actual spend — underscoring why agencies are pushing for more frequent, standardized documentation throughout project execution.

Implementing these expectations can be challenging. Agencies have reported issues including inconsistent submission formats, limited real-time reporting capabilities, inaccurate spend documentation, and unclear commitments from project teams.



Moving forward, primes will need to provide documentation on demand to demonstrate compliance. Providing information in consistent formats will help agencies review participation data more efficiently and maintain transparency.

While the objective is clear, execution remains complex. Reporting requirements vary by location, funding source, and project owner, making it difficult to standardize documentation processes across jurisdictions.

"Many states and local governments still have DEI and affirmative action requirements despite changes at the federal level," explains **law firm Peckar & Abramson, P.C.** "Federal contractors should stay informed of these state and local regulations, which may impose additional obligations."

Determining which companies count as certified is also becoming more nuanced. Prior to the 2025 changes, certification often provided a competitive advantage. “Even big subs break out 30% with minority subs because they know it gives them a leg up,” Rondash said.

That advantage may continue to evolve in 2026. However, continuous reporting, certification verification, and consistent status submission formats are increasingly becoming prerequisites for working on government-funded projects.

What this means:

- **General contractors:** Government requirements keep shifting and are dependent on location, so staying current and adapting quickly is critical to maintain compliance and avoiding last-minute disruptions.
- **Owners/Agencies:** Inconsistent past oversight is giving way to stricter verification, so expect more frequent audits and real-time documentation requests.
- **Certified Subcontractors:** Certifications alone won’t guarantee an advantage. Delivering high-quality work while ensuring accurate, timely reporting in the required formats is essential to remain competitive.

Subcontractor Viewpoint: The 2025–26 Reality

Certified subcontractors are more than an add-on or a box to check in the construction world. They represent a growing force and play a critical role in helping the industry meet expanding infrastructure and workforce demands. At the same time, certified firms navigate complexities that require resilience, adaptability, and strong support systems.

"As construction responds to soaring global needs and seeks to turn billions in new funding into real solutions, only an expanded and diverse workforce can meet the challenges, say industry leaders," **according to ENR**.

Minority participation continues to expand across the industry. The National Minority Supplier Development Council (NMSDC), **2024 Minority Businesses Economic Impact Report** (released in November 2025) noted that construction jobs for NMSDC-certified MBEs grew by over 28%.

> "Every company is held to the same level of performance - size doesn't matter."

Empowering small and certified subcontractors also aligns with owners' and primes' long-term business interests.

A **McKinsey analysis** found "…that companies in the top quartile for gender diversity on executive teams were 25 percent more likely to have above-average profitability than companies in the fourth quartile…" The likelihood of above-average profitability, adds McKinsey, is up from 21 percent in 2017 and 15 percent in 2014.

The analysis also notes that "Those with high ethnic and cultural diversity were 36% more profitable than those with the least diversity."

Even with this progress, certified firms face operational challenges. Many are smaller organizations working to build lasting relationships and secure consistent opportunities in a competitive market.

Bernardo Flores, CEO of Quality Wet Paint, a certified subcontractor in NYC, is well aware of the value of networking. "We go to every networking event. That's how you get remembered."

Forming business relationships remains essential for growth. For emerging, small, and less established contractors, gaining that initial opportunity can take time and persistence.

Holt, now a top ENR-ranked prime contractor, began as a certified subcontractor and continues to value the role those early opportunities played in its growth.

"We grew because people gave us chances," Rondash said. "Now we try to do the same." More firms will benefit from this mindset as MBE/WBE/DBE participation continues to expand in 2026. Performance remains a key differentiator. "Our job is to solve problems — don't bring them problems," Flores said. Belfor echoes this sentiment "Every company is held to the same level of performance — size doesn't matter."

At the same time, limited staffing can make back-office management and compliance documentation more demanding for smaller firms. As certification requirements receive greater scrutiny, documentation and reporting expectations have increased, creating additional administrative responsibilities that can strain already lean teams.

To address these challenges, many certified subcontractors are increasingly relying on capacity-building partners and support programs that help them meet documentation, reporting, and operational requirements associated with larger and more complex projects. Platforms like **Tough Leaf** support this effort by matching certified subcontractors with the right project— enabling smaller firms to compete for opportunities they might otherwise be unable to pursue due to administrative constraints.

Certified Subcontractors that are active on Tough Leaf increased their YoY revenue by an average of 25% .

Even with this support, the compliance process can remain fragmented. Certified subcontractors are often required to upload similar documentation across multiple systems, each with different formats and requirements, which adds time and complexity. Streamlining these workflows will reduce administrative burden and allow certified subcontractors to remain focused on delivering high-quality work.

From the prime and owner perspective, certification requirements and participation rules can vary by agency and location, requiring clear guidance and coordination before documentation is submitted. Providing greater clarity to certified subcontractors upfront helps reduce rework, improves participation outcomes, and minimizes unnecessary administrative strain across all parties.

Lastly, payment transparency also plays an important role in helping certified subcontractors plan for growth. Clear reporting processes and timely payments allow firms to invest in staffing, equipment, and long-term partnerships that strengthen project outcomes.

Encouraging greater participation among certified firms benefits the entire construction ecosystem. When owners and primes work to simplify administrative processes and provide clearer guidance, they help create conditions where certified subcontractors can compete effectively and contribute fully.

What this means:

- **General contractors:** Support MBE/WBE/DBE subs in submitting compliance requirements efficiently, by using tech platforms to reduce paperwork and maintain seamless documentation.
- **Owners:** Certified subcontractor participation drives stronger outcomes and profitability, so actively support minority firms and reduce barriers that slow their integration.
- **Certified Subcontractors:** Success depends on being positioned to access opportunities and performance, so network relentlessly, solve problems proactively, and maintain high-quality work to stand out in a competitive market.

Private-Sector Owners: Increasing Expectations

Many private-sector owners have goals related to local, small, or certified business involvement on construction projects that are on par with — or exceed — those of the public sector. As noted above, there are valid business reasons for the private sector to encourage participation from small and certified subcontractors.

In modern procurement practice, supplier diversity and inclusive sourcing practices are increasingly embedded into strategic sourcing and risk management frameworks. According to industry guidance from the **Institute for Supply Management**, supplier diversity programs are evolving from compliance exercises into fundamental components of procurement strategy, helping companies drive competitive advantage, enhance supply chain resilience, and support performance outcomes.

The industry has also introduced initiatives designed to broaden participation, including **Construction Inclusion Week** (CIW). Begun in 2020, CIW "… is an annual industry-wide program that brings stakeholders, including architects, engineers, clients, associations, and technology partners, together to build a stronger, more welcoming construction industry. It encourages awareness, learning, and engagement to ensure every individual has the opportunity to thrive in this dynamic field."

The industry has also introduced initiatives designed to broaden participation, including Construction Inclusion Week.

Private-sector projects frequently include participation goals for certified subcontractors, something Holt has seen firsthand through work with United Airlines, where MWBE participation expectations are clearly defined.

For many private-sector owners, these requirements are not solely values-driven; they are also tied to tangible business considerations. Participation goals are often linked to eligibility for tax abatements, incentive programs, or economic development benefits at the state and local level. In markets such as New York and California, participation commitments can directly affect access to programs administered by housing, economic development, or industrial agencies, making compliance a financial consideration as well as a contractual one.

Failing to meet these commitments can impact relationships with private lenders and repeat clients.

"Eighty percent of our work is with repeat clients — going beyond goals matters," Jessica Rondash of Holt said.

As private-sector owners establish internal participation and supplier inclusion standards, compliance is increasingly treated as a component of broader relationship and risk management, not simply a contractual obligation. Participation goals are often tied to business performance, lender expectations, and long-term client strategy.

Supplier participation programs, according to **Construction Executive magazine**, help women- and minority-owned businesses that have historically faced barriers to entry, while also strengthening the overall supplier base. The benefits run both ways. "Supplier diversity programs drive economic benefits for all by creating a broader supplier base, lower pricing, and increased quality of goods."

Recent market reactions underscore how closely participation commitments are scrutinized by customers, lenders, and partners. In 2024, Target faced public backlash after scaling back elements of its supplier diversity commitments, prompting renewed scrutiny of how participation standards align with stated business values and long-term strategy.

By contrast, Costco has continued to emphasize supplier inclusion as part of its broader operational approach, reinforcing consistency with customers, partners, and investors. These contrasting responses highlight a key reality for private-sector owners: participation commitments, whether framed as supplier diversity, local business inclusion, or small business engagement, are increasingly evaluated through the lens of credibility, stability, and risk management.

For construction projects tied to private lenders, tax abatements, or incentive-driven development programs, participation goals are often embedded in financing structures. Failing to meet these commitments can affect eligibility for incentives, strain lender relationships, or jeopardize repeat business. As a result, participation is not simply a reputational consideration; it is a business and financial one.

By engaging certified subs, private-sector organizations contribute to workforce development and industry sustainability. Increased visibility of local, small and certified subcontractors helps normalize leadership representation and creates pathways for future participation across the construction ecosystem.

Over time, consistent opportunity and visibility strengthen workforce pipelines, support economic resilience, and reinforce the industry's ability to deliver complex projects at scale.

As a result, participation goals, often framed differently than public-sector programs, are expected to remain a fixture in private-sector construction projects through 2026.

What this means:

- **General contractors:** Private-sector participation expectations increasingly affect financing, client relationships, and repeat work. Proactive sourcing, accurate documentation, and clear reporting are essential.
- **Owners:** Participation standards function as a business strategy; supporting project performance, financial incentives, and long-term partner trust.
- **Certified Subcontractors:** Strong performance paired with reliable documentation builds credibility, repeat opportunities, and access to larger, more complex projects.

The 2026 Outlook: Continuous Compliance

Compliance related to certified subcontractor participation in construction has reached a new phase in 2026. Several factors are shaping how certified subcontractor sourcing, reporting, and verification will evolve over the coming years.

The 2026 Outlook: Continuous Compliance

Factor One: A Complex Regulatory Environment

Compliance requirements related to certified subcontractor participation continue to vary across federal, state, local, and private-sector projects.

At the federal level, **small business set-asides remain** a required and well-established component of contracting, including programs for Small Disadvantaged Businesses (SDB), Veteran-Owned and Service-Disabled Veteran-Owned Small Businesses (VOSB/SDVOSB), and other qualifying small businesses. While federal participation frameworks evolve over time, these requirements have long been embedded in federal procurement and continue to shape subcontracting expectations.

At the same time, states, cities, and private owners have historically maintained their own participation standards, often encompassing MBE, WBE, DBE, SBE, and local business requirements. These standards vary by jurisdiction and project type and continue to influence how participation goals are defined, documented, and enforced.

This layered regulatory environment increases complexity for all parties involved.

Factor Two: Digitalization Becomes Standard Practice

Digital transformation is no longer aspirational in construction; it is now a standard part of how projects are planned, executed, and reported.

Owners, contractors, and agencies increasingly rely on digital systems to manage schedules, costs, documentation, and subcontractor data. Information that was once tracked manually is now expected to be captured and shared through centralized platforms to support oversight and reporting throughout the project lifecycle.

Small business set-asides still remain.

While digital tools are widely used, data is often created in different formats and stored across multiple systems. Participation, certification, and reporting requirements vary by owner and jurisdiction, creating friction even in digitized environments. Without consistent structures and workflows, teams still spend significant time reconciling information and responding to documentation requests.

As a result, the advantage in 2026 will belong to teams that move beyond basic digitization and toward standardized data practices that improve visibility, reduce rework, and support participation tracking throughout the project.

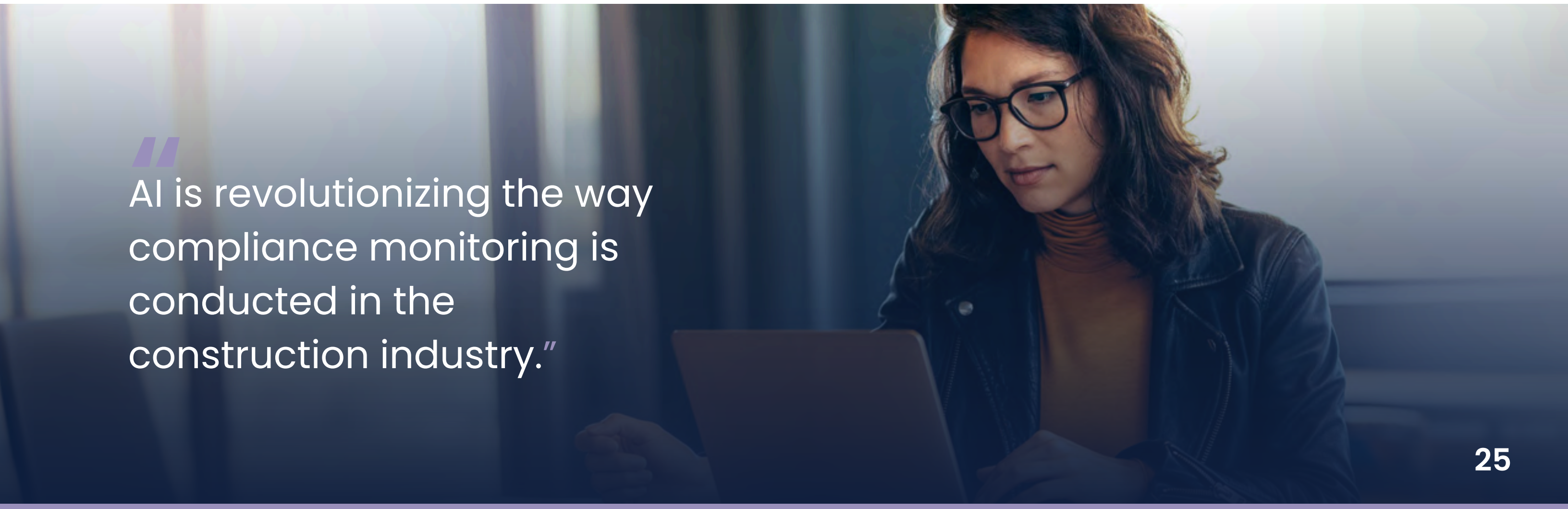
Factor Three: Artificial Intelligence

Finally, there's AI.

"AI is revolutionizing the way compliance monitoring is conducted in the construction industry," according to Lumber, a construction workforce management platform. The primary way it will impact compliance, explains Lumber, is its ability to perform instant data analysis.

AI systems can analyze vast amounts of data in real-time, identifying compliance issues before they lead to project delays or penalties. This proactive approach is invaluable in maintaining regulatory adherence.

According to the Dodge report, Seattle's Sound Transit uses "AI to review construction documents for compliance with design standards 20 times faster than by hand; and a housing developer, who builds 10,000 single family homes a year, using AI to standardize and speed the evaluation of land acquisition options."



"AI is revolutionizing the way compliance monitoring is conducted in the construction industry."

What This Means:

Put together, these trends signal many possible changes for the construction industry. However, when it comes to certified subcontractor participation and compliance requirements, the direction is becoming clearer.

The industry is moving toward a model of continuous compliance.

While primes have always been responsible for meeting participation and reporting requirements, expectations for ongoing verification throughout the project lifecycle are increasing. Owners and agencies are placing greater emphasis on having current, accurate data readily available rather than reviewing documentation only at bid or closeout.

Audits and compliance reviews are becoming more frequent and are expected to become a routine part of project delivery in 2026. Primes will need the ability to provide up-to-date certification status, participation tracking, and supporting documentation as requested.

“Real-time updates are becoming the expectation,” Pierce said.

Rondash adds, “People in my position need to see the numbers regularly — even on jobs that don’t require it.”

As compliance expectations move toward continuous verification, project data from **Tough Leaf** shows that teams using centralized, digital workflows see materially fewer disruptions — receiving more competitive bids upfront and recovering significant administrative capacity during construction. These outcomes suggest that continuous compliance is not only achievable but increasingly necessary as scrutiny intensifies in 2026.

- **General contractors:** Stay ahead of shifting MBE/WBE/DBE rules by tracking local, state, federal, and private-sector requirements, and provide real-time compliance updates using digital tools and AI to reduce risk.
- **Owners:** Recognize that heightened scrutiny and continuous reporting are now the standard, and ensure participation goals and compliance expectations are clearly communicated and measurable.
- **Certified Subcontractors:** Keep certifications, documentation, and performance data current, and leverage digital platforms to demonstrate compliance and maintain visibility with GCs and owners.

Conclusion: Operationalizing Sourcing & Compliance

Despite ongoing technological advances, sourcing and compliance remain persistent challenges for construction teams. Participation tracking, certification verification, and reporting requirements now compete with rising project complexity, inflationary cost pressures, and ongoing staffing shortages across both field and back-office teams.

In this environment, compliance cannot function as a periodic checkpoint or closeout task. Leading organizations are shifting toward more operationalized approaches by embedding compliance directly into how projects are planned and executed. This includes standardizing sourcing and compliance workflows during pre-construction, actively monitoring certification and participation requirements throughout construction, and maintaining review-ready documentation continuously rather than retroactively.

As expectations evolve from static requirements to ongoing obligations, technology is increasingly being used to reduce administrative burden and improve transparency across project stakeholders. Platforms purpose-built for certified subcontractor sourcing and participation tracking (like **Tough Leaf**) enable teams to streamline outreach, shorten engagement timelines, and preserve clearer documentation from bid through project completion.

Usage patterns among large, multi-project general contractors suggest that once sourcing and compliance workflows are embedded into daily operations, teams rarely return to manual or fragmented processes — particularly on projects with sustained participation and reporting requirements. Operationalized compliance not only supports accountability, but also helps teams move faster, improve bid quality, and reduce risk without adding unnecessary friction.

More broadly, the industry is recognizing that compliance is no longer a moment in time. It is a shared responsibility across owners, general contractors, and subcontractors — one that requires clear processes, consistent documentation, and systems that scale with the work. The path forward lies in operationalizing sourcing and compliance in ways that strengthen project outcomes rather than constrain them.

For additional information on approaches to certified subcontractor sourcing and compliance workflows, visit ***toughleaf.com****.*

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Sourcing and Compliance, Simplified

ToughLeaf.com / hello@ToughLeaf.com