

SUPPLIER DIVERSITY IS SIMPLY GOOD BUSINESS:

THE IMPORTANCE OF ESTABLISHING, DEVELOPING
AND SUSTAINING SUPPLIER DIVERSITY

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In 1970 the influential American Nobel Laureate economist Milton Friedman captured the sentiments of laissez-faire economics by stressing that “there is one and only one social responsibility of business, to use its resources and engage in activities designed to increase its profits.”¹

In 2009 this sentiment still rings true in boardrooms across the globe and translates to corporations continuously striving to increase productivity, lower costs and develop new markets. Unfortunately, corporations do not always recognize the many opportunities that exist to develop ongoing relationships with minority-owned businesses and leverage those relationships to build their capacity.

Sometimes it’s obvious, such as when a large corporation contracts with a large supplier and plenty of business is generated on both sides. What’s less obvious, and perhaps an untapped goldmine, is the marketing and sales opportunities that large corporations can reap from dealing with minority-owned businesses, most of which are dramatically smaller in size and buying power than their majority-owned

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¹ Friedman, Milton. (September 13, 1970). “The Social Responsibility of Business is to Increase its Profits.” *The New York Times Magazine*. (emphasis added).

counterparts.² It is vital for businesses to view supplier diversity as far more than “just a purchasing matter” or “something nice to do.”

While many corporations have not fully developed their market shares in diverse communities, those that have share one commonality – a commitment to, and more importantly, a business model that supports contracting with diverse suppliers. Truly successful corporations have realized that supplier diversity is not only the avenue that leads them to diverse businesses who can decrease their costs, but also increase their profits. Leaders in the area of supplier diversity regularly tout their expenditures with diverse businesses to show their commitment to inclusion and investment in the community. One of the most prestigious prizes for performance in supplier diversity is invitation into the Billion Dollar Roundtable, which includes corporations ranging in size from \$42 billion to \$379 billion, whose combined Tier 1 spend with diverse suppliers totaled \$35.2 billion and combined Tier 2 spend with diverse suppliers totaled \$9.7 billion.³

The Emergence of Supplier Diversity Programs

² Humphreys, J. (2008). *The Multicultural Economy 2008*. Selig Center for Economic Growth Terry College of Business, The University of Georgia.

³ The Billion Dollar Roundtable (BDR) was created in 2001 to recognize and celebrate corporations that achieved spending of at least \$1 billion with minority and woman-owned suppliers. The BDR promotes and shares best practices in supply chain diversity excellence through the production of white papers. The BDR encourages corporate entities to continue growing their supplier diversity programs by increasing commitment and spending levels each year. BDR members are viewed as the barometers of corporate support for supplier diversity. By their example, research and policy papers and public statements, they encourage other companies to increase their own commitment. *Billion Dollar Roundtable.com* (2009). Retrieved June 1, 2008 from <http://www.bdrusa.org/index.php>

It is no coincidence that supplier diversity programs began about 40 years ago, when President Lyndon Johnson's Great Society policies were being shaped. They were originally seen as social programs, however, over time that view has changed. According to *Straight to the Bottom Line* (SBL) by Robert A. Rudzki, Douglas A. Smock, Michael Katzorke and Shelley Stewart Jr., considered a definitive work on procurement and supply-based management by many top business professionals over the last 25 years, supplier diversity has become a business imperative for many corporations.⁴

Currently, top corporations understand the value of supplier development and supplier diversity, because it is both good business and common sense. As SBL notes, supplier development is about developing future outstanding suppliers by investing an organization's time and resources today in a mentoring relationship that helps those suppliers understand your business and understand how to become a top-tier supplier.⁵ Supplier diversity also positively impacts the economic needs of local communities by awarding business to companies that represent local demographics, thereby assisting economic development objectives.

It should be made clear that supplier diversity programs are no longer simply a means to promote equality and to stimulate economic growth among small businesses, by encouraging large corporations to contract with small minority-owned and women-owned businesses.⁶

⁴ Rudzki, R., Smock, D., Katzorke, M. & Stewart Jr., S. (2006). *Straight to the Bottom Line*. Fort Lauderdale, FL: J Ross Publishing.

⁵ *Id.*

⁶ Shah, M. & Ram, M. (2006). Supplier diversity and minority business enterprise development: case study experience of three US multinationals. (2006). *Supply Chain Management: An International Journal*. 11(1), 75 – 81. See also, For example California Public Utilities Commission General Order 156 (Current as of August 24, 2006) whose purpose is “... implement PU Code Sections 8281-8286 which

Rather, they are a business imperative for a corporation seeking to increase the number of outside sources it employs to satisfy its needs. Globally, corporations of all sizes recognize that a diverse supply chain allows a firm the security of having various vendors on which it can rely for the unique products and services it requires. Therefore, supply chain diversity management is often as much about relationships as it is about variety.

It is important to correct the common misconception that supplier diversity equates with affirmative action or quotas. This is simply not the case. Valued unanimously by experts in the field, supply chain diversity is an essential business practice because it has a direct effect on a corporation's bottom line, which cannot be ignored by organizations that are concerned about their shareholders.

Diversity, as described *infra*, refers to variety, which leads to vendor competition, which in turn leads to better prices, more choices and

require the Commission to establish a procedure for gas, electric, and telephone utilities with gross annual revenues exceeding \$25,000,000 and their Commission-regulated subsidiaries and affiliates to submit annual detailed and verifiable plans for increasing women, minority and disabled veteran business enterprises' (WMDVBE) procurement in all categories.” California Public Utilities Commission General Order 156 (2006).

⁷ For purposes of this paper, minority-owned and minority women-owned businesses are collectively be referred to as minority business enterprises (MBE), unless otherwise noted. A minority-owned business is defined as a for-profit enterprise, regardless of size, physically located in the United States or its trust territories, which is owned, operated and controlled by minority group members. “Minority group members” are United States citizens who are Asian, Black, Hispanic and Native American. Ownership by minority individuals means the business is at least 51% owned by such individuals or, in the case of a publicly owned business, at least 51% of the stock is owned by one or more such individuals. Further, the management and daily operations are controlled by those minority group members.

potentially higher quality. Consider AT&T as an example. AT&T has been active in supplier diversity for over 40 years with an established and robust outreach program dedicated to identifying and recruiting a diverse group of suppliers. Supplier diversity staff at AT&T participate in over 90 events a year globally, interacting with prospective vendors with the goal of identifying diverse suppliers who bring AT&T a competitive advantage. According to Joan Kerr, executive director for supplier diversity at AT&T, "Finding companies with better business solutions is critical. When I look at a business, I ask myself 'Will this company make AT&T's supply chain faster, more efficient and better optimized?' We also constantly ask ourselves 'How can diversity improve our business?'"⁸

Even though it has been over forty years since the advent of supplier diversity, many corporations still lack strong supplier diversity programs. Experts in the field believe that without a strong supplier diversity program a corporation is ultimately less competitive in the marketplace.⁹ One simply has to look at this nation's changing demographics among Americans. The ratio of white people, age 70 and older, to people of color is 5-to-1. While for Americans under 10-years-old, the ratio is 1.5-to-1. Thus, corporations must understand that to economically thrive it is critical to gain increased market shares in communities of color.¹⁰

⁸ (Fall 2007). *Developing Supply Chain Diversity: The Value of Vendor Variety to Businesses' Bottom Lines*. From Assets, UCLA Anderson School of Management. Retrieved June 1, 2009 from <http://www.anderson.ucla.edu/x20734.xml#supply>

⁹ Rudzki, R., Smock, D., Katzorke, M. & Stewart Jr., S. (2006). Supplier Diversity and Supplier Recognition: Expanding Your Base and Building Your Momentum. In, *Straight to the Bottom Line*. (pp. 143-153). Fort Lauderdale, FL: J Ross Publishing.

¹⁰ In 2008, the number of multiracial citizens rose 3.4 percent to about 5.2 million Americans, or 5 percent of the overall population. Demographers have reported that this number could be substantially

In recent years, the Minority Business Development Agency has focused on sophisticated strategies to build the capacity of MBEs. This focus stems from recognition that MBEs will sustain the competitive advantage of the United States in the overall global economy since MBEs bring to the equation multilingual capabilities, cultural flexibility and innovative perspectives on products and services. "More than any other country in the world, we look and speak like every other country in the world," observes Minority Business Development Agency National Director Ronald N. Langston.¹¹

The supplier diversity landscape is in a transitional state. With increased access and technological capabilities a small MBE can be run out of a home or garage and still have a global reach. Changes to traditional notions of supplier diversity translate to the potential for the inclusion of diverse businesses in a truly global economy. Increased access and capacity also creates opportunities for MBEs to not only increase business opportunities with each other, and for corporate America, but to also create economic wealth and vitality in their local communities.

Therefore, it is clear that to be truly competitive in a global economy, corporations must develop and sustain healthy supplier diversity programs. The key to this success is simple: supplier diversity must be viewed as simply good business practice.

Changing Demographics Translates to Changes in Business Practice

Supplier diversity is inextricably linked to changing demographics, locally, nationally and

higher, since many who are multiracial do not report two or more races. *Diversity Inc.* Retrieved June 1, 2009 from <http://www.diversityinc.com/public/5903.cfm>

¹¹ Turnock, J. (May-June 2009). Victories in Capitalism: The Promise of Strategic Alliances. *Forbes Custom.com*. Retrieved June 1, 2008 from <http://www.forbescustom.com/DiversityPgs/VictoriesinCapPSA2P1.html>

globally.¹² For example, the Census Bureau estimates that minorities, both arriving from abroad and born here in the United States, will account for nearly 90 percent of the total growth in the U.S. population from 1995 to 2050.¹³ When evaluating the past, present, and future of supplier diversity, it is important to consider the following facts:

1. By 2010, one out of every three persons in the USA will be minority. By 2010, one of every three persons in the United States will be a racial/ethnic minority. By 2050, the proportion will probably continue to increase to one in two persons.¹⁴
2. In 2008, the combined buying power of African Americans, Asians, and Native Americans will be \$1.5 trillion more than triple its 1990 level of \$454 billion which amounts to a gain of \$1,030 billion or 227 percent.¹⁵
3. Latino buying power is due to exceed \$1.2 trillion in five years.¹⁶
4. African American buying power reached \$847 billion in 2007, a 6 percent increase from 2006.¹⁷

¹² Langston, R. (Speaker). (2008). *Characteristics of Minority Businesses and Entrepreneurs*. (Radio Broadcast). United State Department of Commerce Minority Business Development Agency. Washington, DC.

¹³ U.S. Census Bureau. (2006). *National Characteristics*. Retrieved June 1, 2009 from <http://www.census.gov/popest/estimates.html>

¹⁴ *Id.*

¹⁵ Humphreys, J. (2008). *The Multicultural Economy 2008*. Selig Center for Economic Growth Terry College of Business, The University of Georgia.

¹⁶ *Id.*

¹⁷ Disposable income in the African American community is still on the rise. African American buying power today is \$913 billion strong and is

5. In 2008, African Americans will account for 62 percent of combined spending, or \$913 billion.¹⁸
6. The combined buying power of three minority racial groups will account for 13.8 percent of the nation's total buying power in 2008, up from 10.6 percent in 1990. This 3.2 percent gain in combined market share amounts to an additional \$343 billion in buying power in 2008.¹⁹
7. MBEs comprise approximately 20 percent of the total number of American businesses and take in nearly 700 billion dollars in annual revenue.²⁰
8. MBEs are growing three times faster than the national business growth rate.²¹
9. 1.9 million firms are majority-owned (51 percent or more) by women of color in the U.S.²²
10. Minority women-owned firms employ 1.2 million people and generate \$165 billion in revenues annually.²³

predicted to reach an all-time high of \$1.2 trillion by 2013. Retrieved June 1, 2009 from <http://www.blackenterprise.com/wealth-for-life/wealth-for-life-principles/2009/03/13/i-will-support-the-creation-and-growth-of-minority-owned-businesses/>

¹⁸ Humphreys, J. (2008). *The Multicultural Economy 2008*. Selig Center for Economic Growth Terry College of Business, The University of Georgia.

¹⁹ *Id.*

²⁰ U.S. Department of Commerce Minority Business Development Agency. Retrieved June 1, 2009 from <http://www.mbda.gov/>

²¹ *Id.*

²² The Center for Women's Business Research. Retrieved June 1, 2009 from <http://www.nfwbo.org/facts/index.php>

²³ *Id.*

11. Between 2002 and 2008, minority women-owned firms grew faster than all privately held firms.²⁴

As minority consumer bases proliferate worldwide and demand new products and services, MBEs will increasingly be positioned to engage these new customers and markets. This change in the domestic and global marketplace translates to a need for corporations to support and collaborate with MBEs on initiatives and opportunities.

California: An Example of the Future

In diverse states, such as California, minorities are already the majority. Ethnic minorities compose over 56 percent of the state's population and Latinos are projected to become the largest racial/ethnic group in the state by 2011.²⁵ Similarly, MBEs are also thriving in California, with an estimated 1.5 million MBEs generating over \$200 billion in annual revenue.²⁶ In 2008, the 50 largest MBEs headquartered in Los Angeles County generated \$11.7 billion in aggregate revenue during 2008, up \$320 million from the prior year.²⁷

California's demographics reveal the tremendous growth potential for minorities in

²⁴ *Id.*

²⁵ U.S. Census Bureau. (2002). *State and County Quickfacts*. Retrieved June 1, 2009 from <http://quickfacts.census.gov/qfd/states/06000.html>

²⁶ Current estimates show that there are 1.5 million minority-owned businesses in California based on the recent 2002 Survey of Business Owners, adjusted annual growth rates, as well as a consideration for the undocumented businesses in California. U.S. Department of Commerce Minority Business Development Agency. *Survey of Business Owners*. Retrieved June 1, 2009 from <http://www.census.gov/econ/sbo/index.html>

²⁷ Retrieved June 1, 2009 from <http://www.thefreelibrary.com/Minority-owned+businesses:+L.A.+County-based+companies+ranked+by+2008...-a0196440741>

the United States, and highlight their undeniable economic contribution through MBEs.²⁸ As these MBEs continue to expand, it will be impossible for corporations to succeed economically without contracting with diverse businesses. Implementing and sustaining an effective supplier diversity program is crucial to the economic prosperity of corporations seeking to increase profits, lower overhead costs or reach new market shares. By developing strong supplier diversity programs corporations are able to immediately reap the benefits of overlooked resources, and invest in the suppliers and consumers of the future.

Supplier Diversity is Simply Good Business

Everyone has heard the corporate rhetoric that diversity makes "good business sense," but until recently there has been a lack of direct research providing concrete numbers that link diversity to positive business outcomes.²⁹ According to a study published in the *American Sociological Review*, higher levels of racial and gender diversity within an organization are associated with increased sales revenue, more customers, greater market share and greater relative profits.³⁰ The study also directly demonstrated not only are racial and gender diversity related to sales revenue, number of customers, market share and relative profitability, but they are among the most important predictors of these business outcomes.³¹

²⁸ U.S. Bureau of Economic Analysis. (Feb. 28, 2000). *Personal Income and Outlays: January 2000*. See also U.S. Minority Business Development Agency. (September 2000). *Minority Purchasing Power: 2000-2045*.

²⁹ Cox, T. (1993). *Cultural Diversity in Organizations: Theory, Research, and Practice*. San Francisco, CA: Berrett-Koehler.

³⁰ Herring, Cedric. (2009). Does Diversity Pay?: Racial Composition of Firms and the Business Case for Diversity. *American Sociological Review*, Vol. 74(2), 208-224.

³¹ *Id.* The study found the average revenues of organizations with low levels of racial diversity are roughly \$51.9 million compared with \$383.8 million

Academic research of this nature has long been supported by business practices across the globe.³² Consider, Procter and Gamble, who focuses on ensuring that corporate supplier diversity is not viewed as being “tacked on” to the supply chain. As corporate supplier diversity leader Icy Williams notes, it’s her job to make sure getting diverse suppliers into the supply chain is just a natural part of supplier selection, with diversity criteria woven into the process. “It’s not any different for our diversity suppliers than it is for our majority suppliers. Part of what I do with purchasing is making it clear to buyers that we don’t have a different matrix, we expect all suppliers to bring us innovation, competitive pricing, meet process measures around quality, customer service and of course cost.”³³

Though Procter and Gamble’s supplier diversity program began in the early 1970s, in the early 2000s the company thought it was time to completely reevaluate how supplier diversity worked at all levels of procurement at Procter and Gamble. Changes in the business world and customer demographics helped move supplier diversity initiatives from executive leadership down the corporate ladder to all parts of the company. Setting clear standards and solid targets ensures that diversity in the supply base is viewed as a core principle in purchasing at all levels with the corporate structure. At Procter and Gamble, the business case for supplier

for those with medium levels and \$761.3 million for those with high levels of diversity. Similarly, the average revenues of organizations with low levels of gender diversity are roughly \$45.2 million compared with \$299.4 million for those with medium levels and \$644.3 million for those with high levels of diversity.

³² Greene, M.V. (2007). Billion Dollar Roundtable 2007 Policy Paper: Establishing the Business Case for Global Supplier Diversity. *Billion Dollar Roundtable.com* Retrieved on June 1, 2009 from http://www.bdrusa.org/bdr_global_business_case.php

³³ Varmazis, M. (September 9, 2008). Beyond Basic Supplier Diversity. *Purchasing.com* Retrieved June 1, 2008 from <http://www.purchasing.com/article/CA6595396.html>

diversity goes beyond basic return on investment (ROI). The supplier diversity program also has a strong supplier development component to ensure stability and growth. Currently Procter and Gamble is striving to reach a goal of \$2.5 billion in diverse supplier spend in 2010.³⁴

Procter and Gamble, like AT&T discussed *infra*, provides just another example of how supplier diversity yields tremendous benefits for corporations. As the global marketplace continues to shift and competition for market shares grows, the time for all corporations to prioritize investments in capacity and sustainability of MBEs is now, as these are their future clients, consumers, and shareholders.

Supplier Diversity Equals High Impact Results for Corporations

Result #1: More Direct and Efficient Control of Supply Chain

When large corporations contract with smaller MBEs, they engage in a transaction and they build a relationship. By outreaching to MBEs through supplier diversity programs, larger businesses develop the capacities of MBEs and fuel their growth. In return, MBEs are both eager to fulfill their contractual duties and loyal to the large corporations for investing in them.³⁵

³⁴ *Id.*

³⁵ As Joan Kerr at AT&T notes, “Supply chain diversity leads to greater customer loyalty as well. Our demographics are changing considerably, and our customers appreciate buying their communications products and services from a company that includes diverse suppliers from their communities. Since many of our business and public sector clients are interested in diversity in their supply chains, we are often asked to include diversity solutions in our bid responses. In this way, supplier diversity delivers the advantage of revenue enhancement and sales enablement. Our program enables us to win more bids.” Kerr further explains that showing great community support helps with public policy support. She concludes, “Those suppliers we do business with and diverse community groups are more than happy to speak at city council meetings or in front of regulatory panels and say, ‘This is a great company that should be allowed to

This creates a mutually beneficial relationship that enables large corporations to impact MBEs performance. The relationship boosts communication between the business and the minority supplier, allowing information to disseminate faster and more clearly. As a result, large corporations gain more control over their supply chain, implement changes more efficiently, and receive what they request from suppliers, boosting productivity.³⁶

Result #2: Flexibility

Supplier diversity programs provide corporations with access to more options in choosing their suppliers. Given the ever-increasing number of MBEs to choose from in the United States, large corporations gain a new pool of suppliers that allows them to narrowly tailor their needs and cut their costs.³⁷ The added competition of MBEs drives the prices of contracts down and gives large corporations many new opportunities. Moreover, many MBEs are small, which allows them to perform services that large and more cumbersome operations cannot, such as serving the needs of a specific community or implementing innovative new strategies.

maximize its operations, since they are investing in the communities where they do business.” (Fall 2007). *Developing Supply Chain Diversity: The Value of Vendor Variety to Businesses' Bottom Lines*. From Assets, UCLA Anderson School of Management. Retrieved June 1, 2009 from <http://www.anderson.ucla.edu/x20734.xml#supply>

³⁶ Illia, T. (March 1, 2008). Diverse Directions: Minority, Women-Owned Contractors Flourish throughout Southwest. *Diversity in Construction*, Vol 69(3), 32.

³⁷ Lowery, Y. (2007). *Minorities in Business: A Demographic Review of Minority Business Ownership*. U.S. Small Business Administration, Office of Economic Research, Office of Advocacy. Retrieved June 1, 2009 from http://www.sba.gov/idc/groups/public/documents/sba_homepage/tools_reports_rs298.pdf

Result # 3: Competitive Edge in the Market

Contracting with an otherwise overlooked pool of minority suppliers' gives large corporations a cutting edge over their competitors. MBEs are untapped resources full of talent and innovation. Corporations that adopt effective supplier diversity programs are able to harness the potential of these MBEs and use them to run more innovative and streamlined operations. In this sense, contracting to MBEs is analogous to implementing a new business technology, as it allows corporations to use new strategies to increase profits and market shares. Simply stated, failing to contract with MBEs will leave many corporations behind their local and global competitors.³⁸

Result # 4: Preparing the Future Business Leaders

With the rapid growth of minority populations, as discussed *infra*, corporations have found themselves competing for skilled diverse employees at all levels.³⁹ Corporations that focus efforts to not only diversify their workforce, but at the same time increase contracting with MBEs will develop favorable reputations and positive relationships that solidify their ability to attract minority candidates in the coming decades.⁴⁰

³⁸ Greene, M.V. (2007). Billion Dollar Roundtable 2007 Policy Paper: Establishing the Business Case for Global Supplier Diversity. *Billion Dollar Roundtable.com* Retrieved on June 1, 2009 from http://www.bdrusa.org/bdr_global_business_case.php

³⁹ Berry, E. (2007). *The Ideology of Diversity and Distribution of Organizational Resources from Three U.S. Field Sites*. Paper presented at the Annual Meeting of the American Sociological Association, New York, New York.

⁴⁰ Page, S. (2007). *The Difference: How the Power of Diversity Creates Better Groups, Firms, Schools and Societies*. Princeton, NJ: Princeton University Press.

Result #5: Increased Bottom Line

Supplier diversity programs cut costs by giving corporations increased flexibility and greater efficiency in their supply chains. At the same time, they increase revenue by enhancing a corporation's image and attracting more minority consumers. Given the increasing growth of minority populations, a greater investment in supplier diversity will translate to improved profitability. Since profits are primary motivators for businesses, supplier diversity programs are an undeniable necessity.⁴¹

Facing the Challenges for Minority Owned Businesses

Challenge #1: Access to Capital Investments

Research has consistently shown that MBEs access capital is disproportionately lower than their majority counterparts.⁴² Without the necessary capital investment, minority businesses owners simply do not have the tools they need to run their business. While the public may assume that lending practices are equal for all business owners, a 2005 study by the United States Small Business Administration indicates that minority business owners still suffer from a significant amount of discriminatory lending practices.⁴³

⁴¹ Greene, M.V. (2007). Billion Dollar Roundtable 2007 Policy Paper: Establishing the Business Case for Global Supplier Diversity. *Billion Dollar Roundtable.com* Retrieved on June 1, 2009 from http://www.bdrusa.org/bdr_global_business_case.php

⁴² Minority-Owned Businesses Face Critical Challenges in Accessing Capital. (October 21 2008) *Business Wire* Retrieved on June 1, 2009 <http://www.allbusiness.com/company-activities-management/company-structures/11659133-1.html>

⁴³ Williams, V. & Ou, C. (2009). *Small Business and Micro Business Lending in the United States, for Data Years 2007-2008*. U.S. Small Business Administration, Office of Advocacy, Office of Economic Research. Retrieved June 1, 2009 from <http://www.sba.gov/advo/research/banking.html>

African American and Latino business owners encounter the most discrimination, with 53 percent and 47 percent of their bank loan requests denied respectively.⁴⁴ As the Small Business Administration reports details, when compared to white-owned businesses with similar credit lines, MBEs encounter up to three times as many loan request denials.⁴⁵

Additional studies from the United States Department of Commerce and the Small Business Administration indicate that a large proportion of minority business owners compensate for their lack of bank financing by funding their business with personal family savings and/or high interest credit cards.⁴⁶ Without a specific focus by the business community, chambers of commerce, government leaders, and community leaders on the lack of access to capital investments by MBEs, it will be continue to be a challenge for MBEs to truly compete in the global marketplace.

Challenge #2: Growth and Capacity

Given the nature of many MBEs, it is easy to perceive them as too small to do business with large corporations. However, it is important to consider that lack of access to capital drastically affects their growth capacity, and subsequently

⁴⁴ Mitchell, K. & Pearce, D. (2005). *Availability of Financing to Small Firms Using the Survey of Small Business Finances*. U.S. Small Business Administration Office of Advocacy. Retrieved June 1, 2009 from <http://www.sba.gov/advo/research/banking.html>

⁴⁵ *Id.*

⁴⁶ Langston, R. (2008). *Characteristics of Minority Businesses and Entrepreneurs*. U.S. Department of Commerce; See also Lowery, Y. (2007). *Minorities in Business: A Demographic Review of Minority Business Ownership*. U.S. Small Business Administration, Office of Economic Research, Office of Advocacy. Retrieved June 1, 2009 from http://www.sba.gov/idc/groups/public/documents/sba_homepage/tools_reports_rs298.pdf

limits their true business potential. In addition, MBEs often lack the crucial contacts and networks necessary to secure contracts with major firms.

This inequality is evidenced by the fact that MBEs earn roughly half of what non-minority owned businesses earn: for every dollar that white-owned businesses make, African American-owned businesses only earn \$0.43, and Asian American and Latino-owned businesses only earn \$0.56.⁴⁷ Given the unequal competition, white-owned businesses are able to dominate technical and professional service industries, relegating MBEs to construction, personal service, or miscellaneous “other service” industries.⁴⁸

Given the current economic and social factors of the marketplace, corporations must view supplier diversity from a holistic perspective and invest in technical assistance for MBEs to ensure the development of their potential. In today’s knowledge-based economy, education and investment in a diverse supply chain will be the measure of future success and economic vitality.

Challenge #3: Building Relationships

With the inequalities and restrictions that MBEs face, it is a wonder how many businesses can survive. Yet a 2005 study, by the SBA, analyzing MBEs from 1997-2001 found that 60-70 percent of minority businesses survived in the

⁴⁷ Lowery, Y. (2007). *Minorities in Business: A Demographic Review of Minority Business Ownership*. U.S. Small Business Administration, Office of Economic Research, Office of Advocacy. Retrieved June 1, 2009 from http://www.sba.gov/idc/groups/public/documents/sba_homepage/tools_reports_rs298.pdf

⁴⁸ *Id.* at 8-10. While White-owned businesses do dominate many of the major markets, it is also important to keep in mind that men own most of these businesses. White women-owned businesses still suffer from a fair share of inequalities, similar to minority-owned businesses and struggle to find contracts with larger firms.

four-year period.⁴⁹ While non-minority businesses had the highest survival rate, MBEs performed well, considering the average survival rate for all United States firms during the four-year period was 69.8 percent.⁵⁰ Moreover, it is also important to note that even if MBEs have lower survival rates, their rapid annual growth is three times the national average, which means that businesses can be quickly replaced and services will not be lost.

One critical aspect to growth of MBEs is relationships. Knowing that a diverse supply chain is simply good business, corporations must be committed to the development of meaningful and mutually beneficial business relationships with diverse suppliers. When viewed through this paradigm, supplier diversity is the means to build relationships that provide business opportunities, which help corporations achieve business goals.⁵¹ It is essential that corporations view relationships with MBEs not only investments in the corporation itself, but also as investments in the community the corporation serves.

Common Roadblocks to Success Require Creative Solutions

As discussed *infra*, corporations must to think differently about changing national and global demographics, market forces, and corporate procurement requirements to reduce costs and enhance profitability. But no company arrives at the top alone. Whether it’s the advertising firm

⁴⁹ Lowery, Y. (2001). *Dynamics of Minority-Owned Employer Establishments, 1997-2001*. U.S. Small Business Administration, Office of Economic Research, Office of Advocacy. Retrieved June 1, 2009 from http://www.sba.gov/idc/groups/public/documents/sba_homepage/tools_reports_rs298.pdf

⁵⁰ *Id.*

⁵¹ Rudzki, R., Smock, D., Katzorke, M. & Stewart Jr., S. (2006). *Supplier Diversity and Supplier Recognition: Expanding Your Base and Building Your Momentum*. In, *Straight to the Bottom Line*. (pp. 143-153). Fort Lauderdale, FL: J Ross Publishing.

that developed that winning advertising campaign or the tool- and die-maker whose specialized dies are critical to the manufacturing process, each company relies on a network of business relationships in order to succeed.

Corporations that approach supplier diversity with a fresh perspective and awareness of the common roadblocks to success will ultimately reach increased economic viability. Success for all corporations in the future will be defined by clear communication, executive commitment, comprehensive integration of supplier diversity into the supply chain, innovative sourcing strategies, and new market development.

Communication and Transparency: Communication is key to developing the necessary the supply chain relationships between large corporations and MBEs.

Model Solution – Wells Fargo Company: Wells Fargo is an industry leader in supplier diversity that is known not only for its program's transparency, but also for its advocacy of supplier diversity among other financial institutions. To proactively address issues of transparency and communication, Wells Fargo Company jointly hosts an annual conference focused on supplier diversity with community based organizations, chambers of commerce and minority business associations to discuss issues related to profitability, economic conditions, sourcing strategies, integration of supplier diversity into supply chains, and goals for the future. This direct communication allows both Wells Fargo Company and MBEs to have a clear understanding of procurement opportunities and challenges.

Outreach and Investment: Supplier diversity programs must not only develop, but also retain viable MBEs.

Model Solution – Verizon Communications: As a regulated utility in the state of California, Verizon Communications is urged by the California Public Utilities Commission to procure at least 15 percent of its contract dollars to MBEs. For years, the company struggled to meet this goal and was far behind its competitors

in supplier diversity. However, in 2007, the company began to outreach to ethnic communities and fostered solid relationships with community leaders and organizations. This in turn led to increased interactions with MBEs, and transformed Verizon into an industry leader in supplier diversity. In 2007, Verizon awarded 19.29 percent of its total contracts to MBEs, percentage greater than any other regulated utility in California. Moreover, Verizon's close involvement with three major African American community organizations in California led the company to increase its contracts to African American-owned businesses 18 times over.

Internal Corporate Support: Supplier diversity must be embraced at all levels of a corporation.

Model Solution – Ford Motor Company and General Motors Company: During the deindustrialization of the American auto industry in the 1970s, Ford and General Motors took bold moves to regain American confidence by establishing one of the first supplier diversity programs among private firms.⁵² This involvement was spurred by support from top-level management that foresaw the future of the American workforce. After several decades, these supplier diversity programs remain successful, with Ford purchasing more goods and services from MBEs than any other corporation in the US.⁵³

Recommendations and Conclusions

The first step, defining the scope of supplier diversity, is critical to the successful

⁵² General Motors was the first auto manufacturer to adopt a supplier diversity program in 1968. Ford Motors followed suit in 1978 under the direction of Henry Ford II. Retrieved on June 1, 2009 from http://www.fordsdd.com/english/sdd_program/index.html;
<http://www.gm.com/corporate/dealers/diversity/index.jsp>

⁵³ Worthington, I., Monder, R., Harvinder, B. & Mayank, S. (2007). Researching the Drivers of Socially Responsible Purchasing: A Cross-National Study of Supplier Diversity Initiatives. *Journal of Business Ethics*.

development of an effective program. Like any business objective, the mission statement of the supplier diversity initiative must define what it is, why it is important, and how it will impact the corporation.

To make a true commitment to supplier diversity, the corporation should consider all suppliers of goods and services that the organization purchases. This includes everything from raw materials and information technology suppliers to legal services and janitorial supplies. Incorporating all types of goods and services is a powerful statement of how serious the corporation really is in supporting MBEs with whom they do business.

Additionally, corporations should set measurable goals for supplier diversity by answering the following questions. What percent of total purchases does the corporation want to make from underrepresented suppliers in one year, five years, and ten years? How many new MBEs does the corporation want to do business each year? Are there certain competitors the corporation seeks to surpass in its commitment to supplier diversity? How does the corporation truly measure performance in supply chain diversity?

Linking supplier diversity with the corporation's annual goals is another essential step in creating a successful program. The objectives and motivations that drive supplier diversity must support those of the corporation as a whole. Furthermore, the business case for supplier diversity must be clear to everyone in the corporation.

Given the undeniable economic impact that MBEs present, the following recommendations provide examples of how corporations can promote profitability through supplier diversity. It is clear that in today's corporate procurement processes, it is essential to look for, not shy away from, opportunities to bring in direct participation from MBEs.

1. Corporation must develop and communicate a clear and concise mission statement and vision for supplier diversity to all

employees, vendors, customers, and shareholders. Everyone must understand the role and level of importance of supplier diversity so they can be active participants in the program.

2. Corporations should set both short and long-term goals to measure annual progress of their supplier diversity initiatives.
3. Corporations should set good-faith goals to reach new levels of MBE contracting.
4. Corporations should include supplier diversity as part of the performance review process, holding all employees accountable for meeting or exceeding supplier diversity goals.
5. Corporations should establish "best practices" for mentoring programs and policies for MBEs, with annual benchmarks for performance.
6. Corporations should adopt parallel "best practices" for mentoring programs and policies for MBEs, including annual benchmarks for performance, for Tier 1, Tier 2, Tier 3, etc. suppliers.
7. Both corporations and MBEs must be transparent in their financial information, qualifications, and expectations regarding supplier diversity contracts.
8. Corporations must have full executive support for diverse procurement at all levels of the business.
9. Corporations must actively engage in outreach and capacity building programs with ethnic minority communities in order to develop strong supplier diversity relationships. This includes technical training and pipeline programs that prepare communities and minority business owners to work with them. In particular these programs should be on local, state and national scales with partners at each level. These programs should also include relationships with educational institutions.

10. Local, state and federal governments should strive to remove barriers, encouraging the development of MBEs. Including, but not limited to certification.

11. Corporations, such as members of the Billion Dollar Roundtable, should advocate

for equitable lending practices. For example, corporations can facilitate greater access to capital for MBEs, through a variety of mechanisms that align with the corporation's business objectives.

Closing Remarks

In future articles, the Black Economic Council will provide updates on the role we are taking working with Minority Business Enterprises, Corporations and Government Agencies to transform these 11 key recommendations into realities as part of the BEC Supplier Development & Diversity initiative. This initiative has two key areas of focus:

• Supplier Development

Supplier Development concentrates on building the capacity of minority-owned firms. The training the BEC offers such as the Quality Program and Small Business Workshops are key aspects of this initiative. The BEC also encourages the rollout Mentor Protégé Programs. Established in 1991 by the U.S. Small Business Administration's (SBA), Mentor-Protégé Programs enhances the capability of minority-owned businesses to compete more successfully for contracts. The program encourages private-sector relationships to help small businesses benefit from the expertise of larger, more established corporations.

• Supplier Diversity

Focused on serving as an advocate for qualified minority businesses in increasing contractual successes, the BEC will work with corporations to find and qualify minority suppliers. The BEC will help corporations increase the effectiveness and results of their supplier diversity initiative.

The overall goal of the BEC Supplier Development & Diversity Initiative is to increase the competitiveness, performance, capacity and sustainability of minority owned businesses.

- Andree Driskell, Vice President, Community Relations and Program Management, Black Economic Council

