



KATHEY K. PORTER

IMPLEMENTING SUPPLIER DIVERSITY

DRIVER OF ENTREPRENEURSHIP



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Foreword

Friday, April 5, 1968, started out like any other school day for me. I took the bus from my Shepherd Park neighborhood in Washington, DC, down Georgia Avenue to Missouri Avenue, where I got off to go to school at Paul Jr. High School. Not long after arriving, however, I realized that this day was like no other. The Reverend Dr. Martin Luther King Jr. had been assassinated the night before in Memphis, Tennessee. By morning, African Americans were in the streets expressing their rage and hopelessness in more than 100 cities across the country. Around 10 a.m., our principal got on the school's public address system; informed the teachers, staff and students that school was dismissed; and told us that we should try our best to get home safely. By the time we were dismissed, smoke and fires were visible from Georgia Avenue, one of the main arteries running through the heart of the city, from Shepherd Park past Howard University to the National Mall near the White House. The buses had stopped running throughout the city and in their place were military transport vehicles loaded with fully armed National Guardsmen, ready for war.

Before this paroxysm of urban revolt, Dr. King had begun to pivot from talking about civil rights and voting rights for African Americans to speaking about economic rights. Dr. King was in Memphis to support striking African American garbage workers when he gave his final address, in which he said the following:

We don't have to argue with anybody. We don't have to curse and go around acting bad with our words. We don't need any bricks and bottles. We don't need any Molotov cocktails. We just need to go around to these stores, and to these massive industries in our country and say, "God sent us here, to say to you that you're not

treating his children right. And we've come by here to ask you to make the first item on your agenda fair treatment, where God's children are concerned. Now, if you are not prepared to do that, we do have an agenda that we must follow. And our agenda calls for withdrawing economic support from you."

And so, as a result of this we are asking you tonight, to go out and tell your neighbors not to buy Coca-Cola in Memphis. Go by and tell them not to buy Sealtest milk. As Jesse Jackson has said, up to now, only the garbage men have been feeling pain; now we must kind of redistribute the pain.

African Americans, leaders in corporate America, and the White House all heard these words loud and clear. Later that same year, George Johnson, the president and CEO of Western Electric (now AT&T), came together with several organizations, including the Chicago Economic Development Organization, the Chicago Urban League and the Cosmopolitan Chamber of Commerce, to hold the first Chicago Business Opportunity Fair. After that event, the Chicago Minority Purchasing Council was formed. Robert M. Stuart, the president and CEO of National Can, became the first chairperson of the nascent organization, which eventually became the National Minority Supplier Development Council (NMSDC). Johnson was instrumental in recruiting other corporate leaders from across the country and garnering the support of the US Department of Commerce. From these humble beginnings, the NMSDC was formed in 1972.

Eight months after the assassination of Dr. King, Richard Nixon became president. President Nixon was elected largely as the white reaction to the turbulent urban unrest and the anti-war student movement. His "silent majority" rhetoric was an attempt to return America to a more comfortable time. But in his conservatism, Nixon saw an opportunity to connect with African Americans by appealing to "Black capitalism," which was ideologically consistent with his conservative economic principles. Black capitalism also served as a counter to the growing Black Power movement that he and other conservative leaders saw as an existential threat to America. Black capitalism was a way for the black community to reconnect to the Republican Party and to the mainstream economy. In Nixon's view, black capitalism could be the basis for a private-sector-driven, anti-poverty program.

Supplier diversity is impossible to understand fully without an appreciation for the political dynamics that drove American society in the late 1960s and early 1970s. And with those changes and later developments, the reasons for opening the US economy to minority businesses also changed. While the delineation of distinct periods is not an exact science, there are at least three discrete periods that have provided rationales for supplier diversity. These periods include the following:

- Compliance with Federal Law
- The Right Thing to Do
- The Business Case for Supplier Diversity

It is important to note that these periods do not coincide for all corporations or all public sector organizations. Some companies are ahead of others, and some are behind. Further, none of these periods are inherently superior to the others in terms of their impact on minority business development. It is possible that any one of these periods could result in significant improvements in diverse business development, at least for short periods.

Compliance with federal law was a powerful force that contributed to the development of hundreds of successful minority businesses, which won contracts because federal agencies and their prime contractors were under regulatory pressure to provide those contracts to minority firms. Legal challenges to compliance ended this regime of supplier diversity and led to a corporation-dominated effort based on corporate social responsibility. Supplier diversity was a way for corporations to demonstrate their commitment to the larger community of stakeholders, including minority businesses. But as a new cohort of corporate leaders came to power, all of whom were a generation removed from the civil rights struggle of the 1960s, there was a reversion to basic business principles. Books like *Good to Great* and *In Search of Excellence* reinvigorated corporate America's focus on long-term profitability and a dedication to corporate metrics and performance. Supplier diversity had to support its claim on scarce corporate resources like all internal corporate departments. Supplier diversity leaders were now in a different phase, one in which they began to make the business case for supplier diversity. An effective business case had to demonstrate that the use of diverse businesses contributed to corporate profitability. This bottom-line focus was supported with hard data, something the advocates for the "feel good" approach simply could not do.

Significant social, economic and technological forces were important determinants in the evolution of supplier diversity from the "compliance" era to the "right thing to do" era to the "business case" era. Forces like globalization, supply chain optimization, strategic procurement, industry consolidation, domestic income distribution and national and local political forces impact the ways that corporations manage all of their supply chain, including diverse suppliers. It is likely that these forces will continue to influence supplier diversity in the future.

Compliance with Federal Law (1969–1990)

On March 5, 1969, less than three weeks into his administration, President Nixon issued Executive Order 11458. The order created the Office of Minority Business Enterprise, which later became the Minority Business Development Agency within the Department of Commerce. The order also served as the basis for the Small Business Administration's 8(a) Business Development Program for minority sole-source contracts (set-asides). In October 1971, Nixon issued Executive Order 11625, which allowed for public support of private organizations like the NMSDC in order to promote the development of minority businesses. According to section 1(a)(4) of the order:

The Secretary of Commerce (hereinafter referred to as "the Secretary") shall ... within constraints of law and appropriations therefore, and according to his discretion, provide financial assistance to public and private organizations so that they may render technical and management assistance to minority business enterprises, and defray all or part of the costs of pilot or demonstration projects conducted by public or private agencies or organizations which are designed to overcome the special problems of minority business enterprises or otherwise to further the purposes of this order.

These two executive orders and Public Law 95-507 (1978) ushered in an era of minority business development in federal government contracting based on a regime of compliance. The Department of Defense, the largest federal department, used its considerable buying power and these executive orders to force large defense contractors to contract with eligible minority businesses. Departments and agencies within the federal government established the Office of Small and Disadvantaged Business Utilization (OSDBU) to track their organizations' spend as well as the spend of large prime contractors with eligible minority businesses.

The effectiveness of compliance for minority businesses becomes obvious when reviewing the top black businesses of the period. In 1980, *Black Enterprise* magazine published a list of the largest African American enterprises. The list was dominated by automobile retail dealers, retail oil distributors, cosmetics companies, publishers and food service companies. Of the top 100 companies, only 13 were or could have been major suppliers to corporations or to the federal government. While this could certainly be considered progress, it demonstrated that ten years after Executive Order 11458 and one year after Public Law 95-507, the largest African American-owned firms were still concentrated on supplying goods and services to African American consumers rather than to large corporations. Breaking into corporate supply

chains was still a major challenge during the compliance era. By 2017, however, the five largest firms on the *Black Enterprise* list of the largest African American companies were suppliers to corporations, and seven of the ten largest companies were suppliers.

The early years of minority business development were dominated by these public interventions in markets, but it was not long before there was a backlash against laws and executive orders designed to promote minority business development. In *City of Richmond v. Croson* (1989), the Supreme Court ruled that the City of Richmond's 10% set-aside law for local minority businesses was unconstitutional. In *Adarand Constructors, Inc. v. Peña* (1995), the Supreme Court ruled that federal set-aside laws based on race were an unconstitutional violation of the Fourteenth Amendment. The combination of these two Supreme Court rulings all but ended public sector leadership in minority business development and brought an effective close to the age of compliance.

The Right Thing to Do (1990s–early 2000s)

In 1988, Harriet Michel became president and CEO of the National Minority Supplier Development Council (NMSDC), and she saw the writing on the wall. Michel transformed NMSDC from a publicly funded organization to an organization funded by large corporations. Under Michel's leadership, the number of regional affiliates grew, the number of corporate members increased to 3500 and the number of certified minority businesses increased to 16,000.

In addition to the organizational growth, there was also a transformation in the motivation for supplier diversity, which ushered in the next phase of supplier diversity, one not based on compliance. During this era, corporations began hiring supplier diversity professionals who were responsible for being the “gate-keepers” for minority businesses attempting to access corporate opportunities. Their role internally was to search out opportunities for the growing number of certified minority businesses. These supplier diversity leaders engaged in these activities because these corporations' customer bases and workforces were becoming increasingly diverse and because they believed that minority businesses should have access to corporate opportunities. Corporations routinely referenced and discussed their supplier diversity efforts in their annual reports, often noting that it was the “right thing to do.”

Understanding the need to validate their existence within organizations and to advocate harder for the minority businesses that they represented, supplier diversity professionals in this era also began documenting their utiliza-

tion and spending with diverse suppliers. Corporations invested in portals to collect information on diverse suppliers seeking to do business with their companies. Diverse businesses grew frustrated with these portals because they were viewed as “black holes,” where data went in but no opportunities came out. In the early days of vendor management systems, analytics and dashboards could be extremely clumsy and cumbersome, but this was obviously not the case for all suppliers and all companies. Thousands of companies received their opportunities through these systems, which large corporations used to keep track of everything. Minority business utilization needed to conform to these systems, even if it reduced the impact of the relationship approach for securing corporate business.

During this phase, supplier diversity professionals were prized for their relationship building skills and their ability to support the growing demands of certified diverse businesses. Relationships between certified minority business owners and supplier diversity professionals were key to the success of a diverse business. These supplier diversity professionals used moral suasion to change buying patterns within corporate America. This approach obviously has its limits, one of which is the willingness of corporate buyers to compromise on “non-essential” products and services but not on the goods and services that are mission critical. It is easy to understand why diverse businesses found success in crowded industries like corporate gifts, travel, cleaning services and supplies, limousine services and other low-barrier-to-entry industries during this era. While contracting organizations enjoyed competitive pricing on these goods and services, diverse business owners found that they were playing in an increasingly overcrowded industry that offered little margins and few opportunities to really scale the business.

Thus, diverse business began to shift their attention to those areas that represented the “real money”—these areas that were critical functions within the corporate supply chain offered substantially larger contracts and represented high growth and scalability for their companies, such as construction, manufacturing or IT. This was where the big boys were playing and diverse business wanted in.

The Business Case for Supplier Diversity (2000s–Present)

Supplier diversity professionals occupy a middle ground between diverse businesses attempting to supply goods and services to their companies and the buyers and other corporate stakeholders who look to them to provide infor-

mation on diverse suppliers for buying opportunities. Supplier diversity professionals are advocates for diverse businesses, but they are primarily subject to the strategic direction of their employers.

This era has also been supported by the arrival of two new diversity organizations that built on the success of the NMSDC. In 1997, the Women's Business Enterprise National Council (WBENC) was formed to assist the growing needs of non-minority women entrepreneurs seeking access to corporate business. In 2001, the Billion Dollar Roundtable (BDR) was created to celebrate the extraordinary accomplishments of large corporations, each of which had achieved at least \$1 billion in first-tier procurement with certified diverse businesses. In 2017, the Billion Dollar Roundtable reported 27 member organizations with more than \$77 billion in combined spend with certified diverse businesses. The BDR and the WBENC brought fresh insights, new methods and increased visibility to the overall mission of increasing diversity in corporate supply chains, based not on feelings or "right thing to do" notions but on unapologetic business interests.

The interests that initiated the business case for supplier diversity had three legs. One was the changing demographics of consumers, both domestically and internationally. The second was the internal feedback that supported supplier diversity when large companies "demanded" supplier diversity performance information from the other large companies they sought to do business with. The third was the realization that no one ethnic group or gender had a monopoly on solving corporate problems, which led companies to adopt supplier diversity strategies as a way to harness innovation and technology. There are several top corporate supplier diversity programs that espouse this philosophy, but in my opinion, few say it better than Toyota:

Toyota is committed to having a supplier base which more closely reflects our customers and the diversity of our team members who build Toyota vehicles in North America. Having a diverse supplier base enables us to contribute to the economic well-being of all segments of the North American population. Also we recognize that partnering with suppliers who provide a diversity of ideas—in addition to delivering manufacturing support, goods, and services—creates a significant competitive advantage for Toyota.

If corporate leaders are not convinced that demographics and innovation are powerful forces for the sustainability of a company and an industry, they should look to the consumer behavior impacting most industries due to changing demographics. Younger consumers are having a profound effect on the auto industry because they are asking heretical questions like this: Do I

really need to own a car? The travel industry is affected by, again, younger consumers asking: Do I really need to stay in a traditional hotel? The food industry is impacted by consumers asking: Do I really need to go to a grocery store or a restaurant? Behind each of these questions is a disruptive technology that is upending traditional business models. Further, companies that are not in tune with the growing diversity in consumer markets may find themselves in indefensible situations and negatively impacted with customers questioning whether the company's values and priorities are in line with their own. And let us not forget, this sentiment also extends from the culture of the organization and the employees that it hires, all the way up to the boardroom and the directors that it appoints to its board. If diversity is to truly permeate through all aspects of the organization, there is no reason why these directives cannot be driven by innovative, diverse companies led by women, ethnic and racial minorities.

Supplier diversity has blossomed over the last two decades to create a biosystem that has spurred further expansion. As more corporations adopt supplier diversity programs, more corporate leaders are asking their large, non-minority corporate suppliers questions about their own supplier diversity efforts. Today, supplier diversity professionals spend a significant amount of time responding to requests from internal sales colleagues for help with bids to acquire new business from large corporations. For example, if General Motors seeks business with Avis, Avis might ask about the status of GM's supplier diversity program. This has the effect of driving more spend with diverse suppliers and improving supplier diversity programs throughout corporate America.

The strong business case for supplier diversity is sustainable in ways that the compliance and "right thing to do" models are not. We have seen how laws that were written to promote supplier diversity within government can be shredded with a single Supreme Court ruling. We have also seen that appeals to emotion and conscience often fall on deaf ears in a corporate milieu driven by metrics. Ultimately, good feelings are the consequence of successful business outcomes and actions, not the cause of those actions.

I would be remiss if I did not include my thoughts on what the future holds for supplier diversity. The distinct periods identified earlier are all built on the successes and failures of the preceding periods. The next disruption of supplier diversity will be no different, but because this is far from an exact science, only time will tell what the next phase of the supplier diversity movement will look like. I suspect that we will see a return to the original intent of supplier diversity, which was to improve the economic conditions of communities. We do not need or want a return to the 1960s, when cities regularly burned, but we

know that minority business development is perhaps the most powerful force in integrating communities and spreading and creating wealth. I hope that corporations will continue to lead in this effort and that the diverse business owners will continue to see their success tied to the success of the broader community. I have had the privilege to be part of all of the phases discussed earlier, and I am excited to see the next supplier diversity disruption.

It is my great pleasure to contribute to this compendium on supplier diversity that Kathey has assembled. Enjoy!

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Preface: Why Supplier Diversity?

Supplier diversity is a business strategy that ensures a diverse supplier base in the procurement of goods and services for any business or organization. It emphasizes the creation of a diverse supply chain that works to secure the inclusion of diverse groups in the procurement plans for government, not-for-profits, and private industry. Supplier diversity, as we know it today, is one of the least researched and written about strategic business development topics. But in today's increasingly competitive global marketplace, supplier diversity is a strategy that cannot be overlooked by either global organizations or small businesses.

The concept of supplier diversity began via executive order nearly 50 years ago; however, organizational purchasing activities have been around for thousands of years. Before we get into the heart of the book, it is central to understand the purchasing function and its evolution.

A (Brief) History—From Purchasing to Procurement: Purchasing is an old profession, yet it is thought of similarly to insurance; you don't think about it until you need it. Despite procurement-related tasks being noted and dating back as early as 3000 BC in Egypt, it has attracted little attention from historians. In Egypt, scribes responsible for pyramid design also functioned as clerks, using papyrus to record the amount of labor and materials needed for construction. Ancient Romans also used scribes to create contracts when the empire was engaged in trade with private suppliers.

In the late 1890s, toward the end of the Industrial Revolution, corporations started incorporating the purchasing functions in their operations; however, it was still largely considered clerical work. During World Wars I and II, the purchasing function increased due to the need to get materials to produce supplies for the war and keep the factories and mines operating during this

time. It was during the 1950s and 1960s that purchasing really began to gain visibility within organizations as performance techniques became more refined and as the number of trained professionals increased but still purchasing agents were basically order-placing clerical personnel serving in a staff-support position.

In the late 1960s and early 1970s, purchasing personnel aligned their focus on materials management. As strategic planning became more important for organizations, materials management became an integral part of that strategy, along with lean production techniques from Japan, thus increasing the relevancy of the purchasing department. By the 1970s, the oil embargo and the shortage of many basic raw materials brought much of the business world's focus to the purchasing arena. During the 1980s, the advent of just-in-time purchasing techniques and the emphasis on inventory control and supplier quality, quantity, timing, and dependability made purchasing a cornerstone of competitive strategy.

The 1990s brought a focus on value proposition and strategic sourcing. Organizations began to realize they could negotiate better pricing and terms, thus placing an increased focus on cost savings and ROI. During the 2000s, organizations also began incorporating enterprise resources planning or ERP systems, which allowed them to continuously monitor, re-evaluate, and improve the overall purchasing activities of an organization. They also began incorporating long-term contracts to facilitate better pricing for longer periods of time. However, in order for this strategy to work, organizations knew that they would need strong supplier data as well as buy in from the suppliers. This gave rise to the need to shift the focus from strictly price to supplier relationship building and supplier management. Further, as organizations have increased their reliance on technology, suppliers have emerged as key business partners in driving new technological breakthroughs to drive down costs as technology also continues to rapidly evolve, redefining the way organizations procure and source, locally, nationally, and globally.

For a long time, the purchasing function was solely focused on price—getting the desired goods and service at the lowest, reasonable price. We now know that with this strategy, you often get what you pay for. Arguably, it was during this time that the adoption of a stronger focus on supplier relationship building and the increased importance on this function, that many organizations began changing their name from purchasing to procurement. In doing research for this book, many procurement agents indicated that the name change reflected a thoughtful industry shift in the perception of the role itself, its place within the organization, and future-forward thinking, thus transitioning from solely a purchasing *function* of ordering, receiving, and paying

for goods or services to a more holistic view of the overall procurement *process* which is a larger, more encompassing organizational function for establishing fundamental requirements, performing market research, evaluating and selecting vendors, and negotiating contracts.

After nearly a century in the shadows, procurement has finally become a major function with immense importance to an organization's bottom line and the value that it brings. It continues to advance with a more holistic focus on the complete supply chain.

What Is a Supply Chain, Anyway?

Globalization has transformed the way the world does business, especially for international commercial transactions where there is a significant focus on outsourcing key resources (such as labor) to maximize economic growth. To ensure the success of these transactions, the relevant “chain of suppliers” have had to consistently deliver quality goods and services to the marketplace, while simultaneously remaining competitive to stay in business. Of course, this is no easy feat for any supplier. The good news, however, is that the process is equal parts art and science.

A supply chain is the ecosystem of suppliers needed to create a single product for a company. The “chain” is comprised of several “links” that include everything from raw materials to services that are all—in one way or another—components of the finished product. There is an order and function for each link, which explains why they are connected so purposefully. There are also economic and opportunity costs associated with each link, which is why selecting the most appropriate suppliers is critical to product development, marketing, and sales.

Supply chain management (SCM) takes the concept of the “chain” a few steps further. It describes the flow of goods, services, and related activities executed from inception to consumption required to plan, control, and achieve a product's overall success. There are six key components that structure the process: planning, sourcing, making, delivering, returning, and enabling. In most cases, these components are streamlined to achieve the most scalable and cost-effective distribution possible. Here's what a snippet of what supply chain management looks like in practice: It begins with a focus on a company's production materials (the “inputs”), which each incur a cost recovered in the final price of the finished product. Take widgets for example. It's here that the idea of market competition comes into play, escalating the notion that prices should be kept low without sacrificing the quality of the

goods provided. Think using the most cost-effective materials to construct the widgets without sacrificing their quality. By closely monitoring costs from all sources and keeping a close eye on operational procedures, supply chain management works to effectively maximize value and resources through increased efficiency and profitability.

Some companies such as Coca-Cola® view sustainability as a core value of supply chain management. This perspective allows them to make an impact beyond their own operations to improve the environment, livelihoods, and society. Leveraging the concept of farm-to-table agriculture, especially with products such as sugarcane, has helped them to successfully achieve this goal. TOMS® shoes and accessories is another great example of sustainable supply chain management. Its products are all made from environmentally friendly materials, and it donates proceeds from every product sold to help someone in need through its One for One® campaign.

While supply chain management is not necessarily a simple process, there are clear benefits for those who do it well. End users get high-quality products at good prices. They accomplish long-term, overarching business goals through the efficiencies gained through selective outsourcing. Successful suppliers in this otherwise “labyrinthine business chain” achieve economic growth, repeat customers, and expanded sourcing opportunities, even while navigating competition, increased risk, and complex management issues. The goal, then, for every link in the chain is to become proficient in the (SCM) process and maximize their overall success.

When I began working in supplier diversity over ten years ago, there were not many published resources that I could readily access to get information on growing and running an effective supplier diversity program. While there were national organizations and professionals within them, organizational budgets did not always allow for you to attend a national conference for four or five days to get information, nor did I have the network that I have today where I could call a colleague with a question or two (or three). Early on, much of what I did was based on my instincts as an entrepreneur, by talking to other business owners about what they needed and, occasionally, following the Nike motto, “Just Do It.” While it has gotten much easier to find information because there is an extensive network of professionals to call upon and there are numerous events and resource groups with whom one can stay engaged, it still remains a woefully underwritten topic considering its relevancy in entrepreneurial development. I am proud to say that I am now part of that resource community and frequently get calls, emails, and even visits from colleagues to talk about the industry and offer any assistance.