



HUMAN-CENTRED BUSINESS MODEL

A HOLISTIC APPROACH TO A SUSTAINABLE BUSINESS ECOSYSTEM



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SUPPLIER DIVERSITY PROGRAMS: AN OVERVIEW

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INTRODUCTION

The increasingly multicultural scheme of markets pushes companies to build a more diversified business process, including an inclusive working environment and an inclusive supplier chain. Among the steps companies and institutions are taking to diversify their business strategies, there is the development of supplier diversity programs. Supplier diversity programs encourage businesses to build relationships with minority businesses for supplying purposes and to provide opportunities to all suppliers to compete on an equal basis. Specifically, minority or diverse suppliers are defined as enterprises owned by underrepresented social categories, such as minorities, women, veterans, LGBT's, and disable people. Under the definition of diverse suppliers there are also businesses in disadvantaged conditions because historically underutilized, small sized or geographically diverse.¹

Supplier diversity programs establish the inclusion of diverse suppliers in an organization's sourcing pipeline chain with the aim of empowering the disadvantaged businesses guaranteeing their equal access to purchasing opportunities². The goal of supplier diversity programs is not to set hard or percentage numbers for an equal demographic supplier representation, but it is to allow emerging businesses in underrepresented communities or in disadvantaged conditions to build mutually beneficial working relationship with the buyer businesses.

The need for corporations to learn how to include minority and diverse supplier in their business process is increasingly important to maintain their competitiveness. Minorities and women are increasing as proportion of the population and their participation in the

¹ Supplier diversity program. In Wikipedia. Retrieved from https://en.wikipedia.org/wiki/Supplier_diversity

² Barbour R. What is supplier diversity?. *Procurement Technical Assistance Center (PTAC)*. Retrieved from <http://www.sbtcdc.org/wp-content/uploads/What-is-Supplier-Diversity.pdf>

entrepreneurial economy is on the rise, thus minority and women-owned businesses will form a greater part of the value chain. For example, according to the U.S. Census Bureau, only in the United States, minorities are expected to grow from 33% of the U.S. population in 2010 to over 47% of the population by 2050.³

BENEFITS OF SUPPLIER DIVERSITY PROGRAM

While supplier diversity programs are highly spread in the U.S. and integrated in their Federal Laws, they have been only recently developed also in other parts of the world. Indeed, as the benefits of supplier diversity programs are more evident, more corporations are adopting this strategy. The inclusion of diverse suppliers in businesses' production chains generates a variety of benefits that can work as incentives to promote a further development of these programs. It is a general misconception that supplier diversity programs are exclusively designed to benefit and support the categories and/or communities of the supplier companies. It is also a misconception that supplier diversity means investing in training and education to enable diverse suppliers to compete in the market. Adopting supplier diversity programs results, on the other hand, in economic and social gains for the companies as well as for the society where they do businesses.

For instance, supplier diversity programs bolster diversification and competition inside the business where they are implemented⁴. Working with diverse suppliers promote innovation in the businesses by the entrance of new products, services, and solutions and increases competition among businesses' existing vendors. Small and medium suppliers bring innovation

³ United States Census Bureau. (2000). *Annual Projections of the Resident Population by Age, Sex, Race, and Hispanic Origin: Lowest, Middle, Highest, and Zero International Migration Series*. Retrieved from <https://www.census.gov/population/projections/data/national/np-d1.html>

⁴ Roseburgh, F. (2015, Jan 9). What is supplier diversity and why is it important. Retrieved from <http://blog.cvmsolutions.com/what-is-supplier-diversity>

to the business because they adopt innovative ways of doing businesses to differentiate themselves from their well-established competitors. Therefore, the business will benefit from multiple channels to procure goods and services, and will be allowed to analyze prices, locations, and range of goods of all suppliers and choose the most suitable.

This increase in diversification and competition in supply chains has the effect of reducing costs, as well as reducing risks in the management of suppliers. In other words, reducing the level of reliance on existing suppliers give businesses alternative sources of supply even in cases of supply shortages⁵. Participating in supplier diversity programs also expands businesses' positive reputation since it showcases the company's commitment to developing relationships in diverse markets and its interest in the economic growth of all communities⁶. In this way, businesses will start to gain an insight in the needs and expectation of ethnic and diverse consumers, and they will also gain trust within minority communities. Given the demographic shift towards a higher share of population composed by minorities, building closer relationship with those sections of ethnic population can offer current and future benefits to the business⁷. These minorities are actual and or potential consumers and clients of businesses products or services. Building brand loyalty is, indeed, important for minorities as well as for women, who make up about 85 percent of all household purchasing decisions⁸.

In addition, supplier diversity programs effectively contribute to the entire society by

⁵ Worthington, I. (2009). Corporate perceptions of the business case for supplier diversity: How socially responsible purchasing can 'pay'. *Journal of Business Ethics*, 90(1), 47-60.

doi:<http://dx.doi.org/jcu.idm.oclc.org/10.1007/s10551-008-0025-5>

⁶ Roseburgh, F. (2015, Jan 9). What is supplier diversity and why is it important. Retrieved from <http://blog.cvmsolutions.com/what-is-supplier-diversity>

⁷ Worthington, I., Ram, M., Boyal, H., & Shah, M. (2008). Researching the drivers of socially responsible purchasing: A cross-national study of supplier diversity initiatives. *Journal of Business Ethics*, 79(3), 319-331. doi:<http://dx.doi.org/jcu.idm.oclc.org/10.1007/s10551-007-9400-x>

⁸ DiversityInc. Taking Supplier Diversity to the Next Level. Retrieved from <http://www.diversityinc.com/supplier-diversity/taking-supplier-diversity-to-the-next-level/>

encouraging the participation and development of minorities and disadvantaged communities. A business has a responsibility not only towards its customers and employees, but also towards the community in which it operates. By engaging diverse businesses in supply chain, the economic prospects of entire communities can improve neighborhoods and cities, and even the entire nation could benefit from their economic successes⁹. Supplier diversity programs have positive impacts on the communities of minorities as diverse suppliers tend to hire more Black, Latino and other underrepresented employees than their white, male counterparts. And their success was, for example, evident in the U.S. during the 2008 economic recession when minority-owned businesses were an important source of business growth, contrarily to most of all the other American businesses.¹⁰

BEST PRACTICES TO ESTABLISH SUPPLIER DIVERSITY PROGRAM

The first step to implement a supplier diversity program is for the program to gain support at all levels of management in the business. In other words, in order for the program to be implemented, it needs to be approved by the highest decision makers in the company. Diverse supplier programs will be successful when there will be a top down implementation. However, there is also the need to promote a plan to raise awareness and understanding about supplier diversity programs inside the organization to integrate these initiatives in the entire company and create support at every level¹¹.

The building of a successful supplier diversity programs can be achieved by working

⁹ Worthington, I., Ram, M., Boyal, H., & Shah, M. (2008). Researching the drivers of socially responsible purchasing: A cross-national study of supplier diversity initiatives. *Journal of Business Ethics*, 79(3), 319-331. doi:<http://dx.doi.org.jcu.idm.oclc.org/10.1007/s10551-007-9400-x>

¹⁰ Minority Business Ownership (2012). Survey of Business Owners. Retrieved from <https://www.sba.gov/sites/default/files/advocacy/Minority-Owned-Businesses-in-the-US.pdf>

¹¹ Artemia (2013, May 3). 5 Supplier Diversity Best Practices Everyone Should Follow. Retrieved from <http://artemia.com/5-supplier-diversity-best-practices/>

through the accomplishment of periodical goals. Initial goals can be as low as, for example, achieving to acquire 5% of all procurements from diverse suppliers. In any case, it is necessary to set SMART goals, which are specific, measurable, attainable, relevant and time-bound. These goals need to be studied according to the potential of each business since they can vary depending on the size, structure and type of the business itself.

Specifically, small corporations tend to implement supplier diversity programs because they work with different small suppliers, also called second tier suppliers. On the other hands, large corporations will deal mainly with a limited number of first tier suppliers, which are large prime suppliers that in turn subcontract with second tier vendors. In the case of large businesses, they can still influence first tier vendors to utilize diverse suppliers on the second or even third tier levels¹². In this case, they can set goals such as requiring their first tier vendors to purchase at least 5% of their supplies from diverse businesses.

A business interested in pursuing a supplier diversity program can partner with one of the organizations, both governmental and non-profits entities, that provide support to diverse suppliers. These organizations hold conferences and networking events that incentivize an exchange of information among businesses to efficiently include diverse businesses in their procurement process. The goal of these organizations is to offer opportunities to connect diverse suppliers with the corporations looking to do business with them. In the United States, examples of these organizations are the Minority Business Development Agency (MBDA), the Women's Business Enterprise National Council (WBENC), the U.S. Small Business Administration (SBA) and the National Minority Supplier Development Council (NMSDC).

On the other hand, the company itself can decide to host events where diverse suppliers

¹² Anderson, Redia (2010). *John Wiley & Sons Trailblazers: how top business leaders are accelerating results through inclusion and diversity*. Ebook.

can meet and where they are even encouraged to form consortium. Indeed, consortium of diverse suppliers are important to keep under consideration because if diverse suppliers do not have the possibility to win the large contracts if taken individually, they could do that by creating a consortium, and the business would benefit from a consortium of diverse suppliers in its supply chain¹³. Companies can also decide to organize meetings or other forms of events to share expertise with their suppliers and benefit from the innovation that they can bring to the company itself.

Once the supplier diversity program is in place, businesses can work to create databases to compare the different offers and prices of all suppliers to gain the most from the positive competition that this program creates. In this way, they can efficiently value in what circumstances and sectors is beneficial to use diverse suppliers and which are the most suitable suppliers for each sector¹⁴. At this stage, businesses can also consider to apply for awards that recognize the work of the business in creating an inclusive environment. This would increase the business reputation and push other competitors in implementing the same programs.

Establishing supplier diversity programs in brief

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|--------------------------------------|--|
| 1. Have a top-down commitment | 4. Integrate supplier diversity |
| 2. Set measurable goals | 5. Consider consortium |
| 3. Partner with organizations | 6. Start a supplier database |

¹³ DiversityInc. Taking Supplier DIversity to the Next Level. Retrieved from <http://www.diversityinc.com/supplier-diversity/taking-supplier-diversity-to-the-next-level/>

¹⁴ DiversityInc. Taking Supplier DIversity to the Next Level. Retrieved from <http://www.diversityinc.com/supplier-diversity/taking-supplier-diversity-to-the-next-level/>

CERTIFICATION

Businesses that want to implement a supplier diversity programs work to include in their supplier chain suppliers that have been certified as diverse businesses. For the supplier to be eligible to participate in supplier diversity programs is required the certification. Certification is, indeed, a milestone in the life of a supplier because it authenticates that the business is appropriately categorized as diverse. Generally, a diverse supplier needs to be at least 51% owned, managed and controlled by one of the underrepresented categories¹⁵. Also, a small business is certified when it is at least 51% owned by one or more individuals who are both socially and economically disadvantaged.

SUPPLIER DIVERSITY PROGRAM IN PRACTICE

The World Bank itself is committed to increase the participation of businesses enterprises owned by minorities, women, and disabled (MWDBE's) through the implementation of a supplier diversity program. The WBG strives to provide opportunities for MWDBEs to compete on an equal basis for the Bank's business. In order to participate in the World Bank Supplier Diversity program, suppliers need certifications that attest their status as such.

To participate in the Bank's Supplier Diversity Program, a company must be a certified Minority Business Enterprise(MBE), Women Business Enterprise (WBE) or Disabled-Owned Business Enterprise(DBE). Diversity Certifications are released by third-party organizations, such as the Women's Business Enterprise National Council and the National Minority Supplier Diversity Council Also the National Association of Women Business Owners (NAWBO), the

¹⁵ Morris, N. What's the difference between classified and certified suppliers. *CVM solutions*. Retrieved from <http://blog.cvmsolutions.com/what-s-the-difference-between-classified-and-certified-suppliers>

United States Small Business Administration (SBA), the National Gay & Lesbian Chamber of Commerce's program, and the Historically Underutilized Businesses (HUB).¹⁶

CONCLUSION

The impact of supplier diversity programs on the business and on suppliers has been evidenced. Through supplier diversity programs businesses become responsible for the inclusion of diverse suppliers in their production chains. Companies with commitment to supplier diversity have made tremendous progress over time as the benefits of supplier diversity programs are more evident. Supplier diversity programs help small and diverse businesses to compete equally with other suppliers and to reach economic success, which has positive spillovers in the entire society. Also, they improve the businesses through both tangible and intangible benefits, such as, respectively, lower costs in the supplier chain and improvement in their reputation.

¹⁶ World Bank Group. World Bank Intranet Corporate Procurement, Supplier Diversity Program. Retrieved from <http://web.worldbank.org/WBSITE/EXTERNAL/OPPORTUNITIES/EXTCORPPROUREMENT/0,,contentMDK:20207866~menuPK:7092723~pagePK:64147231~piPK:64147158~theSitePK:438017,00.html>