

1: Supplier diversity - what is it?

'Diversity' refers to the idea of variety, a central feature of the world that we and other species inhabit. In business we see this variety manifest in many different ways. A modern economy comprises different sectors and industries, firms come in a variety of sizes and have different legal structures. Businesses acquire finance and other resources from different sources. Most firms have a diverse workforce, with employees of different ages, genders, racial and ethnic groups, religions, sexual orientation and so on. This diversity is both natural and enriching: it provides opportunities and experiences that would be missing from a world where everything was totally homogeneous.

As a concept 'supplier diversity' is frequently taken to mean any initiative to broaden an organisation's supply base, for example by increasing the number of suppliers with whom the organisation does business. While this perception is understandable, it is not totally correct. In the context of the supply chain, supplier diversity (SD) refers to:

Initiatives that aim to increase the number of diverse (eg. ethnic-minority owned, women-owned) businesses that supply goods and services to both public and private sector organisations, either directly or as part of a wider emphasis on smaller enterprises in general. (Ram and Smallbone)

In essence the basic idea of such initiatives is to offer under-represented businesses the same opportunities to compete for the supply of quality goods and services as other qualified suppliers. From the buyer's point of view SD programmes in the UK do not seek to positively discriminate in favour of specific types of businesses (eg. based on the size of the firm, the gender or ethnicity of its owner), rather they aim to 'level the playing field' to allow all firms to have an equal chance of gaining an order.

Defined in this way the idea of supplier diversity clearly fits well with current debates and policy preferences in the UK. For example:

- It can be seen as an integral part of the corporate social responsibility (CSR) agenda
- It has resonance with current government policies to promote equal opportunities, greater social inclusion and good race relations
- It helps to further the idea of 'think small first' in respect of supply chain relationships developed within the public sector
- It can contribute to the long-standing practice of encouraging local economic development through the use of the procurement process.

As the above points illustrate, the environment in which modern firms operate requires them to think beyond the idea of business as a purely economic institution that exists for the sole purpose of creating value for its owners. Both government and the public generally are increasingly seeing the business community as a critical element in achieving broader social as well as economic goals. With respect to the procurement process, socially responsible organisational buying is that which attempts to incorporate non-economic buying criteria (eg. ethical factors) into the purchasing decision, thereby potentially helping to contribute to the achievement of some form of positive social change desired by the wider society.

Summary

Diversity is a fact of life. With increases in international migration and globalisation, countries are becoming more socially, economically and culturally diverse. Given current trends, such diversity can be seen as an asset that can be exploited strategically by organisations which seek to build diversity into employment, marketing and purchasing policies.

2: Why is it important for business?

At a time when many businesses are seeking to manage their supply chains more effectively through outsourcing, supplier-base downsizing and contract bundling, the notion of greater supplier diversity might appear counter-intuitive. Why should a business want to engage in a purchasing initiative which, on the surface at least, appears to add to the complexity and cost of the procurement process and which seems to have more to do with moral and ethical considerations than with commercial and economic imperatives?

To begin to answer this question we need to consider a number of important developments in the business environment. In Section 4 of this document, we will examine specific arguments in favour of supplier diversity programmes. For simplicity the analysis below focuses on SD initiatives which promote engagement with ethnic minority businesses (EMBs) within the UK. Many of the arguments we present apply equally to other forms of diversity in the supply chain.

2.1 The Legislative Framework

In the United States, SD initiatives aimed at EMBs (and others) have a relatively long history, dating back to the later 1960s and early 1970s. Born out of the racial troubles of the period, these initiatives were encouraged and supported by a legislative framework designed to promote greater civil rights through a policy of 'affirmative action', where the aim is to compensate for past discrimination by having 'set-asides' for disadvantaged groups. In the field of public sector procurement, for example, public sector bodies are now legally required to buy 25 per cent of their goods and services from 'diverse' suppliers. Under the US National Minority Supplier Development Council (NMSDC) definition a 'minority business' is one which is 51 per cent or more owned and controlled by members of certain designated minority groups, including racial and ethnic minorities, women, the disabled, war veterans, gays or lesbians.

In the UK and Europe generally, no such legislative framework currently exists. Rather than promoting equality of 'outcome', the focus in the UK is on 'equal treatment'. The recently amended Race Relations Act (2002) for example gives public authorities a statutory duty to promote racial equality and requires them to prevent unlawful discrimination in areas such as service delivery, employment practice and other aspects (www.cre.gov.uk). Similarly EU Competition Policy rules are based on principles of non-discrimination, equality of opportunity, transparency and competition. In short, extant UK and EU laws severely limit the scope for organisations to give preference to targeted groups of potential suppliers.

That said, the issues of discrimination and social exclusion are hot topics in both UK government and the European Union and all the indications are that further legislation will be brought forward to promote equal opportunities and to outlaw discriminatory practices based on race and ethnicity. Moreover European procurement legislation is presently being reviewed and there are moves to widen the scope of legislation to allow public procurement to achieve greater equality of opportunity.

Procurement Issue: In the near future companies with a supplier diversity programme could be at a competitive advantage when bidding for public contracts in the EU.

2.2 Business Demography

The business population changes over time as new businesses are born and others cease to exist. Such changes can clearly have important implications for supply chain development and sustainability.

In the UK over 99 per cent of all businesses are small and medium-sized enterprises (SMEs), with the vast majority employing fewer than 50 people. It is estimated that smaller businesses account for about 40 per cent of all business turnover and about 45 per cent of non-government employment. These firms play a key role in a modern, dynamic economy and are an important source of new ideas, innovation and support for larger organisations.

2: Why is it important for business?

Within the small firm community, ethnic businesses are an important and growing sub-sector. It is estimated that there are around 130,000 EMBs in the UK and that these represent around 7 per cent of the total business stock. Moreover current business trends suggest that EMBs will become increasingly significant in the UK in the coming years. A Bank of England Report in 1999, for instance, indicated that EMB start-ups occur at a higher rate (9 per cent) than in the small firm population generally (5 per cent). This figure seems destined to grow with the expected growth in the ethnic population (see below).

Procurement Issue: Business demographics indicate a growing and increasingly well-educated ethnic minority business community who will constitute a rising share of the overall business stock. A healthy and growing EMB population provides an opportunity for investigating ways of adding value to the supply chain and of building sustainable supply chain relationships.

2.3. Customer Demography

Demographic change can have an important impact on a firm's future market opportunities. In the UK the minority population is the fastest growing segment and is projected to double in the next 25 years. Currently around 8 per cent of the UK population is of ethnic origin, with 70 per cent residing in urban areas. By 2011, for example, it is estimated that ethnic minorities are likely to constitute the majority population in half of London's boroughs.

Key aspects of the UK's growing ethnic and cultural diversity are illustrated by the following statistics:

- the ethnic minority population grew by 48 per cent (from 3.1 million to 4.6 million) between 1991 and 2001;
- this population is comparatively young, with 45 per cent under 25 years old compared to only a third of the white population;
- over half of all ethnic minorities live in Greater London and the South East, with other significant concentrations in large urban centres in the West and East Midlands, Yorkshire and the North West;
- the majority of today's Black and Asian people were born in the UK and are increasingly second or even third generation UK citizens. Many are upwardly mobile with a high standard of education and rising disposable income.

Given these trends in the ethnic population, the economic power and influence of minorities cannot be ignored by larger organisations. It has been suggested that minority consumers are some of the most loyal and brand sensitive customers; accordingly targeting the so-called 'brown £' will become increasingly important for many organisations. Firms can help to create goodwill among both actual and potential ethnic minority customers by demonstrating their commitment to increased diversity in their procurement policies.

Procurement Issue: Demographic diversity is a reality. As the ethnic population grows so does their power and influence as both consumers and producers. The issue of 'diversity' in the workplace is likely to become more important commercially as organisations experience an increasingly diverse and competitive market place.

2.4 Stakeholder Pressures

In addition to government and market influences, organisations also face pressures from the social domain. Opinion polls suggest that in the future businesses and other bodies will increasingly be judged by NGOs and the public on their social as well as their economic performance. As CSR moves steadily up the public and political agendas, organisations will be called upon to demonstrate their social credentials in a variety of areas. Procurement professionals can contribute to this process by looking at ethical issues within the supply chain, including questions related to sourcing decisions such as human rights, exploitation and equal opportunities.

Procurement Issue: As the concept of 'value' becomes more than simply a financial measure, then issues such as an organisation's social performance will assume increased importance. Introducing a supplier diversity programme is one of the ways in which an organisation can demonstrate its commitment to greater social responsibility. This can help to create goodwill for the enterprise and reduce pressures from key stakeholder groups concerned with the moral and ethical performance of an enterprise.

Summary

As the business environment changes, organisations can face both increased opportunities and threats. Reducing the latter while exploiting the former will help to provide a solid basis for future organisational development and sustainability.

Given the growing demands on organisations to become more socially responsible, businesses and other bodies will need to engage more readily with the CSR agenda and to demonstrate increased levels of social performance. Procurement professionals can make an important contribution in this area, by considering the ethical dimension of purchasing decisions and the opportunities available to enhance the organisation's reputation and goodwill through building a more diverse supply base.



3: Why is SD an issue for Chief Purchasing Officers?

Most, if not all, organisations seek to create and add value through their activities. As the famous management guru Professor Michael Porter has demonstrated, value-adding opportunities are available both internally and externally and across all organisational activities from core functions to support and ancillary services (Porter, 1985). Operating at the interface between the organisation and a range of internal and external stakeholders, CPOs are in a key position to contribute to the value added process and to help the organisation to achieve its economic, commercial and social goals.

With regard to the procurement function, current experience suggests that SD initiatives provide an opportunity for CPOs to enhance the organisation's performance in at least two major ways. Firstly, in organisations in which social responsibility (including a commitment to greater diversity) is an important corporate goal, building a more diverse supply base can help to provide important economic and reputational benefits and can enhance key stakeholder relationships (see eg. Section 4). Secondly, at the functional level American experience has indicated that well designed SD programmes can help purchasing professionals to 'spend money smarter' without compromising quality, service, safety or other essential attributes of the purchasing process.

Summary

As indicated in Section 1, supplier diversity does not imply increasing the supply base, rather it is about being more creative in the way in which the organisation purchases its goods and services. Such creativity may give rise to a variety of benefits on both the demand and supply side that add value to the organisation. Purchasing professionals are in a key position to make a significant contribution to the organisation's economic and social performance.





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4: Arguments in favour of supplier diversity

While supplier diversity initiatives can operate on a stand alone basis, invariably they tend to be seen as one element of the CSR agenda. When organisations engage in socially responsible practices they tend to do so for one (or more) of three main reasons: they are made to do it (eg. because of legislation/regulation), they feel obliged to do it (eg. because of stakeholder pressures) and/or they want to do it (eg. because of ethical or commercial reasons).

In this section we will concentrate on identifying the potential commercial/economic benefits of introducing a supplier diversity programme based on the experiences of organisations that have undertaken SD initiatives in both the US and the UK. In focusing on the 'business case' for supplier diversity, we are not underestimating the importance of the ethical dimension to corporate decisions nor its potential contribution to an organisation's commercial and economic performance. Indeed, it has often been said that 'good ethics is good business,' not least because it can help to reduce the risk of damage to an organisation's reputation in the media, the market place and in the broader society.

4.1: New procurement and sales opportunities

Currently many EMBs buy and sell within their own ethnic communities. For organisations outside those communities such co-ethnic trading can represent an untapped source of supply and/or sales which ultimately could provide a means of adding value through the supply chain. Chevron, for example, claims that its diverse suppliers contribute to the firm's overall vision of sustained performance by providing cost-effective solutions and processes. Such considerations could be particularly significant in internal markets where local content issues are important business drivers.

4.2. Increased commitment, flexibility and security

The vast majority of EMBs are small enterprises. For such businesses, orders from large corporate bodies can represent a significant share of their turnover and this is likely to encourage greater commitment and enhanced levels of service. Broadening the supply base can also provide an organisation with greater flexibility in its

procurement decisions and can enhance its security in the event of supply chain problems or crises.

4.3. Sources of innovation and cost competitiveness

Sourcing from EMBs can also bring value and innovation to the supply base. Having a more diverse range of suppliers may open up the possibility of innovative and/or cost effective solutions that might help to provide an organisation with a strategic advantage either through differentiation or cost leadership. For public sector bodies, engaging in greater supplier diversity could be consistent with 'Best Value' and could help to contribute to local economic development and growth (see below).

4.4. Mirroring the customer base

As globalisation helps to encourage greater customer diversity, sourcing from EMBs can mean that an organisation's suppliers may more closely mirror its customer (or client) base. For companies such as Ford and British Telecom, engaging with suppliers who reflect their changing customer demographics is seen as a business imperative and one which helps to 'embed' their organisations within the different ethnic communities who buy their products and services.

4.5. Encouraging local economic development and growth

EMBs are a critical element of the ethnic community and often of the wider local economy. They are an important source of employment and business opportunities within the ethnic community and help to stimulate local economic and social development and growth. By engaging with ethnic suppliers, larger organisations can help to improve the economic and social outlook of local communities thereby creating greater opportunities to supply goods and services to local individuals and organisations by boosting local purchasing power. This is demonstrated by Ford Motor Company, USA:

Since 1978, Ford's commitment to economic empowerment has been greatly expanded to include a vast network of minority suppliers and dealers. By encouraging the work of these entrepreneurs, Ford in turn has helped to empower and create wealth within the communities in which it does business.

Ford's Minority Supplier Development (MSD) program was designed to identify high potential minority business persons and assist them in growing their companies to competitive positions in the automobile industry. Ford now purchases more goods and services from minority owned and operated companies than any other U.S. corporation. In 2001, the automaker purchased \$4.5 billion of goods and services from minority business enterprises (MBE) of which \$3.1 billion was direct and another \$1.4 billion was second tier. Our respondent at Ford explained the Ford philosophy, '... we started looking at how we can create opportunities for these communities and looking at the way we can help minorities to participate in developing our business service; become part of Ford Motor Co. as well as the economy. So one of the things we would look at is how we buy our goods and services - we have to create wealth in this community. We have to give them discretionary income to buy our products. Why don't we start creating businesses?'

4.6. Developing the organisation's resource base

It is argued that organisations which engage in socially responsible practices tend to enhance their resource base by creating goodwill in the community and by improving their reputation with key stakeholder groups, including customers and employees. What such groups 'think' of an organisation can be an important element in its commercial performance. Survey evidence suggests that a favourable reputation can have an important impact on recruitment and retention and is likely to feed through to staff morale, loyalty and productivity.

4.7. Risk reduction

The corollary to the previous point is that engaging in socially responsible procurement practices can reduce the risk of a negative response by important organisational stakeholders. It can also help to put the organisation ahead of any change in government regulations which could help to reduce the future costs of compliance.

4.8 Intelligent sourcing

Given current trends in procurement, large organisations can become increasingly dependent on their suppliers, as power shifts to some degree from buyer to supplier. As indicated above, SD initiatives can provide new and innovative sources of supply that can reduce an organisation's vulnerability as it seeks to buy intelligently and cost effectively.

Summary

For procurement professionals establishing a supplier diversity programme should not be seen simply as a public relations exercise; potentially it can also provide opportunities to add value to the organisation on both the demand and supply side. Engaging in behaviour which develops closer links with minority suppliers promises a range of tangible and intangible benefits for the organisation and can help to enhance its standing in the wider community. 'Giving something back' to the communities you serve has a commercial as well as an ethical dimension.

The case studies in this document are drawn from Shah and Ram (2005). For this research, a study tour of the US was undertaken in October 2002. Key informant interviews were held with leading exponents of supplier diversity from a variety of sectors, including the Department of the Treasury, together with Ford, JPMorgan Chase and Unisys from the private sector and also the National Minority Supplier Development Council.

Unisys is a worldwide information technology services and solutions company. It has operations in more than 100 countries worldwide and offers business solutions. It has expertise in consulting and system integration, outsourcing, infrastructure services and security. Unisys was voted in the top 25 of the recently released Div2000 Top 50 Corporations for multi-cultural business opportunities.

JPMorgan Chase is a major participant in the strongest, most vibrant capital markets in the world, operating across various businesses and geographies. It is a leading global financial services firm with assets of \$759 billion. JPMC achieved \$400 million of business with women's minority business enterprises (WMBE) in the year 2002 (up from \$37 million in 1994) which was approximately 6.7 per cent of its total domestic spend. The company has received recognition and honours for the implementation of innovative programmes like Virtual Trade Shows for increasing EMBs in its supplier base.

Ford Motor Company continues to be one of the major customers of MBE goods and services in the US. Ford's Minority Supplier Development (MSD) Program is one of the oldest in the U.S. corporate history, having been established in 1978.

5: SD initiatives - some problems likely to be encountered

While the benefits identified above appear to make supplier diversity an attractive proposition, it needs to be recognised that establishing an SD programme is not without its problems. In this section we focus on some of the key issues likely to be faced by an organisation seeking to achieve greater diversity in its supply chain. It should be recognised that potential suppliers also face considerable obstacles in engaging with large corporate buyers that can have a significant impact on the procurement process. These problems confronting EMBs should not be underestimated (see eg. Pearson et al, 1993).

We begin our analysis by looking at the question of winning 'hearts and minds' which is a critical aspect in any supplier diversity programme. Subsequently the focus shifts to the operational level, including the difficulty of identifying and engaging with suppliers from historically under-represented groups.

5.1. Achieving senior management 'buy-in'

Organisational change of any kind tends to be facilitated when there is clear and unambiguous support for that change from the organisation's senior executives and managers. Achieving that support can often present a significant challenge, particularly within the context of the existing structure of corporate governance. In many large organisations it is fair to say that procurement is not an issue regularly discussed or understood at board level; nor is there likely to be much, if any, appreciation of the notion of supplier diversity or its potential value to the enterprise and its key stakeholders. This lack of knowledge and understanding can represent a substantial barrier to the introduction of an SD programme. Importance of senior management 'buy-in' was quite evident in all the three case study firms studied during the US tour.

5.2. Other opposition to change

Like any new initiative, a supplier diversity programme is also destined to encounter some opposition from both inside and outside the organisation since it disturbs the status quo. This opposition may be from employees and/or internal customers who misunderstand the nature of and/or reasons for greater supplier diversity or from existing suppliers who feel threatened by the new development and who mistakenly assume that preferential treatment is being given to one group of bidders. Equally, marketers may need to be persuaded that changing suppliers will not adversely affect the marketing process. Overcoming this opposition through a programme of education and training will require a commitment of resources that some organisations may be unwilling or unable to undertake.

At Unisys, the supplier diversity team had to face a certain degree of internal resistance. According to our respondent, procurement is an activity which is not confined to a particular department, but is undertaken by different people and departments throughout the organisation; and these people have developed long-term relationships with their suppliers. To ask them to change their long-standing suppliers and to include a minority supplier is a very difficult task to fulfil. One of the respondents explained:

"A lot of procurement decisions are not made by procurement people – procurement is often times dictated by [others in the organization] as to what they want to buy [and from whom]...They [non-procurement personnel] are not aware of MBE capabilities, where to find these qualified companies, nor why we should seek them out, eg. the business case. It is [therefore] our duty (ie. responsibility) as a member of the supplier diversity team to educate our people about the benefits of doing business with MBEs."

5.3. Problems of alignment and coordination

Incorporating a supplier diversity programme into an existing set of corporate policies, processes and procedures raises a number of strategic and operational questions. Does the new initiative contribute to the organisation's current strategic position? Will it add value to the procurement process? Is it consistent with the existing procurement strategy? To what extent will it give rise to difficulties in co-ordinating the objectives and activities of members of the supply chain both internally and externally. These and other issues of alignment and co-ordination require careful consideration prior to the introduction of an SD programme.

5.4. Accessing Ethnic Minority Businesses

While issues of building support and managing change are vitally important, they are not the only problems associated with establishing and running an SD programme. For organisations seeking to incorporate ethnic minority businesses into their supply chain, the problem of accessing such businesses can be substantial. Whereas in the United States a formal system of certification exists which identifies different categories of 'diverse' supplier (eg. women-owned businesses, EMBs), in the UK, and Europe generally, no such system exists. Consequently definitions of ethnicity vary considerably and are open to interpretation. This problem is not helped by the absence of a robust national database of EMBs or the tendency for many very small ethnic firms to be reluctant to engage with ethnic and other business support organisations. Nevertheless, National Minority Supplier Development Council (NMSDC) in the USA and Supplier Development East Midlands (SDEM) in the UK are exemplar of quality broker organisations trying to provide corporations with quality ethnic minority businesses.

NMSDC

According to respondents interviewed in the three large case study firms, US corporations aiming to diversify their supplier base face two major challenges: firstly, finding minority businesses that are competitive and reliable suppliers and subcontractors; and secondly, overcoming organisational resistance. The NMSDC aims to tackle both of these potential obstacles, following its charter in 1972 to provide increased procurement and business opportunities for minority businesses of all sizes. NMSDC has played a pivotal role in bringing together some of the largest private sector corporations and minority businesses to do business with each other. Its success was said to lie in the philosophy of being a non-political organisation, run by an annual contribution from its corporate members.

The NMSDC has provided a platform for building relationships between the large American corporations and the EMBs. At present, NMSDC's network of 39 affiliates matches more than 15,000 certified minority-owned businesses with 3,500 corporate members including America's public-owned, privately-owned and foreign-owned firms. The amount purchased by NMSDC corporate members from minority businesses has grown from an estimated \$86 million in 1972 to \$63 billion in 2001.

A key aspect of the NMSDC's role is that of a 'change agent'. As one of our respondents - entrusted with the task of bringing in new corporate members - explained: 'we try to act as a change agent ... A lot of companies have no control over purchasing ... We give training; we teach people how to analyse the total spend of the corporations and look at where the money is spent, on whom the money is spent, where are the opportunities for EMBs... We also sit with them to plan 5 years in advance...'

5: SD initiatives - some problems likely to be encountered

Supplier Development East Midlands (SDEM)

Managed by the Centre for Research in Ethnic Minority Entrepreneurship (CRÈME) at De Montfort University, Leicester, the SDEM programme attempts to bring corporate Britain and ethnic minority businesses together in order to conduct meaningful business. The programme has established a unique case of knowledge transfer via a partnering initiative with NMSDC which is helping SDEM in recruiting US multinationals that have a UK presence.

Established in June 2004, SDEM is headed by a steering group of 14 large purchasing organisations from both the public and private sectors with a commitment to promote supplier diversity within their respective organisations. The programme has started developing a quality database of ethnic minority businesses across the UK which is accessible to all its corporate members. Interaction between corporate members and EMBs is achieved through a series of workshops, 'meet the buyer' events and mentoring seminars. These events provide a platform where both the buyer and suppliers can meet and discuss and explore business opportunities.

SDEM is different from other procurement initiatives across the UK as it is the first initiative which is led by the private sector. During the first year of its operation, a number of successes have been achieved. Two EMBs have been successful in getting contracts with IBM and the Environment Agency and a number of businesses have claimed the next step in the supply chain and are negotiating contracts with a number of corporations.

5.5. Constraints on EMB engagement

The problem of identifying businesses in the desired category of diverse supplier is only one of the hurdles to increased engagement. Another is the difficulty of persuading ethnic minority businesses to seek contracts with large corporate buyers. A majority of ethnic firms are small and under-capitalised and a substantial proportion of these are micro-businesses frequently specialising in low-value, small volume orders. For such businesses finding out about supply opportunities can be difficult and time-consuming and may require a resource base which is beyond their capacity.

Added to this, for some businesses the bureaucracy of the procurement process can be a significant disincentive, especially when business resources are extremely limited and management approaches are typically informal. For example, public sector bodies such as local authorities normally hold lists of potential suppliers, especially for low value contracts, and there are often a number of pre-qualification stages before a firm can get onto these lists and be invited to tender. While such stages are usually designed to encourage good practice (eg. in health and safety), they tend to be off-putting, particularly for those smaller firms that feel uncertain about how to approach doing business with a large organisation.

5.6. Existing requirements and practices

Following on from the previous point is the question of how far existing practices and requirements (both legal and organisational) may inhibit corporate engagement with EMBs and smaller businesses generally.

For example:

- Do the needs of internal customers restrict opportunities for greater supplier diversity?
- Does the procurement process in the public sector (including EU regulations) act against EMBs/SME involvement in bidding for contracts?
- Do current trends in procurement and/or procurement targets (eg. supply rationalisation) reduce the opportunities for small firm participation?
- Can smaller businesses meet a larger organisation's non-economic buying criteria in areas such as health and safety, environment, risk?
- Do corporate buyers tend to rely on their existing 'old boy networks' of suppliers?
- Does the move towards electronic posting of procurement opportunities disadvantage EMBs/SMEs?
- To what extent do purchasing professionals in an organisation and/or one of its component parts have autonomy to make decisions on purchasing decisions?

5.7. Issues of trust

As with any contractual arrangement the issue of a lack of trust between participants can be significant. Large purchasing organisations need to be convinced that EMBs can meet all their requirements in an efficient, effective and economic way; EMBs need to feel that they are not being patronised, misled or exploited. Developing an acceptable degree of mutual trust can take time and a considerable amount of effort. This, too, can be an important barrier to engagement.

5.8. Capacity to deliver

In the UK, as in the USA, the concentration of EMBs in a relatively narrow range of economic activities remains a feature of their contemporary profile and this has implications for their current capacity to exploit procurement contracts. As previously noted, a majority of EMBs are small and many are still engaged in relatively low value added activities. As a result there may be doubts concerning the ability of EMBs to respond to supply opportunities and/or their capacity to meet buyer expectations in terms of availability, quality, price and continuity of supply. This can be a particular problem where the larger corporate buyer requires goods and services on a national basis or where there are strategic requirements which EMBs are unable to meet.

Summary

Organisations seeking to establish a supplier diversity programme need to recognise that there are considerable challenges to be faced at both the strategic and operational levels. While some of these challenges lie within the organisation and can start to be addressed by committing resources to programmes of education, training and development, others lie outside their direct influence and control. While there are no simple solutions to some of these problems, no barrier to change needs to be insurmountable given the necessary commitment to a more diverse supply base. Building this commitment is likely to be significantly facilitated if the goal of supplier diversity is 'championed' and driven from the highest levels within the organisation.

6: Lessons learned from experience

Any form of organisational change has an impact within a business or other type of body; introducing a supplier diversity programme is no exception. Organisations seeking to develop and implement such a programme need to take account of its likely effects on other individuals, departments and functions and should consider potential obstacles that could exist in areas of the organisation which contribute directly and indirectly to sourcing decisions. Experience suggests that the more successful SD initiatives tend to be those that seek to manage the process of change in a sensitive, transparent, flexible and inclusive way and which put in place structures and processes which help to create a supportive organisational culture. Lessons learned in other areas of CSR (eg. environment, health and safety) are likely to prove informative in the decision-making process (see eg. Carter and Jennings, 2000).

6.1. Executive commitment and involvement

Mintzberg has demonstrated that top management support is a key driver of organisational policies and programmes. Successful SD programmes are invariably those which are 'championed' and supported by senior executives and managers within an organisation. From the outset top decision-makers need to 'buy-in' to the idea of supplier diversity and need to demonstrate commitment by becoming actively involved in its promotion and aspects of its implementation (eg. by attending conferences/meetings). Without support from the top, there is unlikely to be support at an operational level or the development of trust within the wider community.

6.2. Training and communication

The support of top management might be necessary but it is not sufficient in itself; others within the organisation, including internal customers, also need to show commitment to the programme if it is to achieve its objectives. To help develop this commitment, organisations need to commit resources to a training programme which focuses on the aims, structure and benefits of the SD initiative. Failure to discuss with and educate internal stakeholders can represent a significant obstacle to a programme's success.

Unisys

Gaining the support of internal stakeholders within Unisys was challenging and vital, and an important element in developing effective supplier diversity initiatives. On this point, one respondent commented: 'it is very important for us in the supplier diversity team to educate and train our employees about the benefits of supplier diversity and how to implement this program throughout the organisation.' Through its intranet, Unisys provides training and education for all its employees on the process of implementing and monitoring the supplier diversity program.

At JPMorgan Chase, support from the highest levels in the organisation was seen as critical to the success of supplier initiatives. This involved three main elements:

- CEO of the company, advocating and committed to the success of diversity as a solid business imperative
- The Executive Committee, which is measured by the Supplier Diversity scorecard
- Supplier Diversity (SD) Advisory Council and Steering Committee, which includes senior executives of the various business units and

staff functions (including two vice chairmen of the firm, representing the investment bank and retail bank, who serve as the vice chairs for the Supplier Diversity Advisory Council throughout the firm).

The supplier diversity team at JPMorgan Chase looks at all the category spending teams and develops WMBE procurement goals according to both the total spend opportunity and the available supply market of qualified WMBEs. A supplier diversity procurement scorecard is kept for each of these teams, who are accountable for implementation.

6.3. Identification of realistic opportunities for supplier diversity

Ideally larger organisations should evaluate their existing supply chain and identify realistic opportunities for including ethnic minority businesses in the procurement process. Initially it is likely that most of the opportunities available will relate to relatively small, low value contracts at the low risk end of the supply chain which can be very useful in building trust and understanding. Subsequently, organisations may seek to achieve their SD goals by encouraging their 1st tier suppliers to engage with EMBs.

6.4. Reduce/remove barriers to EMB engagement

Where possible, corporations should seek to reduce/remove existing barriers to EMB participation. This could include finding ways to reduce bureaucratic demands, simplifying procedures, offering advice on tendering and mentoring through the purchasing cycle. The latter is particularly important if EMBs are to become involved in larger contracts.

6.5. Setting clear and achievable goals

Programmes and policies tend to work best when those involved have a clear understanding of what is the desired outcome(s). Experience suggests that having a formal SD policy, with a combination of qualitative and quantitative goals, provides for greater flexibility in achieving and measuring success and encourages decision-makers to consider what is likely to work best for the organisation when designing an SD programme.

6.6 Dedicated staff and an action plan

Arguably organisations should appoint a Supplier Diversity Co-ordinator who is responsible for promoting and overseeing the whole initiative and who is supported by other identified SD staff within the enterprise. The SD team should agree and publish an action plan, with appropriate signposts and targets. There may be some merit in setting SD goals as part of the buyer's evaluation criteria and these could form part of the performance review of procurement personnel (including managers).

6.7. Programme monitoring, measurement and tracking

As in other areas of the organisation, it is advisable to measure the performance of the SD initiative against its stated objectives, to review its progress and to address problems as they become evident. Organisations should track the 'success' of the programme and should communicate their findings with key internal and external stakeholders. Information and experiences should be shared with appropriate parties and examples of good/best practice should be widely communicated.

A final comment

Organisations need to consider how notions of CSR and economic performance can complement each other. With respect to supplier diversity this means establishing a sound 'business case' for engaging with traditionally under-represented groups of suppliers. While it is never easy to overcome current logic and fashion in areas such as supply chain management, the experiences of a growing number of large corporations seem to suggest that well-planned SD programmes can deliver the required performance in terms of cost, quality, service, reliability and value. But how ready are corporations to learn from these experiences? In the final analysis the question may be one of perception: is supplier diversity seen as a 'threat' or an 'opportunity' waiting to be exploited? Only time will tell.

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Summary

All organisations have their own individual purchasing practices, processes, procedures and requirements and all operate within a unique internal and external environment. The issues raised and observations made within this document need to be seen within this context. That said, it is possible to identify a number of generic lessons based on the experiences of organisations who have implemented SD programmes in recent years. The essential message, in our opinion, is to start simply, be realistic, be systematic and look for ways to build trust and commitment among key stakeholder groups. Resources need to be committed to raising awareness and to educating the various interested parties about the reasons for, and benefits of, a more diverse supply base. Support at the highest level is a critical requirement.