

50 YEARS OF **SUPPLIER** DIVERSITY

A half-century of evidence is in: This ‘role of everyone in the supply management organization’ improves understanding of customers, enhances innovation – and helps the bottom line.

By Sue Doerfler

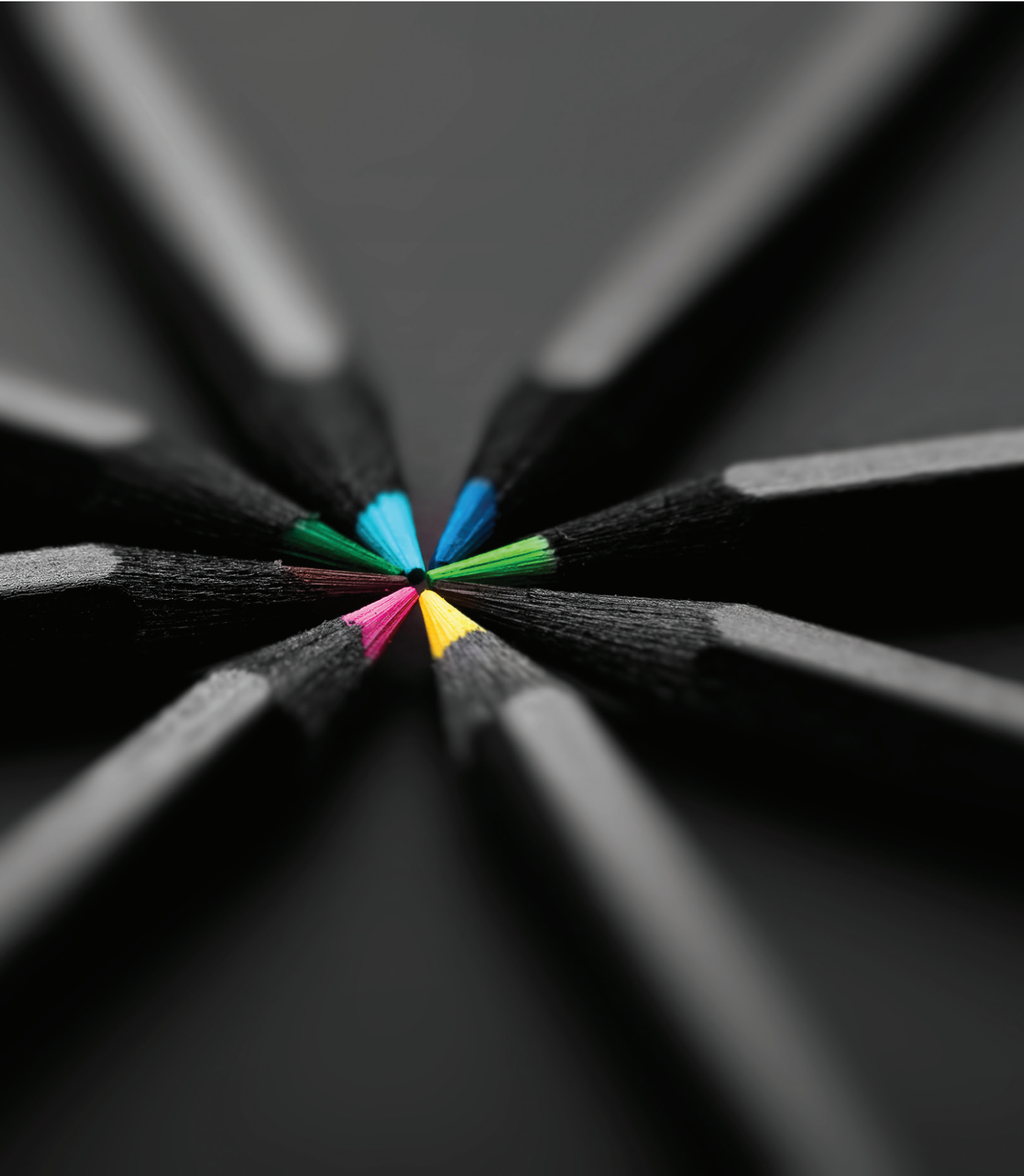
1969 — the last year of a decade that saw the March on Washington for Jobs and Freedom, Martin Luther King Jr.’s “I Have a Dream” speech and the Civil Rights Act. It was the year that set the stage for supplier diversity, when, on March 5, President Richard Nixon signed Executive Order 11458.

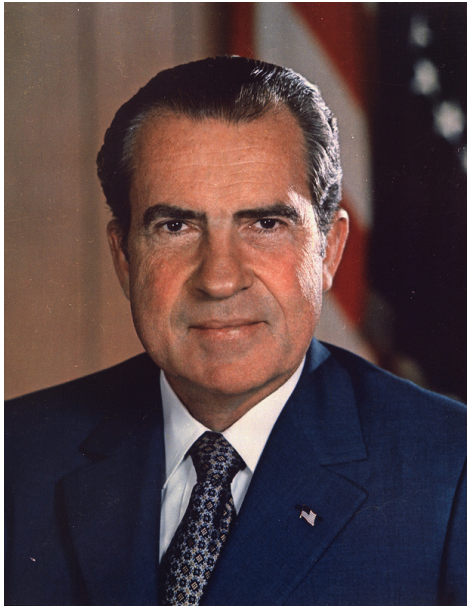
2019 — Over the past 50 years, supplier diversity has evolved from being a social imperative into a business imperative that impacts organizations’ bottom lines and contributes to their understanding of and responsiveness to customers.

Historical Perspective

Since the signing of Executive Order 11458 — and two years later, Executive Order 11625, which expanded the







MARCH 5, 1969

President Richard Nixon signed Executive Order 11458, which prescribed “arrangements for developing and coordinating a national program for minority business enterprises.”

scope — supplier diversity has undergone several transformations. While it initially centered around ethnic- and minority-owned businesses, it has grown to include other underrepresented and underutilized groups such as veterans, women and the LGBTQ community.

“The executive order that Richard Nixon signed started with the push around civil rights and African-American engagement, empowerment and involvement in the economic engine,” says Adrienne Trimble, president and CEO of the National Minority Supplier Development Council (NMSDC). “But the meaning of the term has broadened because other aspects of diversity and inclusion needed to be considered, like the impact to communities and the economic empowerment of all underrepresented and underutilized groups.”

Another transformation has been in how supplier diversity is perceived. At first viewed as a “feel-good, right-thing-to-do” measure, it became a compliance-based initiative in the 1970s and ’80s, as companies strove to meet federal mandates regarding diverse businesses, says Rainey Alben, CPSD, president and CEO of the Pacific Southwest Minority Supplier Development Council in Phoenix.

As the need to validate diverse businesses increased, various federal, state and local government agencies and private-sector groups came into existence, including:

- The Office of Veterans Business Development, part of the U.S. Small Business Administration, in 1953
- The Office of Minority Business Enterprise, established in 1971 through Executive Order 11625 and renamed the Minority Business Development Agency in 1979
- The NMSDC in 1972
- The Women’s Business Enterprise National Council (WBENC) in 1997
- The National LGBT Chamber of Commerce (NGLCC) in 2002
- The National Veteran Business Development Council in 2013.

Many of these groups certify businesses as diverse while providing other services like training, webinars and networking opportunities to members. “It’s really important that they learn from their peers what’s been successful and what’s not,” Trimble says.

Business Impact

Compliance remains a driver of supplier diversity; it is an important component of government contracting and for many private-sector organizations. However, in the past decade or so, organizations have begun to view supplier diversity as a strategic initiative that impacts the business.

“They have realized that diverse suppliers also provide innovative solutions and ideas that they might otherwise have missed out on,” Trimble says. She adds that companies have begun to consider diverse suppliers as a resource, enabling them to reach and respond to their customers.

“If you have people with the same thought process who aren’t representative of your customer base,” Alben says, “then how can they really be the people who advise you correctly about what’s happening within your customer base? By having a diverse supplier base, you are able to understand more about your customers and what they want. You are able to make better business decisions about products and services, what you should be developing next and what you should be doing in your organizations.”

Although some companies don’t invest the time or resources into developing a strong supplier diversity initiative or function, many understand the importance of supplier diversity from the top down, Alben says. “I’m seeing more companies getting engaged and wanting to understand how supplier diversity impacts their business,” she adds. “They’re partnering with diverse suppliers to ensure inclusion throughout their supply chain.”

Supplier diversity is an inclusive initiative at Johnson & Johnson. “It isn’t a niche focus for a small subsection or group of individuals within the supply management organization, or unique to one region or geography,” says John Perez, CPSM, CPSD, senior manager, acquisitions and divestitures operations at Johnson & Johnson in Raritan, New Jersey. “Rather, it is part of the role of everyone within the supply management organization, everywhere in the world.”

For Johnson & Johnson, focusing on supplier diversity strengthens the supply management organization’s role and provides a strategic advantage, Perez says: “Having a significant focus on supplier diversity enhances the organization’s public reputation and equity, and only a strong supply management department can deliver this.”

Domino Effect

Diverse suppliers also can have an economic impact, not only on companies but on communities, Trimble says: “There are studies that show that minority companies tend to hire minorities at a higher rate than non-minority companies.”

The diverse population is growing. According to the U.S. Census Bureau, by 2045, minorities will become the majority. Diverse businesses also are increasing in number. Minority businesses number more than 8 million, according to the *2018 Small Business Profile* by the U.S. Small Business Administration Office of Advocacy. According to the *Profile*, there are more than 10 million veteran-owned businesses.

American Express’ *2018 State of Women-Owned Businesses Report* found that, from 2007-18, women-owned businesses rose by 58 percent, while those owned by African-American women grew by 163 percent. Employment by women-owned business grew 21 percent, while that of all businesses declined by 0.8 percent.

According to the *2015 Economic Impact Report*, conducted by NMSDC in partnership with The Institute for Thought Diversity, nearly 12,000 certified minority-owned businesses produce a total of more than US\$400 billion dollars in annual revenue. They employ more than 2.2 million people, with salaries and benefits totaling about \$1.38 billion, and contribute nearly \$49 billion in local, state and federal tax revenues, according to the report.

“It’s important companies get in front of these trends,” Trimble

says. “These diverse organizations, versus the larger Fortune 100 companies, are creating the jobs in our communities. This translates into disposable income that goes back into communities, enabling them to purchase goods and services from Fortune 100 companies. So, there’s a business cycle that indicates the value of having strong, minority businesses in communities of color because it helps the sustainability factor for those communities.”

Internal and Supplier Challenges

Implementing and maintaining a diverse supplier program has challenges. For organizations, issues can arise from lack of support. “Often, there is only one person assigned to running supplier diversity — and that person already is at capacity,” Alben says. “So, even though companies want to give business

to diverse suppliers, there isn’t the infrastructure and internal support of supplier diversity personnel to have the time to work on supplier diversity initiatives.”

For a supplier diversity program to be successful, it must be tied to business objectives, Trimble says: “It’s said that the priorities of the CEO quickly become the priorities of everyone else in the organization. So, if the CEO makes supplier diversity a priority, so will everyone else. That’s what it really takes. Those who are making daily buying decisions aren’t necessarily looking at all the factors that higher-level executives have access to. So, the more we can share that information and cascade the education awareness throughout the organization, the better equipped those individuals are to make better sourcing decisions.”

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— **Rainey Alben, CPSD**
Pacific Southwest Minority
Supplier Development Council

There also is a cost associated with bringing on a new supplier, Alben points out. “But there’s also a benefit,” she says. “And the financial bottom line on many cases is companies will recoup the cost. But to do so, they have to open up to diverse suppliers.”

Diverse suppliers also face challenges. Even though companies might have strong supplier diversity programs, minority business owners can have trouble gaining access to opportunities. Challenges include (1) getting in front of key decision makers and (2) being seen as a company that can provide a solution, not

just as a minority business company, Trimble says: “There are situations where (a diverse supplier) might be undercapitalized or not to capacity. Or they might not have the same access to resources that larger, more established firms have.” Another challenge for these businesses is perception: Some organizations might still consider diverse companies not viable, she says.

Jennie Nigrosh, CEO and chief creative officer of The Green Garmento, a Chatsworth, California, WBENC-certified business that makes and sells reusable dry-cleaning bags and other sustainable and reusable products, has developed strategies for competing as a diverse supplier.

“A smaller business can be a blessing or a curse,” she says. “If you are competing on price alone and don’t have the high overhead a bigger company has, you might be more competitive. But if you don’t have the infrastructure or resources — and your supplies are more expensive, and you don’t have buying power — then you can’t be as competitive. You have to find a balance of where you can compete.”

She says she often emphasizes how her business is responsive, reliable and nimble, and can facilitate a company’s needs and help it be resourceful, “rather than just quoting some boilerplate. Showing that you want to be on their team and work with them, rather than just trying to win their business, helps you to compete with the bigger players.”

Being a diverse supplier has helped Nigrosh learn about all facets of the supply chain, she says: “That’s a plus — because you’re a valuable part of the supply chain. But it can also be a hindrance — because you’re not an expert. Often, big companies want an expert in a particular field. So, as long as you can show that you can learn quickly and be resourceful, that’s helpful.”

As increased emphasis has been placed on supplier diversity, some organizations have established mentoring and training programs to help diverse suppliers work with larger companies and succeed in the marketplace. One program is Delta Air Lines’ Delta Supplier Development Academy, which aims to grow the airline’s diverse supplier base by offering coaching, mentoring, curriculum and more to

participants. Delta’s goal is to achieve \$1 billion in diverse spend by 2021.

Nigrosh, one of the participants, has appreciated the help. Through the program, she has created a new business matrix: “I’ve never had one so detailed,” she says. “It’s great to visualize where I’ve been, where I am now and where I want to go.” She also worked with a mentor, who has helped her realize ways in which her company can expand in scope.

The Evolution Continues

During the past 50 years, supplier diversity has evolved from a matter of societal importance into a strategy that impacts a business in numerous ways. As it continues to evolve, Perez predicts that three areas will be most impacted. One concerns a shift in focus from privately-held to publicly-traded companies, which poses inherent challenges to supplier diversity.

According to an April 2018 Bloomberg opinion piece, 3,600 privately-held companies were listed on U.S. stock exchanges at the end of 2017, less than half of the number in 1997. “There are a variety of reasons for this dramatic shift,” Perez says, “but as governments increasingly look to bolster public markets to reverse this trend, there may be shifts in government regulations focusing on supporting diversely-held private firms.”

Another shift, he forecasts, is that the definition of a diverse supplier will broaden to a business that is majority owned and/or controlled by individuals who fit certain diverse characteristics. The definition will encompass how the company, regardless of ownership, meets the needs of diverse employees and diverse customers, he says.

“Third, there will be an increasing shift towards focusing on promoting diversity of the economic background of owners — for example, supporting the entrepreneur who is first in her family to attend a university or from a family needing government support programs — rather than the racial, ethnic, sexual-orientation or gender backgrounds of owners,” Perez says. “If the 20th and early 21st centuries were largely about increasing civil rights for sexual orientation, gender, race and ethnicity through supplier diversity programs, the rest of the 21st century will be about economic diversity of business owners and creating development opportunities for those born with the least.” **ISM**

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