



# Supplier diversity and supply chain management: A strategic approach

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**Abstract** Although purchasing trends are moving toward consolidation, a strong economic argument can be made for supplier diversity. In fact, most Fortune 500 companies currently employ supplier diversity initiatives. If integrated into the overall corporate strategy, supplier diversity can become a source of competitive advantage for corporations. In order for such integration to successfully occur, however, the initiative must have top management commitment, a supportive culture, and the availability of champions to promote the proposal. Minority suppliers, in turn, need to realize that their failure or success in this highly competitive environment depends on their ability to continually develop overall competences, to be learning organizations, and to become increasingly attuned to and adept at building strategic alliances amongst themselves and with their corporate customers. In these respects, they can make use of intermediary organizations (such as local supplier councils) to improve their competences and competitive edge.

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## 1. Supplier diversity and supply chain management

Already a well-established concept in the U.S. public sector, supplier diversity has become an important part of supply chain management in corporate America. Supplier diversity involves the purchasing of goods and services from businesses owned and operated by visible minority groups. Three categories of diverse supplier bases currently exist: Minority Business Enterprises (MBEs), Women

Business Enterprises (WBEs), and Disabled Veteran Business Enterprises (DVBEs). This article concentrates on MBEs because they seem to constitute the largest percentage of supplier diversity focus; for instance, AT&T's supplier diversity goal is to have 15% MBE, 5% WBE, and 1.5% DVBE participation in its supply chain (<http://www.att.sbc.com>).

In large part, supplier diversity has become increasingly prominent as firms have recognized the economic benefits of broadening their supplier base to include minorities. According to a recent Purchasing.com poll, 65% of respondents claimed supplier diversity was either a mid-level or high-level priority for them (Teague & Hannon, 2005). By purchasing more than \$90 billion worth of goods and

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services from minority-owned businesses, America's largest companies have helped to make minority suppliers the fastest growing segment of the business landscape (Caminiti, 2006). For example, Ford Motor Company purchased \$4.5 billion worth of goods and services from MBEs, \$3.1 billion of which was direct and another \$1.4 billion of which was second-tier (<http://www.fordms.com>). AT&T is yet another company that has embraced supplier diversity. In 2005, the firm spent \$2.4 billion with diverse suppliers, representing 15% of its procurement base; over the past 10 years, the corporation has spent more than \$20 billion with diversity-owned companies, representing 18% of its total procurement dollars (<http://www.att.sbc.com>).

The establishment of an intermediary or bridging organization, the National Minority Supplier Development Council (along with its 39 regional councils and state minority supplier development councils), seems to have provided an impetus and vehicle for the astronomical expansion of supplier diversity in corporate America. Established in 1972, the NMSDC is run by Fortune 500 companies. By definition, the council classifies a diverse company as one that is at least 51% owned, managed, and controlled by minorities; further, minority is characterized only in terms of race or ethnicity: Blacks, Asians, Hispanics, and Native Americans comprise the pool. While serving many functions, the mandate of the NMSDC and its local affiliates is to facilitate relationship building between manufacturers and MBEs (<http://www.nmsdc.org>).

Motivated primarily by economic and, perhaps to a lesser extent, social responsibility imperatives, large corporations continue to expand their supplier base to include minorities. Supplier diversity may also be a way of building a customer base; as Theo Fletcher, Vice President of Security, Compliance, and Diversity in IBM's Integrated Supply Chain Group declares, "It's a business imperative because we want our supplier base to look like our employee base and the market we are trying to attract" (Carbone, 2005, p. 27). According to estimates, the minority population is the fastest growing segment in the United States, with studies predicting minorities will constitute approximately 40% of the U.S. population by 2012. In tandem with this trend, the purchasing power of minorities is expected to grow, as well. By 2045, minority purchasing power may reach \$4.3 trillion (at the 1998 dollar value), as compared to \$1.3 trillion in 2000. It is also projected that the minority population will contribute between 44% and 70% of the total increase of purchasing power from 2000 to 2045 (MBDA, 2000).

Johnson Controls, a leading advocate for the practice, acknowledges that supplier diversity is good business: "It gives us a competitive advan-

tage" says Reginald Layton, Director of Diversity Business Development for the company (Rovito, 2003, p. A11). In other cases, firms may be utilizing supplier diversity as part of their overall corporate social responsibilities. For example, Shah and Ram (2006) report that Ford Motor Company uses supplier diversity, in part, as a way of empowering the community. Home Depot, the world's largest home improvement retailer, is another corporation that sees its supplier diversity program as a means of reaching out and building stronger communities (Caminiti, 2005).

Despite the attractive opportunities that supplier diversity can introduce, both large companies and MBEs face challenges in turning opportunity into mutual business advantage. In assistance, this article offers a number of guidelines regarding how corporations and MBEs can increase the chances of building a mutually beneficial relationship. First, the key challenges that face both corporations and MBEs are highlighted. Next, guidelines for corporations, then MBEs, are presented. Finally, a brief discussion concludes the analysis.

## 2. Leveraging supplier–buyer relationships

Leveraging supplier diversity for corporate performance may be more difficult than it would first appear. Indeed, diversifying the supplier base seems to contradict recent industry trends, which have focused more on consolidation and streamlining the supply base as part of overall supply chain rationalization and weeding out suppliers that do not meet company needs. Confirming this movement, the NMSDC (2002) observes that large firms are streamlining their operations by seeking larger first-tier suppliers that can deliver high volumes.

Large corporations using supplier diversity as a strategy and their MBE partners face additional trials. For example, research has shown that large corporations often find it difficult to obtain quality MBEs (Shah & Ram, 2006). This is not surprising, considering that smaller MBEs, especially, may not always have the financial and physical resources to compete with larger suppliers. MBEs may be facing even greater hurdles. Both our own research and that of others (e.g., Shah & Ram, 2006; Teague & Hannon, 2005) has identified several pressing challenges that face MBEs, including the following:

- Supply chain rationalization has resulted in a severe downsizing of the supply base and a preference of corporations to rely on a few preferred suppliers, often at the expense of MBEs;

- Since companies are buying from fewer suppliers, average contract sizes are increasing and this makes it difficult for MBEs to compete;
- The use of modern production systems such as Just In Time (JIT) delivery systems means that corporations become even more dependent on a few preferred suppliers;
- Greater use of electronic ordering may pose some obstacles to smaller MBEs that are competing with larger suppliers; and
- Higher quality standards may cause problems for MBEs because higher quality standards may require MBEs to invest in upgrading their operational capabilities.

Despite these challenges, a good number of MBEs and large corporations are benefiting from supplier diversity, as evidenced by the numbers presented previously. Regardless of the motivation for diversifying a supplier base, however, unless the strategy is successfully implemented to positively contribute to firm performance, it will become unsustainable.

Understanding the nature of the relationship that exists between large corporations and minority suppliers may provide clues as to how to structure and manage supplier relationships effectively. One important characteristic of the MBE–buyer relationship is that, with the exception of a few very large suppliers, the majority of minority suppliers tend to be small; thus, at their core, supplier relationships between large corporations and MBEs are relationships amongst unequal partners. Additionally, supplier relationships are typically perceived as long-term relationships, as opposed to arms-length, transactional buy-and-sell relationships. The relationship between an organization and its supplier is a strategic one. Leon Diaz, Director of Supply Chain Management at Eaton Corporation, a Cleveland-based industrial manufacturer, observes that their minority supplier, Bartech Workforce Management, is a “strategic partner...that adds significant value to the entire organization” (Teague & Hannon, 2005, p. 53). As the relationship is conceived as relational (as opposed to purely transactional), long-term relational issues such as trust and cooperation become important and should affect the dynamics of the relationship. Finally, because supplier diversity is driven largely by economic imperatives, it is crucial that its contribution to the bottom line be clear and positive. This means that organizational leaders need internal support for the program to create a supportive culture and provide sustained commitment to the idea. For their part, MBEs must deliver on expectations and build the capabilities required for a successful relationship.

### 3. Developing successful minority supplier diversity: Guidelines for firms

This section presents a number of key guidelines for corporations. These emphasize:

- (1) The need for integrating supplier diversity into business goals to build competitive advantage;
- (2) The importance of top management support;
- (3) The critical role of supplier diversity champions;
- (4) The necessity of building a supportive organizational culture;
- (5) The significance of relationship building; and
- (6) Vital strategies for recruiting MBEs.

#### 3.1. Supplier diversity and competitive advantage

An efficient supplier diversity program can be a source of competitive advantage. According to Michael Porter (1980) of the Harvard Business School, competitive advantage accrues to a firm when it can do something well compared to its rivals. A firm's ability to deploy its resources and integrate resources (capabilities) to accomplish specific tasks confers competitive advantage on it. Firms need to transform their capabilities into core competences so that such capabilities serve as a source of competitive advantage (Prahalad & Hamel, 1990).

The ability to leverage supplier relationships can become a core competence. Porter (1980) suggests that an efficient management of supplier relationships, including the management of a firm's logistic and procurement programs, can become a source of competitive advantage and contribute to a firm's profitability and performance. To this end, supplier diversity can become a source of advantage when firms integrate the program into their business goals and develop the capabilities to manage them effectively. Both objectives can be accomplished by linking supplier diversity to overall organizational performance. This can be done by identifying and clearly articulating the goals of the program and developing strategic plans for those goals, including defining the firm's performance expectations for suppliers and evaluating the program's contributions to the firm's overall performance.

First, corporations must flesh out and formulate a clear vision of what supplier diversity is supposed to accomplish. Any initiative that sets forth such identification provides direction, stretches people, and challenges them to work toward declared goals (Ireland, Hoskisson, & Hitt, 2006). Although the development of corporate visions is often the preserve of top management, getting individuals such as

procurement officers involved in the process will be helpful. For example, in 2002, Gillette revitalized its supplier diversity efforts by bringing the various business units' supplier diversity programs under one single corporate umbrella (Anonymous, 2004).

In order to realize the vision it has crafted, a corporation must have in place a plan for implementing its supplier diversity initiative, a plan which necessarily specifies the goals of the program. These goals, which must be driven by the economic imperative, should be expressed both qualitatively and quantitatively. Expressing the goals quantitatively simplifies the measurement of progress on their accomplishment over time, while a detailed description of the goals makes it easier for people to identify with them. Among other points, the plan should also specify the action steps that the firm will take to implement the supplier diversity program and lay out how the program will be monitored and evaluated, as well as determine how performance on the goals will be evaluated and whose responsibility this will be. It would be helpful if that responsibility was assigned to top management. A company well acquainted with the concept of integration is Johnson Controls, Inc. An automotive systems firm that does more than \$1 billion in business with minority-owned suppliers, the firm integrates its diversity program into its corporate strategic plans for growth (Rovito, 2003).

Finally, the supplier program must be monitored and evaluated periodically. For this purpose, it is critically important that a well-developed and realistic evaluation system be in place. Such periodic assessment would not only indicate areas in need of improvement, but also enhance the program's credibility before stakeholders. Evaluation may also be a means of getting those individuals who are skeptical about the program to buy into it; this will especially be the case when positive results can be shown. To be effective, firms must keep performance data and determine metrics against which performance will be measured.

### 3.2. Top management commitment

An important factor in supplier diversity is top management commitment. The role of top management leadership and vision for all sorts of organizational initiatives is well-known (Forrester, 2000; Jenkins, 1992). In the context of this article, top management commitment can be defined as top management acceptance of supplier diversity as an operational and strategic option. It entails providing visible leadership on this issue, including the provision of resources that are needed to accomplish the goals of the initiative. Because employees,

as internal stakeholders, will ultimately be charged with the implementation of the program, it is crucial that they perceive top management as fully dedicated and bound to the idea. Top management commitment should positively affect the successful implementation of a supplier diversity program for at least two reasons.

First, top management commitment will confer upon the supplier diversity program what institutional theorist such as Aldrich and Fiol (1994) term legitimacy. Legitimacy refers to the extent to which a new idea conforms to some accepted standard held by stakeholders. As regards supplier diversity, legitimacy can be viewed as the extent to which employees accept the program as a general practice within the firm and industry, and as a source of advantage for the firm. Clearly, supplier diversity, unless achieved via a few large minority suppliers, is inconsistent with the industry norm of relying less on several suppliers. This being the case, employees may tend to view the strategy as lacking legitimacy. Indeed, evidence exists that this may be the case. According to Timothy Bates (2001), an "old boys' network" exists in procurement in the United States, which makes it difficult to break into this new market. As Bates puts it, "the crux of the problem that MBEs face as they attempt to break into new markets is that status quo networks have traditionally excluded minority business, and those established networks tend to be resistant to change" (p. 44).

Research has also shown that gaining the support of internal stakeholders for a supplier diversity program cannot be taken for granted. As demonstrated by Shah and Ram's (2006) study of Unisys and JP Morgan Chase, it can sometimes be difficult to achieve acceptance of and for supplier diversity. The authors quote one Ford representative, who spoke of the challenges of persuading procurement personnel to be more open and include MBE suppliers in their usual network of vendors. In effort to combat such resistance, top management can frame supplier diversity in ways that facilitate the acceptance of the practice by stakeholders. As indicated by prior research, how an issue is framed affects legitimacy building for the idea (Tversky & Kahneman, 1992). Once employees accept supplier diversity as a legitimate strategy, their commitment to ensuring its successful implementation should increase.

Second, management commitment should affect the availability of resources. When dedicated to the concept of supplier diversity, management can provide direct and indirect resources in the form of training and empowerment for employees who will be at the vanguard for the successful implementation

of the program. Employees can be trained in both job-related and behavioral skills. Confirming the importance of the two competences, [Boshoff and Allen \(2000\)](#) found that employees who lack the requisite job and interpersonal skills fail to deliver satisfactory service to customers. Many companies have implemented such training amongst their employees. As documented by [Shah and Ram \(2006\)](#), Unisys used its Intranet to provide training and education for all company employees on the process of implementing and monitoring a supplier diversity program. For its part, JP Morgan Chase aligned support for a supplier diversity program by securing total commitment from top management to appoint an executive committee to measure the supplier diversity scorecard, as well as appoint a supplier diversity advisory council responsible for planning and executing supplier diversity programs in various business units. Empowering frontline employees and giving them the responsibility and authority needed to act quickly, without necessarily going through established chains of command, would be helpful. Management commitment to supplier diversity should positively affect employee attitudes, including their behavior toward suppliers. According to [Bagozzi's \(1992\)](#) Attitude Theory, employees react positively to an idea when they determine that top management is committed to it.

### 3.3. Supplier diversity champions

In many ways, top management commitment suggests formal, direct leadership roles. At the same time, a diversity program will benefit from the key role of an individual whose informal leadership can be instrumental in building support for the idea. This sort of person has been labeled a champion. In an article on military innovations, [Schön \(1963\)](#) contended that, in order to overcome the resistance that major technological change provokes, a champion is required to identify the idea as his or her own and to promote the idea actively and vigorously through informal networks, even at the risk of their own position. As regards supplier diversity programs, a diversity champion is an individual or group of individuals that provides critical informal leadership for the initiative. The role of the champion is critical in combating the potential perception that MBEs lack the capabilities to perform. Worse yet, the perception may exist that the firm is sacrificing quality for social correctness. Acknowledging this problem, Reginald Layton, Diversity Manager of Johnson Controls, says of MBEs: "It's a myth that they can't perform or that the quality of their products is bad" ([Rovito, 2003](#), p. A11). Theo

Fletcher, Vice President of Security and Diversity at IBM, also concedes that one challenge facing corporations developing a supplier diversity base is overcoming the myth that a company necessarily sacrifices quality or competitiveness by using diverse suppliers. According to Fletcher, "Getting over the myth is critical. The quality of the products, services, and support we get from our diverse suppliers stacks up against any of our other suppliers" ([Carbone, 2005](#), p. 28).

Champions can be instrumental in the implementation of supplier diversity because they often possess leadership qualities. Two of these qualities are especially relevant: ability to engage in influence activities and transformational leadership behaviors. Among their strengths, champions are astute at influencing others to see the merits of an idea ([Burgelman, 1983](#)). This should help in gaining legitimacy for the program. Robert Scavone, Vice President of Corporate Services for the Michigan Minority Business Development Council, suggests that supplier diversity champions must be change agents and cultural thinkers. Diversity champions, he states, must "be able to influence all levels of employees by getting everyone to see and understand the 'big picture' of supplier diversity" ([Scavone, 2005](#), p. 69).

Champions are also known to engage in transformational leadership behaviors ([Howell & Higgins, 1990](#)). Transformational leaders have been identified as leaders who inspire their followers to transcend self-interest for a higher collective purpose ([Burns, 1978](#)). Further, they are recognized for their ability to articulate a captivating vision, inspire others, and encourage higher-order effort on the part of followers ([Bass, 1985](#)). Although champions often emerge informally in organizations, it is possible to identify an individual for the championing role. This can be accomplished by looking at the leadership skills and personality traits of potential candidates. Prior research has shown that certain personality traits predispose some individuals to emerge informally as champions. These characteristics include persistence in the face of challenges and political astuteness ([Burgelman, 1983](#); [Howell & Higgins, 1990](#)), as well as persuasiveness and risk-seeking propensity ([Porter, Allen, & Angle, 1981](#)).

### 3.4. Organizational culture and supplier diversity

Culture, the sum of shared values, norms, and beliefs of an organization, expresses a firm's orientation not only to internal stakeholders but to outsiders, including suppliers. According to [Schwartz and Davis \(1981\)](#), culture provides people

with a sense of how they should behave and what they should do, and can be used as a management tool. When the decision is made to undertake a supplier diversity initiative, a corporation should create a supportive culture in which the program can thrive. For such a culture to be developed, top management needs to clearly articulate the vision it has for the initiative. The business case must be laid out and explained so that employees realize it is in the interest of the firm, and that diversity is not just some social program. Expectations should also be set regarding what is expected of individuals and departments that are charged with implementing the supplier diversity program.

One important area in which culture can be used to promote supplier diversity initiatives relates to cross-functional cooperation within the firm. At times, departmental objectives may differ within supply chains. For example, [Teague and Hannon \(2005\)](#) observe that the goals of supplier diversity and those of procurement differ. While procurement aims to rationalize the supply chain by reducing the number of suppliers, supplier diversity seeks to broaden the supplier base. Obviously, these two goals appear to be in direct conflict. This discord, however, can be reduced when everybody in the organization understands that, ultimately, everyone is working toward the same objective of delivering value.

Supplier diversity also involves collaboration; as such, the norms of cooperation must be part of the corporation's culture. Corporations need to consider their suppliers, including diverse suppliers, as strategic partners. The notion of partnership building requires that other internal systems in the firm be oriented toward cooperation. Developing a supportive culture also requires that the organizational structure and systems be consistent with a collaborative mindset. This means that the firm must have an open communications infrastructure, including a willingness to share information that is helpful to both parties. Research has shown that buyer-supplier alliances are most productive when the parties interact and communicate frequently ([Kerrin, 2002](#)).

### 3.5. Channel power and relationship building

Relationships between corporations and MBEs, which are typically small businesses, are largely relationships between unequal partners. This, at once, brings the issue of power to the fore. Of course, being a larger buyer does not automatically make a corporation more powerful than a supplier. As research by [Porter \(1980\)](#) has demonstrated, even small suppliers can be powerful when there are few substitutes for their product, their goods and

services are critical to the buyer's marketplace success, it costs buyers too much to switch from one supplier to another due to inbuilt costs associated with making the change, or the industry is dominated by a few large companies. At the same time, Porter's analysis reveals that buyers are powerful when sales of the products purchased account for a significant portion of the seller's annual revenue. This seems to be the case for the majority of MBEs that we studied. Based on this insight, it is possible to conclude that either corporations or MBEs can be powerful. The available evidence suggests, however, that most MBEs are typically in the weaker position. Affirming this finding, the CEO of an MBE we studied stated: "We are at the bottom of the food chain." As such, corporations have some power to influence and control the decisions and behaviors of MBEs.

Despite the attraction, it may be in the long-term interest of large corporations to downplay this power factor. We draw on research in sociology to demonstrate why supplier diversity programs would work better if large corporations, as the more powerful party, chose to restrain their might and focused instead on developing a relationship built on trust, equity, and fairness. Social Exchange Theory (SET), a popular model in anthropology, can be used to understand how relationships can be built between partners of unequal strength. The primary conclusion of the theory is that powerful actors in an exchange relationship are better off downplaying their power and concentrating on building a mutually beneficial relationship ([Emerson, 1976](#); [Molm, 1997](#)).

As suggested by Social Exchange Theory, individuals and organizations interact with others in expectation of a reward from their dealings. Further, SET proposes that the attitudes and behaviors of corporations and MBEs as exchange partners will be determined by the rewards minus the costs of that interaction. Within the context of supplier diversity, large corporations make contributions to MBEs by giving them access to business. In return, MBEs provide contributions by supplying desired goods and services. As the theory explains, it is not easy to evaluate the exchange relationship on a transaction-by-transaction basis; thus, questions of overall fairness of rewards, justice, and power become very important ([Emerson, 1976](#)). Related to supplier diversity, this suggests that corporations need to be careful about how they treat their suppliers (MBEs). According to SET, how more powerful individuals in an exchange are perceived by the smaller partner is significant. Perceived fairness, both of decision-making procedures associated with the relationship and the outcomes of those decisions by the parties, is

important. Exchange partners who see the relationship as beneficial, fair, and equitable will continue to contribute input over the long term. The exchange ceases to exist when rewards are no longer forthcoming or inequities are perceived (Lind & Tyler, 1988).

The second aspect of Social Exchange Theory is the focus on building relationships (Emerson, 1976). Large corporations can grow relational assets such as trust and commitment by going out of their way to help develop the operational capabilities of suppliers. While this practice has some costs, payoffs accrue in the form of trust development, commitment, and enhanced cooperation. Moreover, economic benefit can be generated via greater capability of the MBE to discharge its responsibilities. Many corporations have chosen to engage in this positive behavior. Consider Unisys, which has developed and put into practice a mentoring program that helps small disadvantaged businesses in contracting and subcontracting with the Department of Defense, NASA, and other government agencies. JP Morgan Chase provides MBEs access to customized in-house trade shows, seminars, and information sessions on procurement strategies (Shah & Ram, 2006). The Home Depot also supports its suppliers by sponsoring them with scholarships at leading business schools, including Tuck and Kellogg (Caminiti, 2005). In summary, the key lesson regarding channel power and relationship building is that both corporations and MBEs will be affected by their perception of how fair and equitable are the policies that govern the relationship.

### 3.6. Recruitment strategy

Research has shown that corporations have a hard time identifying quality MBEs. In fact, Pearson, Fawcett, and Cooper (1993) report that U.S. corporations identified a lack of qualified MBEs as the biggest impediment to their supplier diversity efforts. One vitally important means of addressing this problem involves having in place a recruitment policy on supplier diversity. At least three key sources exist for finding potential suppliers.

First, firms can place advertisements in supplier diversity publications to attract prospective minority suppliers. Second, they can make use of existing technology and advertise on their company websites. Although the Web represents an important tool for supplier diversity initiatives, some preliminary findings suggest that firms may not be using it for that purpose as much as they could or should. As indicated by Young (2001) in his study of corporate Web-based supplier initiatives, most firms do not use their websites as a means for attracting sup-

pliers. Of the Fortune 500 companies the author examined, nearly three-quarters had no Web-based supplier communication; as such, it appears that Web-based supplier initiatives may still be in the early stages of adoption. While this situation may have since changed, the fact remains that firms have an effective and relatively inexpensive technique at their disposal for advertising their supplier initiatives and for performing initial screenings of prospective suppliers via information submitted electronically to their websites. Home Depot takes advantage of this by providing a formalized supplier application process on its website ([www.homedepot.com](http://www.homedepot.com)). Once a supplier application is completed and submitted, Home Depot routes it to one of its 400 company associates with specific buying responsibilities.

Finally, firms can use credible third-party or intermediary organizations to identify qualified MBEs. Supplier development councils often maintain a list of certified providers. In order to meet the certification standards set by these intermediary organizations, prospective suppliers must fulfill some minimum criteria. The certification process of the NMSDC has a number of clear objectives. First, it ensures that suppliers are qualified to be categorized as minority firms. Second, it provides an opportunity for the suppliers to demonstrate that they meet minimum acceptable standards for performance. Of course, corporations are free to use their own criteria for identifying prospective minority suppliers. The idea is that certification provides some assurance that supplier candidates have met some minimum, third-party designed standard. In some cases, intermediary organizations extend their scope beyond minimum acceptable standards and go so far as to provide additional services. For example, the Connecticut Minority Supplier Development Council (CMSDC) has several skills development programs in place for MBEs. These include educational and mentoring programs which offer short-term management development opportunities at major business schools. As indicated by interviews we have held with MBEs associated with the CMSDC, the exposure the council offers its members has resulted in sharpened awareness on the part of MBEs regarding what corporations expect from supplier relationships.

## 4. Developing successful supplier partnerships: Guidelines for minority suppliers

As mentioned previously, MBEs face many challenges in their attempts to secure business opportunities

and maintain the relationships they develop. Even those MBEs that have contracts with corporations must continuously demonstrate their competence. Presented here are lessons that can help MBEs overcome such challenges. These lessons emphasize the importance of MBEs developing:

- (1) Operational and client-specific capabilities;
- (2) Learning competencies;
- (3) Collaborative skills and competencies; and
- (4) Effective utilization of intermediary organizations, such as local and regional supplier councils.

#### 4.1. Building core capabilities

In order to facilitate success, MBEs must develop the capabilities and competencies necessary to leverage their supplier relationships with large corporations for profit. They can achieve this by developing two sets of broad capabilities: operational and client-specific. What we term operational capabilities are developed by the firm using both its tangible and intangible resources, and involve the development of a competent, visionary leadership, a dynamic internal culture, appropriate organizational structures, and decision-making skills, as well as the application of appropriate technologies. Operational competencies are crucial, as business will ultimately be lost or won on the basis of competence. This truth is evidenced by the words of Johnny Efar, Vice President of Aerospace Fasteners, a minority supplier to Eaton Corporation: "We won [Eaton's] business not because we are minority-owned, but because we maintain a large inventory of fasteners that others would need maybe a year to get" (Teague & Hannon, 2005, p. 53).

MBEs can develop their operational capabilities by employing one of Michael Porter's analytical tools, the value chain, as a guide. The value chain is a template that firms can use to understand their cost position, to identify the multiple means that might be utilized to facilitate implementation of their strategy. The use of this template allows a firm to identify the parts of its operation that create value and those that do not (Porter, 1980). The value chain is segmented into primary activities, which are concerned with the physical creation of the product, and support activities (such as human resource management), which provide the support for the primary activities to take place. Individual firms can rate themselves on how well they conduct each activity in the value chain and then mark for improvement any aspects in which they may be weak. Key areas of operation where capabilities need to be developed include human resources and

management, technology, marketing, and operations; indeed, all the functional areas of business need to be carefully evaluated. Interestingly, the development and use of the Internet as a major vehicle for business transactions has created a new set of operational capabilities that MBEs need to cultivate and foster. Today, the shift is to Web-distributed supply chain management. For example, procurement is now Internet-enabled with the handling of inbound logistics using real-time integrated scheduling. Porter (2001) also observes that demand management, planning, and scheduling are increasingly happening in real time.

The second set of capabilities that MBEs require are what Jacobides and Winter (2005) refer to as client-specific capabilities. Client-specific capabilities are often developed over time via ongoing interactions with the client and, hence, the accumulated knowledge regarding their needs. They involve determining what is required to perform efficiently and effectively in a specific relationship; this sort of capability is exclusive to one particular client. Firms may have unique, in-house procurement and supplier systems; indeed, the value of each system lies in its inability to be easily copied or duplicated by competitors (Barney, 2001).

Client-specific capabilities should positively affect MBE performance in at least three ways. First, repeated interaction over time allows the supplier to become familiar with the firm's supply chain architecture and buying protocols. For example, each firm may have a different protocol for managing its procurement, inbound logistics, and operations. Understanding the protocol a buyer uses will enable the supplier to become more proficient in fulfilling its commitments. Second, client-specific capabilities increase a supplier's understanding of the business domain of the buyer. Finally, understanding the buyer's needs enables the supplier to become more cost-effective in its operational activities, something which can result in a cost savings for both the supplier and the buyer.

#### 4.2. Learning competency

Another related competence that suppliers need to mind is their learning capacity. Learning requires the adoption of new behaviors. Learning capability may be an especially valuable skill to possess when MBEs work with organizations or corporations with new systems and cultures. According to Peter Senge (1990) of MIT, ability to learn at both the individual level and the organizational level should become a key source of competitive advantage.

The development of individual and organizational learning abilities can aid an MBE's operational and

client-specific capabilities. A learning organization is one that has the capability to acquire new skills and behaviors. Senge, a pioneer in the field of organizational learning, argues that organizational leaders need to develop shared visions, adopt a long-term view, and look at organizations as complex dynamic systems. Further, the scholar contends that leaders should also encourage individual employees to learn new skills and develop new orientations.

Other researchers have identified key capabilities that promote the learning competence of organizations. Cohen and Levinthal (1990) use the term absorptive capacity to describe the set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce a dynamic organizational capability. Firms can develop their absorptive capacity by building their ability to access external knowledge, as well as transform and implement it within their firm to enhance their core competencies.

There are four elements of absorptive capacity:

- (1) Acquisition: The ability to recognize, value, and acquire external knowledge that is critical to a firm's operations;
- (2) Assimilation: The firm's ability to absorb external knowledge;
- (3) Transformation: The ability to develop routines that facilitate combining existing knowledge with newly acquired and assimilated knowledge; and
- (4) Exploitation: The ability to apply new knowledge to achieve organizational objectives.

One important internal factor that affects a firm's absorptive capacity is a culture that empowers employees. Organizations in which employees feel empowered will engage in knowledge-sharing.

MBEs that determine themselves to have low absorptive capacity can increase their learning capabilities by developing formalized procedures and policies on learning, and by training their employees. The firm can appoint gatekeepers or boundary spanners to bring external knowledge into the organization, as well. Firms can also improve their cultures by empowering their employees. Senge's (1990) work suggests that MBEs need to adopt a systems perspective to facilitate their learning. Systems thinking requires seeing interrelationships among processes, and views the tendency to take snapshots of events and issues as detrimental to learning.

### 4.3. Collaborative mindset as a capability

Perhaps one of the biggest challenges facing MBEs is having to compete in a market that increasingly

relies on larger suppliers. Ford Motor Company, for instance, seeks volume suppliers with high technical capabilities (Carbone, 2005). In response to this trend, an important strategy option for MBEs to exercise is to join consortia, or build strategic alliances to pool resources for increased capability and enhanced performance. By employing this approach and uniting five complementary minority suppliers into a crew dubbed "Team Texas," Superior Maintenance, a janitorial and facilities management supplier, won an important contract with the Toyota plant in San Antonio (Caminiti, 2006). A report from the NMSDC notes that corporations are actively encouraging minority suppliers to join alliances (Caminiti, 2006); further, our study of the Hamden-based Connecticut Minority Supplier Development Council revealed that it, too, is urging its members to build and join consortia. Pooling resources will allow smaller MBEs to leverage their strengths and improve their competitive capabilities.

Although attractive, alliances require work if they are to prove beneficial. Indeed, firms may need to develop what Ireland et al. (2002) refer to as alliance-building capabilities. A number of elements are crucial for building a workable alliance. First, the parties need to have clear, common goals. Choosing partners who share a similar culture or outlook can help that process. Second, the partners need to be able to trust each other. Trust is an important lubricant in any alliance, and its absence will seriously undermine collaborative initiative (Ring & Van de Ven, 1992). Trust can be built when parties in a relationship act in a transparent manner toward one another, including freely sharing pertinent information. Each partner in an alliance must act in good faith and be consistent in its actions and behaviors. Third, and relatedly, the parties must engage in frequent, open communication. Regular formal and informal face-to-face communication involving the actors will help build bridges between them. In this way, conflict and mutual suspicion will be replaced with trust and goodwill. Fourth, it is important that the parties clearly delineate how the risks of and the payoff from the collaboration will be shared. Sharing the financial risks and gains equitably may not be so easy, but the actors must engage in good faith behavior to do this satisfactorily. Research in cooperative games (e.g., Axelrod, 1984) has shown that parties in an alliance must have a clear idea of what benefits accrue to them; otherwise, cooperation will fail. In the case of a consortium with several partners, the further possibility of free-rider problems, a situation in which some actors benefit without making corresponding contributions, must be monitored in order to avoid conflict. Finally, the involved parties

need to understand that collaboration takes time and effort to work; therefore, it is crucial that everyone adopt a long-term orientation. This approach will increase satisfaction, reduce the incidence of conflict, and increase relationship-building behaviors and solidarity.

#### 4.4. Intermediary organizations

In their quest for contracts with larger corporations, an enduring obstacle that faces MBEs is how to get their foot in the door. Intermediary organizations, such as state and regional supplier councils, can prove very useful in this area. Our study of the Connecticut Minority Supplier Development Council identifies a number of key areas in which a state or regional council can help MBEs develop key competences, as well as win supplier contracts. First, the CMSDC guides MBEs through a certification process which assures the prospective buyer of the MBE's legitimacy as a potential supplier. Second, the council has several initiatives for developing the capabilities of its certified suppliers; offered are training sessions, mentoring relationships with member corporations, and management development programs at prominent business schools such as Kellogg, Wharton, and Tuck. Third, the council provides several networking opportunities, including business card exchanges and trade shows, which bring corporations and suppliers into direct contact with each other. These programs provide an important opportunity for suppliers to make the initial contacts that would prove difficult otherwise, were they to go it alone. Other social events, such as golf outings and an annual CMSDC awards dinner, are designed to facilitate interaction in casual settings. The president of the council also sends out a weekly newsletter that highlights council activities and corporate and MBE accomplishments, and publicizes business and development opportunities available to MBEs. In these and other ways, intermediary organizations can play a significant role in increasing the volume and value of business between corporations and their minority suppliers. In order to benefit, however, MBEs must be active participants in the process.

#### 5. Final observations

Supplier diversity initiatives continue to be an integral part of the supply chain strategy of some of America's largest firms. This article offered guidelines for large corporations and MBEs to sustain and develop those initiatives. Among the key lessons highlighted was the notion that large

corporations need to integrate any supplier diversity initiatives undertaken into their supply chain management and overall corporate strategies. This way, it is easier to garner support for the program and develop internal systems that support it. Top management commitment will be especially crucial for the initiative to succeed. In turn, MBEs must realize that this is a highly competitive environment and that their failure or success depends on their own ability to continually develop overall competences, be learning organizations, and become increasingly attuned to and adept at building strategic alliances amongst themselves and with their corporate customers. In these respects, they can make use of intermediary organizations such as local supplier councils to improve their competences and competitive edge.

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