

Supplier Diversity

Introduction

Diversity is becoming increasingly important in business strategy throughout the world. Diversity's scope and levels of implementation vary by geographical territory, and therefore often influenced by differing local legislative regimes.

Diversity's importance cannot be underestimated. The purpose of this paper is to focus on supplier diversity, since this is the main area of diversity that involves procurement in linking suppliers as part of the supply chain.

Blue chip companies such as Procter & Gamble aim to spend \$2.5 billion annually with minority- and women-owned business by 2010. In the UK it was reported that, in 2006-2007, the London Development Agency (LDA) spent more than 25% of its £570 million budget with small and diverse suppliers¹. Part of the Greater London Authority Group², the LDA, with an annual spend of £3 billion on goods and services, has incorporated responsible procurement clauses into its supplier contracts.

How supplier diversity fits the business agenda

The many facets of procurement are often interwoven and supplier diversity is no exception. It is an integral part of corporate social responsibility and sustainability and therefore high on the political agenda. From a European perspective, supplier diversity is seen as an enhancer for innovation (by increasing knowledge within the supply base), and thus increased competitive advantage for businesses in the European Union.

Above all, a supplier diversity strategy is a highly effective framework to demonstrate an organisation's responsible procurement agenda as part of its (corporate) social responsibility ethos. Equal opportunities, greater social inclusion, good race relations, the fostering of local economic development and the diversification of supply risk are all demonstrated within the case studies in this paper as positive benefits of a considered supplier development strategy.

Definitions

This is not a paper about diversity in the workplace. It is a paper to draw together different global experiences in supplier diversity, provide hints and tips backed by proven case studies, and also to support those developing their supplier strategies. It also suggests where the area of supplier diversity may develop.

In its Supplier Diversity paper (2006), the Centre for Research in Ethnic Minority Entrepreneurship (CRÈME) quotes a succinct definition of supplier diversity put forward by the UK Environment Agency. It states that:

"...supplier diversity is a process through which equal opportunities are provided to all businesses to compete".

To elaborate on this definition, supplier diversity in the UK is not about positive discrimination in favour of what CRÈME terms 'Ethnic Minority Businesses' (EMB's). It is about 'levelling the playing field' to give under-represented businesses the same opportunity to supply goods and services to both public and private sector organisations as other qualified suppliers. This is expanded in subsequent sections of this paper to illustrate that EMB's can provide access to efficient, flexible, innovative and committed suppliers.

Background

In a global sourcing environment it is important to recognise how supplier diversity has been implemented in different countries. Though these countries may be geographically diverse, global sourcing may entail doing business in these countries and, therefore, be subject to their legislation and practices. It is also a useful indicator for how supplier diversity may develop in the UK.

The United States

It could be argued that the United States was one of the first countries to formalise a process for managing and promoting supplier diversity. One example is the New York and New Jersey Minority Supplier Development Council Inc (the Council), established in 1973 as a vital link between major corporations and minority business enterprises (MBE's). This Council is part of the network of 39 regional affiliates of the National Minority Supplier Development Council Inc (NMSDC). The stated aim of the Council is to "aggressively seek viable minority suppliers for procurement opportunities with its corporate membership". The Council enables corporations to diversify their base of competitive suppliers. This activity by the NMSDC increases opportunities for Council-certified suppliers and helps facilitate employment and economic development.

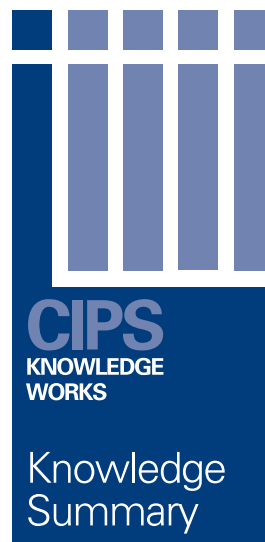
In common with many supplier diversity Councils in the United States, a certification service is available to enable businesses to take advantage of two pieces of federal legislation, the Disadvantaged Business Entities (DBE) and what is known as an 8(a) Certification. This certification confirms that:

- the company is 51% owned or controlled either by a minority group or women, and
- the minority or female owner was socially and economically disadvantaged³. The criteria relating to economic disadvantage is important in order to exclude large organisations with a presence in the United States, such as the TATA Group, Wipro and Infosys. These organisations are majority owned by a minority group, but are not economically disadvantaged.

Benefits for disadvantaged business entities in the USA

The benefits for DBE certified enterprises include:

- increased opportunity to participate in local and federal funded projects.



¹ Sberwood, Bob: 'London authority suppliers forced to go ethical', *The Financial Times*, 11 February 2008.

² The Greater London Authority Group includes the London Development Agency, Transport for London, and the Metropolitan Police.

³ 'Economic disadvantage' is defined as having a personal net worth of less than \$750,000.

- opportunities to supply prime contractors needing to fulfil DBE participation goal requirements.
- listings in official directories used by prime contractors
- national exposure.

The United States experience suggests that opening up supply chains can offer real bottom-line benefits. Companies that focus heavily on supplier diversity generate 133% greater return on procurement investment than typical business. Such companies spend on average 20% less on their buying operations and have procurement teams half the size of their peers whose supplier programmes are not as diverse⁴.

South Africa

The Broad-Based Black Economic Empowerment Bill (B-BBEE) is a government policy aimed at increasing black participation in South African businesses. The act was gazetted in January 2004 and is the main legal instrument in South Africa covering a broad range of diversity related issues. It establishes a legislative framework for: the promotion of black economic empowerment; to empower the Minister to issue codes of good practice; and to publish transformation charters. It also enabled the establishment of the Black Economic Empowerment Advisory Council.

Section 10 (b) of the Act states that any relevant code of good practice must be applied in “developing and implementing a preferential procurement policy”.

In February 2007 the B-BBEE codes of good practices were gazetted by the South African Government. A balance scorecard is used to cover the following seven areas:

- ownership
- management control
- employment equity
- skills development
- preferential procurement
- enterprise development
- socio-economic development.

Larger companies must meet the criteria in all seven areas. Smaller enterprises, with an annual turnover between 5 million Rand and 35 million Rand, need only select four areas from the seven offered⁵. Further details are available on the South African Department of Trade and Industry website⁶.

The United Kingdom

In the global context UK businesses have been slower than those in the United States to recognise the benefits of developing and implementing a diverse supplier policy. Through its executive agencies, the UK Government supports the promotion of diversity in business. The case studies in this guide illustrate that evidence of diversity is increasingly a requirement of the procurement sourcing process.

Two of the foremost establishments in the UK driving research and promoting understanding are CRÈME at the De Montfort University in Leicester, and Supplier Diversity Europe, based in Brussels and active in the UK, France and Belgium.

CIPS summary

1. CIPS considers diversity to be an integral part of the corporate social responsibility (CSR) agenda and the wider sustainability agenda. Equality and diversity are one of the eight core elements of the CIPS Principles of CSR (2005).
2. CIPS supports the definition of a diverse supplier as one that is 51% owned, controlled or operated by one or more individuals who are members of an ethnic minority group, are disabled, or are women and who are ‘economically disadvantaged’, in that their personal net worth is less than \$750,000. CIPS recognises that the UK’s forthcoming Single Equality Bill will bring together and strengthen UK legislation around equalities and diversity. Therefore in time, any definition of diversity will have to encompass all six existing ‘pillars’ of equality that are currently addressed by European equalities legislation, namely: gender, ethnicity, disability, sexual orientation (LGBT⁷), age and religion.
3. CIPS recognises that many supplier businesses, although not fitting the above definition, are able to evidence a strong commitment to diversity. CIPS encourages these organisations to go through an external certification process such as the Equality Assured Recruitment and Diversity Assured Recruitment detailed in this paper.
4. CIPS recognises that supply chains are increasingly diverse. As the proportion of Black, Asian and Minority Ethnic (BAME) groups increases within the population and also as a proportion of the available workforce, so does their economic importance as both consumers and producers. Economic success creates employment, generates wealth and strong supply chains as well as markets for goods and services. This benefits the overall economy.
5. CIPS advocates a level playing field for all suppliers - giving the same opportunity to supply goods and services to both public and private sector organisations. The potential is created to harness new skills and experience within the supplier base through those who have better understanding of the marketplace they operate in.
6. CIPS believes that specific BAME groups can contribute to the wellbeing of the individual and to society.
7. CIPS believes that a diverse supplier base is essential for leveraging maximum competitive advantage in private sector supply chains. Consideration of ethnic minority businesses in supporting the public sector is promoted by the European Commission and the UK Government through its support of SME’s, many of whom are BAME suppliers.

⁴ Source: <http://www.diversityworksforlondon.com/server/sbownav:00600e004003>

⁵ Enterprises with an annual turnover of less than Rand 5 million are exempt from BEE legislative requirements.

⁶ The relevant part of the South African Trade and Industry website is located at: <http://www.tbdti.gov.za/bee/complete.pdf>

⁷ LGBT refers to Lesbian, Gay, Bisexual and Transgender/Transsexual sexual orientations.

8. CIPS encourages all large purchasing organisations to align those types of Small and Medium Sized Enterprises (SMEs whom they target with supplier diversity programmes, to their own organisational objectives. Thus supplier diversity could help organisational strategy, for example, to ensure compliance with certain local government legislation in the case of local authorities.
9. Supplier diversity is a key ingredient of Government initiatives to support SMEs and the third sector.
10. CIPS encourages purchasing and supply professionals to be mindful of supplier cashflows and ensure that payments to supplying organisations are according to contract.
11. CIPS believes that a diverse supplier base can foster the development of an innovative supplier base and innovative products by increasing choice and competition.
12. CIPS recognises that not having a diverse supplier base could hinder suppliers in being awarded supply contracts, as they may not meet the essential criteria set out in tender documents.
13. CIPS encourages purchasing and supply management professionals, as agents of change, to ensure they work with a diverse supplier base and minimise the risk of non-conformance to legislative requirements within their organisation. This will include engaging with organisations in the third sector⁸ to meet the Government aims for social and economic regeneration⁹.

One organisation, Supplier Diversity Europe has developed policy recommendations for different target audiences in government. These could be used as a useful framework for consideration by those in policy development, or for businesses required to comply with legislative requirements.

Supplier Diversity Europe is one organisation that has brought together good practice in the field of diversity management. They have adopted the United States definition of a diverse supplier, that is one 51% owned, controlled or operated by one or more individuals who are members of an ethnic minority group, are disabled, or are women.

Supplier Diversity Europe recognised that there is an opportunity to share good practice that currently exists in the UK using the network of Regional Development Agencies and SME's. In their opinion Supply London (www.supplylondon.com) is seen as a good role model for developing and disseminating good practice within SME's nationally. Further details are available on the Supplier Diversity Europe website.

Barriers and inhibitors

CRÈME has identified six significant barriers to implementing a supplier diversity programme. They are:

- management buy-in
- commitment of resources
- resistance to change

- co-ordination with existing systems
- identifying suitable suppliers
- concerns with suppliers' capacity.

None of these barriers are insurmountable. For further details please refer to the CRÈME paper 'Supplier Diversity' (2006)¹⁰.

In the same paper CRÈME put forward a 10-step guide for implementation of a supplier diversity programme. There is no single correct method of implementation, but these 10 steps are the result of thorough research in the field.

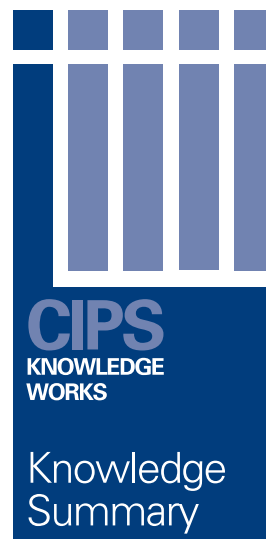
10 Steps to consider when implementing a supplier diversity programme

- Step 1. Ask for help and advice.
- Step 2. Appoint a supplier diversity co-ordinator.
- Step 3. Conduct a supplier survey (to establish the current status and future targets).
- Step 4. Review your existing policies and procedures.
- Step 5. Formulate new procurement policy and procedures.
- Step 6. Communicate with staff and existing suppliers.
- Step 7. Develop and implement a training programme.
- Step 8. Communicate with ethnic minority businesses.
- Step 9. Develop targets and monitor your success.
- Step 10. Don't be afraid to celebrate success.

Hints and Tips

PRM Diversity Consultants, which works with the part Government funded Birmingham Professional DiverCity, offer the following hints and tips:

- regard suppliers as an extension of your employed workforce, which is what they are. What should you be doing about them, as well as your employees?
- put yourself in your customers' shoes - what are their expectations with respect to diversity in their supply chain and, in particular, your organisation and your supply chain? If you don't know, you need to find out. Determine the benefits of supplier diversity to them - and to you
- take a helicopter view to consider :
 - your organisation's diversity philosophy and scope.
 - the diversity of your employee base.
 - how your organisation promotes diversity in its supply chain
- think proactive, not reactive. Treat this as an opportunity to create a competitive advantage, not as a compliance exercise. That way, you are far more likely to energise your stakeholders and get results



⁸ The Government defines the third sector as non-governmental organisations that are value-driven and which principally reinvest their surpluses to further social, environmental and cultural objectives.

⁹ More information can be found in: HM Treasury/Cabinet Office (2007), 'The future role of the third sector in social and economic regeneration: final report'.

¹⁰ Available at <http://83.137.212.42/sitearchive/cre/gdpract/wwb/supplierdiversity/casestudies.html>

- get close to your sales, marketing and procurement functions. Share with them where you are with diversity and where they need you to be - or you need them to be. Work with them to engage with your customers and suppliers.

PRM concludes by suggesting that “the most wholesome and sustainable approaches will not be those which specify quotas, but those which actively manage diversity by closely engaging with internal and external stakeholders. If diversity has not been prioritised so far in your organisation, supplier diversity may establish the tipping point; the examples above illustrate the potential for direct and significant positive impact on sales, and who can afford not to give that serious attention?”

This paper has considered how supplier diversity fits the business agenda and explained some of the policy applicable in different countries. It has also suggested a 10 step plan for implementing supplier diversity with accompanying hints and tips. This paper now goes on to detail two case studies which draws on much of the best research and good practice detailed earlier.

Case study 1 – The UK’s National Health Service (NHS)

Issue

The National Health Service Mosaic Project (www.mosaic.nhs.uk) was established with the aim of working with key stakeholders in the NHS supply chain to promote equality in and through procurement. Funded by the Department of Health, it sought to work with staff, suppliers and interested parties to align efficiency and equality goals.

Policy outcome

The NHS has to meet certain duties to promote equality in and through procurement. The project did not advocate positive discrimination. Instead, it highlights how equality and procurement goals (often considered to be competing) can be aligned to ensure better patient care. In the report, supplier diversity is suggested as a means of encouraging innovation, increasing value and improving efficiency for business.

The NHS Mosaic programme delivered supplier diversity initiatives in the following areas:

- training for procurement staff
- development of procurement and equality strategies
- diversity training for suppliers
- 'how to sell' workshops for potential diverse suppliers
- training for (non) procurement professionals
- mapping supply chains and equality
- creation of contract monitoring templates
- monitoring equality clauses in terms and conditions
- social enterprises and BME suppliers.

Case study 2 – Supplier Diversity and the 2012 Olympic Games and Paralympic Games

Issue

Perhaps the highest profile and class-leading example of supplier diversity is contained within the Olympic Delivery Authority’s (ODA)¹¹ policy documents.

London’s right to host the Olympic Games and Paralympic Games in 2012 was largely based on the promise to deliver a social, economic and environmental legacy to the people of London and the UK. Social inclusion and diversity are key elements of the Olympic Delivery Authority’s (ODA) Sustainable Development Strategy which developed into the ODA’s Equality and Diversity Strategy (2007)¹². Clause 6.3 of the LOCOG Standard Terms of Procurement states that:

“...the supplier shall comply with any procurement, equal opportunity, diversity, environmental and sustainability policies of LOCOG¹³...”

Policy outcome

Diversity, in its widest context is outside the scope of this paper but is covered in detail within the Equality and Diversity Strategy. With specific reference to procurement, the ODA states that it:

“...aims to ensure that the procurement of all work, goods and services arising from its delivery programme is transparent, fair and open to a diverse range of suppliers including Small and Medium Enterprises (SMEs), social enterprises, and businesses owned by BAME¹⁴ people, women and disabled people”.

The ODA undertook an equality impact assessment of its procurement function, with the aims of:

- identifying, and removing, where possible, any potentially adverse impact of its procurement process on SMEs, social enterprises and businesses owned by BAME people, women and disabled people. The ODA states that it is committed to ensuring that its requirements are appropriate to the size and scale of the contract being awarded
- maximising the contribution of the procurement function to promote equality
- assessing the level of equality competence of staff working in the procurement function
- in line with best practice, tenders are being evaluated and contracts awarded based on merit after evaluation against the ODA’s balanced scorecard.

The ODA recognised the competitive advantage to be gained by having a diverse supplier base, especially in a supply market where there may be labour shortages. Processes have been put in place to facilitate supplier engagement in the procurement process. Potential suppliers are aware of tender requirements, including those relating to diversity before they submit their tenders. Those who fail to secure a contract are directed

¹¹ The Olympic Delivery Authority is an executive Non-Departmental Public Body, accountable to the Secretary of State for Culture, Media and Sport.

¹² The ODA’s Equality and Diversity strategy is available at: <http://www.london2012.com/documents/oda-equality-and-diversity/equality-and-diversity-strategy.pdf>

¹³ LOCOG means the London Organising Committee of the Olympic Games and Paralympic Games Limited.

¹⁴ BAME means Black, Asian and Minority Ethnic groups.

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to free support from the Local Employment and Training Framework (LETF), funded by the London Development Agency and managed by the Five Boroughs Partnership.

The London 2012 website¹⁵ states that the ODA will be managing 7,000 contracts in a total supply chain of around 75,000 opportunities. These opportunities will be advertised through CompeteFour¹⁶, the website for buyer and supplier opportunities. A framework for measuring equality is available in the ODA's equality and diversity guide.

Conclusions and future trends

A number of central themes emerge. Supplier diversity is being implemented globally as evidenced by the legislation referred to earlier in this paper. Its scope varies greatly.

The development of supplier diversity in the United States, set against a background of increasing globalisation, the acceleration of legislation and stakeholder pressure, suggests that it will be essential for businesses and public sector organisations within the European Union to include supplier diversity within strategic policy making. Certification of supplier diversity programmes is already available within the UK. As an example, Birmingham Professional DiverCity has created a Diversity Assured Recruitment (DAR) programme in conjunction with the Recruitment and Employment Confederation. Birmingham Professional DiverCity also offers an Equality Assured certification system (EQA) as a way for private sector organisations to prove their commitment and competence to public bodies. These types of facilities are likely to increase in the future.

Barriers to competitiveness, similar to those currently experienced by small and medium sized enterprises, will remain. In the UK, ethnic minority businesses are still developing their capacity to enable them to take full advantage of procurement contracts. In the absence of legislation mandating the award of contracts to ethnic minority businesses, these businesses are obliged to compete in the global marketplace, where other suppliers may be better placed to meet cost, quality and delivery targets. However, the case studies suggest that capacity will be developed to enable organisations to meet supplier diversity objectives in line with their organisational objectives.

Further reading:

Business in the Community (2006) – Business Action on Supplier Diversity:
www.bitc.org.uk

CIPS, Principles of CSR document (available to members on the Knowledge Works area of the CIPS website).

CRÈME, (2006), Supplier Diversity – A Guide for Purchasing Organisations, De Montfort University, Leicester.

Useful websites:

Birmingham Professional DiverCity:
www.birminghamdivercity.co.uk

Diversity Works for London (includes a diversity toolkit):
www.diversityworksforlondon.co.uk

East Midlands Development Agency:
www.emda.org.uk

Minority Supplier Development UK:
www.msduk.org.uk

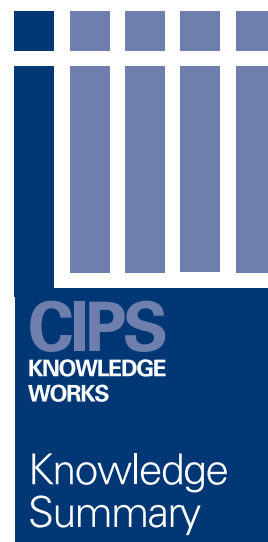
New York & New Jersey Minority Supplier Development Council Inc :
www.nynjmsdc.org

PRM Diversity Consultants:
www.prorepman.co.uk

Recruitment and Employment Confederation:
www.rec.uk.com/about-recruitment/diversity

Remploy: UK Department for Work and Pensions accredited provider of specialist employment services for disabled people and those who experience complex barriers to employment:
www.remply.co.uk

Supplier Diversity Europe:
www.supplierdiversityeurope.eu



¹⁵ www.london2012.com

¹⁶ www.competefour.com