

# **The Problem with Modern Supplier Diversity Programs and Building a Methodology for Strategic Transformation**

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**ABSTRACT**

Supplier diversity programs are initiatives designed to encourage businesses to utilize suppliers that are majority owned and operated by minority racial groups, women, veterans, and members of the LGBTQ+ community. Through the deployment of supplier diversity programs, large firms can leverage their influence to promote the growth of historically underrepresented small businesses, yielding benefits to multiple stakeholder groups. Although the presence of supplier diversity programs is often viewed positively by consumers, unfortunately, many programs fail to achieve meaningful benefits beyond enhancements to a firm's brand image. To cultivate truly transformational supplier diversity programs, current initiatives must be reshaped to a key strategic sourcing capability. This can be achieved by first, refocusing efforts toward three core values of societal and economic impact, competitive advantage, and brand integrity; second, designing a methodology for scoring program performance based on those values; and third, proposing a path forward aimed at building effective supplier diversity programs that are mutually beneficial to the company, suppliers, and the broader society.

## INTRODUCTION

Supplier diversity programs refer to initiatives that aim to increase the participation of historically underrepresented groups such as women, minorities, and LGBTQ+ individuals in the procurement process of goods and services (Abodor & McMullen, 2007). Environmental, social, and governance (ESG) initiatives, such as supplier diversity, are becoming increasingly commonplace in the domestic corporate environment and even abroad (Sordi et al., 2022). To illustrate the widening growth of supplier diversity programs, the 2021 State of Supplier Diversity Report found that in 2019, 25% of respondents' supplier diversity programs were two-years-old or less, while 40% of respondents fall into those categories in 2021. To date, 56% of companies have a formal supplier diversity program (2021 State of Supplier Diversity Report, 2022).

The popularity of these programs is likely driven by younger generations of consumers and workers, who, more than ever, value advocating for social causes and building a more equitable society. This has led to an overall cultural shift, especially impacting the way today's businesses operate (Cravero, 2018).

With an abundance of supplier diversity programs now established and the demand for these programs only growing stronger, one has to wonder if they are truly as beneficial as businesses would have consumers believe. ESG and supplier diversity are, by nature, meant to serve a higher purpose by pushing for positive social change for the business, the community, and relevant stakeholders. However, as these programs become mainstream, they risk losing their original meaning and transforming into something akin to a marketing gimmick.

Supplier diversity, as modern programs are currently set up, is vulnerable to this pitfall. As supplier diversity has gained more traction, so has program mismanagement. The problems

that result from this mismanagement are ultimately preventing certain firms' supplier diversity programs from cultivating the sustainable positive social impact that initially informed their existence. This thesis aims to uncover the reasons why supplier diversity programs are failing to maximize their business potential and provide insights that will lead to the development of more effective supplier diversity programs; this will, thus, promote greater diversity, equity, and inclusion in the business world.

## **THE ISSUE WITH MODERN SUPPLIER DIVERSITY PROGRAMS**

There are three fundamental insufficiencies with how modern supplier diversity programs operate: (1) arbitrary standards for defining a “diverse” business, (2) misleading reporting methods, and (3) companies failing to maximize the business potential of their supplier diversity program. These fallacies derive from firms placing a disproportionately large emphasis on brand image since that is the most immediate firm benefit. This fixation is complicating the ability of firms to create meaningful social change.

### ***Arbitrary Standards for Diversity***

What makes a diverse business “diverse” in the first place? Businesses who seek to receive a “diverse” designation will pursue a certification process through a third-party agency, such as the Association of Service Disabled Veterans (ASDV), the Billion Dollar Roundtable (BDR), the National Minority Supplier Development Council (NMSDC), the United States Hispanic Chamber of Commerce (USHCC), United States Pan Asian American Chamber of Commerce (USPAACC), or the Women’s Business Enterprise National Council (WBENC). These agencies are often the final authority on the matter. Typically, the requirements when agencies evaluate a business do not extend beyond the fact that a diverse individual must be the

majority shareholder, comprising 51% (or greater) ownership. For example, the Women's Business Enterprise National Council (WBENC) explicitly states the following as eligibility requirements: "majority (at least 51%) ownership by one or more women, demonstrated proof of female management and control of the business, unrestricted female control of the business in legal documents and day-to-day operations, a woman holding the highest defined title in the company's legal documents, documented evidence of the female contribution of capital and/or industry expertise, and the female must have United States Citizenship or be a Lawful Permanent Resident" (WBENC Women-Owned Business Certification eligibility, 2021).

Businesses with a supplier diversity practice will partner with these agencies to help identify these "diverse suppliers". Businesses do very little or no further vetting into these "diverse suppliers" aside from confirming they are certified by a third-party agency. Looking at the top 100 supplier diversity program in the United States, 97% of businesses use these certifications as the sole qualifier for accepting businesses as "diverse". The remaining 3% of businesses simply fail to state how they vet a "diverse" business.

Consider a scenario where the majority owner is, say, a woman, but the leadership team surrounding her is all Caucasian males? Is this still a diverse business? Perhaps. If not, what would need to happen for it to be diverse? Would their leadership need to have a majority of diverse individuals? What about their workforce? What if we consider the same scenario in reverse? What if members of leadership and the workforce were primarily diverse individuals, but the majority owner was a Caucasian male? Is the business no longer diverse? As one progressively asks more questions, the ambiguity surrounding the definition of a "diverse supplier" becomes clear. Utilizing agency certifications is an overtly simplistic vetting technique, and it demands little genuine effort from businesses that need to identify diverse suppliers and

offers a straightforward path for suppliers to gain diverse status, despite the intrinsically ambiguous nature of the term “diverse supplier”.

### ***Misleading Reporting Methods***

In evaluating the culture of reporting surrounding supplier diversity programs, the fundamental problem with the current body of supplier diversity programs is, ironically enough, the *diversity* in businesses’ key performance indicators (KPIs) to measure the “success” of their own program and the misleading way businesses are able to frame their metrics.

There are three dominant measures that businesses publicize to demonstrate the level of quality of their overall supplier diversity programs: supplier diversity spend volume, the number of diverse suppliers utilized—either annually or across the lifetime of the supplier diversity program, and the percentage of total procurement spend that is diverse. Some businesses will break these measures down by category of diverse suppliers (e.g. women-owned, disabled veteran), business unit, or sourcing category. They also might include some indirect impacts, which would include total cumulative revenue across all diverse suppliers, wages or jobs supported across diverse suppliers, or even total economic impact. Companies having different practices are, of course, expected. However, when referring to supplier diversity and its original meaning, this type of varying reporting is counterproductive because stakeholders are incapable of comparing performance across firms or upholding accountability.

Additionally, businesses typically resign to only publicizing a single KPI to consumers and touting that measure as evidence of the high quality of their program. Out of the top 100 supplier diversity programs, 72% report only one of the three dominant metrics or do not participate in public reporting. Not publicizing supplier diversity measures is intrinsically problematic, but there are also glaring problems in representing one’s supplier diversity program

with just a single metric. If a business only reports its supplier diversity spend volume, it could potentially use a limited number of larger diverse suppliers to achieve a higher spend volume. This neglects smaller and underrepresented businesses. Similarly, by only measuring the number of diverse suppliers utilized, there exists the possibility that the business is only spending a small amount with each supplier rather than having a profound impact on their growth. By only releasing limited amounts of information, businesses can frame their supplier diversity program in a more flattering light or, even worst, be blatantly deceitful about the state of their program.

Multiple metrics, in some combination, will paint a complete and more honest picture of the effectiveness of supplier diversity program. For example, Hilton Hotels, known as one of the top 50 programs as recognized by the 2021 State of Supplier Diversity (2021 State of Supplier Diversity Report, 2022) report the spend volume, the total number of diverse suppliers in their program, and various indirect impacts in its annual supplier diversity reports. Southern Co. Gas is another organization that reports a broad range of metrics, in addition to those three dominant measures.

### ***Failing to Capture Strategic Value***

Lastly, companies are not fully maximizing the potential of their supplier diversity programs. This is happening in two ways. At one end of the spectrum, companies feel that supplier diversity programs have become a checkbox that they are obligated to fill since the concept has become broadly mainstream. One can usually pinpoint the unenthusiastically compliant supplier diversity programs by their lack of reporting, little to no information about the program on their corporate website, and lack of manpower behind the program.

On the opposite end, companies are building vast and unruly programs in order to tout themselves as morally superior businesses in the marketplace. The focus becomes to grow the

program to the point they are considered “supplier diversity leaders”. This approach comes with a number of undesirable consequences. These sorts of companies might be inclined to grow their supplier diversity program at the detriment of the firm itself. For example, more qualified and capable suppliers might be overlooked for a “diverse” supplier, more exceptions and excuses might be made on behalf of a “diverse” supplier, and suppliers might even be inclined to pass the company on to less qualified owners so they can retain their supplier diversity status.

These problems stem from the fact that today’s firms are neglecting the potential strategic value that supplier diversity programs can provide to their firm. Out of the 100 supplier diversity programs, almost every firm establishes that the key goal of their program is to foster positive social change, external to the business itself. Although this can be considered a noble effort, it is a one-dimensional approach.

## **THE GOALS OF SUPPLIER DIVERSITY**

Despite the current state of modern supplier diversity programs, studies do show that, when managed effectively, programs are more than capable of being fruitful ventures. In forging a path forward for holistically healthy and beneficial programs, we have to refocus efforts toward three main goals of supplier diversity, relating to economic and societal impact, competitive advantage, and brand integrity. We can do so by asking the following questions: (1) is our program driving meaningful economic growth both for individual smaller, underrepresented businesses and the community at large, (2) is our program providing a competitive advantage to our firm, (3) is our firm transparent about the state, progress, and goals of the program?

### ***Economic & Societal Impact***

The practice of supplier diversity can have substantial benefits for society overall, including promoting economic growth and job creation (Worthington, 2009). By supporting businesses owned by underrepresented groups, supplier diversity can help to create jobs and stimulate economic growth in communities that may have been historically marginalized (Cravero, 2018). Furthermore, supplier diversity can help to promote social equity and inclusion and reduce disparities in access to economic opportunities (Sordi et al., 2022).

### ***Competitive Advantage***

Supplier diversity encourages businesses to work with a greater range of suppliers, which can generate a multitude of benefits. By working with a diverse range of suppliers, businesses can gain access to a wider pool of talent, resources, and expertise, which can help them to become more innovative, efficient, and competitive in their industry (Five reasons why, 2023). Additionally, firms can gain access to new markets and customers, particularly those that may be underserved or overlooked by other companies. Supplier diversity can also foster innovation both within the firm and the overall business environment, since diverse suppliers bring a large range of perspectives and experiences to the table, which can lead to new ideas, products, and services. Lastly, by diversifying their supplier base, businesses can decrease their reliance on a small number of suppliers, which can help to mitigate supply chain disruptions and reduce the impact of unexpected events such as natural disasters, political unrest, or economic downturns.

Through supplier diversity programs, businesses can enhance their brand reputation. By demonstrating a commitment to supplier diversity, businesses can position themselves as socially responsible and inclusive organizations, thus attracting consumer interest and top talent. According to a study done by Hootology, a market research firm, there is a “feel-good” factor associated with diversity programs. In a 2019 study for Coca-Cola, Hootology discovered that

the individuals who were aware of Coca-Cola's supplier diversity initiatives were 45% more likely to perceive the brand as valuing diversity, 25% were more likely to think favorably about the brand, and 49% were more likely to use Coca-Cola products (Bateman, 2020)

### ***Brand Integrity***

Brand integrity is vital to any supplier diversity program because it helps to establish and maintain the reputation and trustworthiness of a brand among its customers, stakeholders, and the general public. Brand integrity indicates that the business is consistent in its messaging, actions, and values and that it is perceived as honest, transparent, and reliable (Cambier & Poncin, 2020). A brand with a reputation for integrity can retain customers and attract new ones who are looking for companies that share their values. Employees are also more likely to be engaged and motivated when they work for a company that has a strong sense of integrity (Worthington, 2009). Overall, brand integrity help brands to command a higher value in the marketplace. In regard to supplier diversity, consistent and honest reporting is a vital component for establishing brand integrity between the firm and its stakeholders. In the current landscape, this form of transparency is scarce. Of the 100 top supplier diversity programs, only 12% report annually on the state and progress of their programs.

### **METHODS FOR IMPROVEMENT**

With the goals of supplier diversity established, how must we move forward toward improvement? As the first major stepping stone, comprehensive methods of scoring that reflect back on the key goals of supplier diversity programs are key to forging a path toward strategic transformation for individual programs and the larger supplier diversity culture. By having common industry-wide goals and measures, businesses can self-evaluate the quality of their

supplier diversity program, develop a strategy for improvement, conduct reporting in a way that accurately informs customers on the state of their program, and compare performance with competitors. To aid in this, I created a weighted scorecard that can be leveraged for this very purpose.

**Exhibit 1**

Goal	Scorecard Criteria	Rating Scale 1=Below, 3=Meets, 5=Exceeds	Comments	Area Weight	Area Rating	Wtd. Rating
<b>Brand Integrity</b> Promotes a culture of transparency and values its relationship with both suppliers and consumers	Has reporting practices that fully illustrates the health of the program		<i>add comments</i>	40%		
	Publishes clear program objectives and measurable targets		<i>add comments</i>			
	Demonstrates transparency on program practices (such as qualifying diverse suppliers)		<i>add comments</i>			
	Consists of robust diverse supplier relationship management		<i>add comments</i>			
<b>Economic &amp; Societal Impact</b> Demonstrates growth in the fundamental reporting metrics and drives economic growth for both the organization and its suppliers	Experienced growth in spend volume compared to previous years		<i>add comments</i>	20%		
	Experienced growth in number of suppliers compared to previous years		<i>add comments</i>			
	Experienced growth in percentage of total procurement spend that is considered diversified compared to previous years		<i>add comments</i>			
	Experienced firm growth both directly and indirectly affected by our diverse suppliers		<i>add comments</i>			
	Shows cumulative growth of suppliers both directly and indirectly affected by the firm		<i>add comments</i>			
<b>Competitive Advantage</b> Promotes the key factors for cultivating a competitive edge	Increase competitiveness across suppliers		<i>add comments</i>	40%		
	Improved access to new markets and customers		<i>add comments</i>			
	Promotes innovation within the firm, leading to new ideas, products, and services		<i>add comments</i>			
	Enhanced brand reputation and image leading to greater market share, attraction of top talent, etc.		<i>add comments</i>			
	Allows firm to comply with regulatory requirements		<i>add comments</i>			
				100%		0.00

### ***Measuring Economic & Societal Impact***

According to the available literature, it is apparent that supplier diversity can generate significant economic and societal benefits. However, the supplier diversity program itself must be substantial enough to cultivate any meaningful impact. Supplier diversity programs must seek out consistent and sustainable growth while still maintaining their competitive advantage and brand integrity. Supplier diversity growth can be measured across five key metrics: growth in diverse spend volume, growth in the number of diverse suppliers being utilized, and growth in the percentage of overall procurement spend that is considered diverse, cumulative firm growth, and cumulative growth of the diverse suppliers. The first three metrics mentioned represent the program inputs and the measures relating to cumulative growth represent the potential output of the program. Although growth in all five areas is encouraged, insufficient or negative growth in one area does not constitute poor supplier diversity growth overall. However, all five metrics should be considered in evaluating the scale and scope of one's own supplier diversity program.

### ***Measuring Competitive Advantage***

Competitive advantage through this scorecard is measured across five metrics: supplier competitiveness, improved access to markets and customers, exposure to opportunities for innovation, enhanced brand reputation, and compliance with regulatory requirements. The sum of these five measures signifies the greatest possible competitive advantage of a supplier diversity program. The metrics are meant to be used to be measured across the entirety of one's diverse suppliers, identify the areas where the firm is gaining the greatest advantage, and what areas are falling short. However, low scores in one area are not indicative of low or non-existent competitive advantage overall. Depending on the strategic mission of the firm, some aspects of this competitive advantage framework will be neglected versus others. However, all metrics

should be considered in evaluating the competitive advantage presented by one's own supplier diversity program.

### ***Measuring Brand Integrity***

Even if we were to have a program that is mutually beneficial for the firm and society at large, we are still missing one key component to an effective supplier diversity program. Brand integrity in the form of transparency in business practices is critical to a successful program. Therefore, annual corporate reports should be published and contain the following key elements: the goals and purpose of the program, an overview of supplier diversity practices, and essential annual metrics.

To begin, the firm must state the purpose of its program and lay out its plans and goals for the program. The plan must be clear and explicit while the goals must be specific and quantifiable; after all, without measurable goals, firms cannot be held accountable. Second corporate reports must give an overview of how diverse suppliers are sourced, and vetted, and how the relationship is maintained. The average consumer may not know precisely how diverse suppliers are qualified. It's best to be upfront about vetting methods and let the consumer decide for themselves if a business's diversity standards are sufficient. Lastly, firms must publicize all of the three following types of measures: annual supplier diversity spend volume, the current amount of diverse suppliers utilized, and the percentage of total annual procurement spend. The three measures in tandem paint a holistic picture of the state of the entire program. Encouraging programs to report all three metrics as well as any others the firm believes to be important to understanding the nature of their program on an annual basis allows the firm and stakeholders to track its progress year-to-year and additionally allows performance to be compared against other firms.

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## APPENDIX

The table below summarizes data collected on the supplier diversity programs of 100 top multinational firms. Contents indicate whether these firms voluntarily report on three key measures that comprise supplier diversity efforts.

Company	Total Diverse Spend	Number of Diverse Suppliers	% of Total Procurement Spend/Suppliers that is Diverse
Abbott Labs	Yes	No	No
Accenture	No	Yes	No
Adient	No	No	No
Allstate Insurance Companies	Yes	Yes	No
American Airlines	No	No	No
Apple	No	No	No
Aramark	No	Yes	No
AT&T	Yes	No	No
Avis Budget Group	No	No	No
Bank of America	Yes	No	Yes
BNSF Railway	No	No	No
Boeing	Yes	No	No
BP America Inc.	Yes	Yes	No
Bristol Meyer's Squibb	Yes	Yes	No
Capital Banks	No	No	No
Cargill	No	No	No
Chevron	No	No	No
Cintas Corp.	Yes	No	No
Citi	No	No	No
Colgate Palmolive	Yes	Yes	Yes
Comcast	Yes	No	No
Comerica	No	No	No
ConocoPhillips	No	No	No
Consolidated Edison Company	Yes	No	No
Costco Wholesale	No	No	No
Cummins	No	No	No
CVS Health	Yes	No	No

Dell	Yes	No	No
Delta Airlines	No	No	No
Denny's	Yes	No	Yes
DTE Energy	No	No	No
DuPont	No	No	No
Ericsson	No	No	No
Exelon	Yes	No	Yes
Exxon Mobile	No	No	No
EY	No	No	No
FedEx	Yes	No	No
Ford Motor	Yes	No	No
Freddie Mac	No	No	No
General Mills	Yes	Yes	Yes
General Motors Company	No	No	No
Google	Yes	No	No
Hilton Company	Yes	Yes	No
Honda	Yes	Yes	No
IBM	Yes	Yes	No
Intel	No	No	No
Johnson & Johnson	Yes	No	No
JP Morgan	Yes	No	No
Kellogg Co.	No	No	No
Kelly Services	No	No	No
KPMG	No	No	No
Kroger Co.	Yes	Yes	No
Lear Corp	No	No	No
Lockheed Martin Corp.	No	No	No
Lowe's Companies	No	No	No
Lulu Lemon	No	No	No
Macy's, inc.	Yes	No	No
Marriott International	No	No	No
Mcdonald's	Yes	No	Yes
Merck	No	No	No
Messer Consturction	Yes	No	No
MGM Resorts International	No	No	No
Microsoft	No	No	No
Morgan Stanley	No	No	No

National Grid	No	No	No
Nationwide	No	No	No
Nielsen	No	No	No
Nissan	No	No	No
Office Depot	No	No	No
ONCOR	Yes	No	No
Oracle USA	No	No	No
Pacific Gas & Energy	Yes	Yes	Yes
PepsiCo	Yes	No	No
Pfizer	No	Yes	No
Pitney Bowes Inc.	No	No	Yes
PNC Financial	No	No	No
Procter and Gamble Company	Yes	No	No
Raytheon	Yes	No	Yes
Robert Half	No	No	Yes
Shell Oil Company	No	No	No
Sodexo, USA	No	No	No
Southern Co. Gas	Yes	Yes	Yes
State Farm Insurance	No	No	No
Stellantis	Yes	Yes	No
Target	Yes	No	No
Texas Instruments	No	No	No
The Coca-Cola Company	Yes	No	No
Toyota Motor	No	No	No
United Airlines	No	No	No
UPS	No	No	No
Verizon Communications	Yes	No	No
Vizient Inc.	No	No	No
W.W. Grainger	Yes	Yes	No
Wal-Mart Stores, Inc.	Yes	Yes	No
Walgreens	Yes	No	No
Warner Media	No	No	No
Wells Fargo & Company	Yes	No	Yes
Wyndam Worldwide	No	No	No
Xerox Corporation	Yes	No	No