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Perspectives



IGNORED NO LONGER

The pandemic and protests of 2020 shined a spotlight on businesses owned by people of color—and how ineffective most supplier diversity programs have been in building them up.

**The problem:**

Supplier diversity programs have made little progress in creating social impact, despite being in existence for several decades.

Why it matters:

Businesses owned by people of color—hit disproportionately hard by COVID-19—need procurement spending to drive economic impact and job development for racially diverse communities.

The solution:

Hold CPOs as well as CEOs accountable by tracking and tying investment dollars spent, jobs created, and community impact of supplier diversity programs to performance targets.

Every year for over a decade, a supplier of personal protective equipment tried desperately to secure contracts with a number of large companies in his area. He was only mildly successful. Until this spring, that is, when those very same companies that had ignored him urgently reached out to arrange in-person meetings to negotiate deals.

Why the sudden change? The run on PPE during the early days of the pandemic played a part for sure. But there was also another reason—the supplier was a Black-owned business.

“Because of the racial injustice uprising this year, Black suppliers are suddenly hearing from folks that they never heard from in the past,” says Shelley Stewart, former chief procurement officer at DuPont and current chairman of the Billion Dollar Roundtable, an advocacy organization consisting of corporations that have spent at least \$1 billion with businesses owned by women or people of color. Stewart, in recounting the PPE supplier’s



story in an interview with Korn Ferry, added a caveat: “The question is if the outreach is genuine or are the phones going to stop ringing again when this moment goes away?”

To be sure, supplier diversity programs are nothing new—corporations have had them in place for more than 30 years. While progress has been made, it has been slow in coming, and achieving true racial diversity in the supply chain is still an uphill battle. For instance, companies in the Billion Dollar Roundtable spend about 11.4% of their procurement dollars with businesses owned by women or people of color, a figure that has remained relatively steady since 2014. For companies that aren't in the Billion Dollar Roundtable, the percentage of procurement dollars spent with such suppliers is, on average, much less.

Cheryl D’Cruz-Young, a Korn Ferry senior client partner who leads the firm’s Chief Procurement Officers practice, says racial unrest is one, but by no means the only, reason now is the time for organizations to prioritize supply chain diversity. And she says it is a growing concern not just for procurement leaders but also for CEOs and boards. She cites government regulations mandating a minimum level of supplier diversity, investment firms requiring diversity data for funding, and pressure from employees and customers as other factors contributing to the need for leaders to take action.

“Organizations have to start taking supplier diversity programs to the next level and be held accountable for driving more economic impact into diverse communities,” D’Cruz-Young says.

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Driving economic impact is particularly important when viewing the issue through the lens of COVID-19. While the pandemic has created opportunities for businesses owned by people of color that happen to have the right product at the right time in the right place, it has also proven to be devastating to those that don't. A report in August by the Federal Reserve Bank of New York found that 41% of Black-owned businesses closed because of the pandemic, more than twice the rate of White-owned businesses (32% of Latinx-owned businesses and 26% of Asian-owned businesses also closed).

Those figures underscore the impact supplier diversity programs can have on communities through a virtuous circle of revenue generation and job creation. For example, for every \$1 million Microsoft spends with diverse suppliers, 75% is retained by the local community and more than 17 jobs are created.

Fernando Hernandez, Microsoft’s global director of sustainability and supplier diversity, says chief procurement officers play a significant role in diversity and inclusion because they control where an organization spends a large amount of its money. “CPOs vote with their currency, and they need to be held accountable for making sure their investment dollars translate into impact and jobs for diverse communities,” he says.



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One of the biggest challenges supplier diversity programs face, however, is the long-standing trend in procurement toward consolidation and optimization. Put another way, organizations have been shrinking, not expanding, their supplier bases in a bid to achieve cost efficiencies by placing larger orders with fewer vendors. For instance, a consumer products company might buy plastic to package its shampoo, deodorant, and razor blades from three separate suppliers. But it could theoretically save money by consolidating all of its plastic purchases with one supplier.

But, as the pandemic showed, the fewer suppliers an organization has, the more trouble it can run into in terms of accessing inventory. Melissa Hadhazy, a senior client partner in Korn Ferry's Industrial practice, says having fewer suppliers might save organizations money, but it costs them with regards to agility and resilience when supply is constrained. COVID-19, she says, made clear the benefits of a more broadly distributed supply chain in reducing risk; organizations with more consolidated supply chains suffered.

"A more distributed supply chain doesn't just help with diversity, it provides a true operational value," Hadhazy says.

In fact, one could argue that while organizations can save money on the front end by consolidating suppliers, it may actually cost them more on the back end when factoring in transportation costs, environmental impact from increased carbon emissions, and reduced innovation and development opportunities stemming from fewer partner collaborations. All of which can further cost organizations in the form of decreased brand equity in the minds of employees and customers who value corporate purpose, and potentially investment

dollars from investors who use sustainability as a performance metric.

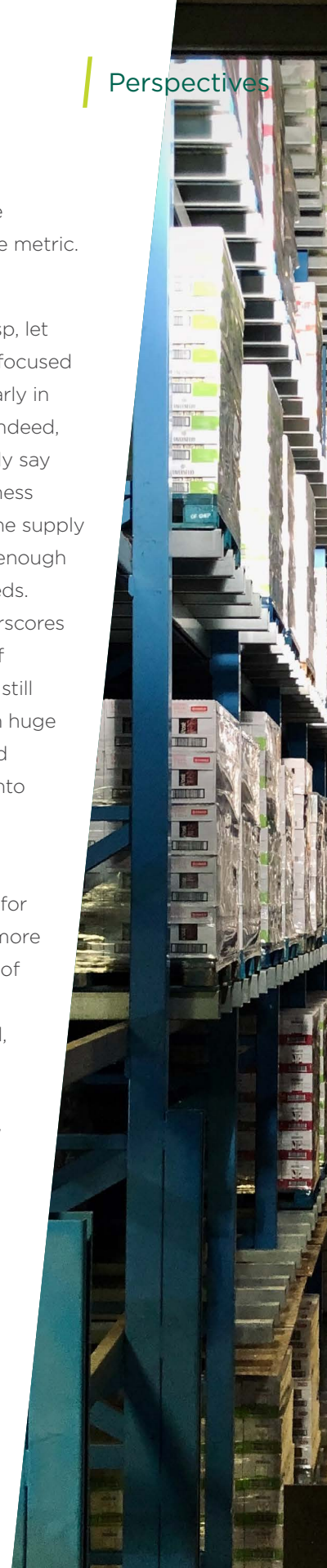
It's a difficult mindset shift for procurement functions to grasp, let alone for CEOs who are laser-focused on bottom-line costs, particularly in the current business climate. Indeed, Hadhazy says clients frequently say they'd love to have more business owned by people of color in the supply chain but can't find any large enough to fulfill their procurement needs.

The complaint, she says, underscores a fundamentally flawed way of looking at the issue. "They are still thinking about procurement in huge chunks when what they should be doing is breaking it down into smaller pieces," Hadhazy says.

Starting with smaller pieces would provide the foundation for organizations to begin being more strategic and tactical in terms of building up businesses owned by people of color with capital, access to funding, training and development, and other capabilities to eventually grow them to the point where they can fulfill ever-larger orders.

"Consolidating and optimizing procurement alone doesn't help anyone else along in the process," says Hadhazy.

"This does."





5 BENEFITS OF A DIVERSE SUPPLY CHAIN

Racial diversity among suppliers, not unlike talent, can be a competitive advantage. Here are a few ways organizations can benefit.

1

Adds flexibility

Having a range of vendors decreases reliance on any one supplier during times of constrained inventory.

4

Promotes competition

A larger supplier base increases negotiating power on pricing.

2

Increases innovation

Greater diversity among partners means more opportunities to collaborate and develop new ideas for differentiated markets.

5

Enables revenue

Data shows talent diversity leads to better financial performance. Supplier diversity is no different, opening up avenues to new customers and markets.

3

Aligns purpose

Supplier diversity programs align with broader calls from employees, customers, and investors for more corporate social responsibility.

When people think about supply chain vendors, they typically do so in terms of direct spend, meaning the materials needed to make an organization's products or stock its shelves. One of the biggest headlines from this spring, for instance, was when a number of retailers signed onto the 15% pledge, an initiative that started on social media asking major brands to show their commitment to racial equality by devoting 15% of their shelf space to products made by Black-owned businesses.

Indirect spending, or investments made into services that organizations need to function, not for their products, gets little attention when discussing supply chain diversity. Think about financial firms that administer 401(k) plans or advertising agencies and public relations firms retained for customer engagement. Sharon Patterson, president and CEO of the Billion Dollar Roundtable, says if organizations really want to make headway in achieving supply chain diversity, they need to widen the scope of their spending on services. "That's where the real money and opportunity is for diverse suppliers," she says.

Patterson recites a litany of areas where organizations aren't looking at businesses owned by people of color. Chief among them are law firms, investment banks, insurance providers, and consulting firms that advise on mergers and acquisitions, IPOs, and other strategic corporate work. Patterson says procurement officers who claim they have no more money to invest in businesses owned by people of color aren't looking in the right places. "A lot of the money organizations spend on services goes untouched," she says. "CPOs can certainly tap into those core contracts that are bigger and have legacy suppliers."

Moreover, Patterson says organizations can build up business owned by people of color and create economic impact and jobs without investing directly in them. They can do so in a way they hardly ever consider—by selling assets to them. "Corporations that are slimming down can build up minority-owned businesses through divestitures," she says.

Changing where an organization gets its legal counsel or investment banking advice, however, is more of a philosophical undertaking than a programmatic one, says Andrés Tapia, a Korn Ferry senior client partner and the firm's global diversity and inclusion strategist. By that, he means retaining a Black-owned law firm is a start, but the real issue is what prevented the organization from doing so in the past. It may be systemic racism, perhaps, or racial stereotypes—the existence of which many business leaders have openly acknowledged for the first time this year. "If organizations want diversity and inclusion to be part of the story they bring to people, then it needs to be embedded into its strategic thinking rather than rooted in one-off decisions," Tapia says.

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A SUPPLIER DIVERSITY PROGRAM CHECKLIST

The biggest obstacle to establishing a supplier diversity program is figuring out where to start. Below are some key elements that any successful program needs.

Leadership buy-in

Supplier diversity isn't just a procurement responsibility. It needs CEO and board support to be truly effective.

Governance clarity

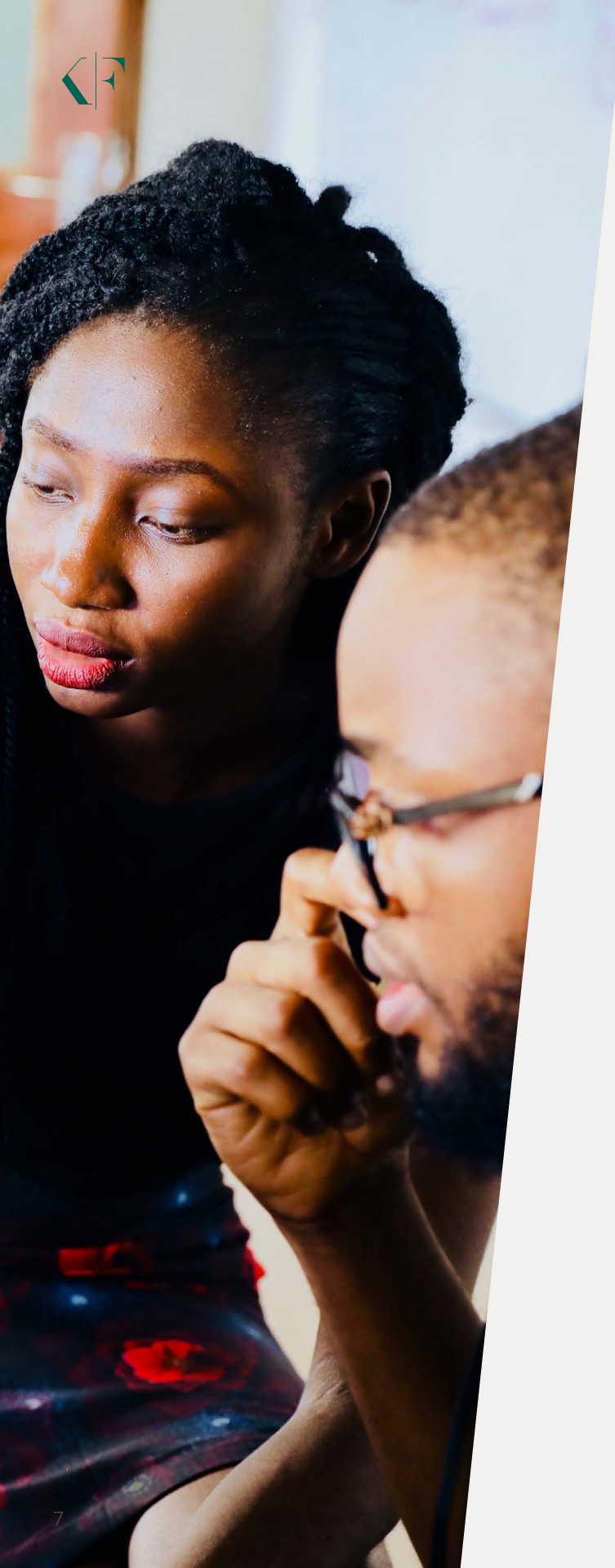
Determine key roles and responsibilities, reporting structures, and oversight to drive performance.

Performance measurement

Figure out what metrics are most important—dollars spent, jobs created—and develop targets that hold stakeholders accountable for meeting them.

Talent alignment

Supplier diversity programs shouldn't exist in isolation. Maximize their potential as a competitive advantage by aligning them with overall diversity goals.





Achieving true supplier diversity requires a sustained commitment from larger, better-capitalized organizations to build up businesses owned by people of color so they are able to compete on an equitable basis, not just in size but also in capabilities. As D’Cruz-Young notes, organizations with completely digitized supply chains are actually better equipped to introduce new strategic diverse suppliers or expand the spend with existing ones with the added benefit of supporting their digital capability. “CPOs are committed to increasing their diversity spend, but the adoption in many companies has been too slow,” she says.

Her advice: you can begin to accelerate your programs wherever your starting point. Not everyone can be Microsoft, which last year spent almost \$4.5 billion on diverse suppliers, after all. But they can learn from the company, whose supplier diversity program is considered best in class. “Your spend, whatever it is, matters,” D’Cruz-Young says. “Accountability has to start somewhere, and you must equip your supplier diversity leader so that they can achieve transformation.”

Where accountability starts is with performance, which requires the meticulous measurement of a supplier diversity program’s impact. One simple step organizations can take to start holding CPOs accountable, for example, is to mandate that any supplier proposal over a certain monetary amount must include a diverse business as a candidate. Tracking the percentage of wins versus proposals by diverse suppliers by business area is another way to measure performance. “There’s no point to including diverse suppliers in proposals if they have no chance of winning,” says Microsoft’s Hernandez, who mentors other organizations in determining metrics, reporting standards, and infrastructure for their own supplier diversity programs.

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There is no shortage of associations and trade groups to help connect organizations with businesses owned by people of color, either. Included among them are the Diverse Manufacturing Supply Chain Alliance; Chicago United’s Five Forward program, where major corporations sign up with five diverse suppliers that they mentor to grow their business; and the Diversity Alliance for Science, which focuses on businesses in the life sciences and healthcare industries owned by people of color. Another step organizations can take is to require suppliers to report on the diversity of their subcontractors, known in industry parlance as tier-two spending.

The goal of any supplier diversity program isn’t simply diversity for diversity’s sake. It’s a path to enable revenue, support the brand’s purpose, and create talent pipelines—and it’s within the chief procurement officer’s power to make it a competitive differentiator for organizations.

Or, as Hernandez says, “Wouldn’t it be great to look back 20 years from now and say the CPO was critical in changing the world?”

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