

Title: ‘ Drivers of and barriers to supplier diversity initiatives: a cross-national study’

Authors: Dr Ian Worthington, Professor Monder Ram, Mayank Shah and Harvinder Boyal

Organisation: Centre for Research in Ethnic Minority Entrepreneurship (CRÈME), Leicester Business School, De Montfort University, the Gateway, Leicester, LE1 9BH

Email: iwcor@dmu.ac.uk

Abstract

As organisations face increased pressures to act in a more socially responsible way, the notion of ethical sourcing has moved up both the public and corporate agenda. One strand of this debate has been the issue of promoting greater diversity in the supply chain by providing opportunities for traditionally underrepresented suppliers (e.g. small firms; ethnic minority businesses; women-owned businesses) to engage with large purchasing organisations. In examining the concept of ‘supplier diversity’, this paper draws on interview and source material from both the United States and the UK. Utilising a case study approach, it focuses on the key drivers of and barriers to corporate involvement in initiatives which are aimed at increasing the number of ethnic minority businesses in the supply chain and looks at the merits of the ‘business case’ for more socially responsible procurement.

Introduction

Within the burgeoning literature on business ethics and corporate social responsibility (CSR), an important issue to emerge in recent years has been the notion of the ethical supply chain and in particular the question of how far and in what ways organisations can demonstrate their social, ethical and environmental credentials through their sourcing decisions (see e.g. Drumwright: 1994; Carter *et al.*: 1999; Roberts:2003). As New (2004) points out, even in a simple triadic supply chain relationship (supplier- firm- customer) ethical considerations are multi-faceted and can be applied to activities and decisions which relate to corporate actors (e.g. betraying commercial confidentiality) and/or employees (e.g. the use of child labour) and/or other constituencies affected by an organisation’s operations (e.g. environmental problems). In short, concepts of ethical sourcing and the socially responsible management of the supply chain can be examined at a variety of levels and cover a wide range of ethical issues from environmental impact, human rights and quality of life to safety, diversity and corporate philanthropy (Carter and Jennings: 2000).

In this paper we focus on the organisational level and upon the specific supply chain issue of ‘supplier diversity’, which - following Carter and Jennings (2000) - we locate within the field of socially responsible purchasing. For the purposes of this study we define supplier diversity (SD) as being concerned with initiatives that specifically aim to increase the number of ethnic minority-owned businesses (EMBs) that supply goods and services to both public and private sector organisations, either directly or as part of a wider emphasis on small enterprises (Ram and Smallbone: 2003). We

examine, in particular, the factors that have caused some large organisations to develop supplier diversity programmes and identify some of the key barriers that have inhibited the establishment of such initiatives.

The analysis presented below is based on information gathered as part of a pioneering programme entitled Supplier Diversity East Midlands (SDEM) that was set up jointly in 2004 by the Centre for Research in Ethnic Minority Entrepreneurship (CRÈME) at De Montfort University, Leicester, and by the East Midlands Development Agency (EMDA). This programme- which has both a practical and research element- is modelled on the work of the National Minority Supplier Development Council (NMSDC) in the United States and has given rise to a unique strategic partnership between SDEM and NMSDC. The insights provided by this collaborative arrangement have helped to inform this and a number of other on-going studies that are a central part of the SDEM project.

Literature review

As an ethical issue, 'diversity' in the workplace has most readily been associated with concepts such as equality and discrimination in employment practices. Within this area- and pertinent to this study- a considerable amount of academic interest has been devoted to the question of whether or not having a more diverse workforce (e.g. in terms of gender, ethnicity and so on) can deliver positive commercial benefits (see e.g. Noon: 2004). Jain and Verma (1996), for instance, have argued that managing diversity in the work situation can create a competitive advantage both on the supply side (e.g. greater creativity) and on the demand side (e.g. access to ethnic markets), while recognising that it has also been linked to higher levels of employee dissatisfaction and staff turnover (Miliken and Martins:1996). More recently, Kochan *et al* (2003) have questioned whether race and gender diversity have any significant direct effects on business performance and have suggested that a more nuanced view of the 'business case' for diversity may be more appropriate: one that takes account of organisational context and process.

By way of contrast, studies of diversity within the supply chain are relatively limited and are almost all based on US experience with programmes aimed at sourcing from minority and/ or women-owned suppliers. Giunipero (1981), for example, examines the issue of how to develop effective minority purchasing programmes and points to a positive correlation between firm size and supplier diversity activity. At a more theoretical level, Dollinger *et al* (1991) employ a transaction costs framework to analyse the problems associated with minority business enterprise purchasing programmes and argue that in most situations minority firms face higher transaction costs than their corporate counterparts. Pearson *et al* (1993) similarly focus on the challenges and approaches to purchasing from minority-owned firms and identify areas where substantial disagreement exists between corporate customers and minority suppliers over the major impediments that affect the buyer/supplier relationship. On a more positive note, Carter *et al* (1999) have investigated the key factors in successful minority business sourcing initiatives by US corporates and have argued that purchasing managers are increasingly coming to accept that such programmes can have positive spin-offs that go beyond just window dressing for public relations purposes.

In the UK context the issue of supplier diversity, as yet, has attracted very little academic attention, a recent study by Ram and Smallbone (2003) being a notable exception. Utilising a case study approach, the authors look at the role that SD initiatives can play in opening up market opportunities for ethnic minority businesses and examine the demand and supply-side issues and constraints that can affect corporate procurement practices. A key insight to emerge from this study is the need to examine the legal, political and demographic contexts within which supplier diversity initiatives emerge and develop. As Ram and Smallbone point out, the external context within which procurement decisions are undertaken have an important bearing on the willingness and/or ability of both corporations and ethnic minority businesses to engage in buyer/supplier relationships.

Research Aims and Methods

As indicated above, the main aim of this part of the SDEM project was to investigate the drivers of and barriers to SD initiatives in both the US and the UK. Specifically our two research questions were:

1. What factors might predispose larger purchasing organisations (LPOs) to engage in supplier diversity initiatives?
2. What are the key barriers that LPOs face in developing and implementing SD initiatives?

In carrying out the research we used a variety of methods, commencing with a literature review to inform our understanding of the issue of supplier diversity and to guide the primary data collection process. The latter comprised two phases: (1) research with US corporations and other key actors involved with major SD programmes (2) research with UK corporations that were beginning or had begun supplier diversity initiatives involving ethnic minority businesses.

The aim of the US phase of the research was to understand the origins and development of SD initiatives in leading US corporations. In order to search for prospective organisations, the websites of the top Fortune 500 companies were reviewed and contact was made with 18 firms, selected on the basis of their supplier diversity initiatives, nature of industry and customer base. Key supplier diversity personnel at these companies were contacted by email, and in due course, discussions were initiated with three case study firms: Unisys, JPMorgan Chase and the Ford Motor Company.¹

Procurement and supplier development specialists were interviewed in each of the case study firms. Additionally we reviewed company material and website information. Semi-structured interviews were organised and interviewees were questioned on a range of topics relating to the history, operation and experience of running supplier diversity in their respective companies. Interviews were also held with the US Department of the Treasury and the National Minority Supplier Development Council.

For the UK phase of the project we identified and interviewed key personnel in a variety of organisations from different sectors of the economy which had some degree of involvement with supplier diversity initiatives. These organisations have subsequently joined SDEM as corporate board members and include: British Telecom, IBM, PepsiCo, Severn Trent Water, the Environment Agency, Leicester City Council, Leicester City Football Club, Miller Construction, Frank Haslam Milan, Enterprise Rent-a-Car, De Monfort University, British Telecom, Corporate Express, Ford Motor Company Daventry, JP Morgan Chase.

The analysis presented below represents our preliminary findings on the key drivers of and barriers to supplier diversity initiatives in both the US and the UK. Since supplier diversity is relatively new in the UK, much of the analysis is based upon US experience.

Research Findings

The data collected from both the literature review and the interviews with key personnel indicate that LPOs in the US and UK engage in supplier diversity initiatives for one (or more) of four main reasons:

1. Legislation/ Public Policy
2. Economic imperatives
3. Stakeholder expectations
4. Ethical motives.

These influences mirror Bansal and Roth's (2000) findings on the key drivers of environmental behaviour in large firms. They also resonate with Carroll's (1991) well-known typology of different forms of CSR (economic: legal: ethical and philanthropic) and van Marrewijk's (2003) proposition that firms adopt CSR practices either because they feel obliged to do it, or are made to do it, or want to do it.

We discuss each of these drivers in turn.

Legislation/ Public Policy

In the United States, SD initiatives aimed at EMBs (and others) have a relatively long history, dating back to the later 1960s and early 1970s.² Born out of the racial troubles of the period, these initiatives were developed at federal, state and local level and were supported by a legislative framework designed to promote greater civil rights through a policy of 'affirmative action', where the aim was to compensate for past discrimination by having 'set-asides' for disadvantaged groups, including ethnic minority enterprises (Spratlen:1978;Giunipero:1981). In effect, public policy was used to increase minority business participation in public sector procurement in order to reduce discriminatory barriers and to expand market access to historically excluded ethnic minority businesses (Bates:1997; Boston:1999).

Within the field of public sector procurement, government set legal requirements with regard to purchasing from minority suppliers for companies wishing to gain government contracts and machinery was subsequently put in place to help minority

and other disadvantaged businesses to compete for federal procurement contracts. The Minority Business Development Agency (MBDA), a part of the U.S. Department of Commerce, exemplifies the US government's efforts to introduce initiatives that promote the growth of minority business enterprises. MBDA is the only federal agency created specifically to foster the establishment and growth of minority-owned businesses in America. The Agency's mission is to actively promote the growth and competitiveness of large, medium and small minority business enterprises (known in the US as MBEs).

In contrast, in the UK (and Europe generally) no such legislative framework currently exists, the emphasis being on competition rather than affirmative action. Instead of promoting equality of 'outcome', the focus in the UK is on 'equal treatment' with national and EU competition rules based around principles of non-discrimination, equality of opportunity, transparency and competition (Ram and Smallbone:2003). The recently amended Race Relations Act (2002) for example gives public authorities a statutory duty to promote racial equality and requires them to prevent unlawful discrimination in areas such as service delivery, employment practice and other aspects. While the act does not refer specifically to procurement practices, it does outlaw the practice of showing favour, on racial grounds, to one group of potential suppliers to the disadvantage of others.

Where the purchasing organisation is a public body, several further obligations may apply in addition to compliance with the Act. These include:

- acting impartially in awarding contracts
- complying with EC rules for public procurement (e.g. by not discriminating against firms on the grounds of nationality);
- Where applicable, seeking to obtain value for money in public expenditure.

There is a need however, to differentiate between 'positive discrimination' and 'positive action'. It is not unlawful for instance to take positive action to ensure that certain types of supplier, which may be under-represented, are made aware of trading opportunities and encouraged to pursue them.

It is worth noting that the issues of discrimination and social exclusion are hot topics in both UK government and the European Union and all the indications are that further legislation will be brought forward to promote equal opportunities and to outlaw discriminatory practices based on race and ethnicity. Moreover European procurement legislation is presently undergoing reform and there are moves to widen the scope of legislation to allow public procurement to achieve greater equality of opportunity.

Economic imperatives

While supplier diversity programmes in the US were initially driven by public policy and legislation, economic considerations have increasingly come to the fore for many US organisations. As one respondent put it:

'It's a question of pull rather than push. In the early 70s it was pushed by government but now it pulled by

demography and the business case. Large companies have realised their market constituents have changed and there is a greater need to sell to them.’ (JPMC)

As far as the ‘business case’ is concerned, a number of arguments have emerged during the course of the research, including the notion that supporting EMBs can result in job creation and economic development in decaying urban neighbourhoods, which can in turn lead to a larger customer base for buying the organisation’s goods or services (Giunipero:1981). In effect as EMBs become economically successful, neighbourhoods, cities, and even the entire nation can benefit from that success and this can drive increased activity.

In February 1999, for example, an investigation was carried out by the Milken Institute and the Minority Business Development Agency (MBDA) of the U.S. Department of Commerce and its Capital Access Task Force, into the implications of entrepreneurial finance for minority businesses and recommendations were made for sustaining the business growth cycle. The report highlighted that the US was facing serious growth gaps in the following areas:

- The gap between the current rate of growth and the rate necessary to sustain future long term economic growth
- The gap between labour force growth and labour force participation
- The gap between the growth of emerging domestic markets and current investment rates in those markets.

The findings emphasised that by addressing these gaps now, the US would be able to forestall an arrest in productivity and foster greater economic prosperity. Failure to invest in these areas would risk bringing continued growth to a halt.

The report also stated that:

‘Economic growth cannot be sustained without the inclusion of minority businesses and an infusion of capital into those businesses. Absent of broad-based institutional investor participation in minority and immigrant business communities – soon to be the new majority of businesses – continued growth in the American economy is impossible, affecting not just minority businesses but putting the nation’s macro economy at risk.’

As the above quotation indicates, underlying the economic imperative for engaging with ethnic minority businesses has been the reality of demographic change. In this context an influential report by the Hudson Institute in 1987 - entitled ‘Workforce 2000’ - appears to have had a formative role in encouraging US corporations to

examine their supplier diversity policies and programmes. What the report showed, *inter alia*, was that by the year 2000:

- Women, new immigrants and people from minority populations would make up 5/6 of the American workforce compared to 3/6 in 1987
- People from racial/cultural minority groups would comprise 29% of the new workforce i.e. double what it was in 1987.

Subsequent data have suggested that by 2045 minorities will constitute 46% of the US population, with minority population growth in the period 2000-2045 representing around 86% of total population growth. With these increases in population share will come an increased share of the national economy, with some estimates suggesting that as much as 70% of the total increase in purchasing power is likely to come from the minority population.

A similar picture can be seen on the supply side of the American economy with minority-owned firms surpassing the growth of all US businesses and growing at a rate of 17 percent per year, six times the growth rate of all firms. Minority firms' sales are also growing by around one third per year – more than twice the rate of all firms. The Milken Institute points out that “*minority communities represent the most potent potential market in the American economy*”. This fact has not gone unrecognised by large US corporations.

To illustrate this we can use the example of Ford. Since 1978, Ford's commitment to economic empowerment has been greatly expanded to include a vast network of minority suppliers and dealers. By encouraging the work of these entrepreneurs, the company in turn has helped to empower individuals and to create wealth within the communities in which it does business. Thus, Ford's Minority Supplier Development (MSD) programme was designed to identify high potential minority business persons and assist them in growing their companies to competitive positions in the automobile industry. Ford now purchases more goods and services from minority owned and operated companies than any other U.S. corporation. In 2001, the automaker purchased \$4.5 billion of goods and services from MBEs of which \$3.1 billion was direct and another \$1.4 billion was second tier. Our respondent at Ford explained the Ford philosophy:

‘... we started looking at how we can create opportunities for these communities and looking at the way we can help minorities to participate in developing our business service, become part of Ford Motor Co. as well as the economy. So one of the things we would look at is how we buy our goods and services- we have to create wealth in this community. We have to give them discretionary income to buy our products. Why don't we start creating businesses?’

Changing business and customer demography has also formed part of the context in which SD initiatives have emerged in the UK. It is estimated that there are around 130,000 EMBs in the UK and that these represent around 7% of the total business stock. Moreover current business trends suggest that EMBs will become increasingly significant in the UK in the coming years. A Bank of England Report in 1999, for instance, indicated that EMB start-ups occur at a higher rate (9%) than in the small firm population generally (5%). This figure seems destined to grow with the expected growth in the ethnic population (see below).

As far as the demand side is concerned the minority population is the fastest growing segment in the UK and is projected to double in the next 25 years. Currently around 8% of the UK population is of ethnic origin, with 70% residing in urban areas. By 2011 it is estimated that ethnic minorities are likely to constitute the majority population in half of London's boroughs.

Key aspects of the UKs growing ethnic and cultural diversity are illustrated by the following statistics:

- the ethnic minority population grew by 48% (from 3.1 million to 4.6 million) between 1991 and 2001
- this population is comparatively young, with 45% under 25 years old compared to only a third of the white population
- over half of all ethnic minorities live in Greater London and the South East, with other significant concentrations in large urban centres in the West and East Midlands, Yorkshire and the North West
- the majority of today's Black and Asian people were born in the UK and are increasingly second or even third generation UK citizens. Many are upwardly mobile with a high standard of education and rising disposable income.

Given these trends in the ethnic population, UK LPOs are beginning to realise the economic power and influence of minorities and targeting the so-called 'brown £' is becoming increasingly important for some organisations' procurement policies. British Telecom (BT) is one of the UK companies which exemplifies this development. Engaging with suppliers who reflect its changing customer demographics is seen as a business imperative and one which helps to 'embed' the organisation within the different ethnic communities who buy its products and services. BT's supplier diversity policy states:

'Our SD programme highlights that increasing opportunities for ethnic minority businesses will enhance the supply chain and bring economic benefits. If we are to embrace the benefits of diversity it must be truly reflected throughout our operations, including our supply chain. This is essential if we are to create competitive advantage.'

Within the public sector too SD is seen as a driver that contributes to local economic development and growth. The East Midlands Development Agency, for example, has played a key role in funding and supporting SDEM. EMDA sees the pilot programme as an opportunity to help facilitate the process of encouraging EMBs to actively seek contracts with LPOs in order to grow their business, which in turn helps the development of the local and regional economy.

Stakeholder Expectations

As noted above, governmental pressures have proved critical in the development of supplier diversity initiatives in the US and this has frequently helped to stimulate demands from other groups and interests in American society (Dollinger *et al*: 1991). For firms involved with government contracts, either directly or indirectly, such pressures have not only come from the government itself but have also come from private sector customers and have helped to establish the ‘business case’, as the following observation from a UNISYS respondent shows:

‘Because we are a B2B company, there is a great amount of pressure from our customers who are mainly government agencies or banks etcetera, to meet the sub-contracting threshold. So it becomes easier for us to convince top management that we need to have MBEs.’

Moreover, pressures of this kind can flow both up and down the supply chain and can encapsulate different forms of ‘diversity’ as indicated below:

‘If we think of ourselves as a business, then the households who supply us with labour and lend us capital (our shareholders), before selecting us look at what we do for their communities. Similarly when we go out for purchasing intermediate goods and services from other businesses, we look for their workforce diversity. At the same time our customers- for example the government or large corporations- look at how diversified our supply chain is. And when finally we go out and reach our customers- to sell our products and services- they again ask us about the ‘diversity content’ in our products and services. Now this makes a strong business case for supplier diversity as well as workforce diversity.’ (JP Morgan Chase)

In addition to customer expectations, another critical source of influence has been the National Minority Supplier Development Council (NMSDC) which was set up in the early 1970s to provide increased procurement and business opportunities for minority businesses of all sizes and which has played a pivotal role in bringing together some of the largest private and public sector organisations and minority enterprises. This has been achieved not only by engaging with corporations and persuading them to become corporate members of NMSDC, but also through a system of ‘certification’ of

ethnic businesses and the setting up of business opportunity fairs in which corporate buyers engage with EMBs directly.

By comparison the relative novelty of SD initiatives in the UK has meant that thus far large organisations have faced few pressures of the kind identified above, although our research has indicated that some firms are working towards implementing an SD programme because they were pressured to do so by their parent company. IBM UK is one such example. Like all major corporates in the US, IBM has a very well established SD programme in its US operations. Recognising the business case for SD, the company was the first large private sector business to appoint a Supplier Diversity Manager in the UK.

Ethical motives

A number of academic studies have linked SD initiatives to notions of business ethics/corporate social responsibility (see e.g. Giunipero: 1981; Dollinger *et al*:1991; Pearson *et al*:1993). While the interview data provided evidence that CSR may have been a factor for some organisations, this driver was often linked in the mind of respondents to other issues including the roots of the affirmative action strategy, questions of social and economic justice and commercial imperatives. One respondent from JP Morgan Chase explained the organisation's approach to SD in the following way:

'...we feel that while the free market, capitalist society cannot guarantee equal distribution of wealth and income by race, gender or sexual orientation, it should strive for equal opportunity. Without this, a society will create injustices that will lead to economic disparity, increases in crime and decrease in overall quality of life. America has taken the lead in helping to bring about more equality through equal opportunity initiatives. Supplier diversity creates a platform for diverse entrepreneurs to exercise the freedom to bring innovation to solving America's problems.'

Another from the NMSDC was rather more direct:

'...corporations are not coming in to reduce social and racial tensions which was the earlier case, but now it is purely a business proposition. It's all about demography....'

In the UK phase of the research, initial indications are that considerations of social responsibility may have played a more central role in encouraging some organisations to develop SD programmes. For instance at the Environment Agency, the organisation's involvement with supplier diversity appears to be linked to its existing diversity action plan which focuses on employment issues, including attempts to increase the number of recruits from ethnic minority backgrounds. Similarly, at

Severn Trent, several of the individuals interviewed linked SD to the broader CSR agenda within the organisation, typified by the following observation:

'... I very much see it as part of our CSR agenda which is about having some community responsibility, and to represent in our supply base, just as we do in our workforce, the communities that we serve and that we work with.'

That said, many of those questioned were not slow to see the potential public relations advantages of being seen to act in a socially responsible way through the establishment of a supplier diversity programme. As one representative of Ford UK explained:

'.....Ford UK has its main spare parts distribution centre located in Daventry. The company had recently come up against a series of legal cases where the firm was found to be discriminating against employees on the grounds of ethnicity. One of the ways that Ford UK has attempted to rectify the damage this has done to its reputation in the community is by joining SDEM, to demonstrate its commitment to working with a diverse supplier base.'

Barriers to developing and implementing supplier diversity initiatives

Whilst there have been many factors driving LPOs to work towards achieving a more diverse supplier base, our research has also indicated that there has been a number of barriers that have inhibited the process. Some of the key constraints are discussed below.

Identifying the Business Case

The business case for SD is clearly understood in the US (see e.g. Cox: 2003). In the UK however, relatively little discussion has occurred about the economic and commercial benefits of supplier diversity and as a consequence some UK companies are embarking on SD essentially as an act of faith. In order to implement SD effectively rather than superficially or cosmetically, it is imperative that the business case is identified and understood by the LPOs. Hence the following rationalisation by one of our respondents at Severn Trent Water:

'....I'm hoping that by participating in the East Midlands diversity programme I will be able to build a business case to help me "sell" supplier diversity to the board. It has to be about more than being a good corporate citizen, and at the moment all I can see is extra cost and work.'

Achieving senior management 'buy-in'

Organisational change of any kind tends to be facilitated when there is clear and unambiguous support for that change from the organisation's senior executives and managers. Achieving that support can often present a significant challenge, particularly within the context of the existing structure of corporate governance (Anon: 1998). Hence the need to establish a sound business case.

In many large organisations it is fair to say that procurement is not an issue regularly discussed or understood at board level; equally there may be differences in perception of and/or enthusiasm for SD initiatives by different actors within the organisation (Dollinger *et al*: 1991). These problems can represent a substantial barrier to the introduction of an SD programme, a point underlined by our interviews with representatives of the three firms studied during the US tour.

Other opposition to change

Like any new initiative, a supplier diversity programme is also destined to encounter some opposition from both inside and outside the organisation since it disturbs the *status quo*. This opposition may be from employees and/or internal customers who misunderstand the nature of and/or reasons for greater supplier diversity or from existing suppliers who feel threatened by the new development and who mistakenly assume that preferential treatment is being given to one group of bidders (Carter *et al*: 1999). Equally, marketers may need to be persuaded that changing suppliers will not adversely affect the marketing process. Overcoming this opposition through a programme of education and training requires a commitment of resources that some organisations may be unwilling or unable to undertake.

This problem is exemplified by the experiences at Unisys where the supplier diversity team had to face a certain degree of internal resistance. According to our respondent, procurement is an activity which is not confined to a particular department, but is undertaken by different people and departments throughout the organisation and these people have developed long-term relationships with their suppliers. To ask them to change their long-standing suppliers and to include a minority supplier proved a very difficult task. One of the respondents explained:

'...A lot of procurement decisions are not made by procurement people – procurement is often times dictated by [others in the organization] as to what they want to buy [and from whom]They [non-procurement personnel] are not aware of MBE capabilities, where to find these qualified companies, nor why we should seek them out, e.g. the business case. It is [therefore] our duty (i.e. responsibility) as a member of the supplier diversity team to educate our people about the benefits of doing business with MBEs.'

Problems of Alignment and Coordination

Incorporating a supplier diversity programme into an existing set of corporate policies, processes and procedures raises a number of strategic and operational

questions. Does the new initiative contribute to the organisation's current strategic position? Will it add value to the procurement process? Is it consistent with the existing procurement strategy? To what extent will it give rise to difficulties in coordinating the objectives and activities of members of the supply chain both internally and externally. These and other issues of alignment and coordination require careful consideration prior to the introduction of an SD programme.

Accessing Ethnic Minority Businesses

While issues of building support and managing change are vitally important, they are not the only problems associated with establishing and running an SD programme. For organisations seeking to incorporate ethnic minority businesses into their supply chain, the problem of accessing such businesses can be substantial (Giunipero: 1980; Ram and Smallbone: 2003). Whereas in the United States a formal system of certification exists which identifies different categories of 'diverse' supplier (e.g. women-owned businesses, EMBs), in the UK, and Europe generally, no such system exists. Consequently, definitions of ethnicity vary considerably and are open to interpretation. This problem is not helped by the absence of a robust national database of EMBs or the tendency for many very small ethnic firms to be reluctant to engage with ethnic and other business support organisations. The National Minority Supplier Development Council (NMSDC) in the USA exemplifies a quality broker organisation trying to provide corporations with quality ethnic minority businesses.

According to respondents interviewed in the three large case study firms, US corporations aiming to diversify their supplier base currently face two major challenges: firstly, finding minority businesses that are competitive and reliable suppliers and subcontractors and secondly, overcoming organisational resistance. The NMSDC aims to tackle both of these potential obstacles and to provide increased procurement and business opportunities for minority businesses of all sizes. NMSDC has played a pivotal role in bringing together some of the largest private sector corporations and minority businesses to do business with each other. Its success has been said to lie in the philosophy of being a non-political organisation, run by an annual contribution from its corporate members.

Capacity to Deliver

A related issue is whether existing EMBs have the capacity to meet LPOs' requirements. In the US, this was a problem that was invariably encountered by corporations in the initial stages of developing SD programmes (Giunipero: 1981). The study by Pearson *et al* (1993) indicated that LPOs saw the undercapitalisation of many ethnic businesses and the lack of availability in specialist areas as key impediments to supply base diversification.

In the UK, as in the USA, the tendency for EMBs to be concentrated in a relatively narrow range of economic activities remains a feature of their contemporary profile and this has implications for their current capacity to exploit procurement contracts. A majority of EMBs are small and many are still engaged in relatively low value added activities. As a result LPOs often have doubts concerning their ability to respond to supply opportunities and/or their capacity to meet buyer expectations in terms of availability, quality, price and continuity of supply. This can be a particular problem

where the larger corporate buyer requires goods and services on a national basis or where there are strategic requirements which EMBs are unable to meet.

Constraints on EMB Engagement

The problem of identifying businesses in the desired category of diverse supplier is only one of the hurdles to increased engagement. Another is the difficulty of persuading ethnic minority businesses to seek contracts with large corporate buyers, particularly if the transaction costs appear relatively high (Dollinger *et al.*: 1991). A majority of ethnic firms are small and under-capitalised and a substantial proportion of these are micro-businesses frequently specialising in low-value, small volume orders. For such businesses finding out about supply opportunities can be difficult and time-consuming and may require a resource base which is beyond their capacity.

Other obstacles can act as a disincentive for EMBs to engage with larger organisations. In the US these have included issues to do with undercapitalisation of small ethnic enterprises, perceptions of an ‘old boy network’, problems of achieving access to LPOs and the bureaucracy of the procurement process (Pearson *et al.*: 1993). This latter issue was also frequently raised in interviews with EMBs participating in the SDEM project. For example, public sector bodies such as local authorities normally hold lists of potential suppliers, especially for low value contracts, and there are often a number of pre-qualification stages before a firm can get onto these lists and be invited to tender. While such stages are usually designed to encourage good practice (e.g. in health and safety), they tend to be off-putting, particularly for those smaller firms that feel uncertain about how to approach doing business with a large organisation.

Our research also revealed that most EMBs in the UK were unsure of how to market themselves to the LPOs, and this led to them being less confident when meeting buyers.

Issues of Trust

As with any contractual arrangement the issue of a lack of trust between participants can be significant and some studies have pointed to the problem of perceived opportunism connected with SD programmes (e.g. Dollinger *et al.*: 1991). As indicated above, large purchasing organisations need to be convinced that EMBs can meet all their requirements in an efficient, effective and economic way. Equally, EMBs need to feel that there are advantages to engaging with large corporate buyers and that they are not being patronised, misled or exploited. Some of the EMBs interviewed from the SDEM programme, for instance, were suspicious that the corporates were largely involved for PR reasons. Developing an acceptable degree of mutual trust can take time and a considerable amount of effort.

Existing requirements and practices

Existing practices and requirements (both legal and organisational) can also inhibit corporate engagement with EMBs and smaller businesses generally. Key questions faced by corporate buyers and others concerned with the issue of supply base diversification include the following:

- Do the needs of internal customers restrict opportunities for greater supplier diversity?
- Does the procurement process in the public sector (e.g. EU regulations) act against EMB/SME involvement in bidding for contracts?
- Do current trends in procurement and/or procurement targets (e.g. supply rationalisation) reduce the opportunities for small firm participation?
- Can smaller businesses meet a larger organisation's non-economic buying criteria in areas such as health and safety, environment, risk?
- Do corporate buyers tend to rely on their existing 'old boy networks' of suppliers?
- Does the move towards electronic posting of procurement opportunities disadvantage EMBs/SMEs?
- To what extent do purchasing professionals in an organisation and/or one of its component parts have autonomy to make decisions on purchasing decisions?

In the above context, existing requirements and practices can often favour the maintenance of the *status quo*.

Conclusions

This cross-national study of supplier diversity initiatives has revealed important contextual differences between US and UK experiences in this emerging area of socially responsible purchasing. Whereas in the US, public policy and legislation have been critical influences on the decisions by large American corporations to develop and implement SD programmes for over a generation, in the UK governmental influences, thus far, have been relatively insignificant other than in a very general sense (e.g. government attempts to promote CSR).

As far as the UK has been concerned, a primary driver of corporate action appears to have been considerations of social responsibility, with schemes promoting greater 'supplier diversity' being presented as evidence of the organisation's attempts to engage more fully with the community in which it is based, from which it draws some of its resources and from which it derives part of its revenue. Acting in a more socially responsible way, in other words, has important links with and implications for the organisation's economic and commercial imperatives.

As this study has shown, this relationship between CSR and the organisation's fiduciary responsibilities to its primary stakeholders (e.g. shareholders, taxpayers) is most clearly articulated in the notion of the 'business case' for supplier diversity. At a time when the current orthodoxy is to rationalise the supply chain by reducing the number of suppliers and/or outsourcing an increasing range of corporate activities and processes, supporters of SD programmes have come under increasing pressure to justify diversifying the supply base. As both US and UK experience has shown,

providing such a justification has been facilitated by the process of demographic change, which has proved a key factor in garnering support for supplier diversity initiatives among senior executives within large purchasing organisations in both the public and private sectors.

End notes

1. Each of these businesses can lay claim to being a leader in the field of supplier diversity. Unisys is a worldwide information technology services and solutions company. With operations in more than 100 countries worldwide providing business solutions, it has expertise in consulting and system integration, outsourcing, infrastructure services and security. JPMorgan Chase is a major participant in the strongest, most vibrant capital markets in the world, operating cross various businesses and geographies. It is a leading 10 global financial services firm with assets of \$759 billion. In 2002, JPMorgan Chase achieved \$400 million in spending with women minority business enterprises (WMBEs), up from \$37 million in 1994, representing approximately 6.7 percent of its total US spend. The Ford Motor Company continues to be to one of the major customers of MBE goods and services in the US. Ford's Minority Supplier Development (MSD) Program is one of the oldest in U.S. corporate history, established in 1978. Ford now purchases more goods and services from minority owned and operated companies than any other U.S. corporation. In 2001, the automaker purchased \$4.5 billion of goods and services from MBEs of which \$3.1 billion was direct and another \$1.4 billion was second tier.
2. The US government took steps to promote the interests of small businesses with the passage of the Small Business Act (SBA) in 1953 and the subsequent establishment of the SBA 8(a) Program that was designed to help socially and economically disadvantaged entrepreneurs to gain access to new economic development opportunities, including via the public sector procurement process. These, however, were targeted at small firms generally, not specifically at EMBs.

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