

# Supplier Diversity: Economic Inclusion

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Building on a long history of supplier diversity programs in the United States, many companies have, over the past few years, begun to expand their programs outside of the United States. These global supplier diversity programs work to ensure that the company maintains an inclusive supply chain broadly, whether across its entire global spend map, or concentrated in specific regions.

Supplier diversity programs encourage the use of under-represented businesses as suppliers of good and services. While the list of under-represented categories is extensive, most companies design their supplier diversity programs to include one or more of the following categories: minority-owned, women owned, veteran owned, service disabled veteran owned, historically underutilized business-zone located businesses, small businesses, and lesbian, gay, bisexual and transgender-owned businesses.

While the trend toward global supplier diversity is relatively new, a set of best practices has emerged over the past five-to-seven years. These practices can be useful for companies wishing to expand supplier diversity programs outside of the United States. Because supplier diversity got its start in the United States, to understand supplier diversity globally it is necessary to use those long-standing efforts as a benchmark for comparing and contrasting what is happening in other countries.

## The Business Case for Global Supplier Diversity

There is no global supplier diversity “cookie cutter-method” for implementation. It is a mistake for companies to believe they can be successful by simply adopting a “copy exactly” approach and transporting the companies’ U.S. supplier diversity tools, processes, and policies into non-U.S. locations. While some process and policy consistency is required, supplier diversity programs must be adapted to reflect the cultural and societal norms of the geographies in which they are implemented.

Despite these regional differences in implementation, the business case for global supplier diversity is consistent. We’ll discuss this business case in the context of what I refer to as “the three Cs” of supplier diversity:

**Compliance** – In the United States, many companies’ supplier diversity programs are built around a compliance core. These programs are designed to help ensure that the company meets compliance requirements mandated by its public-sector customers. The U.S. federal government requires that any company that provides goods and services to it, above a certain mandated minimum level, meets aggressive goals of subcontracting spend with a list

of enumerated categories of underrepresented small businesses. These categories include ethnic-minority-owned, woman-owned, and veteran-owned businesses.

These compliance requirements have become pervasive over the past 50 years as many states, municipalities, school districts, and other public sector entities have developed supplier diversity mandates that mirror or closely reflect the U.S. federal requirements. Even companies that don't source directly to the public sector may be required to adhere to these types of requirements, if they source to other private sector companies which themselves are public sector suppliers and are required to "flow down" requirements.

With limited exceptions, outside of the United States there are no similar legislative mandates requiring that companies subcontract with diverse businesses. While no other countries have identical mandates to the United States for minority business inclusion, two countries have enacted their own legislative framework to ensure inclusion of minorities or disadvantaged people. First, there is the case of South Africa and their Broad Based Black Economic Empowerment (B-BEE) legislation. Second, more recently, is Australia, which has implemented requirements for including indigenous aboriginal-owned businesses in certain contracts. In addition, while visible minorities in Canada are not included in any government scheme for protected status, they do have a government set aside for Aboriginals based on self-certification. However, absent extensive compelling mandates, supplier diversity performance has been slow to expand outside of the United States.

Those companies that have chosen to expand their global supplier diversity programs outside of the United States for compliance reasons, have done so with an aim to:

- A.** Address existing or developing supplier diversity mandates that currently exist in regions where those companies do business outside of the United States (for example, to meet the requirements of Australia's Indigenous Opportunities Program (IOP) or the South African Broad Based Black Economic Empowerment code requirements); or
- B.** Remain "ahead of the legislative curve" by designing and implementing robust supplier diversity procurement policies ahead of government mandates in regions that appear to be evaluating the adoption of such mandates.

Corporate Social Responsibility (CSR) policies are seen to function as built-in, self-regulating mechanisms whereby businesses monitor and ensure active compliance with the spirit of the law, ethical standards, and international norms. Many companies position their supplier diversity programs as supporting CSR pillars, by:

- Enhancing the company image and brand by demonstrating commitment to high ethical standard of inclusion
- Working to ensure that the diversity of the company's supplier base reflects that of its employee base and customer mix
- Supporting the CSR requirements of its customer in the marketplace.

These CSR drivers are not at all unique to U.S. supplier diversity programs. It can truly be said that, with these drivers in mind, if ensuring an inclusive supply chain is 'the right thing to do' in the United States, it is 'the right thing to do' everywhere that the company does business.

**Competitive Advantage** – Among the most successful of U.S.-based supplier diversity programs are those hosted by companies that position the programs as a business imperative, a revenue enabler, a competitive advantage. Hewlett-Packard, for example, estimates that in 2010 more than \$10 billion-worth of business required the company to demonstrate its efforts in supplier diversity.

By working to meet contractual- and compliance-driven diversity subcontracting requirements of its customers, a company with a business-to-business (B2B) sales model can leverage its supplier diversity performance to win in the marketplace. Similarly, a company with a business-to-consumer (B2C) business model can weave its supplier diversity investments in diverse communities into its marketing and advertising and help it to create a competitive advantage across a diverse consumer base.

Collectively, these elements combine to form the business case—a set of compelling drivers for global supplier diversity expansion. Note that not every company will find each of the three important to the same degree, if at all.

## **Supplier Diversity Regional Profiles**

### ***CHINA***

Minority and women supplier development programs are a relatively new component of economic development in China. Despite the fact that the concept of organized supplier diversity programs in China goes back only five years, there is great corporate- and NGO-led momentum around quickly expanding these programs.

While no compulsory mandates exist, the Chinese government continues to display strong support for minority and women business development. Zheng Xin, deputy director of the Chinese Ministry of Industry and Information Technology, describes the nation's approach as a “go west” strategy, intended to spread the economic prosperity (currently largely concentrated in the population centers along China's east coast) to the under-represented populations in the west.

### ***The Context for Supplier Diversity***

Counter to common perceptions of a homogenous Chinese population, there are 56 recognized ethnic groups in China. According to a demographic survey in 2005, Han, the most populous ethnic group, had 1.2 billion people, accounting for 91 percent of China's total population. The other 55 ethnic groups, having a population of 123.3 million that makes up 9 percent of the total, are called ethnic minorities because of relatively smaller numbers.

Compared with the fifth census in 2000, the Han population increased 2 percent and ethnic minorities 16 percent. Thus, ethnic minorities accounted for about 42 percent of total newborns between 2000 and 2005 in China. If the ethnic minority population keeps growing at this rate, by 2015 forecasters predict it could exceed 50 percent of the Chinese population between 1 and 14 years old. The rapidly growing minority population leads to a huge increasing marketplace in the coming 20 years and an even stronger trend longer term.

Because China did not allow, until recently and in a limited fashion, individual ownership of “means of production,” only large- and medium-sized enterprises that produced goods and services consumed by ethnic minorities were labeled as minority firms.

### *Current Supplier Diversity Trends*

Aligned with the China-based affiliate of the National Minority Supplier Development Council (NMSDC), many U.S.-based corporations are making a visible commitment

#### **CASE STUDY: MSD China Actively Pushes Forward the Investigation of Enterprises in Ethnic Minority Regions**

In the middle of April 2010, MSD China conducted on-site investigation and research of minority business enterprises in Jilin province’s Yanbian Korean Autonomous Prefecture, Hunan Province, and Jiangsu Province. During the investigation, the teams visited more than 20 ethnic-minority enterprises with development potential in more than a dozen counties and cities of the two provinces and one prefecture. These enterprises are involved in manufacture, processing, and pharmacy of traditional Chinese medicine, animal husbandry, handicrafts, and so on.

The purpose of this investigation and research is not only to fully understand the scattered and mixed inhabitations of ethnic minorities and the business operations of minority business enterprises, but also to actively publicize and popularize the idea of supplier diversity and make more policy makers and minority business enterprises understand the meaning and value of supplier diversity.

to implementing programs that encourage supplier diversity in their China operations. The affiliate Minority Supplier Development China (MSD China) is the nation’s first national non-profit membership organization dedicated to enhancing development of China’s minority-owned businesses, by connecting minority suppliers to corporations for procurement opportunities on mutually beneficial bases.

“There are many micro enterprises owned by ethnic minorities, and some of them are large enough to be able to satisfy demand from large corporations,” explains Eric Vicioso, director of international programs for the National Minority Supplier Development Council. “We’d like to see them play a role in developing their own communities. This is the best way to bring economic development to these communities.”

In addition to advocating for minority owned businesses, MSD China provides minority business certification for businesses that are at least 51 percent owned, operated, managed, and controlled by an ethnic minority.

#### ***Women’s Business in China***

In addition to a growing ethnic-minority business focus, great attention is being paid

to the establishment of programs that encourage using woman-owned businesses in corporate supply chains in China. This focus reflects the fact that, while woman-owned businesses represent the majority of small and micro enterprises in China, they continue to be under-utilized in corporate supply chains.

Leading the charge for woman’s business development expansion into China is WEConnect International. According to the organization’s president, Elizabeth Vasquez, “WEConnect is working with its members to encourage their prime vendors based in China to leverage their local purchasing power with women vendors.”

WEConnect is working closely with the China Association of Women Entrepreneurs (CAWE), members of the All-China Women's Federation (ACWF), local Chambers of Commerce, the American Embassy in Beijing, the Chongqing Foreign Trade and Economic Relations Commission, the International Federation of Business and Professional Women in China, and other key associations and government agencies. The organization has hosted numerous stakeholder outreach events and training sessions with these partners in China over the last two years, including conferences titled "Women as Vendors in Global Value Chains," held May 2011 in Beijing and Chongqing and August 2011 in Shanghai.

WEConnect's ITC "Global Platform for Action with Women Vendors" project aims to increase the share of corporate, government, and institutional procurement secured by women vendors to bring greater economic benefit to women and their communities. This is a 10-year platform launched with hundreds of buyers and sellers meeting at a conference and trade fair in Chongqing in September 2011.

## ***INDIA***

In 2007, the Indian government outlined a new policy, which required that at least 20 percent of its total annual purchases be procured from micro and small enterprises. The policy also called for procurement of at least 22.5 percent of total purchases by central government ministries or departments from enterprises owned by traditionally under-represented "lower" castes. These developments prompted an investigation by several multinational corporations into how best to craft local supplier diversity programs to preempt a tide of emerging inclusivity legislation.

### ***The Context for Supplier Diversity***

The push towards diversity and inclusivity in India, which is maturing in a workforce context, has yet to be reflected broadly in supplier diversity programs. While certain categories of historically under-represented groups are the focus of workforce inclusion programs, only a handful of corporations have built these categories into formalized supplier diversity initiatives.

### ***Current Supplier Diversity Trends***

The current supplier diversity trend in India is toward formalizing corporate programs that empower woman-owned businesses. The development of focused programs, which is new and ongoing, is being driven largely by WEConnect International. The organization works with its members to encourage prime India-based vendors to leverage their local purchasing power with women vendors. Along with corporate member Ernst & Young, WEConnect is engaged in a national certification pilot launched in May 2011.

The organization works with a diverse array of local partners as it assists corporations in developing their supplier diversity programs. The partners include the Confederation of Indian Industry (CII), Women Business Owner Association in Engineering (eMERG), the Mahakaushal Association of Women Entrepreneurs (MAWE), National Association of Software and Services Companies (NASSCOM), Self Employed Women's Association (SEWA), ITC, World Bank, the Ministry of Micro, Small and Medium Enterprises (MSME), as well as other key associations and government ministers.

Over the last two years, WEConnect has convened and hosted numerous stakeholder outreach events and training sessions in India with partners, including a series of conferences on “Women as Vendors in Global Value Chains,” organized in June 2011 in Mumbai, Delhi, Bangalore, and Ahmedabad.

#### **CASE STUDY: WEConnect Pilot in India with SEWA**

The Self Employed Women's Association (SEWA) Pilot in India is an example of how WEConnect is currently working to educate and train women at the grassroots level. Starting 12 months ago, WEConnect, The World Bank, and Accenture launched a pilot program focused on poverty alleviation through business opportunities for members of SEWA.

SEWA is a labor union of women workers in the informal sector that are generally poor, illiterate, and vulnerable. As part of the SEWA Pilot, WEConnect is working on a local level with a subgroup of the informal sector comprised of “waste paper pickers.” To provide sustainable income to the 30,000 waste pickers, WEConnect is working closely with SEWA to provide hundreds of these women with improved livelihood prospects by training and engaging them in the production of office products made from recycled paper.

The WEConnect team in India has engaged technical assistance experts from Accenture, Staples, Giftlinks, and the ITC to help train SEWA members on ways to improve their business management, development, marketing, and communications skills to help ensure their recycled paper products meet market demands. The result: In less than one year, SEWA already has its first large corporate order for notepads and pens, with other orders pending final approval.

Some of the pilot's major challenges include limited funding, lack of literacy, access to affordable clean recycled paper, and limited experience in product development.

Some of the key achievements that lead to product orders included:

- Incorporation of the self-organized group of waste paper pickers
- WEConnect certification of the incorporated group
- Reliable source of 100 percent recycled paper; obtaining a copy of FSC and Paper Mill certificate
- Tie-ups with wholesalers, manufacturers, and courier services at negotiated price
- In-house capacity developed for cost- and time-critical activities like screen printing, cutting, etc.
- Shift from individual manufacturing to assembly line manufacturing with specialized work force center to overcome bottlenecks
- Significant product quality improvement using jigs and fixtures
- Training imparted in best and adaptable industry standards
- Products made cost competitive in market

## ***EUROPE***

Shifting demographics across Europe are motivating an increasing focus on programs that encourage tapping under-represented businesses. In the United Kingdom, for example, the ethnic minority population grew by 53 percent between 1991 and 2001; it is estimated this demographic group will double over the next 25 years. As the European marketplace becomes increasingly multi-ethnic and multicultural, forward-thinking companies realize

it makes absolute business sense to engage with a supplier base that can not only provide a competitive edge, but also represent the increasingly diverse population.

The growing trend of European supplier diversity programs is built on an increasing recognition that women-owned businesses are central to economic growth. For example, the United Kingdom includes more than a million self-employed women, generating around £130 billion (\$212 billion USD) turnover. Despite growing numbers of European women entrepreneurs, women-owned businesses are seriously under-represented in procurement contracts. WEConnect Europe, a U.K.-based, pan-European not-for-profit, estimates they comprise less than 1 percent of all domestic and international suppliers to corporations and governments.

### *The Context for Supplier Diversity*

The landscape for supplier diversity across Europe is very diverse, with disparate requirements and policies across the many nations. Some population and business census demographics exist in Europe, yet there are many gaps in the statistics needed to identify under-represented business populations.

As population demographics continue to shift across much of Europe, so, too, do the demographics of business communities. This trend has resulted in a pool of potential under-represented suppliers for corporations that is becoming increasingly more diverse.

While legislative frameworks exist in several European countries that are generally conducive to supplier diversity programs (among them France, Germany, Sweden), corporations looking to implement supplier diversity programs must craft their initiatives carefully to avoid positive discrimination that runs afoul of local law.

### *Current Supplier Diversity Trends*

While there are nascent emerging developments across Europe, the clear corporate focus today remains around the implementation of minority and woman's business-focused supplier diversity programs in the United Kingdom.

In the United Kingdom, ethnic minority definitions that support development of supplier diversity programs tend to align with categories represented in the U.K. Census:

- Asian: (a) Bangladeshi (b) Indian (c) Pakistani (d) Asian Other;
- Black: (a) Black African (b) Black Caribbean (c) Black Other;
- Mixed: (a) White and Black Caribbean (b) White and Black African (c) White and Asian
- Chinese

A few corporate, member-led organizations are currently driving expansion of supplier diversity programs across the United Kingdom and Europe:

**Minority Supplier Development UK (MSDUK)** works to provide a direct link between corporations and ethnic minority businesses to help build mutually beneficial business relationships. Certification as an ethnic minority business by MSDUK verifies that the business is majority-owned (51 percent) and controlled and managed by a person or persons of ethnic-minority origin. The goal of MSDUK is to assist bona fide

ethnic minority-owned businesses in becoming long-term, qualified entities capable of competing in the national and international economic mainstream.

**WEConnect Europe** is a U.K.-based, pan-Europe, not-for-profit organization that is opening doors to new supply chains. It registers and certifies firms that are at least 51-percent owned, managed, and controlled by women, connecting them with growing global demand from corporations and the public sector for diverse and innovative suppliers. Through the global network supplied by WEConnect International, WEConnect Europe partners with affiliate programs in Canada, China, India, and the United States.

**Supplier Diversity Europe** is committed to fostering an environment among participating organizations that will offer under-utilized businesses—including but not limited to those 51-percent owned and managed by minority, ethnic people, people with disabilities, and women—the same opportunity to compete for the supply of quality goods and services as other suppliers.

## ***BRAZIL***

### ***The Context for Supplier Diversity***

Four major groups make up the Brazilian population of approximately 190 million inhabitants: 1) the Portuguese, who colonized Brazil in the 16th century; 2) Africans brought to Brazil as slaves; 3) various other European, Middle Eastern, and Asian immigrant groups that have settled in Brazil since the mid-19th century; and 4) the indigenous people. The CIA's World Fact Book estimates that the Brazilian population is divided as follows: whites (including Portuguese, German, Italian, Spanish, and Polish) 53.7 percent mixed white and black 38.5 percent, black 6.2 percent, other (includes Japanese, Arab, Amerindian) 1.6 percent.

Slavery was introduced in Brazil shortly after the first Portuguese expedition arrived in Bahia in 1500 and lasted until 1888, longer than anywhere else in the Western Hemisphere. An estimated 18 million Africans were forcefully transported to Brazil, more than any other country or colony in the Americas. As slavery became economically and politically less feasible after 1850 and the British blocked the slave trade, Italian immigrants began replacing the slaves as laborers on coffee plantations in São Paulo. During the same period, settlers from Europe, primarily Germany, Italy, and Poland, established farming colonies in parts of the south. Brazil's racial mix was made more diverse with the arrival of Japanese and Middle Eastern immigrants in the early 20th century.

### ***Current Supplier Diversity Trends***

While organized efforts to promote supplier diversity in Brazil have existed for more than a decade, the concept remains relatively new and has been embraced by only a small handful of major corporations. Absent a government mandate requiring broad supplier diversity participation, very few multinational corporations have established formal programs to encourage using under-represented suppliers in their Brazilian operations. Existing Brazilian supplier diversity initiatives focus largely on businesses owned by:

- Afro-Brazilian descendants,

- Amerindians,
- People with physical disabilities,
- Women.

Currently, the leading Brazilian supplier diversity advocacy organization is the *Centro de Integração de Negócios* (INTEGRARE), an independent not-for-profit supplier diversity organization located in São Paulo, Brazil. Officially launched in October 1999 with the assistance of the National Minority Supplier Development Council (NMSDC) and under the name of Center for Entrepreneurial Integration of Ethnic Groups Historically Excluded from the Economic Process, INTEGRARE is dedicated to facilitating links between corporate members and suppliers from Afro-Brazilian descendants, Amerindians, and people with physical disabilities. INTEGRARE boasts a long list of corporate sponsors, including a number of U.S.-based multinationals, such as Accenture, Coca Cola, Dupont, EMC, IBM, Merck, and Unilever.

## **Establishing and Managing a Global Supplier Diversity Program**

A few key considerations should remain in focus when deciding to design and implement a global supplier diversity program:

- 1. A company should not try to “go global” before maturing its domestic program.** A global supplier diversity program should be built on a solid existing domestic program foundation. Fundamental elements such as adequate staffing and funding, written policies and procedures, automated spend reporting tools, etc., must be in place and mature prior to embarking on global program expansion.
- 2. Have a clear business case that articulates the value proposition for going global.** Earlier in this chapter I referred to the three C's of supplier diversity: compliance, corporate social responsibility, and competitive advantage. Before making the decision to invest time and resources, a company must evaluate and ensure that a compelling business case for expansion truly exists. This involves analyzing such questions as: Are our customers demanding supplier diversity performance outside of our country? Are we operating in countries with existing or developing mandates? Does global supplier diversity expansion support existing corporate goals and objectives?
- 3. Don't reinvent the wheel.** An established network of corporate-supported, non-governmental organizations (NGOs) exists to help companies expand their supplier diversity initiatives and build and implement global programs. Companies that wish to expand should consult with these best practice organizations to help gain a better understanding of the nuances and requirements in each expansion location.

Here are a few examples of leading global supplier diversity NGOs:

The **National Minority Supplier Development Council** (NMSDC) hosts the “Global Link Program,” aimed at fostering development of non-governmental organizations (NGOs) in several countries to help set consistent supplier diversity standards and link corporate buyers with underrepresented businesses. “NMSDC requires international affiliates to adhere to certification standards and operational procedures, and they have

to focus only on race or ethnicity in determining their client base,” notes Eric Vicioso, director of NMSDC International Programs. “The international affiliates, however, do determine who are the racial groups or ethnic groups to be served and they draw from their own government definitions of minority groups.” The NMSDC currently maintains affiliate relationships with NGOs that promote minority supplier development, including:

- Australian Indigenous Minority Supplier Council (AIMSC)
- Canadian Aboriginal & Minority Supplier Council (CAMSC)
- Minority Supplier Development China (MSD-China)
- Minority Supplier Development UK (MSD-UK)
- South African Supplier Diversity Council (SASDC)

In 2005, the **Women’s Business Enterprise National Council** (WBENC) launched its Global Business Initiatives through the WBENC Global Services & Programs Committee. WBENC’S Global Business Initiatives provide services and programs that:

- Help WBEs grow their businesses internationally
- Facilitate international contacts through in-country advocacy organizations
- Manage interface with WEConnect International
- Leverage international affiliates of WBENC corporate members, regional partner organizations, and WBEs
- Mentor emerging and established WBE advocacy organizations
- Share best practices, policies, procedures, and intellectual property to accelerate development of overseas programs
- Recognize and share success stories

**WEConnect International** is a global organization that facilitates sustainable economic growth by increasing opportunities for women-owned businesses to succeed in global value chains. WEConnect brings together corporations and other organizations committed to diversifying global value chains, so they can collectively empower the global marketplace to make swifter progress towards inclusive and sustainable economic development.

The organization’s growing global network includes WEConnect affiliates in:

- Canada
- Chile
- China
- Europe
- India
- Peru
- United States

## **Conclusion**

Minority, women, and other under-represented business ownership in the United States is very strong, and these under-represented businesses have benefited from a mature supplier diversity infrastructure that creates opportunities for these businesses to compete

for corporate contracts. While supplier diversity initiatives outside the United States are—as of this writing—largely nascent and developing, they are growing with great momentum. This growth is being driven by multiple factors, among them:

- Increasing recognition by governments that under-represented private enterprises are critical to a nation's economic strength, and that mandates, corporate incentives, and development-focused initiatives are required to foster business growth
- A set of leading NGOs, among them the NMSDC network, WBENC, and WEConnect International, offer a set of best practices as mature certification frameworks that can be leveraged by local emerging country advocacy organizations, small under-represented businesses, and corporations looking to establish global supplier diversity programs
- A growing corporate trend towards expanding the supplier diversity best practices of their U.S operations by creating supplier diversity policies and programs that cover their entire global supply chains.

Pushed forward by these key drivers, global supplier diversity programs will continue to grow and strengthen and, correspondingly, yield tangible results both for the under-represented businesses that win additional business as a result of these programs, and for the corporations that implement them.