

Racism and the Economy

focus on **Entrepreneurship**

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Title of proposal: Reimagining Supplier Diversity

Introduction

The racial uprising following the murder of George Floyd, coupled with the disproportionate impact of COVID-19 on BIPOC-led businesses have caused countless institutions and organizations to consider how they might better support small business success among people of color. The broader conversation typically lands on access to capital.

Venture capital in particular has come under increased pressure to be more inclusive, given that less than [1%](#) of venture funding goes to Black or Latin-X led startups. Financial institutions like SoftBank and Goldman Sachs have made multi-billion-dollar commitments, with some part of that undoubtedly being directed toward funding innovations.

While this is all encouraging, the moment seems to be bereft of any meaningful discussion on how BIPOC-led businesses better access the #1 capital source which hands-down beats grants, loans and equity investment combined. Revenue.

Afterall, businesses exist to make money.

One of the primary means by which entrepreneurs of color achieve scale is by securing large contracts with corporations and government through supplier diversity programs which exist to enable large-scale organizations and agencies to source diverse talent. ***Unfortunately, according to most accounts, the model doesn't work.***

While studies are few and far between, one [report](#) estimates that on average, just 10% of corporate spending is done with “disadvantaged businesses”. For many corporations, the “disadvantaged” include BIPOC, women, LGBTQ, disabled, veterans and even small business. When broken down, it is likely that corporate spending or “spend” with BIPOC-led small business rests in the low one-digits, not far from the paltry performance of Silicon Valley venture firms. The lukewarm performance of these programs is echoed by supplier diversity professionals. According to a 2018 [report](#) 2/3 of respondents rated their programs as ranging from somewhat effective to not effective at all.

So, what accounts for the meager performance?

It typically comes down to two key challenges: 1) securing the necessary support within the corporation and 2) identifying qualified suppliers.

If corporations are finally becoming “woke”, it is because most have been sound asleep when it has come to issues of diversity and inclusion – particularly supplier diversity which falls under procurement, and receives less visibility than other DEI focus areas like HR or marketing. Supplier diversity professionals have long bemoaned the challenges they face in securing resources and cross-organizational buy-in, having to be singularly responsible for “changing the perception that diverse business equals less quality and more risk” ([source](#)). This lack of commitment is evidenced by the fact that [54%](#) of supplier diversity programs maintain one or fewer fulltime staff.

When it comes to sourcing qualified vendors, corporations largely rely on certifying agencies like National Minority Supplier Development Council ([NMSDC](#)) and Women’s Business Enterprise National Council ([WBENC](#)) which charge small businesses to verify they are at least 51% owned by someone from a disadvantaged group. It is estimated that upwards of [72%](#) of supplier diversity programs use certifying agencies to source vendors. More than [half](#) refuse to allow businesses to self-classify as a diverse supplier.

Unfortunately, certifying agencies certify a miniscule portion of the total universe of diverse suppliers. While there are more than 6 million BIPOC-owned firms, (1 million with employees), less than 1%, just [13,000](#) maintain certification at a given time.

Once certified, business owners are encouraged to “work” the circuit. This means attending national conferences and regional events, where hundreds of business owners, armed with business cards and capabilities statements jockey for the attention of corporate representatives.

More often than not, that small business owner is encouraged to submit their information to a corporate vendor portal, which is at best an email list and at worse, a black hole. For the few who are able to work the system, there are occasional opportunities. But for most, there are no contracts to be found. Just lots of wasted time and money.

The experience can be equally frustrating for corporations. Because certifying agencies do only minor vetting and offer very little in the way of business development, small supplier diversity staffs are left to field inbound from diverse suppliers, all while navigating internal politics and apathetic colleagues.

This produces a system where supplier diversity professionals continue to lament their lack of access to qualified vendors and small business owners amass negative encounters with the supplier diversity system which leave them disenchanting, discouraged and systematically disconnected from the sorts of opportunity that could take their business to the next level.

So, where's the outrage? How is it that corporate supplier diversity programs have historically performed so abysmally, yet have largely evaded calls for reform?

Unfortunately, diverse suppliers go relatively voiceless in the current supplier diversity model. Certifying bodies for instance are corporate-led with most if not all the board seats reserved for corporate supplier diversity leadership. Other would-be advocates have business models that largely depend on corporate sponsorship. Without the cover of a collective front, individual small business owners are crushed under a power dynamic which stifles their input, with any push for reform making them vulnerable to being blacklisted.

This produces an industry replete with awards dinners and Top 10 lists that celebrate the couple dozen corporations who through focus, determination and tremendous leadership have managed to make supplier diversity a priority, instead of the hundreds for which it is barely a consideration at all.

Because there are few willing to hold corporations accountable, little ever changes.

Reimagining Supplier Diversity

Being better at doing business with BIPOC-led firms is not only a social imperative but an economic one. According to *McKinsey & Company*, achieving racial parity between white and Black businesses alone would add an estimated \$290 billion to the economy ([source](#)). As the evidence suggests, supplier diversity in its current iteration will not get us there. That said, instead of asking how we might improve supplier diversity, this proposal offers a different question: *What is the best possible model for connecting BIPOC-led small business owners and entrepreneurs to long-term corporate contracts?*

By shifting the frame from fixing the broken solution (supplier diversity) to fixing the actual problem (lack of access to opportunity), we are better able to vision, ideate and think most creatively about how we solve the problem. Doing this well requires a collaborative effort that syncs the experience, goals and priorities of the range of stakeholders to solve a complex problem for which there are incredibly high stakes.

The Proposal

I recommend the creation of a national commission tasked with offering up a reimagined approach to how corporations might better do business with BIPOC-led firms and startups. Supplier diversity is a 50+ year old model created under the Nixon administration in the aftermath of the Civil Rights Movement. That it has evolved very little is further evidence that the system is overdue for an overhaul.

The ***Reimagining Supplier Diversity Commission*** would be comprised of key stakeholder groups capable of representing the interests of both the corporations and the small business owners

and entrepreneurs. Such groups would include corporations, certifying agencies, BIPOC-led small business advocates and intermediaries, entrepreneur and innovator support organizations, existing diverse suppliers, other small business owners and startups.

The work would focus on BIPOC efforts and be filtered through a racial equity lens. While supplier diversity was first introduced as a means of addressing racial injustice, it has since been opened up to a range of demographics. While disadvantaged businesses of all stripes face challenges. They don't face the same challenges to the same degree. Additionally, while new categories are continually added, there is little evidence that opportunities are growing in tandem. By centering BIPOC-led small businesses, the industry can place focus on the area of difference for which there is greatest resistance and therefore constitutes the heaviest lift.

Potential themes to be taken up by the *Reimagining Supplier Diversity Commission* include:

Increase Transparency – The only corporations that tend to make their data public are those considered top performers; and it's at their own discretion. If corporate America truly desires to get this right, there needs to be greater transparency into how these programs are performing and the challenges they face.

Improve Reporting – Given the lack of transparency, there are few comprehensive reports or studies that provide real insight into the current state of supplier diversity. Without consistent reporting, it will be difficult to innovate and improve moving forward.

Capture Better Metrics – While corporations like to focus on the total amount of spend, the figure tells us little about the quantity nor quality of those engagements. For instance, what is the total number of disadvantaged firms engaged? What is the breakdown across disadvantaged groups? What is the vendor attrition rate? What is the average invoice turnaround time? How many new firms are being onboarded every year? These answers are key to understanding the real impact these programs are having on communities of color.

Eliminate Certifications – Certification is a relic of a past era. Not only is it degrading to require a small business owner to "certify" their race, gender or sexual identity, it creates yet another hurdle for those seeking to do business with corporate America that their white-male cisgendered counterparts don't have to clear. There has got to be a better way to avoid misrepresentation and fraud.

Work with BIPOC-Serving ESOs – The entrepreneurial landscape has transformed over the last decade producing a steady crop of entrepreneur support organizations (ESOs) committed to the development of entrepreneurs of color. They are a potential partner for corporations seeking to access diverse suppliers, yet because of the heavy reliance on certifying agencies, few pipelines connecting ESO's to corporations exist.

Moving Forward

Corporate America is emerging from this moment with big goals for doing business with entrepreneurs of color, but the traditional supplier diversity model is ill-suited to deliver on any of them. Sure, there are corporations who have proven world-class in their ability to create an inclusive vendor base, but they are few and far between. And, chances are, if you look into their approach, you'll find that they operate outside of a traditional supplier diversity model, circumventing the system to establish dedicated programs and partnerships. Under the current model, [90%](#) of corporate spend is going to large companies led by, cisgendered, non-veteran, able-bodied white-men. In an ever-diversifying world, where there remain clear and present battles yet to fight in achieving economic justice and racial equality, such approaches are no longer palatable.

It is time to pull together a coalition of the willing, those who see the need for reform and have the power to do something about it. If we are to capitalize on the opportunity presented by entrepreneurship to bring about economic equality, we must reimagine supplier diversity. And we must do it today.