

Supplier Diversity

An Ethical Decision with Economic Benefits

Whitepaper

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Is Supplier Diversity the Next Big Business Trend?

Supplier diversity is one of those terms that you may have heard of, but don't quite understand yet.

In simple terms, it means having a proactive strategy to promote the use of historically under-utilised businesses in an organisation's supply chain.

Most supply chains are not diverse, and this may derive from a wider diversity problem in the workplace, as unconscious bias often leads people to go with what they know when it comes to supplier selection. But, just as diversity and inclusion is more visible across organisations, it is also growing in supply chains.

You'd do well to become acquainted with this growing business trend, as investing in a properly managed supplier diversity strategy unpacks a host of benefits – including positive impact on a firm's bottom line.

Admittedly, within the UK and Europe, Supplier Diversity is still in its infancy - with little information or agreement on best practices and processes – but companies as big as Barclays, IBM and Unilever already have well established supplier diversity programmes in place and have made public announcements to promote supplier diversity.

What exactly is supplier diversity?

To unpack it a little more, supplier diversity means including more diverse businesses in your chain, which is defined as a company that's at least 51% owned by diverse individuals or groups that have historically been underrepresented within the economy.

Supplier diversity has its roots in the US where, in the wake of the civil rights movement, legislation was passed that required government agencies to establish supply contracts with minority-owned businesses. This trend spread into the private sector, particularly after the creation of the National Minority Supplier Development Council in 1972.

Since then, the importance and visibility of supplier diversity has kept growing and 'diverse-owned business' has become a term that encompasses ownership across a wide range of groups.

Examples of diverse businesses include:

- Minority owned,
- Female owned,
- Former service personnel owned,
- LGBTQ+ owned,
- Disabled owned,
- Neurodivergent owned (the neurodivergent community includes people who live with autism, dyslexia, dyspraxia, autism, ADHD and other neurological conditions).

An ethical decision with economic benefits

It's perhaps not surprising that supplier diversity is increasing in popularity, as we live in a society where diversity is more celebrated than ever before. While there is still much work to be done, a confluence of events has brought us here and diversity is increasing in many areas of life, from politics to the entertainment industry, so it follows that the same should be happening within business supply chains.

One reason that supplier diversity is gaining traction is that many firms see it as part of CSR (corporate social responsibility), which dictates that commercial success should be achievable whilst respecting ethical values, the environment, and the needs and concerns of society as a whole. Firms invest in CSR as it's a way of doing good that also has the happy consequence of boosting reputation.

And of course, a successful supplier diversity programme can lead to big gains in terms of enhanced reputation and public image. People want to deal with ethically sound businesses, so being seen to use diverse suppliers makes it easier to sell to customers, to employ and retain staff, and to attract investment.

Some companies see supplier diversity as a cost that has to be borne for CSR purposes. But this misses the point that, as well as being a good ethical choice, it is also a good economic choice.

Economic benefits

The economic benefits of supplier diversity are backed up by research. A 2017 report by The Hackett Group found that virtually all diverse suppliers meet or exceed expectations. It also found that the top corporate performers regarding supplier diversity experienced no loss in efficiency, and instead saw improved quality and benefits such as increased market share and access to new markets.

Also, studies show that increased innovation is another key benefit of supplier diversity, which can lead to a new and better way of doing things within the buying company and have a positive impact on the bottom line.

So, it's not about finding diverse suppliers for the sake of it and to meet CSR targets, it's about finding exceptional suppliers who *also* happen to be diverse businesses. These have often been started by people who have been undervalued in a previous role and have gone into business on their own as a way of channelling passion and energy that was being overlooked in a previous role.

Take note of the big players!

As I said at the start of this piece, supplier diversity is something the biggest companies in the world are pursuing. It is the stated aim of Barclay's, for example, to 'do business with the most innovative, responsible, cost-competitive diverse suppliers – wherever in the world we do business.'

Similarly, Unilever – the Anglo-Dutch multinational behind brands like Knorr, Hellman's and Dove – takes supplier diversity very seriously. The company has a Supplier Development Programme that's designed to address the problems that have held diverse partners back in the past. This comes with a commitment to spend €2 billion annually with diverse businesses by 2025. The idea is to increase the diversity of Unilever suppliers, but also to provide access to skills, financing and networking opportunities to build the capability of diverse groups running businesses, and to support diverse individuals who could be the entrepreneurs of the future.

A sum of €2 billion a year is serious money, suggesting that Unilever sees this as an investment, rather than a cost, that goes way beyond just reputation management.

How to set up your supplier diversity programme

The need for, and benefits of, supplier diversity are many.

But getting involved takes work and commitment, along with executive, board and shareholder approval. Diverse suppliers tend to be smaller firms, and often lack the financial ability to make themselves visible. So, they rely on being found rather than having an active sales strategy that puts them on the radar when it comes to bids and tenders. Also, from the buyer's perspective, it's difficult to evaluate suppliers based on diversity criteria because - in the UK and Europe - relevant data is not readily available, aggregated or centralised.

So, as with anything, there needs to be a proper plan in place if your supplier diversity programme is going to be successful.

To start with, there must be a mandate within your business, approved and supported by senior management, that calls for your firm to seek out and work with diverse suppliers. Of course, an individual buyer or manager can still make a difference by choosing diverse suppliers, but for it to be an organisation-wide success, there must be backing from the senior level.

Then you need an agreed process for finding, evaluating and choosing diverse suppliers. Targets are also important (as with Unilever) and there needs to be a proper reporting mechanism that tracks what is happening and identifies and reports on the benefits that supplier diversity is delivering for your firm, so that ROI can be established.

And when looking for diverse suppliers it's important to level out the playing field, as these firms often have challenges that other – normally larger and better established – suppliers

don't. For instance, it's useful to recognise that what a diverse supplier may lack in certain areas – e.g. a slick and professional sales package – they make up for in others, such as more personal, agile and superior customer service.

And give yourself some time – both to find your suppliers and to see the benefits of your plan. Eventually you'll reach a point where your supplier diversity strategy, with all the benefits it brings, becomes an integral and sustainable part of your company.

Lastly, and perhaps most importantly, there needs to be change from within regarding diversity and inclusion. Unconscious bias is heavily influenced by workplace factors. But in a truly diverse workplace, where your colleagues come from a range of different backgrounds, unconscious bias disappears. A diverse workplace encourages a diverse supply chain – with all the benefits that come with it.

Change is coming – it's time to get ahead of the game.

The supplier diversity movement, at least in the UK, is still in its infancy and in some quarters is viewed as a minor issue that plays well in a PR sense, so needs some attention (but not too much). It's likely that some firms, even if they appear to take supplier diversity seriously, are just paying lip service to the idea in the hope of generating good, and avoiding bad, publicity.

But the situation is rapidly changing. People want and need to see ethical responsibility from firms they deal with – and this applies to customers, investors and employees. It's now commonplace to see businesses receiving widespread criticism for not having diversity at boardroom level, for example, or for having a wide gender pay gap. As a result, change is happening in these areas.

And the next big ethical issue is going to be supplier diversity – it will soon be a bone of contention if companies are not addressing this issue and exploring and capitalising on the range of diverse suppliers out there.

Perhaps the biggest reason for adopting a supplier diversity programme comes down to the bottom line – it's actually more of an economic necessity than a reputational one. Diverse suppliers have the hunger and passion necessary to deliver an excellent service, put in a competitive tender, and make innovative and creative suggestions that can transform outdated processes for the better, and improve your customers' experience.

Ultimately, introducing a supplier diversity programme is not only the moral and ethical thing to do, it's also the right financial choice for your business.

About the author

Jason Roberts is CEO & Founder of Kaleida International, the UK and Europe's first, fully-inclusive, online B2B marketplace for public and private sector tenders.

With a strategic focus on innovation discovery for Buyers, revenue generation for Suppliers and providing firms with a global repository of Supplier Diversity data, Kaleida is the premier platform for global B2B engagement and relationships.

Discover more at www.kaleida.co

5 Easy Steps to supplier diversity visit www.kaleida.co/supplier-diversity

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