Supplier Diversity: A Mechanism for Supporting Minority Entrepreneurship

Fred McKinney

Introduction

The Supplier Diversity (SD) movement is a programme instituted by the U.S. federal Government and U.S.-based corporations to encourage the use of minority businesses as suppliers by major public and private buying organisations. It is a movement reminiscent of many of its progressive predecessors (e.g. the fights for union's rights, women's rights, civil rights, marriage equality and environmental rights). These movements share commonality in their ability to mobilise the grievances of a minority group to capture the zeitgeist through the formation of organisations aimed at advocating for change. In recent decades, SD has grown to include businesses owned and operated by a variety of minority groups—racial and ethnic minorities, women, the disabled, and people who identify as LGBTQ (see Table 1).

The combination of these diverse populations now represents the majority of the American landscape (see Table 2). According to the U.S. Census, 75.9 percent of all Americans are either racial or ethnic minorities or White women. These changes have brought new opportunities to historically oppressed groups, but they have also revealed the immense challenges associated with achieving true economic equality. This chapter aims to capture

F. McKinney (✉)
Quinnipiac University, Hamden, CT, USA

T. M. Cooney (ed.), *The Palgrave Handbook of Minority Entrepreneurship*,
https://doi.org/10.1007/978-3-030-66603-3_21

Table 1 Businesses in the United States, 2012

Business	
Men-owned	14,844,597
Women-owned	9,878,397
Minority-owned	7,952,386
Non-minority owned	18,987,918
Veteran-owned	2,521,682
Non-Veteran owned	24,070,685
Total firms	27,626,360

Source U.S. Census Bureau

Table 2 Percentage of ethnic and racial minorities and white women in the United States, 2019

Race, Ethnicity and White Women	Percentage, 2010
Hispanic or Latino	16.3
Black or African American	12.6
American Indian or Alaska Native	0.9
Asian	4.8
Native Hawaiian or Other Pacific Islander	0.2
Some other Race	6.2
Two or More Races	2.9
Total Percentage of Ethnic and Racial in U.S. Population	43.9
Percentage of White Women	32
Total Ethnic, Racial and White Women in U.S. Population	75.9

Source U.S. Census Bureau: Tables PL1 and PL2

some of the most important components of the Supplier Diversity Movement in the United States between 1980 and 2019.

The Pre-Movement Years: The Legacies of Slavery and Jim Crow

Over the course of the almost 250 years during which slavery was legal in the United States (1619–1865), Black individuals were denied many of the most basic rights—owning property, employing or contracting with European Americans, voting, marrying or traveling freely, attending school and learning to read or write (Vann Woodward 1955). However, explosions of racial tension during the Civil War brought a brief period of relative equality for those freed from bondage. During this short period of Reconstruction (1865–1877), the Constitution grew to include three Amendments that gave important rights to the Black population. The 13th Amendment abolished slavery, the 14th Amendment bestowed equal protection of the law for all American citizens, Blacks included. The 15th Amendment made it unconstitutional for states to prevent American men of any race from voting. Union troops enforced these amendments in the South. However, the removal of these troops in 1877 made room for former Confederate leaders to repress Black individuals. Under this regime, African Americans experienced slavery under a new name—Jim Crow. In the Classic book, *The Strange Career of Jim Crow*, Vann Woodward (1955) chronicles the rise of Jim Crow laws that segregated most aspects of Black and White life. Blacks could not live with Whites, nor could they employ them, marry them, lend to them or go to school with them. Theatres, restaurants and public conveyances, among other public spaces, developed respective spaces for each race. Additionally, several obstacles prevented Blacks from voting or holding political office. By 1900, the new Jim Crow laws mingled with deeply established customs to codify the second-class status of Black individuals. It is this second-class status that would motivate the Civil Rights Movement.

The Fight for Civil Rights: The Early Years

Many of the most recognisable movements rise from a pivotal event that catapults people into action through organisation; or at the very least, pushes individuals to refute the status quo. For the U.S. Civil Rights Movement, there were two such events. In 1954, the Supreme Court of the United States, after several years of litigation by lower courts, decided Brown v. Board of Education (1954). The case questioned the constitutionality of state-sponsored segregation in American public schools. Thurgood Marshall argued that separate school systems for Blacks and Whites were inherently unequal and thus violated the Equal Protection Clause of the 14th Amendment. Under the leadership of Chief Justice Earl Warren, the justices unanimously decided that separate educational institutions were inherently unequal, thus overturning the precedent established by Plessy v. Ferguson (1896). In doing so, the Court eliminated the legal grounds for the segregationist nature of Jim Crow laws, supposedly overthrowing the social regime that had replaced slavery as the defining basis of the relationship between Blacks and Whites, as well as that between Blacks and the State. There was finally a promise that all men and women might truly be created equal as was suggested in the Declaration of Independence. The case provided legal support for what Black Americans and their supporters knew to be the moral social order.

However, the suggestion by the Brown v. Board of Education (1954) decision that Black Americans might be elevated to equal standing with their White counterparts was disproven by the murder of Emmett Till in Money, Mississippi on August 28, 1955. Till, a 14-year-old boy from Chicago spending the summer with relatives in Mississippi, was brutally beaten and murdered after being accused of making physical and verbal advances against a White, female cashier. The accused behaviour violated the unofficial code of conduct for an interaction between a Black man and a White woman in the South. However, in September 1955, Till's murders were acquitted of all kidnapping and murder charges by an all-White male jury (Tyson 2017). The acquittal contradicted the promise of racial equality laid forth by Brown v. Board of Education (1954), calling attention to the inability of American democracy to protect its most vulnerable citizens. It also highlighted that Black Americans were still subject to mob justice despite the rule of equality codified in the Constitution decades before; a structure supported by the inaction of the legal body (Tyson 2017). The contradiction between these two events bolstered any previously sheltered calls for change by Black leaders. Less than six months after Emmett Till's murder, the Montgomery Bus Boycott began (the first large-scale demonstration against segregation), running from December 5, 1955 to December 20, 1966 (Burns 2012). The fight for Civil Rights had begun.

The success of the Montgomery Bus Boycott brought federal attention to the deep segregation within the country. Shortly after its conclusion, President Eisenhower sent federal troops to Little Rock, Arkansas to protect nine Black students as they attempted to enrol in the city's Central High School. The act was the first attempt by the federal government to enforce the Brown v. Board of Education (1954) decision and provided additional momentum for the growing Civil Rights Movement (Fitzgerald 2007). In 1957, Reverend Dr. Martin Luther King Jr. and other community leaders formed the Southern Christian Leadership Council (SCLC). Together with the Student Non-Violent Coordinating Committee, the Congress for Racial Equality, the NAACP, the National Urban League and countless other organisations began their concerted attack on Jim Crow (Kluger 2011). Their collaborations resulted in the passing of the Civil Rights Act of 1964 and the Voting Rights Act of 1965. These Acts reinforced the Amendments that had been passed a century earlier. Within 100 years of the conclusion of the Civil War, the Civil Rights Movement had successfully advocated for changes that would again change the fabric of American society.

The Civil Rights Movement as an Impetus for the Supplier Diversity Movement

The earliest stirrings of the Supplier Diversity Movement coincided with the height of the Civil Rights Movement. After the passing of the Civil Rights and Voting Acts, Dr. Martin Luther King Jr. and other activist leaders shifted their attention to the less obvious problems plaguing the livelihoods of African Americans living in the North and the West. However, this shift was proving more difficult than anticipated as riots broke out in locations such as Watts (California) (Stevens 2012). Despite some people believing that strict non-violence would not be an adequate means for change, Dr. King met with the local White corporate leaders in Chicago in the late 1960s. These prominent businessmen (including George Johnson, President and CEO of Western Electric and Robert Stuart of National Can) asked Dr. King what they might do to help. Dr. King suggested that their most powerful tool of support might be to give Black business owners opportunities to work with their firms. In response to the suggestions put forward, the city of Chicago held its first Chicago Opportunity Business Day in 1967, the first expo whereby African American businesses and large public and private corporations joined together in the pursuit of business opportunity (Chicago MSDC 2020). The next year, the Chicago Regional Purchasing Council was formed by corporate leaders from 52 large corporations. These were the early stirrings of conversations surrounding corporate supplier diversity, and more broadly, the Supplier Diversity Movement (SDM) as one might recognise it today.

The whispers of corporate change in 1967 were starkly juxtaposed against violent uprisings in Black and Latino neighbourhoods across the United States, as the nation struggled to reckon with the growing legislative changes, the fervency of the Civil Rights Movement and deep economic inequality. The summer months of 1967 were filled with 159 race riots in some of America's most prominent cities, now collectively known as the "long, hot summer of 1967" (McLaughlin 2014). The most violent of these outbursts, the Denver Riot of 1967, was the worst uprising seen since the Civil War, resulting in 43 deaths, 1189 injuries and over 7200 arrests (Locke 2017). President Lyndon B. Johnson appointed the Kerner Commission in response to the Denver Riots to investigate the underlying reason for the riots. The Commission found Black frustration with their lack of economic opportunity to be the cause of the riots and pointed to failed housing, education, and social-policies as contributing factors towards Black anguish U.S. Kerner Commission (1968). Dr. King's assassination less than a year later after the Denver Riots prompted another series of riots across American cities and towns, another public portrayal of the deep levels of discontent present within Black urban communities.

The mass rioting and unrest quickly drew political attention, becoming a point of focus for the 1968 presidential race. Republican candidate Richard Nixon ran on a platform of returning law and order to American society. While the election was close (Nixon defeated his opponent by less than 500,000 votes), the platform was a successful one, appealing to the masses, who by 1968 were either disgruntled by the economic instability plaguing their minority community or the disruptive nature of the burgeoning civil unrest. Nixon addressed these sentiments in his acceptance speech, stating:

> For a few moments let us look at America, let us listen to America to find the answer to that question. As we look at America, we see cities enveloped in smoke and flame. We hear sirens in the night. We see Americans dying on distant battlefields….We see Americans hating each other, fighting each other, killing each other at home….It is in the voice of the great majority of Americans, the forgotten Americans – the non-shouters, the non-demonstrators….When the nation with the greatest tradition of the rule of law is plagued by unprecedented lawlessness; When a nation that has been known for a century of equality of opportunity is torn by unprecedented racial violence: And when the President of the United States cannot travel abroad or to any major city at home without fear of a hostile demonstration – then it is time for new leadership. (Nixon 1968)

Alongside his call for law and order, President Nixon became an advocate for accessible economic opportunity, recognising the power of supplier diversity in quelling the unrest experienced in American cities. This was consistent with conservative ideology which regarded entrepreneurship as the anecdote to poverty (Weems and Randolph 2001). The approach differed significantly from President Johnson's "War on Poverty" whereby welfare programmes might provide adequate support for struggling populations. Republicans posited that "black capitalism" was consistent with their framework of American progress. On the other hand, they believed the "War on Poverty" programme destroyed the incentives that promoted economic progress. This fundamental difference in emphasis remains an issue today (Coleman 2019).

On March 5th, 1969, less than two months after his inauguration, President Nixon signed Executive Order 11,458, thereby creating the Office of Minority Business Enterprise within the U.S. Department of Commerce, an office charged with ensuring protection for minority businesses. The goals were presented in the first section of the Order:

> 1. Coordinate as consistent with law the plans, programs, and operation of the federal Government which affect or may contribute to the establishment, preservation and strengthening of minority business enterprises.
> 2. Promote the mobilization of activities and resources of state and local governments, businesses and trade organizations, universities, foundations, professional organizations and volunteer and other groups towards the growth of minority business enterprises and facilitate the coordination of the efforts of these groups with those of federal departments and agencies. (Nixon 1969)

Executive Order 11,458 solidified supplier diversity as a government objective, creating what would later become the Minority Business Development Agency (MBDA) within the Department of Commerce and establishing the legal basis for providing the seed money that would create and support the National Minority Supplier Development Council (NMSDC) in 1972 (Chicago MSDC 2020).

Executive Order 11,458 was quickly followed by Executive Order 11,625 in October 1971 which substantially increased the funds available to minority firms and mandated the creation of a federal apparatus to encourage the use of minority-owned firms in federal contracts:

> The head of each federal department or agency, or a representative designated by him, shall, to the extent provided under regulations issued by the Secretary, after consultation with the official designated [...] report to the Secretary on any activity that falls within the scope of the minority business enterprise program [....] Each federal department or agency shall with constraints of law and [...] continue all current efforts to foster and promote minority business enterprises and to support the program. (Nixon 1971)

Together, these executive orders solidified the position of the federal Government as a leader in promoting minority business development; actively working to combat the overwhelming severe disadvantages that had historically limited their participation in the nation's free enterprise system. The Carter Administration added to this progress, signing Public Law (PL) 95-507 into law in 1978. The new law brought sweeping reforms to the Small Business Act, legislation originally aimed at assisting and protecting the interests of small businesses in the United States. The reforms established infrastructure for supporting small businesses owned by members of historically disadvantaged communities, encouraging their procurement in government contracts alongside larger, more established contractors via a series of "set-a-asides". The law stipulated that it was the policy of the federal Government:

> to provide maximum practicable opportunities in its acquisitions to small businesses, small disadvantaged businesses and women-owned businesses. (Addabbo 1978)

To accomplish this task, the law mandated the creation of the Offices for Small and Disadvantaged Business Utilization (OSDBU) within each federal agency. These offices would work to heighten the awareness of minority groups of government contracting opportunities. The law also created the 8(a) programme for small businesses, a business development programme that provides business training, counselling, marketing and technical assistance to small businesses that are certifiably disadvantaged. The certification criteria are especially important to note because they identified which groups were eligible for "disadvantaged" status:

> the contractor shall presume that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans, and other minorities, or any other individual found to be disadvantaged by the Administration pursuant to the Small Business Act. (Addabbo 1978)

This definition would ultimately be adapted within the larger context of the growing Supplier Diversity Movement. In creating policy mandating minority participation in procurement practices, the federal Government propelled the growth of the Supplier Diversity Movement.

The National Minority Supplier Development Council and Expansion of Supplier Diversity

While the Supplier Diversity Movement really flourished through government legislation, the manifestations of Supplier Diversity evolved with time.

1. *Models of Compliance, 1973–1998*

The sweeping legislative changes of the early 1970s meant the government agencies would only sustain contractual agreements with organisations that provided a certain amount of opportunity to disadvantaged businesses. These efforts by the federal Government to promote supplier diversity enabled the Supplier Diversity movement to blossom. Corporate leaders who recognised the key role the government played in supplier diversity initiatives, as well as the pressures of a changing demographic landscape of the United States, recognised the benefit of enhancing supplier diversity in their own organisations (NMSDC 2018). In Chicago, Robert Stuart of National Can (alongside other corporate leaders) appealed to the federal Government to support the National Minority Purchasing Council, which they had established in 1972 (Chicago MSDC 2020). With the support of the U.S. Department of Commerce and the Minority Business Development Agency, the National Minority Purchasing Council was renamed the National Minority Supplier Development Council in 1973 (NMSDC 2018).

Because the movement towards supplier diversity was heavily influenced by the government programmes that had produced the NMSDC, these organisations primarily viewed the issue through the lens of legal compliance. The early NMSDC messages encouraged its corporate members to set goals for minority procurement and inclusion as prescribed by federal legislation. These goals were then reinforced by their government contracts by the newly formed Office of Small and Disadvantaged Business Utilization (OSDBU) which used either financial incentives or punitive tactics to ensure compliance. For example, the Department of Defense (DOD), then the largest procurement organisation in the world, subjected their largest contractors to annual reviews of their utilisation to ensure they met supplier diversity goals. A failure to meet goals could result in the cancelation of federal contracts and other punitive measures (everycrsreport.com 2020). In response to these reforms, member corporations of the NMSDC hired Small Business Liaison Officers (SBLOs) who were responsible for managing relationships with partnered "disadvantaged businesses" within their corporate supply chain on any federal government contracts. These SBLOs could be considered as the first supplier diversity professionals of corporate America.

The compliance model of mandated supplier diversity became a system of "set-a-sides" whereby government contractors set aside subcontract opportunities with disadvantaged organisations. This compliance model permeated across America's largest companies. General Motors (GM), one of the founding members of the NMSDC, is one such example. The corporation (then the largest in America) found itself at the centre of urban unrest, when the communities of Detroit (Michigan), its base city, erupted in the largest urban riot in the history of the United States in 1967. This unrest was heightened with the assassination of Dr. King, encouraging GM leadership to commit to supporting minority businesses in its 1970 Annual Report:

> In April 1970, GM formed Motor Enterprises, Inc. a Minority Enterprise Small Investment Company (MESBIC). The GM commitment to invest $1 million, which when added to program funds available from the Small Business Administration and bank loans guaranteed by that agency can provide up to $15 million in capital assistance to minority-owned businesses. An important feature of this GM program of capital assistance is that it is supplemented by technical assistance by General Motors management in GM plant cities. To date, Motor Enterprises, Inc. has invested in 17 minority-owned businesses in 13 US cities [….] General Motors has announced it is committing $5 million in bank deposits in banks which are predominantly owned and patronized by minority firms and people. (General Motors 1970)

With this commitment, GM became a leader in the growing movement towards establishing corporate supplier diversity programmes. However, it is clear that the compliance model was the main driver of Supplier Diversity.

The incentive structure underwriting the popularity of the compliance model broke down with the Adarand Constructors, Inc. v Peña (1995) Supreme Court decision. The case questioned whether race alone was an appropriate metric for certifying disadvantaged groups as was common practice for the Small Business Administration, and whether the consequential allocation of favoured treatment to a group determined to be disadvantaged because of race was a discriminatory practice that violated the equal protection clause of the 14th Amendment and the due process clause of the 15th Amendment. The case was brought to the court when Adarand Constructors lost a subcontract bid for Mountain Gravel and Construction for a project with the Department of Transportation to Gonzales Construction despite presenting the lowest bid. Gonzales Construction was awarded the bid because it had been certified by the Small Business Administration as a disadvantaged business and because doing so would make Mountain Gravel eligible for financial incentives for employing a disadvantaged business. Adarand Constructors sued, arguing that the subcontracting incentive clause that caused Adarand to lose the subcontract bid was unconstitutional. The Court ruled in favour of Adarand, reversing the earlier view that racial minorities were by definition disadvantaged. The Supreme Court decision reinforced the judgement in The City of Richmond v. J.A. County (1975) which asserted that the municipal "set-a-sides" encouraged by the City Council of Richmond Virginia were "generalised assertions" of past racial discrimination that did not justify the rigid quota system of awarding public contacts. These two cases eliminated the legality of racially based "set-a-sides" and compliance programmes, giving way for the Supplier Diversity Movement to take root in other ways.

2. *Supplier Diversity: The Right Thing to Do—1998–2008*

As the compliance model became increasingly popular, consumer product giants such as General Motors, Ford, AT&T, Proctor and Gamble, Johnson and Johnson joined large Department of Defense contractors as corporate members of the NMSDC, expanding focus on supplier diversity across the business world. As many of America's largest corporate players aggressively sought out certified minority business enterprises, minority businesses now had strong reasons to become certified with the NMSDC as a way to improve their visibility and bolster their chances of winning contracts with firms that had statutory or strategic reasons for participating in the ongoing Supplier Diversity movement. These organisations received positive feedback as a growing number of publications, programmes and rewards recognised outstanding instances of corporate citizenship with regard to supplier diversity. Publications such as Minority Business News USA, Diversity Plus, MBE Magazine, and Diversity Inc. honoured organisations they regarded as leaders in supplier diversity and led open discussions about the growing number of regional NMSDC councils. The emergence of these publications suggested that Supplier Diversity had become more than an issue of compliance, firms were expected to do it simply because "it was the right thing to do".

As minority business enterprises flourished in the presence of the NMSDC, other underserved groups sought to receive similar support from leading corporate actors. White Female entrepreneurs initially attempted to participate within NMSDC, however, the NMSDC's close ties to the African American struggle meant their introduction received notable pushback. As a result, the Women's Business Enterprise National Council (WBENC) was formed in 1997. Many of the established corporate members of NMSDC joined WBENC as well, suggesting SD was now a deeply engrained cultural phenomenon of social responsibility within the corporate environment. In the early twenty-first century, the movement then spread to other underserved communities. In 2002, the National LGBT Chamber of Commerce was founded to serve entrepreneurs within the LGBTQ community (NGLCC 2020), and the U.S. Business Leadership Network (USBLN) formed in 2008 to support the needs of Disability-Owned Business Enterprises (Disability:IN 2020), further expanding the possible types of certification organisations as well as the number of businesses participating in corporate supplier diversity. Each additional dimension of corporate supplier diversity provided greater entrepreneurial opportunity for individuals of historically underserved and underappreciated communities. However, as the number of identities included in the movement grew, corporate supplier diversity became increasingly difficult to manage, a hardship that would deepen during the economic repression.

3. *The Business Case for Supplier Diversity, 2008–Present*

The Connecticut Minority Supplier Development Council (CMSDC) had its first meeting of its annual Business Opportunity Fair on September 15, 2008. This was also the day that the Lehman Brothers filed for bankruptcy. Instead of its usual excitement as 200 corporate members and 400 certified minority business enterprises of the CMSDC connected, the atmosphere felt more like a funeral. While the National Bureau of Economic Research would later announce the start of the Great Recession to be December 2007, for business leaders at the time, the Lehman Brothers Bankruptcy was the clearest indication that the Great Recession had begun (NBER 2012). By the end of 2008, over 3.5 million jobs were lost and 5 million more were lost in 2009 (BLS 2012). The dire conditions of the Great Recession made abiding by any principles of social responsibility, including supplier diversity, costly. In the face of unprecedented bankruptcies and uncertain financial market conditions, corporations conserved all resources, placing an emphasis on the best economic use of any corporate expenditures, effectively eliminating any unnecessary supply chain investments. This put corporate minority supplier diversity in direct competition with corporate cost-saving efforts. Leaders slashed budgets for supplier diversity initiatives and any existing minority contracts that had been awarded on factors other than cost were heavily scrutinised and cancelled (Jarmin et al. 2016). Banks that traditionally extended working capital loans to small businesses recalled those loans, drying up the lines of credit these organisations relied on to sustain their corporate relationships. Together, these factors resulted in a severe contraction of the number of diverse small businesses across the U.S. economy as well as the number of supplier diversity initiatives within the nation's largest corporations.

Given the constraints of the harsh economic reality, supporters of supplier diversity needed a new rationale to gain support, a business case that might suggest supplier diversity to be a positive investment. This business case was predicated primarily on the populations who demanded the goods and services of these corporations. It was clear that the nation's demographers expected dramatic demographic shifts over the course of the twenty-first century. Frey (2018) famously projected that racial and ethnic minority groups (e.g. Black Americans, Hispanic Americans, Asian-Americans and Native Americans) would become the numerical majority within the U.S.

population by 2045. Similarly, minority purchasing power was expected to rise from 20% in 2000 to over 40% in 2045 (Whitfield 2008). Consumer products giants and federal prime contractors predicted that the inevitable "new majority" would want to see reflections of themselves in corporate leadership roles, supply chains and within the customer base themselves, and those who ignored these market trends risked their market share and profitability. As such, supplier diversity could present a competitive advantage for firms (Whitfield 2008). However, the strategic value of supplier diversity conflicted with the economic realities of the recession, as large corporations reduced opportunities for all suppliers, the acuity of reduction being higher for smaller, more diverse suppliers. However, as the economy began to recover in 2010, the business case argument became the new mantra for supplier diversity initiatives.

Perhaps the 2008 election of the nation's first African American President, Barack Obama, provided sentimental evidence of the business case for supplier diversity, as it seemed to suggest a fundamental shift in attitudes about the value of diversity in the American imagination. However, there are other indications of fundamental demographic and cultural shifts. Already, ethnic and racial minorities represent the majority in 13 of the 15 most populous cities in the United States (McCann 2019). Together, these cities, as well as the five already "majority-minority" states (California, Hawaii, Texas, Nevada and New Mexico), hold significant purchasing power for various corporate and municipal contracts (Poston and Sáenz 2018). This suggests that in order to be competitive in the market for public contracts, organisations need to be sensitive to the demands of local minority interests, increasing demand for diverse suppliers and for supplier diversity professionals. Similar trends have emerged within the private market. In 2015, Hispanic-Americans were estimated to have \$1.3 trillion in buying power in 2015. That number is expected to grow to 1.7 trillion in 2020 (Statista 2020a). Similarly, African-Americans were estimated to have \$1.2 trillion in purchasing power in 2017 (Nielsen 2018a). Their Asian-Americans counterparts were estimated to have \$986 billion in purchasing power in 2017 (Nielsen 2018b). Collectively, these three ethnic minority groups have over \$3.5 trillion in purchasing power, a figure roughly equivalent to the size of the German economy in 2017 Statista (2020b). While the growing magnitude of minority-group purchasing power is a notable trend, the value of the business case argument for Supplier Diversity is predicated on its effectiveness as a tool of converting these market characteristics into profits. Two models of Supplier Diversity were developed to measure the quality of corporate supplier diversity initiatives.

The Five Levels of Supplier Diversity

Ralph G. Moore Associates (RGMA) was perhaps the first to develop a commercially viable and valid tool to measure the quality of corporate supplier development programmes in the current market, the “Five Levels of Supplier Diversity” (Porter 2019). The model, which has been embraced by corporate leaders worldwide, ranked corporations on a five-level scale, from “no programme” to “world class programme” and uses various metrics to evaluate levels of engagement between diverse suppliers and corporate C-level leadership. It was evident that once corporate leadership becomes engaged in Supplier Diversity and Supplier Diversity became a key performance indicator, procurement officials became much more likely to utilise diverse suppliers, providing momentum for the business case argument for supplier diversity. Several large corporate players have heeded the advice this tool has provided, adopting several best practices that have also been adopted by NMSDC. A list of the NMSDC “measures of success” is presented below (Porter 2019):

- The corporate governance body has established a minority supplier development programme as a policy of the corporation.
- The CEO has issued a minority supplier development policy that articulates the rationale supporting the initiative. The CEO ensures that this policy is communicated to staff and implemented.
- The CEO has appointed appropriate full-time staff and resources for minority supplier development.
- There is an executive advisory council/committee composed of key stakeholders to drive the programme’s progress.
- All levels of management are accountable for minority supplier development.
- Management directs that supplier diversity be incorporated in the business planning cycle.
- The minority supplier development programme belongs in Procurement for most companies and business models, but in all cases, it should be a part of the corporation’s umbrella Diversity Strategy.
- There is a written supplier diversity corporate policy that clearly defines executive management commitment and measures success.
- Minority business utilisation/metrics are included in annual performance goals for the corporation and for each business unit/division of the firm.
- A minority supplier development strategy emanates from a business strategy and is not a “social” policy statement.

The legacy of the RGMA tool, and the influence of its creator Ralph G. Moore, is evident in the thematic elements of Supplier Diversity best practices, as well as in the existence of several top corporate supplier diversity programmes that have adapted Moore's model. For example, Toyota's emphasis on supplier diversity is evident in its mission statement:

> Toyota is committed to having a supplier base which more closely reflects our customers and the diversity of our team members who build Toyota vehicles in North America. Having a diverse supplier base enables us to contribute to the economic well-being of all segments of the North American population. Also, we recognize that partnering with suppliers who provide a diversity of ideas - in addition to delivering manufacturing support, goods, and services – creates a significant competitive advantage for Toyota. (Greene 2012)

While the RGMA's five levels of Supplier Diversity have asserted clear influence over the business case argument for supplier diversity, the tool has received some criticism. For most corporate supplier diversity programmes, it is prohibitively difficult to achieve "world-class" status. By definition, there can only be a few companies who can achieve world-class status and as a result, companies who are not world-class did not have measures that could be improved within the model, frustrating several corporate leaders. It was clear that a scale that could quantitatively capture the performance of discrete aspects of corporate supplier diversity professionals would be valuable to supplier diversity professions, internal stakeholders and the diverse suppliers with whom they work. This led to the development of the McKinney Score.

The McKinney Score

Quality is often perceived as difficult to measure. Individuals suggest it to be in the "eye of the beholder", an exclusively normative judgement reserved for the evaluator. However, some companies define quality as the number one strategic objective within their competitive markets. This drive for quality suggests it can be measured despite its amorphous nature. Unfortunately, the quality of many corporate Supplier Diversity programmes has not progressed beyond compiling numbers on spending with diverse businesses and membership of Supplier Diversity organisations. While these characteristics are certainly important, they do not provide the quantifiable, comparable and valid indicators that might enable objective analysis of the current state of a corporate supplier diversity programme. McKinney (author of this chapter) developed a measure aimed at providing insight that would enable corporations to objectively track their own progress over time and to compare their corporation's supplier diversity programme to other corporations in the same industry.

The McKinney Score is comprised of 50 questions that require either a Yes or No answer. These questions are designed to be direct and should be known to the leader (and others) of Supplier Diversity in a company. The questions fall into three main categories: leadership, process and outcomes. The total score for the instrument is scaled to 100. Here is some insight into the results of 85 corporations who took an earlier version of the tool:

- One "Leadership" question asked, *"Does the Corporation have a statement on the supplier diversity policies of the corporation by the CEO?"*—60 per cent of respondents answered Yes to this question. It can be debated how important it is to publicly commit to Supplier Diversity, but some would argue that an acknowledgement of awareness of the issue by those at the top of the corporation should be the minimum requirement expected. Additionally, a public commitment might incentivise the company to accomplish its goals surrounding Supplier Diversity.
- One "Process" question asked, *"Do buyers have personal financial incentives to meet supplier diversity goals?"*—Only 24 per cent of corporations reported incentivising buyers to attain Supplier Diversity Goals. Supplier Diversity best practices posit the importance of the buyer having a stake in the accomplishment of supplier diversity goals. When individuals must face the consequences of their decisions, there are likely to be positive results.
- One "Outcome" question asked, *"If you extract spending with the largest 10 certified diverse suppliers, is more than 50 percent of total diverse spend, spent with the remaining certified diverse suppliers?"*—Only 16 per cent of respondents answered Yes to this question. This question speaks to the distribution of spending with certified diverse businesses. Most companies are achieving their supplier diversity goals by contracting with a few fortunate certified diverse suppliers. There is nothing inherently wrong with this approach to Supplier Diversity, but it does provide insight into the frustrations experienced by the overwhelming majority of certified diverse suppliers who are often frustrated by the difficulty of securing contracts with large corporations.

The McKinney Score considers the responses to the 50 questions posed and administers a numeric score out of 100 to each corporation, thereby giving them a snapshot of where they are relative to other corporations in their industry. Among the 85 corporations tested, the average score was 55 out of

100. The score is a necessary reality check for corporations that might have an inflated impression of their progress towards Supplier Diversity. However, the score also provides direction for improvement as diversity managers can use it to identify which areas are most in need of improvement and therefore it is an effective tool for convincing senior management of the steps required to provide opportunities for certified diverse suppliers.

Conclusion

The evolution of corporate motivations for Supplier Diversity from compliance to "the right thing to do" to the business case suggests that there will likely be other strategic reasons driving companies to continue their investment in SD in the future. Current market trends suggest these reasons might be economic impact and technological development. Without the benefit of scientific support, the next phase of the Supplier Diversity Movement will not achieve the original intent of the Supplier Diversity Movement, which was not simply to improve opportunities for diverse businesses, but to transform the communities from which these businesses come. This transformation will take place when successful diverse entrepreneurs can create employment opportunities, increase income and consumption, and contribute to the tax base, all of which may be meaningful ways of improving the health of the target community. Today's corporate leaders want to know that the economic benefits they provide extend beyond the reach of diverse entrepreneurs and their families. They wish to know whether the corporate dollars flowing to diverse companies are making a difference in the lives of people living in target communities. Thus, the question of Supplier Diversity does not simply ask whether corporations are supporting diverse businesses, but rather if they are having an economic impact. Economists have long posited that the economic system has a circular flow; one person's expenditure is another's income and the constant interactions between buyers and sellers have long-term and measurable effects. Proof of economic impact is an emerging interest among corporate leadership and will likely guide future expenditures. Thus, providing insight into economic impact might well be a competitive advantage that interacts with considerations of cost, quality and timeliness to shape decisions to enter business relationships.

Supplier Diversity will likely be impacted by continued technological development. The digitisation of data has allowed both the collection and the distribution of company information to become both faster and less expensive. It is likely that databases of certified diverse suppliers will no longer be monopolised by diversity organisations such as NMSDC or WBENC. This raises important questions about the role of these organisations in the Supplier Diversity Movement. But perhaps more crucial is the direct effect of technology on the mechanisms underlying supplier diversity itself. Technology might encourage a transformation of supply chains. Companies like Google and Facebook (with over two billion members) have the capacity to create their own sustainable economies complete with their own currencies (e.g. Bitcoin). To the extent that diverse businesses are concentrated in industries that are vulnerable to technological disruption, there will be trouble ahead. Can Supplier Diversity survive under such circumstances? How might the movement be forced to change? These are questions to which answers will only come with time.

References

Adarand Constructors, Inc. v. Peña. (1995). 515 U.S. 200 (1995), Justia Law. Accessed June 13, 2020. https://supreme.justia.com/cases/federal/us/515/200/.

Addabbo, J.P. (1978). H.R.11318—95th Congress (1977–1978): A Bill to Amend the Small Business Act and the Small Business Investment Act of 1958. October 24, 1978. https://www.congress.gov/bill/95th-congress/house-bill/11318.

BLS. (2012). The Recession of 2007–2009: The BLS Spotlight on Statistics. Accessed June 13, 2020. https://www.bls.gov/spotlight/2012/recession/pdf/recession_bls_spotlight.pdf.

Brown v. Board of Education of Topeka, 347 U.S. 483. (1954). Justia Law. Accessed June 13, 2020. https://supreme.justia.com/cases/federal/us/347/483/.

Burns, S. (Ed.). (2012). Daybreak of Freedom: The Montgomery Bus Boycott. University of North Carolina Press.

ChicagoMSDC. (2020). Legacy. ChicagoMSDC. Accessed June 14, 2020. http://www.chicagomsdc.org/about/legacy.

City of Richmond v. United States, 422 U.S. 358. (1975). Justia Law. Accessed June 13, 2020. https://supreme.justia.com/cases/federal/us/422/358/.

Coleman, A.R. (2019). Black Capitalism Won't Save Us. May 22, 2019. https://www.thenation.com/article/archive/nipsey-killer-mike-race-economics/.

Disability:IN. (2020). Our Story. Accessed June 13, 2020. https://disabilityin.org/who-we-are/about/.

everycrsreport.com. (2020). Minority Contracting and Affirmative Action for Disadvantaged Small Businesses: Legal Issues. Accessed June 14, 2020. https://www.everycrsreport.com/reports/RL33284.html.

Fitzgerald, S. (2007). The Little Rock Nine: Struggle for Integration. Capstone.

Frey, W.H. (2018). The US Will Become 'Minority White' in 2045, Census Projects. Brookings Institution, 14.

General Motors. (1970). General Motors Annual Report 1970. General Motors Corporation, Detroit.

Greene, M.V. (Ed.). (2012). Billion Dollar Roundtable Inc. Supplier Diversity Best Practices. MBN Custom Publishing.

Jarmin, R., Krizan, C.J., & Luque, A. (2016). Small Business Growth and Failure During the Great Recession: The Role of House Prices, Race and Gender (No. 2016–08). Center for Economic Studies, US Census Bureau.

Kluger, R. (2011). Simple Justice: The History of Brown v. Board of Education and Black America's Struggle for Equality. Vintage.

Locke, H.G. (2017). The Detroit Riot of 1967. Wayne State University Press.

McCann, A. (2019). Most and Least Ethnically Diverse Cities in the US. Accessed June 13, 2020. https://wallethub.com/edu/cities-with-the-most-and-least-ethno-racial-and-linguistic-diversity/10264/.

McLaughlin, M. (2014). The Long, Hot Summer of 1967: Urban Rebellion in America. Springer.

NBER. (2012). US Business Cycle Expansions and Contractions. Accessed June 13, 2020. https://www.nber.org/cycles/US_Business_Cycle_Expansions_and_Contractions_20120423.pdf.

NGLCC. (2020). The NGLCC Founding Story. Accessed June 13, 2020. https://www.nglcc.org/who-we-are/nglcc-story.

Nielsen. (2018a). Black Impact: Consumer Categories Where African Americans Move Markets. Accessed June 13, 2020. https://www.nielsen.com/us/en/insights/article/2018/black-impact-consumer-categories-where-african-americans-move-markets.

Nielsen. (2018b). Asian Americans: Digital Lives and Growing Influence. Accessed June 13, 2020. https://www.nielsen.com/us/en/insights/report/2018/asian-americans-consumers/.

Nixon, R.M. (1968). Presidential Nomination Acceptance Speech. Accessed June 13, 2020. http://www.4president.org/speeches/nixon1968acceptance.htm.

Nixon, R.M. (1969). Executive Order 11458—Prescribing Arrangements for Developing and Coordinating a National Program for Minority Business Enterprise. March 5, 1969. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=60475.

Nixon, R.M. (1971). Executive Order 11625—Prescribing Additional Arrangements for Developing and Coordinating a National Program for Minority Business Enterprise. October 13, 1971. https://www.mbda.gov/page/executive-order-11625.

NMSDC. (2018). History of Supplier Diversity for Minority Business Development. National Minority Supplier Development Council (blog), July 12, 2018. http://nmsdc.org/history-supplier-diversity-minority-business-development/.

Plessy v. Ferguson, 163 U.S. 537. (1896). Justia Law. Accessed June 13, 2020. https://supreme.justia.com/cases/federal/us/163/537/.

Porter, K.K. (2019). Implementing Supplier Diversity: Driver of Entrepreneurship. Springer.

Poston, D.L., & Sáenz, R. (2018). US Whites Will Soon be the Minority in Number, But Not in Power. Baltimoresun.com. Accessed June 13, 2020. https://www.baltimoresun.com/opinion/op-ed/bs-ed-op-0809-minority-majority-20170808-story.html.

Statista. (2020a). Hispanics' Buying Power in the U.S., 1990–2020. Statista. Accessed June 13, 2020. https://www.statista.com/statistics/251438/hispanics-buying-power-in-the-us/.

Statista. (2020b). Germany—Gross Domestic Product (GDP) 2019. Statista. Accessed June 13, 2020. https://www.statista.com/statistics/295444/germany-gross-domestic-product/.

Stevens, E.W. (2012). Radical LA: From Coxey's Army to the Watts Riots, 1894–1965. University of Oklahoma Press.

Tyson, T.B. (2017). The Blood of Emmett Till. Simon and Schuster.

United States. Kerner Commission & United States. National Advisory Commission on Civil Disorders. (1968). Report of the National Advisory Commission on Civil Disorders. US Government Printing Office.

Vann Woodward, C. (1955). The Strange Career of Jim Crow. Oxford University Press.

Weems, R.E., & Randolph, L.A. (2001). The Ideological Origins of Richard M. Nixon's 'Black Capitalism' Initiative. The Review of Black Political Economy, 29(1), 49–61. https://doi.org/10.1007/BF02717275.

Whitfield, G.P. (2008). Supplier Diversity and Competitive Advantage: New Opportunities in Emerging Domestic Markets. Graziado Business Review, Pepperdine University 2008, 11(3).