

White Paper

SUPPLIER DIVERSITY BRINGS INCREASED PROSPERITY



Presented by



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Institute for Supply Management® (ISM®) is the first and leading not-for-profit professional supply management organization worldwide. Its 50,000 members in more than 100 countries around the world manage about US\$1 trillion in corporate and government supply chain procurement annually. Founded in 1915 by practitioners, ISM is committed to advancing the practice of supply management to drive value and competitive advantage for its members, contributing to a prosperous and sustainable world. ISM empowers and leads the profession through the ISM® *Report On Business*®, its highly-regarded certification and training programs, corporate services, events and the ISM® Supply Chain Capability Model. The ISM® *Report On Business*®, Manufacturing and Services, are two of the most reliable economic indicators available, providing guidance to supply management professionals, economists, analysts, and government and business leaders. For more information, please visit: www.ismworld.org.

How the Survey Was Conducted

The Institute for Supply Management® (ISM®) Research & Analytics survey on supplier diversity was conducted November 23, 2020-January 24, 2021. The sampling frame was made up of ISM members and customers, as well as supply management professionals unaffiliated with ISM. The sample was randomly drawn, with 463 usable responses in the final data set.

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Supplier Diversity Brings Increased Prosperity

Introduction

The creation of diverse supplier programs in the U.S. arose in response to the civil rights movements of the 1960s. General Motors is considered to have one of the earliest, declaring itself the first automaker to establish a formal supplier diversity program after the 1968 Detroit riots. Much of the American auto industry followed suit, as well as such electronics industry leaders as IBM, whose program also dates back to 1968.

As the formation of supplier diversity programs has grown in popularity, multiple studies have revealed financial upside for participating organizations. Numerous quantitative and qualitative benefits include:

- A mix of input providers can provide sourcing flexibility in the event of a supply chain breakdown.
- Product input diversity and innovation helps meet the demands of an increasingly diverse customer base.
- Alignment of company guiding principles of equality and inclusion with the interests and inclinations of a demographically evolving workforce leads to more engaged (and, therefore, productive) employees.

Key Takeaways:

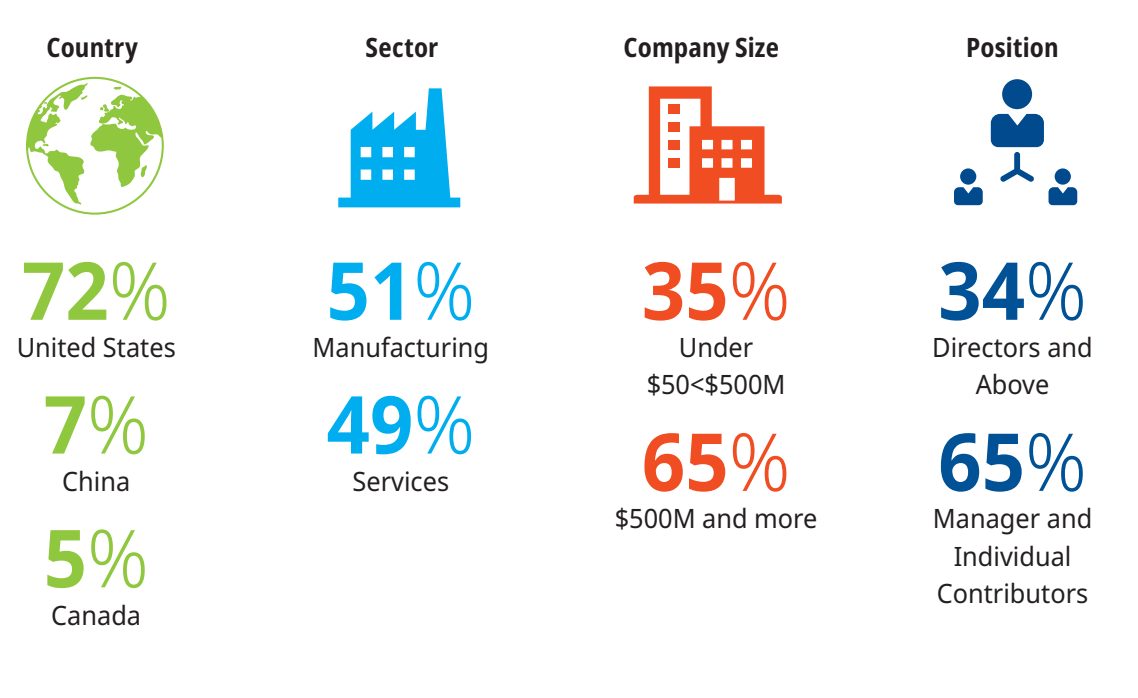
- Nearly 80 percent of respondents have a supplier diversity program, with 65 percent of them operating for six or more years.
- Eighty-three percent of surveyed organizations operate their program with explicit goals.
- The largest companies have found supplier diversity provides another source of potential innovation.
- Smaller companies are focused on practical, cost-related benefits.

Our survey included a breadth and depth of respondents. Twenty-eight percent were from outside the U.S., including seven percent from China. Thirty-four percent held executive positions and 65 percent came from medium-to-large companies with over US\$500 million in revenue. There was a relative balance between service (49 percent) and manufacturing (51 percent) respondents. (See Figure 1.)

¹ GM Supplier Diversity | About Us

² 2016 IBM Responsibility Report – Supply Chain – Supplier Diversity | IBM

Figure 1: Respondent Demographics



To begin our survey, we opened with a question about where supplier diversity programs were situated within the enterprise, including the option to share if one did not exist. A core finding is that 79 percent of respondents' organizations have a supplier diversity program, and they are most often managed from the purchasing/sourcing area (37 percent). Supply chain functions were second most

likely to host supplier diversity efforts (20 percent), and remaining areas all had single-digit response rates, including 10 percent for whom the program is either informal (6 percent), or still in development (4 percent). Twenty-one percent reported there is no supplier diversity function — though this could mean that in some cases, less formal efforts do exist, but within other functions. (See Table 1.)

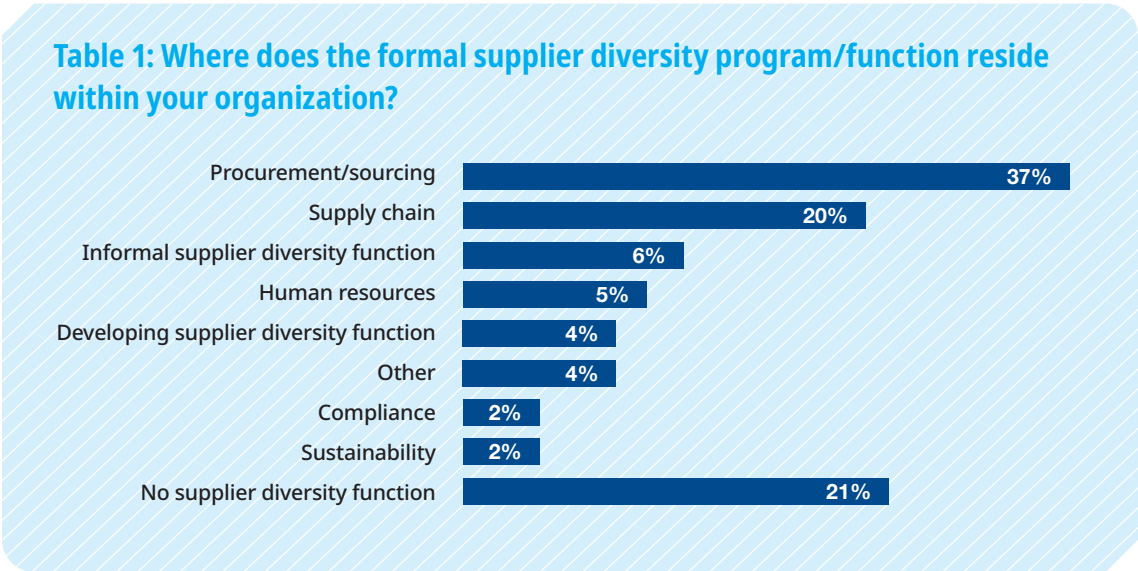


Table 2: Program Age by Company Size

	<\$250M	\$250M-\$3.99B	\$4B-\$24.99B	\$25B+
Less than 1 year	16%	8%	0%	4%
Less than 3 years	3%	16%	0%	7%
3 to 5 years	32%	19%	10%	14%
6 to 8 years	10%	8%	21%	4%
9 to 10 years	6%	16%	10%	4%
10+ years	32%	32%	59%	68%

Contrasting with the fact that 21 percent state that no function exists is the fact that 43 percent of organizations with a program started them more than 10 years ago. Another 40 percent of those with programs have had them either six to eight years (22 percent), or three to five years (18 percent). The remaining 16 percent have either had their program less than a year (8 percent) or less than three years (8 percent).

Breaking results down by company size, it is evident there is a meaningful correlation between increasing company size and longer tenure of supplier diversity function. Somewhat surprisingly, four percent of companies with greater than \$25 billion in revenue started their programs within the last year. (See Table 2.)

The meaningful percentage of small, medium, and large companies with programs less than one year old represents “a whole plethora of supplier diversity professionals out there that we can work with” to help build out capabilities, says Heather Herndon-Wright, supply chain diversity and sustainability director at Vistra Corporation, an Irving, Texas-based retail electricity and power generation company. “You need to leverage what is already out there to save time, then customize it for your culture and needs,” Herndon-Wright explains. “You don’t need to reinvent the wheel, just take that wheel and make it better.”

Frantz Tiffeau Jr., head of global diversity, inclusion, and belonging at Edwards Lifesciences, a leading cardiovascular device maker and care innovator,

agrees with the benefits of collaboration. “There’s a lot of opportunity (to leverage) best practices. People can take advantage of what’s already been done, (avoiding) the arduous efforts of companies who have been doing this for over a decade.”

In terms of the impact of recent protests and social unrest surrounding racial injustice, “we did detect in the data that it increased the importance of supplier diversity programs,” according to Thomas W. Derry, Institute for Supply Management CEO. Indeed, 51 percent said recent social justice developments have increased emphasis on supplier diversity programs, and “it was true for companies of every size,” Derry says.

Forty-four percent said recent events had no impact, “but a fair way of interpreting that, is that (their program) was already important. They felt like they were doing good work,” according to Derry. He adds, “The events of the summer of 2020, which were a wakeup call for all of us, (had) an impact in terms of re-energizing or refocusing attention on why this particular initiative is so important in our field, and for companies overall.”

Supplier Diversity Goals

We asked respondents for progress assessments on their companies’ supplier diversity programs. Results were evenly spread across a range of maturity options. Fourteen percent said their programs had been making measurable progress for “more than 10 years,” while 36 percent have done so for between one to 10 years. (See Table 3.)

Table 3: For how many years has your supply management talent diversity program been close to meeting, met, or exceeded program goals?

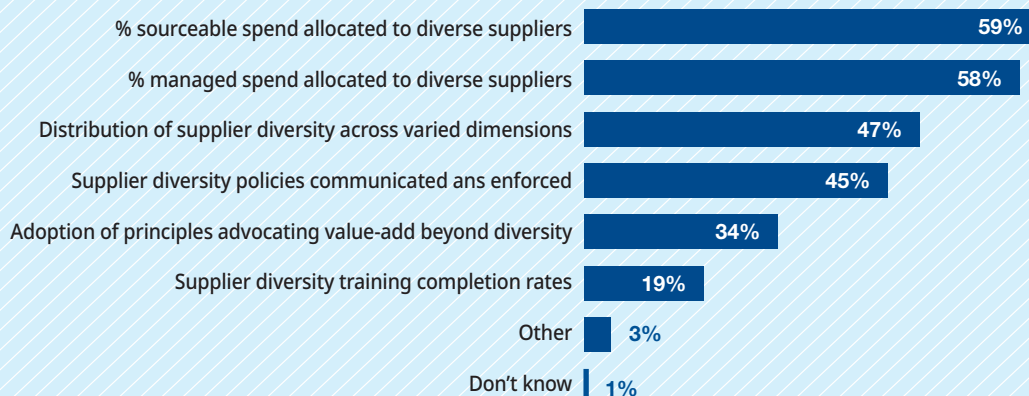


More than one-third of respondents' companies either do not yet have formal goals (17 percent) or are developing goals while operating their program (19 percent). Says Derry, "That suggests that those newer entrants into this space are likely in the stage of building some infrastructure. They are understanding their spend and where the opportunities are. Once they get that structure finalized, then it's possible to put some goals in place."

He adds, "The good news was that for folks who had goals in place, 90 percent were achieving them. That's further evidence of the old business adage that 'what gets measured gets done,' and if we're measuring supplier diversity initiatives, which brings the requisite focus and achievement to the success of the program."

The measurement of goals can be a learning exercise for organizations given the myriad ways in which programs are designed and executed, the nature of each organization's industry, and the specifics of each culture. We asked organizations about the metrics they use, and the top two responses were the proportions of "sourceable spend" (59 percent) and "managed spend" (58 percent) allocated to diverse suppliers. The next two most frequently selected responses were "distribution of supplier diversity across varied dimensions" (47 percent), and "supplier diversity policies communicated and enforced" (45 percent). (See Table 4.)

Table 4. How are your supplier diversity goals measured?



Roles and Time Spent on Supplier Diversity

For any program to be successful, support is needed from the top. Among our respondents, 81 percent agree that workforce diversity is supported by organizational leadership (39 percent agree “strongly”), and 67 percent concur that supplier diversity is supported by leadership (25 percent “strongly”).

To get a sense for the proximity of our respondents to supplier diversity, we asked about their roles. One third (34 percent) are not directly involved, one third (34 percent) “lead a group with supplier

diversity responsibilities,” and the remaining third either report to someone with supplier diversity responsibilities (23 percent) or are “the only person” with such responsibilities (9 percent).

Diving deeper into the nature of roles, respondents shared which three of nine listed activities were most applicable to them. Sixty-five percent of supplier diversity group leaders reported being involved in “developing supplier diversity strategy,” followed by “coordinating with internal stakeholders” (53 percent), and “identifying supplier diversity opportunities” (45 percent). (See Table 5.)

Table 5. What percentage of your overall time is focused on supplier diversity?

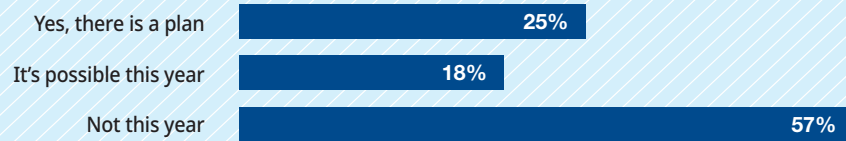
In the context of your organization's supplier diversity function, please indicate the role of your position by the 3 activities that I'm mainly involved are ... (Mentioned)

	I am the only person doing supplier diversity	I report to someone that does supplier diversity	I lead a group with supplier diversity responsibilities
Developing supplier diversity strategy	35%	30%	65%
Identifying supplier diversity opportunities	76%	53%	45%
RFP, RFQ, IFB and the like	47%	51%	31%
Coordinating with diversity organizations	12%	17%	25%
Assessing program success via metrics	35%	21%	36%
Onboarding new qualified suppliers	29%	43%	19%
Developing diverse suppliers for our program	29%	28%	26%
Coordinating with internal stakeholders	53%	28%	53%
Working with current qualified suppliers on FRX	6%	30%	13%
Other	0%	2%	10%

Demonstrating some consistency amongst roles, “identifying supplier diversity opportunities” was the most frequent response for respondents who either own the supplier diversity function (76 percent), or report to someone who is involved (53 percent). “Coordinating with internal stakeholders” was the second-most frequent for two of the roles and, overall, the same five activities captured the three most common activities across all three roles described.

For less mature programs, we asked if there was a plan to make them more formal. While 43 percent said either “it’s possible this year” (18 percent), or “yes, there is a plan” (25 percent), a sizable 57 percent said, “not this year.” (See Table 6.)

Table 6. Could the informal program become more formalized?



Training

One key element of maturity is the degree to which supplier diversity training is in place. Fifty-seven percent said no training was in place, while 27 percent said any supply chain personnel may receive training. Sixteen percent said training was available only for those who had supplier diversity responsibilities.

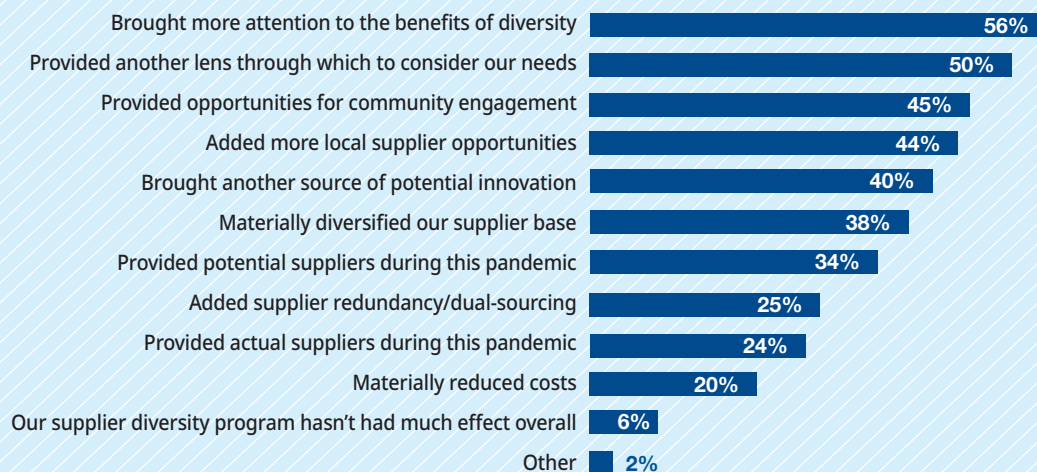
While 57 percent sounded like a high response rate for there to be no training program given the overall prevalence and tenure of programs in place, Tiffeau offered some insight. For starters, many programs are still developing more foundational operating processes and policies. Then, there is the organizational construct. "I think part of it goes back to whether or not sourcing is a centralized function," Tiffeau says. "If it's decentralized, I can't imagine that

it would be difficult to provide any kind of sourcing training, much less supplier diversity training."

Benefits of Supplier Diversity

Next, we investigated the benefits delivered by supplier diversity. More than half (56 percent) of respondents agreed that the most popular benefit was that the program has "brought more attention to the benefits of diversity." Four other listed benefits were selected by respondents between 40 and 50 percent of the time, beginning with that it has "provided another lens through which to consider our needs" (50 percent), "provided opportunities for community engagement" (45 percent), "added more local supplier opportunities" (44 percent), and has "brought another source of potential innovation" (40 percent). Not a single respondent said there was a negative effect on their organization. (See Table 7.)

Table 7: In what ways have supplier diversity programs helped your organization (All Responses)?

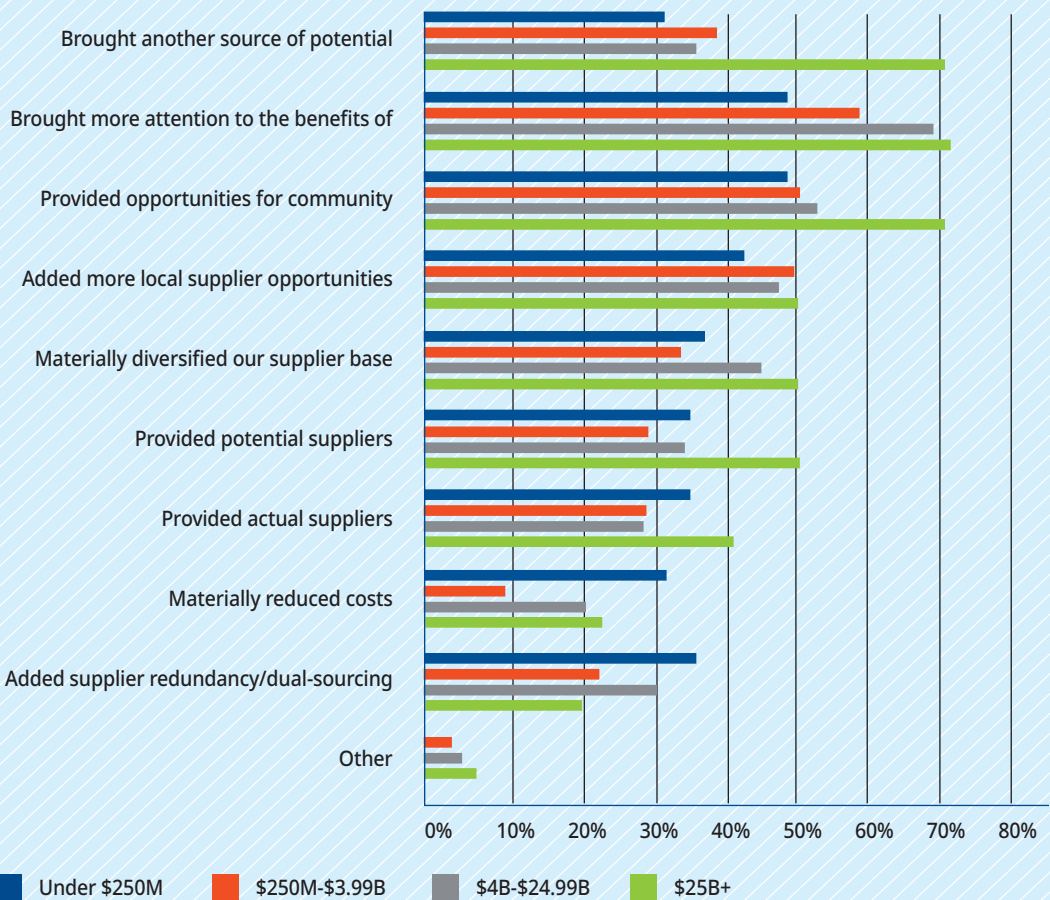


When diversity program benefits were segmented by company size, an important finding emerged. (See Table 8.) Seventy percent of the largest companies — those with more than \$25 billion in revenue — said diversity brought “another source of potential innovation to our company.”

“This result is striking,” remarks Derry. “Perhaps if you’ve got an embedded supplier relationship, and

you bring in a diverse supplier, which could be a scenario in which a lot of innovation comes to light.” Derry ponders a couple of contributing factors: “When you’ve been working with the same firm for so long, maybe they’re reluctant to bring innovative ideas to you. Maybe they don’t think of you as such a great customer.”

Table 8. Benefits of Diversity by Company Size



Supplier Diversity Program Design

To understand the design of these programs, we asked which features were included. The top responses all earning more than a third of respondent affirmations included “visible commitment and support of leadership” (51

percent), “evaluation of Tier-1 spend” (50 percent), “performance measurement metrics” (46 percent), “well-documented policies and goals” (41 percent), “supplier mentoring” (38 percent), “supplier coaching” (38 percent), and “supplier qualification guidelines/rubric(s)” (38 percent). (See Table 9.)

Table 9: What are the main features of the program?

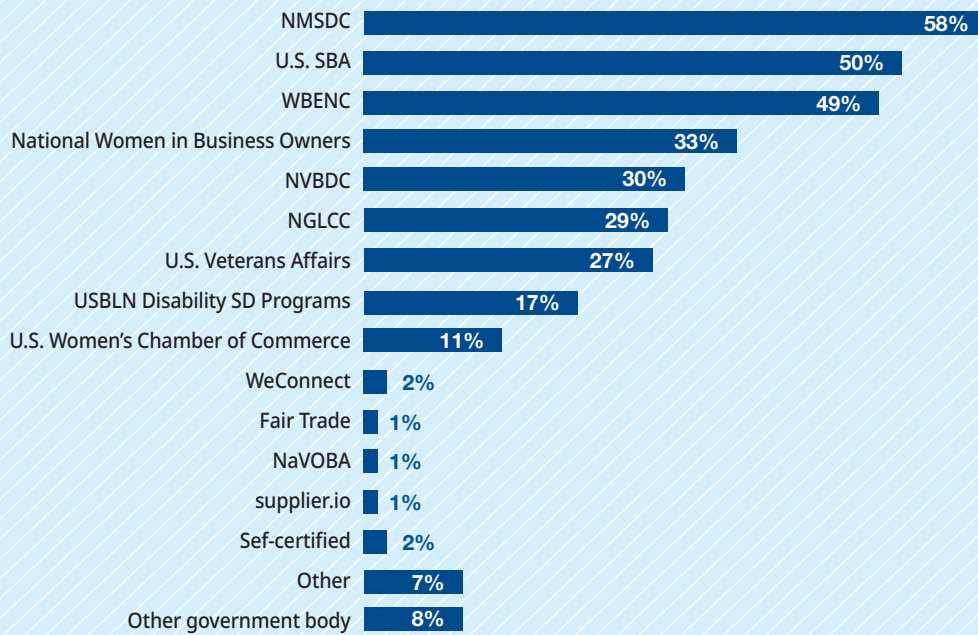


Given the breadth of features that have been built and tracked, we checked on if/how their effectiveness has improved. When asked to compare to three years ago, 44 percent said their “organization’s success in achieving supplier diversity milestones has” increased, and 29 percent said “increased substantially.” Seventeen percent shared indicated the success level had “stayed the same,” and only five percent said it “decreased.”

There are a variety of organizations that can help inform program design. The National Minority

Supplier Development Council (58 percent), U.S. Small Business Administration (50 percent), and Women’s Business Enterprise National Council (49 percent) were the three most frequently consulted supplier diversity facilitators in our study, with the National Women Business Owners (33 percent), National Veteran Business Development Council (30 percent), National LGBT Chamber of Commerce (29 percent), and U.S. Veterans Affairs (27 percent) all gaining over a quarter of respondents’ votes. (See Table 10.)

Table 10. What organizations do you work with to document diverse supplier status?



Conclusion

In summary, multiple trends point to the benefits of launching, maturing and leveraging a supplier diversity program. The COVID-19 pandemic has taught much of the world a hard lesson about the need to source diversely, which can be aided by choosing underrepresented groups. The frenetic pace of change in technology advancements and

business agility require increased innovation, made possible through fresh perspectives. Finally, the evolving demographics of the marketplace are best served by a diverse supplier ecosystem.

The question isn't whether to diversify your supply chain, but how best to do so given your organization's specific strengths, goals and culture.