



# Raising

## the

# Bar

An update of benchmarking standards for corporate supplier diversity programs.

By Ralph G. Moore

At **RGMA**, we are humbled by the enthusiastic acceptance of “The RGMA Five Levels of Supplier Diversity Process Management” as the global benchmark for measuring supplier diversity performance. It remains the gold standard for benchmarking supplier diversity initiatives. In addition, we are quite pleased that the U.S. Agency for International Development-funded South African International Business Linkages program has created a South African adaptation of the RGMA Five Levels.

This article is an update of “Raising the Bar,” which

appeared in the September/October 2004 edition of *MBE* magazine; and of the original Five Levels article published in 1994. It is based on our 31 years of experience in the development of best practices for advancing supplier diversity, coupled with lessons learned from servicing numerous Fortune 500 corporations, leading universities, and hospitals. In addition, our relationship with the National Minority Supplier Development Council (NMSDC) as its primary training consultant since 1993 has enabled RGMA to be the leading worldwide trainer of supplier diversity program managers. We

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are also the co-auditor of the Billion Dollar Roundtable, where we have gained valuable insights into supplier diversity process management.

Our rejection of the notion that spend is the primary metric for measuring supplier diversity effectiveness is what motivated us to create this benchmark. The need is greater than ever as misinformed consultants write papers stating that a 10 percent diverse spend is “typical” within corporate America. That’s nonsense! Ten percent spend is rare and is certainly a World-Class level. What’s typical is less than 2 percent. With that in mind, we offer our updated Five Levels to provide a framework for answering the question: How are we doing?

## New Standards for a New Economy

### Level Zero: No Supplier Diversity Program

The major change in the Five Levels is to cleanse the Level 1 category of those companies that have no program at all by adding a Level Zero. We will still label our benchmarking model The Five Levels because 5 plus 0 equals 5!

Companies and institutions at Level Zero have no functional supplier diversity program in place and there are no signs that this condition will change. They are difficult to identify because many Level Zero companies have websites that say all of the right things, but it’s just a façade. The only good thing about Level Zero companies is that their failure to understand the value of diversity is a symptom of a dysfunctional organization that cannot survive very long in a country where more than half of its citizens are female, and ethnic minorities are 35 percent of the population.

### Level 1: Beginning Supplier Diversity Program

Organizations with Level 1 programs are those that have made a recent decision to embrace supplier diversity, and are now examining how supplier diversity can fit into their business model. The incentive to get started could have come from a number of sources—a customer request, industry benchmarking, a new senior executive familiar with supplier diversity from a previous assignment, or the introduction to the concept through a civic organization. Most companies in this category quickly move to Level 2 and beyond as they start to understand the value proposition.

#### Strengths

- None

#### Weaknesses

- Senior management not engaged in the process.
- Difficult to find an internal person to take on program ownership due to negative perception.

#### Opportunities

- Fulfilling customer requirements, which would provide impetus for starting a program.
- Increasing the number of internal change agents trying to take program to the next level.
- Utilizing advocacy groups to provide support for program development.
- Taking advantage of the assistance in establishing the program that is offered by many customers that require reporting.

#### Threats

- Program susceptible to setbacks when leadership relies on bogus benchmarking data and misleading conclusions drawn by so-called experts.
- Corporate culture does not recognize the value of diversity.

### Level 2: Basic Supplier Diversity Program

There are two distinct types of organizations that have Level 2 programs in place. The first is those companies whose only objective is to satisfy customer requirements or respond to a lawsuit. Other organizations with Level 2 programs are those that are just passing through. They have embraced the value proposition and are focused on implementing a Level 4 or Level 5 process. The major challenge is to sustain Level 2 programs during challenging economic conditions. The lack of senior management support results in constant vulnerability to budget cuts or even outright elimination of the program.

#### Strengths

- A tracking system established within the sourcing organization.

#### Weaknesses

- C-Suite executives still not engaged.
- Program is little more than compliance-driven.
- Tracking focused only on reporting to customers.
- Part-time program manager has little support.

#### Opportunities

- Increasing budget and expanding the job to a full-time position.
- Raising awareness in the sales organization regarding customer reporting requirements.
- Identifying at least one director-level champion to assume the role of program sponsor.
- Utilizing benchmarking, which could provide the incentive to pursue traditional programs.

#### Threats

- Corporate culture questions the need for such a program.
- Precarious outlook in challenging economy.

## Level 3: Traditional Supplier Diversity Program

Historically, Level 3 is the gateway to Advanced and World-Class processes. However, the lack of alignment between supplier diversity and key initiatives, such as strategic sourcing and marketing, continues to present roadblocks to progress. The missing ingredient is lack of senior management support, which is necessary when establishing a robust initiative. Benchmarking with peers is important to get leadership committed to taking the process to the next level.

### Strengths

- Minimum one full-time manager-level staffer who owns the program.
- Membership in local/national advocacy organizations.
- Online registration tools.
- Presence on corporate website.

### Weaknesses

- Little senior management involvement.
- Workforce issues dominate diversity dialogue.
- Reporting is hampered by inadequate technology.
- Diverse suppliers primarily providing non-essential commodities or services.
- Few professional services opportunities for minority-owned businesses.
- U.S.-only focus, even with foreign ownership of corporations.

### Opportunities

- Diverse companies gaining exposure and winning contracts.
- Establishing a second-tier program, albeit loosely structured.
- Positive customer feedback which incentivizes progression to Level 4.

### Threats

- Limited connection with strategic sourcing.
- No significant link to marketing and brand strategy.
- Economic downturn threatens program due to weak commitments.

## Level 4: Advanced Supplier Diversity Process

This is where supplier diversity aligns with the organization's strategy, structure, and culture. Our major concern with the Level 4 process is the number of companies that are on the verge of slipping back to Level 3 due to a change in priorities set by new supply chain leadership.

### Strengths

- Three to four full-time employees with administrative support.
- Program manager at director level.
- Buyer/key manager training.
- Advanced second-tier program.
- Program has adequate IT support.
- Increased focus on supplier development.
- Diverse suppliers included in professional services and outsourcing opportunities.
- Supplier diversity aligned with marketing and sales.
- Process aligned with strategic sourcing.
- Supplier diversity included in sourcing team scorecards.
- Strategic alignment with corporate social responsibility.

### Weaknesses

- Process limited to North American business units.
- Workforce diversity still dominates diversity dialogue.
- Limited capacity-building initiatives.
- Diverse suppliers are not considered when implementing major branding initiatives, such as stadium naming rights and sponsorship of sporting events.
- Limited inclusion in performance scorecards beyond sourcing team.

### Opportunities

- Involving CEO/senior management.
- Creating a steering committee composed of director-level associates.

### Threats

- Commitment to maintain advanced process is at risk when changes occur in the C-Suite.
- Focus on short term ROI rather than long-term stockholder value which stymies progression to world class process.

## Level 5: World-Class Supplier Diversity Process

We expanded the number of characteristics for a World-Class Supplier Diversity Process because the practice of supplier diversity is becoming more complex. The two complementary characteristics in Level 5 processes are savvy, enlightened senior management teams and world-class supplier diversity professionals.

### Strengths

- Executive-level steering committee drives the process.
- C-Suite leadership active in diverse-business advocacy groups.

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- Four to ten full-time employees with administrative support.
- Program manager viewed as internal consultant to senior management and sourcing team.
- Supplier diversity process equal in stature to workforce diversity.
- Supplier diversity included on scorecards for all key managers and executives.
- Diverse supplier capacity building integrated into strategic sourcing plan.
- Alliances and acquisitions drive process expansion.
- Utilization of diverse suppliers included in formal evaluation of top suppliers.
- Second-tier program is integrated into sourcing strategy.
- Supplier diversity is part of global sourcing strategy.
- Active support of NMSDC Global Link program.
- Diverse suppliers *are* included in major branding initiatives, such as stadium naming rights and sponsorship of sporting events.
- Change within the C-Suite does not threaten organization's commitment.

## Weaknesses

- Some global business units choose to not participate in the supplier diversity program.
- Visibility of supplier diversity process creates unrealistic expectations for diverse suppliers seeking opportunities.

## Opportunities

- Company is positioned to "raise the bar" for peer companies in terms of supplier diversity performance.
- Company will lead the way in building capacity among diverse suppliers.

## Threats

- Difficulty of identifying minorities and/or underutilized businesses in other countries.
- Dealing with government regulations and customs abroad.

## Final Thoughts

It has been 16 years since I first defined the Five Levels, and there are several reasons for optimism regarding the future of supplier diversity. Consider the following: There are 17 members of the Billion Dollar Roundtable.

The NMSDC Global Link program has growing affiliates in Australia, Canada, China, South Africa, and the United Kingdom. The number of minority- and woman-owned businesses with revenues over \$1 billion is at a record level despite the economy. Innovative programs from the Minority Business Development Agency and the State Department are preparing minority-owned companies to do business throughout the world. And the Women's Business Enterprise National Council reports that woman-owned businesses will create 6 million new jobs over the next 10 years.

There are, however, some troubling issues that must be addressed. We still need to create more scalable diverse companies. Too many organizations have embraced "creative approaches" to reporting diverse spend, which distorts benchmarking. A major consulting firm has advised clients that "supplier diversity programs are impediments to achieving savings targets." There is an expanding definition of "diverse" without a corresponding expansion of contracting opportunities for minority and women suppliers.

An examination of the supplier diversity landscape will find thousands of brilliant minority, women, and diverse CEOs directing high performing companies that are poised to deliver exceptional value to major buying organizations worldwide. In addition, there is an expanding pool of world-class supplier diversity champions leading Advanced and World-Class supplier diversity processes that are reaching out to diverse companies worldwide.

I look forward to continuing our work with supplier diversity stakeholders to ensure that supplier diversity continues to make a positive contribution to this global economy. ♦

*Ralph G. Moore is president of **Ralph G. Moore & Associates (RGMA)**, a leading consulting firm in the area of supplier diversity process strategy, management, and training. He was recently honored with a 2010 NMSDC Leadership Award, recognizing significant long-term achievements in minority business development. Moore can be reached at [ralphmoore@rgma.com](mailto:ralphmoore@rgma.com).*

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