

A large, faint, grayscale illustration of a pair of scales of justice, serving as a background for the title. The scales are positioned centrally, with the pans extending outwards and upwards.

Raising the Bar

Revisiting the benchmarking standards for corporate supplier diversity programs.

At Ralph G. Moore & Associates, we are gratified that supplier diversity practitioners worldwide have accepted “The RGMA Five Levels of Corporate Supplier Diversity Program Development” as an industry benchmark. However, there has been a transformation in the world of business and supplier diversity since we first explored the notion of benchmarking corporate supplier diversity programs 10 years ago. These are some of the changes:

By Ralph G. Moore

- An acceleration of the expansion of the ethnic minority population and its buying power.
- The advent of strategic sourcing as the dominant supply chain management strategy.
- The global supply chain has become a reality.
- The arrival of outsourcing, both domestic and offshore as a primary cost reduction strategy (see “*The Offshoring of America*,” page 72).
- E-sourcing has become the prevailing tool for sourcing goods and services.
- An explosion of innovative minority- and women-led acquisitions and joint ventures.
- The rapid expansion of second tier purchasing programs among leading supplier diversity programs.
- The Sarbanes-Oxley guidelines have increased scrutiny in the areas of corporate governance and accountability (see “*Cooked Books*,” page 94).

As we studied the effects of these changes on private and public sector supplier diversity programs, we realized that each one significantly affected program development and program management. These changes to the business model were so compelling that we felt a need to revisit our benchmarking standards, since RGMA has been the source of many best practices in supplier diversity over the past 25 years. We combined that knowledge base with our substantial experience in advising corporations and organizations on enhancing their supplier diversity programs when updating these benchmarking standards.

Many observers make the mistake of equating the level of spending with diverse businesses as the yardstick for measuring success in supplier diversity program management. Yes, there is a correlation, but there is a need to go beyond the numbers to assess a program’s *effectiveness*. Some of the questions that we ask when assessing a program include the following:

- What is the level of senior management commitment?
- Is supplier diversity enjoying the same standing as the workforce diversity initiative?
- Is the supplier diversity process aligned with other key areas of the organization?
- What is the title of the program’s manager and how much influence does he or she have in the organization?
- What is the staffing and budget level of the program?

- Are there supplier diversity goals in place and how is accountability shared by the entire organization?
- Is the second tier program integrated with the supply chain management process?

The only change in the titles for our Five Levels was to replace the Level 1 “Token” label with “Beginning.” We realized that there must be a starting point that enables a corporation to initiate a program without the stigma of the word ‘token’ associated with it. Thus, the titles of the Five Levels at which supplier diversity programs operate are as follows:

- Level 1: Beginning Supplier Diversity Program.
- Level 2: Basic Supplier Diversity Program.
- Level 3: Traditional Supplier Diversity Program.
- Level 4: Advanced Supplier Diversity Process.
- Level 5: World Class Supplier Diversity Process.

Level 1: Beginning Supplier Diversity Program

There are two distinct types of corporations at Level 1. The first is a relatively new company that has been introduced to supplier diversity through its industry groups or through its customers’ second tier initiatives. Companies in this category are exploring their options to see how supplier diversity *fits* into their business model. After some initial research, most companies that are in this category quickly move to Level 2, the Basic Program, as they are driven by customer requirements or competitive benchmarking to implement a program.

| Characteristics of a Beginning Program include: |
|--|
| <ul style="list-style-type: none"> •Community affairs or human resources owns the process. •Sparse tracking. •Nonexistent outreach. •Fails to attend M/WBE trade fairs. •No program marketing materials. •No program budget. •Minorities are prominent in advertising, but the company does not use minority-owned advertising agencies. •Senior management does not understand the value proposition. |

The second type of corporation at Level 1 is one whose leadership just doesn't get it! These are well-established companies that look at supplier diversity programs as a community affairs tool rather than real supplier diversity. Unfortunately, there are a surprising number of corporations in the travel, hospitality, food, sportswear, and entertainment industries in this category where, ironically, minority consumer spending composes a significant portion of their market share. They mistakenly equate their commitment to diversity with efforts like placing minority celebrities in their advertising campaigns, and yet they fail to retain any minority advertising agencies.

Level 2: Basic Supplier Diversity Program

The executives leading Level 2 programs are addressing a number of issues including pressure on margins, global competition, and the costs of technology. An additional issue that many are facing is increased scrutiny from customers regarding their commitment to supplier diversity. Increasing numbers of both government and corporate customers have some form of second tier or subcontracting programs in place. To properly respond to these customer requirements the corporation must, at a minimum, have a Level 2 program in place to satisfy the requirements. In contrast to Level 1 programs, supplier diversity programs at this level have a person designated to oversee the initiative and various aspects required to implement an effective program. The major gap is the lack of senior management support, as supplier diversity is perceived as a compliance program rather than a strategic process. Because these programs reside outside the corporate strategy, they are vulnerable to factors like budget cuts and outsourcing, which could seriously cut or eliminate the program's resources.

Just as with Beginning Programs, it will take substan-

tive second tier program pressure from key customers, along with the potential loss of market share and discrimination lawsuits, to motivate these corporations to advance their supplier diversity program beyond Level 2 as part of their *renewed* commitment to diversity.

Level 3: Traditional Supplier Diversity Program

There was a time when Traditional Programs were sufficient for leading corporations—but that day has passed. Yes, Level 3 corporations have active program managers and are members of the various leading advocacy organizations, but the lack of alignment between supplier diversity and key initiatives, like strategic sourcing and marketing, hinders the potential for growing and developing partnerships with diverse companies. In most cases, the program managers of Level 3 firms are frustrated, as they have little to no contact with senior management, thus it becomes difficult to introduce diverse professional services firms or even implement an effective second tier program. They also have to fight for their existence and their budget on an annual basis, leaving essential expenditures such as technology underfunded.

The good news is that Level 3 programs provide the platform for launching Advanced and World Class Supplier Diversity Processes. We are also seeing that the new wave of CEOs appear to have a broader per-

Characteristics of a Basic Program:

- Part-time program manager.
- Compliance-driven response to customer requirements.
- Tracking is focused on customer reporting.
- Trade fair participation is a photo opportunity for key customers.
- Perception exists that the program is an expense, not an asset.
- Senior management is still not engaged in the process.

Characteristics of a Traditional Program include:

- Active program manager.
- Member of local/national advocacy organizations.
- Limited connection with strategic sourcing.
- No significant link to marketing and brand strategy.
- Reporting is hampered by inadequate technology.
- Most diverse vendors are supplying non-essential commodities or services.
- Few professional services opportunities are available.
- Loosely structured second tier program is in place.
- Little to no senior management involvement.

spective on the future and are more inclined to embrace supplier diversity than their predecessors. The advent of industry benchmarking has also raised the visibility of supplier diversity and has motivated some senior managers to rethink the role of supplier diversity, rather than lag behind competitors.

Transformation from a Program to a Process

Although it's only one step up from Traditional to Advanced, there is a substantial gap between the characteristics of the two levels. For starters, Level 3 is a *program*, while Level 4 is a *process*. A supplier diversity program is owned solely by the program manager, while a supplier diversity process is owned by the entire organization. Thus, the strategic intent and accountability are radically different.

Another major distinction is how the program is viewed by senior management. Level 3 programs are rarely connected to senior management by reporting links or presentations, whereas Level 4 programs are normally included in senior management planning and reporting. This elevated level of importance to the organization is driven by a compelling value position that demonstrates the contribution of supplier diversity to institutional objectives. CEOs of corporations with Traditional Programs think supplier diversity is "the right thing to do." CEOs of corporations with Advanced and World Class Processes realize that supplier diversity is "the *smart* thing to do."

The challenge facing managers of supplier diversity programs that are transitioning from a Level 3 program to a Level 4 process is communicating the new supplier diversity commitment to key internal and external stakeholders. If the transformation is the result of new senior leadership, there will be a need for vocal and visible support, coupled with increased accountability to insure that the key middle managers understand the changes.

It also is important that program managers exercise extreme care in ramping up during the transition from Level 3 to Level 4. If the staff is increased by one headcount, make sure you get the right person. We have seen supplier diversity programs become the *safe harbor* for those 30-year employees in need of two more years of service before retirement. Program managers must fight to make sure any additions to the team bring the skills and the attitude required to advance the program. The same standard applies to the creation of a supplier diversity steering committee. It is essential that membership on the steering committee be reserved for managers who embrace supplier diversity and can navigate the entire organization.

Level 4: Advanced Supplier Diversity Process

Changing demographics and increased ethnic spending power are driving corporations to revisit the supplier diversity value proposition. The fact that the ethnic minority population will become the majority of the American population sometime in the mid-21st century, and that, in many states like California, Texas, and Florida, that day is approaching even sooner, has caused savvy leaders of consumer product corporations to strive for a minimum Level 4, Advanced Supplier Diversity Process. In corporations where senior management is sophisticated enough to support Advanced Programs, minority supplier program managers are enjoying increased resources and access to greater technology.

The Advanced Supplier Diversity Process is where it all comes together for the corporation and the program manager. Senior management has provided sufficient resources and support to implement an effective process, and adept program managers are equipped to leverage those resources into wins for diverse businesses and the corporation. Buyer and key executive training reinforces the company's com-

Characteristics of an Advanced Process include:

- Program manager at director level.
- Active in local/national advocacy organizations.
- Program has sufficient resources.
- Strong team of supplier diversity professionals.
- Buyer/key executive training.
- Advanced second tier program.
- Program has specialized supplier diversity technology.
- Steering committee is composed of key executives.
- Innovative diverse supplier development initiatives.
- Diverse suppliers included in professional services and outsourcing opportunities.
- Supplier diversity is aligned with marketing and sales.
- Process is aligned with strategic sourcing.
- CEO/senior management is involved.
- The supplier diversity program manager is a key contributor to the corporation's overall management strategy.

mitment and enlists company-wide support for the process. The company's supplier diversity value proposition is in full bloom.

Level 5: World Class Supplier Diversity Process

A World Class Supplier Diversity Process is attained when supplier diversity is a seamless part of the company's strategic planning and is aligned with all key processes. Successful World Class supplier diversity managers play key roles in formulating corporate strategy while creating resilience for the supplier diversity initiative. As the corporation's supplier diversity subject matter expert, these program managers are valued as essential contributors to strategic sourcing and marketing.

A single person cannot manage a Level 5 Process. A World Class Process has a visionary program manager and a strong team of supplier diversity professionals on board. This enables the manager to focus on innovative initiatives and process strategy, while the team addresses

the critical assignments relating to managing existing supplier relationships, second tier program management, benchmarking, and communications.

World Class Processes have integrated diverse suppliers throughout the organization, including professional services and outsourcing. They continue to create innovative alliances that result in significant opportunities for diverse businesses and are always looking for new ways to expand opportunities for diverse businesses.

It is no surprise that the characteristics of program managers of a World Class Process are evolving in response to the changing business model. We have uncovered the following traits in our work with leaders of World Class processes:

- They have the consulting insight to provide supplier diversity-based ideas and solutions to general business challenges facing the corporation.
- They have the marketing savvy to link supplier diversity to revenue generation and brand equity.
- They have the analytical skills required to quantify the supplier diversity value proposition in metrics that are relevant to the business.
- They have the entrepreneurial courage to challenge the status quo when it becomes an obstacle to an opportunity for diverse businesses to bring value-added solutions to the company.

They know how their company makes money and they also know how supplier diversity contributes to the bottom line.

Final Thoughts

Ten years after RGMA first outlined the "Five Levels" there is good news and there is bad news in the area of supplier diversity program expansion. The good news is that supplier diversity is enjoying a surge of interest from corporate America. Corporations with national memberships in the National Minority Supplier Development Council, which is the leading advocacy organization in the world regarding minority supplier development, has surpassed 400, and the 39 regional minority development councils are also experiencing a similar level of increased interest. There are more Advanced and World Class Supplier Diversity Processes in corporate America than ever before and diverse suppliers are enjoying record levels of

Characteristics of a World Class Process include:

- Program manager is viewed as a key resource to senior management.
- Supplier diversity process is equal in stature to workforce diversity.
- Supplier diversity is owned by sourcing teams and buyers.
- Accountability throughout the organization including senior management.
- Program management tools are utilized throughout the organization.
- Innovative tools such as alliances and acquisitions drive program growth.
- E-sourcing is used as a tool to expand diverse spending.
- Second tier program is integrated into sourcing strategy.
- Ability to measure the program's contribution to market share and shareholders' equity.
- Integrated into global strategy.
- Senior management leadership.
- The supplier diversity program manager is a key contributor to the corporation's overall management strategy.

contracting with major purchasing organizations. Universities, hospitals, and leading not-for-profit agencies are developing supplier diversity programs, which bodes well for small- to medium-sized diverse businesses that are seeking alternatives to disappearing corporate opportunities.

The bad news is that supplier diversity is still an afterthought for too many corporations. Too many companies have mistakenly concluded that a commitment to workforce diversity is all that is required in the “diversity category.” We have observed, with astonishment, the plethora of rankings on the “Best Corporations in Diversity” and the “Leading Companies in Diversity” lists that seem to always contain a few, well-known corporations that have stellar workforce

diversity programs, but anemic supplier diversity initiatives. We have also seen supplier diversity program managers that are completely outside of the diversity management process until there is an inquiry from an advocacy group or a lawsuit. There is no greater contradiction than a company that has an award-winning workforce diversity initiative and a Level 3, or lower, supplier diversity program.

There is, however, a great deal of optimism for the future. To use a phrase coined by U.S. Senatorial Candidate Barack Obama at the 2004 Democratic National Convention, the commitment of enlightened CEOs, coupled with the work of highly capable program managers, provides me with “the audacity of hope” regarding the future of supplier diversity. ♦

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