



MAINSTREAMING SUPPLIER DIVERSITY

A key responsibility towards business and sustainability

Abstract

When talking about sustainable practices, supplier diversity continues to remain a new area to venture into for many organisations. The less to little understanding of inclusion further obstructs the organisation from incorporating the idea of supplier diversity and reaping its benefits.

This paper discusses how to avoid considering supplier diversity as a business strategy, and focusing on as more of a business responsibility that has the potential to reap business value, if implemented effectively.



The need for supplier diversity

Even with organisations growing conscious of their sustainability efforts, they lack requisite guidance on their responsibility to contribute to the society in terms of being inclusive towards an under-represented or under-served demographic. This includes indigenous people, women, veterans, LGBTQ+ individuals, people with disabilities, and

those from ethnic minorities. Organisations often plan a budget to fulfill their corporate sustainability toward saving the environment by reducing their carbon footprint and limiting packaging waste. However, the complete responsibility does not end here, and must involve the entire supply chain, thereby incorporating supplier diversity.

The pandemic highlighted the importance of supplier diversity and clarified that it is more of a necessity and cannot be negotiated if organisations are planning to achieve sustainability goals. Additionally, supplier diversity also comes with tangible benefits that can contribute towards higher profitability, revenues, brand equity, and others.

Ensuring three pillars of sustainability with supplier diversity

It is imperative for any corporate sustainability goal to surpass three aspects – environmental, social, and economic. As the name suggests, the environmental factor undoubtedly entails preserving the planet by adopting practices that can potentially reduce carbon footprint/ greenhouse gas emissions and packaging waste, while the social aspect primarily involves the support and contributions of all the employees, stakeholders, as well as executive members at both local and global levels. However, economy forms the most critical of the three, as it ensures

profits for the organisation. Therefore, when adopting sustainable practices, organisations need to ensure it records no loss on the balance sheets. Amidst, focusing on supplier diversity has proven to fulfill all three aspects.

Having a diverse supplier base (which indicates including tier-1 suppliers) can offer innovative solutions, especially during a crisis like a pandemic. An article published by Harvard Business Review featured an example where minority business created their own line of hand sanitisers and multi-purpose disinfectants

using their own expertise to cater to the need of the hour.¹ This is an example of introducing innovation in terms of products range and also addressing the raging demand during the pandemic through a diverse supplier base. Involving local vendors can help in reducing carbon footprint as well, alongside contributing to the local financial impact. Unfortunately, despite their capabilities, these suppliers are often overshadowed by incumbent and big suppliers due to lack of visibility and access to opportunities.

¹<https://hbr.org/2020/08/why-you-need-a-supplier-diversity-program>

Additionally, diversifying suppliers helps in enhancing the social image, especially in front of clients, while also contributing towards the social responsibilities of offering economic equality, investing for growth, and developing communities. Furthermore, having a diverse supplier base enables organisations to explore new

mindset, ideas, and perspective that offers innovation, competition, and efficiency that can further help in saving costs. Also, having more sourcing options creates a competition, while embedding resilience and agility in the supply chain. Resonating the thoughts, a study by Hackett Group suggests that nearly 76% of the diverse

suppliers have been successful in meeting expectations and while 23% were able to exceed those.² It can be inferred that while sustainability and supplier diversity may appear contradicting, they complement in nature and lead organisations to the path of success and profit.

DIVERSE SUPPLIER PERFORMANCE STUDY

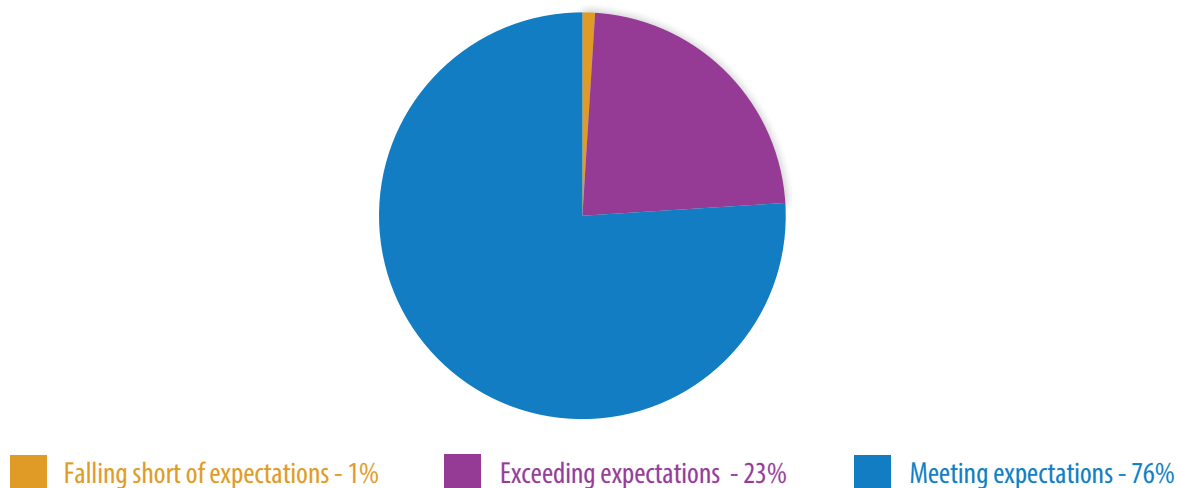


Figure 1: Graph showcasing effectiveness and quality of diverse suppliers

Today, customers are aware of their role in building a sustainable future and they ensure to make conscious decisions while making any purchase or availing any service. There are many recent studies that support the fact that customers are more interested in buying those products that

are eco-friendly and working with those organisations that are working towards sustainability. In 2019, Hootology – a diverse supplier – conducted a study for Coca Cola and found that the customer's favorable perceptions due to their supplier diversity initiatives will lead to

an additional 670,000 consumers for their various products.³ Also, there are many trailblazers that have started showcasing the benefits of their supplier diversity programs and leading by example for others.

Making way for supplier diversity program

Inclusion and diversity in the supplier base can bring innovation and new perspectives in the product, services, and processes. Moreover, these display an organisation's efforts to promote the economic growth of

all communities in diverse markets. It is interesting to note that the traction in the increased number of supplier diversity initiatives is not because of customer requirements and government

compliances, but because supplier diversity is enabling to enhance the productivity and profitability of organisations.

²<https://www.thehackettgroup.com/top-supplier-diversity-programs-broaden-value-proposition/>

³<https://hbr.org/2020/08/why-you-need-a-supplier-diversity-program>

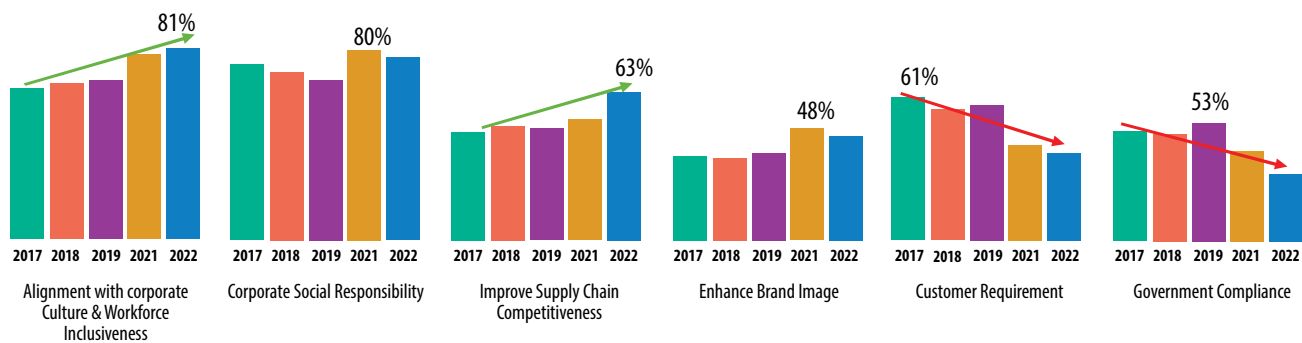


Figure 2: Primary drivers for supplier diversity programs⁴

The first step towards implementing supplier diversity is to analyse and understand if there are already a few suppliers that an organisation is working with, fall under their criteria/preference for the diverse supplier. A few organisations tend to limit their diverse supplier base to minority- and women-owned business enterprises (MWBEs), and some include other minorities as well.

Though the program can get extended to other categories eventually, it needs to be initiated with specific focus areas for a successful implementation and execution. Hence, it is critical to understand which categories to focus on while launching the supplier diversity program. The top spend categories that are preferred for supplier diversity programs include IT, professional

and consulting services, real estate, logistics, engineering, financial services, and insurance. While preparing policies, management needs to align on this along with what percentage of diverse supplier spend any category needs to have.

Top spend categories for mature supplier diversity programs, 2% of companies

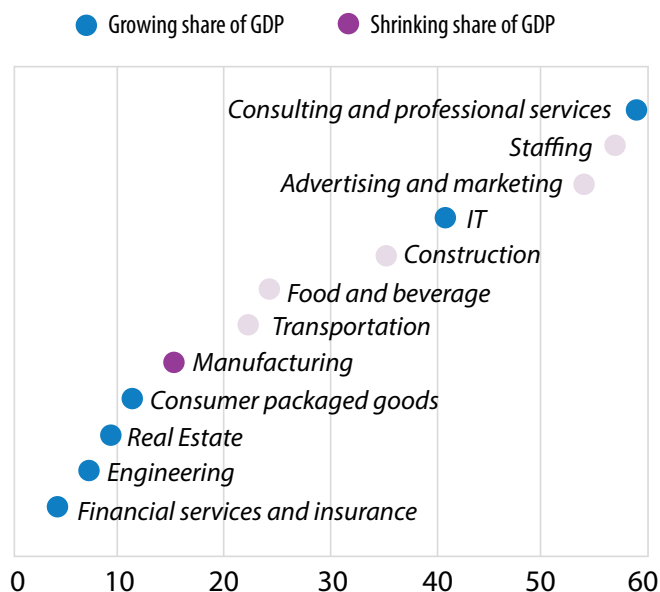


Figure 3: Top spend categories for mature supplier diversity programs⁵

⁴<https://www.supplier.io/2022-state-of-supplier-diversity>

⁵<https://www.mckinsey.com/capabilities/operations/our-insights/expand-diversity-among-your-suppliers-and-add-value-to-your-organization>

The secret of success

The success of a supplier diversity program depends on many factors. A strong framework based on a clear strategy with a future vision that is aligned with the top management is a must for this, followed by some key measures as listed below:

- Defining what's the must-have percentage and good-to-have percentage of the diverse supplier base for each category and organisation as a whole
- Defining accountability and review metric performance of the program regularly.
- Tracking supplier diversity spend and effective benchmarking

- Preferring to work with certified diverse suppliers, which will help in evaluating the progress and reach of the supplier diversity program across various categories

- Data is key and hence ensuring supplier onboarding and database maintenance to assure supplier discovery and identification for other/future categories.

- Building an open supplier ecosystem enables business opportunities for suppliers and buyers.

Over and above these key measures, there are a few approaches that can

help organisation to achieve beyond expectation:

- Handholding the suppliers to build capabilities via training and mentoring
- Not limiting supplier diversity programs to a select few popular categories
- Building collaborative partnership with the diverse suppliers
- Providing access to new tools or technologies, and supporting networking events
- Being open to work on innovative ideas that come along while working with diverse suppliers



Challenges in adopting a diverse supplier base

While there are ample benefits of having a diverse supplier base, the challenges in implementing the same cannot be denied. Although, organisations are encouraged to incorporate supplier diversity into their system, below are some of the most common hurdles they often encounter:

- » **Right supplier base:** The major challenges while conducting any supplier diversity program are around finding the right diverse supplier for the required procurement services, which mostly results in compromising on quality for the sake of meeting

policies or compliance. This further hampers the supposed cost and quality competitiveness among the suppliers.

- » **Program benchmarking:** Not benchmarking the program in an appropriate manner leads to losing on the true value that can be created. Most of the common benchmarks talk about total vs diverse supplier spend across organisations, but digging deeper by analysing program effectiveness on category, commodity, and cross-industry levels, enables to understand the depth of the supplier diversity

programs in the organisation.

- » **Lack of capabilities:** Not having the capability to assess the tangible value that such programs bring on the table which leads to lack of insights such as savings, increased market share, improved brand equity, supplier development, and community impact. Another common challenge is not having the capability to categorise and manage tier-1 and tier-2 suppliers for deepening program reach into the system.



Conclusion

Though there exist many mature diverse supplier programs across various industries, there is still a lack of understanding and expertise in terms of how to implement, execute and benchmark ideal and successful supplier

diversity programs. A lot of attention and commitment are needed from both the leadership and concerned management to run such programs across the organisation. This will not only enable to break the wheel of simply meeting the government policies

but will also explore the true value these programs bring to the organisations, social communities, and help build a sustainable future.

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