

# A COMPARISON OF SUPPLIER DIVERSITY PROGRAMS AND WEB-BASED MINORITY SUPPLIER CONTENT

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## Abstract

*The growing use of the Web for business-to-business transactions means corporate Web sites could be used to communicate with diverse suppliers. This study examines the Web-based supplier diversity content on Fortune 500 public sites. These Web sites are underused for communicating with diverse suppliers; the content appears on only 12.5% of the sites. The Fortune 500 sites with supplier diversity content focus on information publishing (e.g., contact names) and prospect screening (e.g., financial requirements). The most common Web-based supplier diversity item is certification requirements. Web-based supplier diversity content, however, is nearly identical to off-line diversity program content.*

## Introduction

The Web is a channel for business-to-business (B2B) commerce, and there are savings associated with e-procurement. Given the current level of growth in B2B e-commerce, Web-based supplier communications should be studied. This study compares Web-based minority supplier content with off-line supplier diversity programs. Diverse suppliers are small or disadvantaged firms headed by minorities, women, or disabled veterans. By purchasing from diverse suppliers, corporations make their supplier base as diverse as their different customers (Reese, 2001). Supplier diversity is a component of supply chain activity (Wentling and Palma-Rivas, 2000).

## Why Examine Supplier Diversity?

The minority segment of the U.S. population, and its buying power, is growing (Reese, 2001). Most U.S. labor force growth is in minorities (Milken, 2000). The number of minority-owned firms is growing faster than non-minority firms and sales per employee grow more quickly at minority firms than at the Fortune 500 (Milken, 2000). Half of the U.S.'s largest minority-owned firms have a Web site (Hernandez, 2002). Supplier diversity programs enable large firms to buy from a rapidly growing segment of the population, and partnering with minority-owned firms is one way to learn about minority consumers (Reese, 2001). Minority firms are 14.6% of U.S. firms; they receive 3.5% of corporate purchasing (Hernandez, 2002; Reese, 2001). Women-owned firms receive 3% of Fortune 500 purchases (div2000.com). The acronym "MWBE" describes minority and women-owned business enterprises; disabled veterans and small or disadvantaged businesses are also MWBEs.

This research visits Fortune 500 public Web sites to examine communication with diverse suppliers. The following sections review related studies and identify MWBE program attributes, list Web-based MWBE content, and compare the off-line and Web-based programs. This study is distinctive because it examines supplier diversity content on corporate Web sites. The objectives of this study are to categorize supplier diversity content on corporate public Web sites, and compare that content with existing, off-line MWBE programs.

## Corporate Web Sites and Supplier Diversity

Studies have cataloged the content of corporate Web sites. Young and Benamati (2000) found that Fortune 500 Web sites contain: product/financial transactions, customer service, communication (e.g., e-mail), and publishing; over a third had supplier content. Trading partner content on corporate Web sites supports information exchanges for procurement (Baron, Shaw, and Bailey, 2000) and supply chain management (Lancioni, Smith, and Oliva, 2000). Lancioni, et al. (2000) note that

using the Internet for managing supply chains is new and rarely studied, and Baron, et al. (2000) describe the Web's impact on procurement and supplier interaction. These studies categorized Web content related to transactions, but not the site's supplier diversity content. Studies rarely link supplier diversity with the Web, and it has received scant mention in workplace diversity studies. Wentling and Palma-Rivas (2000) found minority supplier usage to be a component of diversity evaluation among Fortune 500 diversity managers, but the study did not examine respondent's Web sites.

### ***Supplier Diversity Program Content***

Studies identify characteristics and practices of successful off-line MWBE programs:

- monitoring applicants, purchasing procedures, bidding assistance, trade fairs, an MWBE database, buyer training, performance metrics (Dollinger, Enz, and Daily, 1991).
- a written MWBE policy, senior management support, inclusion procedures, program goals, certification, an MWBE database, dedicated MWBE staff, second-tier programs, performance measures/monitoring, recognition programs, benchmarking (Morgan, 2002).
- management support, buyer training, program goals, full-time MWBE coordinator (Carter, Auskalis, and Ketchum, 1999).
- supplier database, CEO involvement, goals (Weaver, Stovell, and Romney, 2003).
- CEO involvement, a database of women suppliers, measures for program success, written diversity policies, and certification requirements (div2000.com).

Second-tier programs are important to MWBEs as contract bundling reduces the number of bid opportunities (Weaver, Stovell, and Romney, 2003). Supplier development is an element of MWBE programs (Krause, Ragatz, and Hugley, 1999). MWBEs must provide products/services that are competitive with non-MWBE firms because buying firms do not accept lower quality, late delivery, or higher prices from MWBEs (Carter, Auskalis, and Ketchum, 1999). Several of these studies list business and social reasons for creating supplier diversity programs. Prior studies have not analyzed the relative importance of MWBE program attributes or identified the ones most frequently used.

The commonality in findings from MWBE studies provides a list of supplier diversity program attributes. That list is a basis for comparison with Web-based MWBE content. MWBE program attributes (the variable name is in brackets) include:

- Applicant screening (Certification)
- Requirements such as price, quality, delivery, financial information (Requirements)
- Diversity purchasing procedures and training, written policies (Procedures)
- Assistance with internal bidding processes; supplier development (Mentoring)
- Participation in diversity trade fairs, open houses (Outreach)
- Maintaining a database of approved MWBE suppliers (Database)
- Measuring MWBE program success, program goals (Metrics)
- Top-management involvement and support (CEO Support)
- Personnel dedicated to diversity issues, MWBE coordinator (Personnel)
- Second-tier MWBE efforts (Second Tier)
- Benchmarking against other MWBE programs (Benchmarking)
- Awards and recognition of MWBE suppliers (Awards)

This present study addresses Web-based supplier diversity by asking:

- What is the supplier diversity content on Fortune 500 public Web sites?
- Why are Fortune 500 firms involved in supplier diversity? and
- How does Web-based MWBE content compare to off-line program content?

## **The Study**

The researcher visited the public Web site of every Fortune 500 firm. The Fortune 500 were used because of their resources, the likelihood of having a public site, and the assumption these firms would mention supplier diversity with Web-based supplier communications. A form was developed to inventory site content relating to supplier diversity and major suppliers. Both areas were included because they were expected to appear together. The content of the form was influenced by prior supply chain and supplier diversity studies; it was tested on 50 of the sites.

The researcher read the home page and site index, and used the site search where available, to identify supplier content. Key words for site searches were: diversity, supplier, vendor, minority, women-owned, small business, and procurement. All pages with content related to these supplier terms were printed for analysis. The printed pages were analyzed for content (e.g., certification requirements) relating to MWBEs by identifying and cataloging that diverse supplier content. This content

analysis produced simple counts of the number of Web sites with items in each category. Data collection and analysis follows the methodology of Strauss (1987) for examining textual data and surfacing and naming core categories.

## Findings

Although firms interact with suppliers electronically, the number using a public Web site for supplier communication is low; only 134/495 (27.1%) mention either suppliers or supplier diversity, and only 62 (12.5%) sites contain MWBE content. All but five firms had a public site.

### *Supplier Diversity Content*

Certification is the MWBE content that appears most frequently (50/62); prospects must prove MWBE status through a third party. Sites feature electronic application forms (40), list names for MWBE personnel (35) or other contact information (25), define MWBE (33), and provide links to certifying agencies (22). Financial requirements (34) include accounting statements. Operational requirements (26) include EDI, UPC and bar coding, labor law compliance, ISO certification, geographic coverage, quality, price, service, on-time delivery, and cycle time improvement. The firms publicize tracking metrics (32) of MWBE program success, including the percentage increase in the total number of minority suppliers in a given time period, specific number of firms in the MWBE program database, dollars spent or the percentage of total procurement given to MWBEs annually, and stated corporate annual goal, as dollars or a percentage, for MWBE spending.

Diversity letters (21) from the chairman/CEO discuss partnerships with suppliers using the words "alliances" and "collaboration," equal or fair business opportunities, reasons for MWBE programs, and how supplier diversity helps accomplish corporate objectives. They stress ethical conduct for suppliers and note the importance of price and quality. The letters show commitment from the top for MWBE programs and note issues that are important to the buying firm.

Second-tier programs (16) promote MWBE business development. Firms encourage or require major suppliers to include MWBEs as second-tier suppliers, have subcontracting programs to link MWBEs with primary suppliers, and require reporting of second-tier efforts. Firms provide technical assistance and mentor (13) small businesses regarding procurement procedures, business practices, and quality requirements. They list MWBE awards received (18).

### *Justification for MWBE Programs*

Firms (39) explain their involvement in supplier diversity, citing reasons that fall into the following four categories (some cite reasons across several different categories):

- **Customers** (16 sites) - MWBEs are potential customers; diverse suppliers help the firm understand and attract diverse customers.
- **Competitive Advantage** (11) – MWBE programs provide strategic advantage, make good business sense, are required for government contractors, support continuous improvement.
- **Communities** (19) – Supplier diversity programs are a way to invest in and help grow the communities served or operating in; they aid community growth.
- **Common Good** (7) – Supplier diversity expresses concern for the public good; it's the right thing to do; a healthy society enables all to share in economic growth.

### *Comparing Web-based and Non-Web MWBE Items*

Ten of twelve (83%) non-Web MWBE variables appear on the Web sites: Certification, Procedures (e.g., e-forms), Personnel (contact names), Requirements (financial and operational), Metrics, Outreach (MWBE content on the site), CEO Support, Awards, Second Tier, and Mentoring. The sites did not mention MWBE databases, perhaps for privacy and competitive reasons, and there was no Web-based content related to benchmarking. Three items appear on the Web sites but are not listed in non-Web MWBE program studies. The Web sites often provide detailed justifications for the firm's involvement in supplier diversity (39). The Web sites define MWBE categories such as Black or Hispanic (33), and they provide hyperlinks (22) to diversity resources on the Web.

## Discussion

Supplier communications from public Web sites are not widespread. Only one out of eight Fortune 500 Web sites mentions supplier diversity. These sites are emerging as an outlet for communicating with MWBEs. The Web could significantly improve communications with MWBEs because it avoids costly EDI or proprietary linkages. Corporate Web sites could facilitate MWBE recruitment due to MWBE use of the Web. Firms with off-line supplier diversity programs should consider the Web as a component of those programs. Requirements on these Web sites such as providing financials, and demands for third-party certification, suggest some firms are using their public Web site to screen prospective MWBEs.

A pessimistic view of supplier diversity is that it implies special treatment for MWBEs. However, this study finds a number of firms with MWBE content have requirements such as price, quality, geographic coverage, and financials, which argue against special treatment. Just over half of the firms with MWBE content request financials, and other statements about expectations concerning price and quality on these sites show that prospective MWBEs must compete against major suppliers that have previously established relationships with the buying firms as well as the technical expertise and resources required for participating in e-procurement. Web-based supplier diversity initiatives place the responsibility on the MWBE for certification, follow-up contacts, and meeting requirements for electronic linkages and financial stability. Firms that purchase from MWBEs do not relax established purchasing practices - - such as expectations regarding price, quality, level of service and delivery - - to support their MWBE program (Carter, Auskalnis, and Ketchum, 1999).

The stated purposes for creating supplier diversity programs, such as gaining new customers, also argue against altruistic motives. The diversity statements of these firms describe diversity more broadly than gender or race. Firms see sound business reasons for developing a diverse supplier base, such as better understanding customer's needs. Supplier diversity is one way firms understand and sell to a very diverse set of customers in an increasingly diverse marketplace; the firms combine this learning about diverse customers with performance demands that are equally applied to all suppliers.

## **Contribution**

This study examines Web-based supplier diversity on Fortune 500 Web sites and compares it to non-Web MWBE programs. One contribution of the study is to research practice. The study applies a well-established methodology to a relatively new area of investigation. The literature review finds that few studies to date have investigated diversity on the Web. This exploratory study could initiate a stream of research related to supplier-diversity and trading partner interactions across the Web because it suggests several other related studies. It would be interesting to know, for example, how effective Web-based MWBE content has been in attracting diverse suppliers. A second contribution of the study is for practitioners. The study notes the business implications of supplier diversity and examines current Web-based MWBE programs. Managers who are involved with supply chain management can use these findings as a benchmark for existing Web-based supplier diversity efforts, by comparing their site's MWBE content to the Web-based content of other firms. Firms that have not moved diverse supplier communications to the Web should consider such an addition, because of the importance of diversity issues and diverse populations. Diversity has value in itself, but the competitive and economic implications of diversity within the supply chain mean that managers who interact with external constituencies such as suppliers and customers must be aware of the issues explored in this study.

This study's findings are somewhat limited because Fortune 500 Web sites do not represent every corporate or commercial Web site. Although the data collection was exhaustive across an influential group of 500 large firms, and the findings were compared, whenever possible, with related studies, the conclusions are based on content from 62 public Web sites. This is a point-in-time "snapshot" of Web-based content that changes frequently. The study examines "what is" questions, but immediately raises other important questions about the effectiveness and influence of these Web-based initiatives. Firms with well-established supplier diversity programs may elect not to use the Web for publishing their programs. However, the sites examined in this study do reflect how major corporations, which have considerable purchasing power and channel influence, are currently using their public Web sites to support supplier diversity initiatives.

## **Conclusion**

Corporate public Web sites are generally underused for supplier diversity. Given the growing access to the Web, and its inherent value in terms of both costs and speed in linking to small and mid-sized trading partners, large organizations with established supplier diversity programs should strongly consider the Web as one more outlet for promoting these efforts.

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