

INTEGRATING A DIVIDED WORLD THROUGH PROCUREMENT

DARYL HAMMETT • JASON BUSCH



JASON AND DARYL ARE TWO ENTREPRENEURS IN THE PROCUREMENT INDUSTRY WHO ARE PASSIONATE ABOUT THE POTENTIAL OF CORPORATE AND GOVERNMENT SPENDING TO DRIVE INCLUSION TO IMPROVE SOCIETY. WE ENCOURAGE YOU TO JOIN THE CONVERSATION AND CONTRIBUTE TO THE SOLUTION.

In the wake of our nation's public health crisis and divisive climate, a lot of people are being pushed to their limits. The coronavirus pandemic, the protests, the global disruption to business and everyday life have many of us frustrated.

We watch the news and wonder what we can do. How can we heal a divided world, ideally by targeting the very cause of the unrest and anger that leads to police brutality, cycles of poverty, poor healthcare and "food deserts" that put minority communities at higher risk for both chronic and acute disease?

WE THINK
IT STARTS
WITH MAKING
RACIAL AND
ECONOMIC
EQUALITY
A BUSINESS
ISSUE.

The pain that has recently boiled over into a stunning display of marches and protests is only a symptom of a broader issue, which showcases why business leaders must address systemic problems: the cycle of poverty and barriers to opportunity, especially those of African American descent in the United States.

The lesson of integration is that it gives voice to historically marginalized people. A good friend of mine (Daryl), the late and honorable Nathaniel Jones, was a federal court judge appointed by President Jimmy Carter who led change during the era of integrating schools. He shared with me the weight and responsibility that everyone in leadership needs to take on to support unity and opportunity for everyone.

If everyone had a reasonable opportunity to rise into the middle class (or above), the conditions that create repeating cycles of reduced life expectancy and violence (police and otherwise), would be reduced.

As procurement professionals, we share the same responsibility to integrate as Jones suggests. We can see the impact of truly fostering the growth of small and minority-owned businesses, especially in geographic areas where a small nudge can mean the difference between poverty and a middle-class life for entire communities.

The proposals we will make in this essay are designed to avert systemic racism. If we succeed, business-led integration will unite communities by elevating people out of poverty and giving them access to capital and equal opportunities.

THE LONG VIEW

** Supplier diversity programs have failed to tear down systemic racism. For us, the notion of “supplier inclusion” represents a more impactful design that cannot be shunted to the side of overall procurement and supply chain agendas.*



To drive “inclusion*” rather than “diversity,” it is essential to take a long view, rather than simply being reactive, or resting on past laurels. This game will not be won in the first (or second inning), nor will tactics without measurable economic impact of the past necessarily have a role to play in the future.

For example, we may decide that metrics in supplier diversity programs that have little or no linkage with true inclusion will have limited roles in the future (e.g., counting spend to a diversity “pass through” MSP will typically create little or no uplift for a community, aside from the potential to enrich the owners who might give back).

As you’ve probably guessed, what we will propose is anything but “supplier diversity 2.0.” In fact, we believe it is time to banish “supplier diversity programs,” as originally conceived, to the rubbish bin.

Why? Our experience suggests that classic diversity programs fail to drive engagement — internally, and, most importantly, externally. For too long, supplier diversity has revolved around checking boxes and meeting quotas, like the MSP scenario we just mentioned. Yet, integration requires so much more than this, creating a better whole by bringing many parts together.

Integration is about driving lasting inclusion — putting diversity into the mainstream. We believe, in fact, that it is necessary to shift our thinking, and language, as well.

How can you bring small and diverse businesses into the fold? How can you amplify their voices and give them a permanent seat in the room?

CHANGE HAS TO BEGIN NOW,
AND WE TRULY BELIEVE THAT
BUSINESS SPEND IS A LEVER
THAT CAN CHANGE THE WORLD.

PROCUREMENT AS AN ALLOCATOR OF SPEND

INTEGRATION MIGHT
BE A SLOW AND
PAINFUL PROCESS
LIKE THAT STARTED
BY THE CIVIL RIGHTS
MOVEMENT IN THE
1960'S.

BUT WE BELIEVE
PROCUREMENT CAN
HELP AMERICA TO
HEAL AND GROW OUT
OF THIS CRISIS.

Our “day jobs” as experts in the role of private and public sector spending (the money that organizations spend on external goods and services from suppliers, contractors, etc.) have taught us that procurement organizations can have an outsized influence on how dollars are allocated and assigned.

The numbers are staggering.

That money, in theory, can have a huge impact in small communities. We have seen first-hand the results of businesses boosting local economies. It’s an incredible gift for impoverished neighborhoods. Education and wealth pulls people out of despair. New schools can be built, old roads repaved. Equal opportunities to be had. The rate of violence and crime can drop while the quality of life and health can improve for those given a proper chance.

One of the authors recently moved to Gary, Indiana, which is undergoing a renaissance of sorts not only because of better local political leadership, but the macro-effect of businesses relocating from neighboring states, due to more favorable business conditions. Anecdotal, we can say this is leading to increased local hiring and the

rise of new businesses. The process is slow, but steady, especially owing to the historic poverty in the region. But imagine if this effect were magnified by the “air cover” of greater spend being driven by larger buyers into ZIP codes that need it most to drive inclusion.

BUSINESSES,
ORGANIZATIONS
AND GOVERNMENTS
SPEND TRILLIONS IN
PROCUREMENT EVERY
YEAR. IN THE U.S.
ALONE, WE ESTIMATE
THE PRIVATE SECTOR
NUMBER IS OVER \$2.5
TRILLION PER YEAR.
OUR GOVERNMENT
(FEDERAL, STATE AND
LOCAL) SPENDS NEARLY
\$2 TRILLION ANNUALLY
WITH EXTERNAL
SUPPLIERS (\$1.5
TRILLION AT THE STATE,
LOCAL AND HIGHER
EDUCATIONAL LEVELS;
\$470 BILLION AT THE
FEDERAL LEVEL).



THE NEED FOR
ENGAGEMENT:
START SMALL
(BUSINESS, THAT IS...)

There are 30.2 million small businesses in the U.S. that employ 59 million people. They represent around 38% of our national working population. If procurement starts with a “go local” strategy by bringing in small and minority businesses, they can give people bigger opportunities, fighting oppression and systematic racism with engagement.

The data suggests procurement must insert itself where regulated lenders have failed and discriminated in black communities. We can no longer rely — we never could, for that matter — on government or banks/lenders to do the job.

According to the Kauffman Foundation, Census Bureau and the Small Business Administration, 28.4% of black entrepreneurs report their profits are “negatively impacted by access to capital” compared with 10.1% of white entrepreneurs.

And when African American entrepreneurs can “get a loan” they do so on terms that are onerous. According to the same study, 22.6% of black entrepreneurs report “being negatively impacted by the cost of capital” compared with 10.6% of white small business owners.

As anyone who has studied feudal societies or indentured servitude knows, it will become painfully obvious to those looking at these numbers together that they serve to reinforce cycles of poverty. Simply put: Black business owners face massive headwinds in building sustainable businesses compared with all other segments of the population, especially white business owners.

As Martin Luther King Jr. said, “it’s all right to tell a man to lift himself by his own bootstraps, but it is cruel jest to say to a bootless man that he ought to lift himself by his own bootstraps.”



TAKING ACTION

We think procurement has the unique opportunity to change the very paradigm of how we do business, giving voice to those who have historically had no bootstraps to lift.

But where should you begin? It really comes down to three things*:

1. Make integration and inclusion a priority. Be more deliberate about your procurement spend. Always keep in mind what the data proves: small businesses hire more women and people of color, people who contribute substantially to our tax base.
2. Invest in the small and minority businesses you work with. Help them grow, and in turn, support at-risk neighborhoods. Diversify your supply chain by acting small in a very big way.
3. More broadly, think about how inclusion can become a key ingredient that will bring your sourcing strategy together.

** Please stay tuned for a follow-on research brief on case examples of each of the following 3 examples.*

Too often, we hear about corporations with great intentions and plans to develop their own supplier diversity program. Although they will validate their diverse supplier data or acquire a supplier registration portal to track their spend, we often don't hear about their plans to include small and diverse suppliers in their overall strategies and supply chains.

Many of these organizations have supplier diversity experts who don't collaborate with their larger procurement teams as closely as they should — these professionals are incentivized differently and often don't communicate with those they need to or they simply aren't aligned on strategy. Many in procurement will treat them like compliance officers or regulators in financial services rather than as partners driving towards a common goal, or good.

As a result, corporate supplier diversity programs often lack the intent to include diverse suppliers in their overall sourcing

process. Supplier diversity can be measured by many tools and metrics, but that doesn't guarantee that any program will contribute to driving inclusion.

However, businesses (and government) have the potential to sow an environment that can lead to true inclusion by strengthening relationships with small and minority suppliers. But there are many seeds that we must plant.

The success of your strategic sourcing strategy requires the right intentions. To drive that, you need to ask the following questions to gauge the current state of your supplier diversity and sourcing plans:

- Are small and diverse suppliers included in your corporate supplier development program?
- Do you have a three-to-five-year strategic sourcing plan? If so, does it feature inclusion as a priority item?
- Do you include suppliers in your innovation and ideation planning sessions?
- Do you challenge your suppliers to be inclusive themselves within their own supply chains?
- Are you measuring the economic impact of your spend and being strategic about where you're sourcing your diverse suppliers from?
- Do you rate your suppliers? Are your suppliers rating your inclusion in return? Such 360-degree activity fosters communication, promoting transparency and trust.
- Does your (overall) procurement team have the same incentives and goals?
- Have you considered the working capital requirements of your diverse suppliers? If so, do you have specific programs targeted at their needs?

These questions can help us figure out the "you are here" dot. But figuring out where we are on the path is just the first step in a journey that will require many elements that even best-in-class inclusion programs today have not yet been able to implement.

SETTING UP A TRUE INCLUSION PROGRAM



10 ELEMENTS

01.BIG AUDACIOUS GOALS

...that are tracked at the finance and board level. These should be expressed in economic impact (e.g., jobs created in specific ZIP codes), not “spend” alone. Finance should work with procurement to create, track and report on these metrics at the business / board level.

02.CORRESPONDING PROCUREMENT METRICS

...that map to business metrics. These might include: number of new inclusion suppliers engaged (as measured not just by ownership, but a range of factors to “avoid” the MSP scenario as outlined previously), spend increases with diversity suppliers, multi-year contract commitments made to inclusion suppliers, quality improvement/satisfaction, etc.

03.COMMUNITY AND GRASS- ROOTS PROGRAMS

...while these may be “virtual” in 2020, under normal operating conditions, they should include face-to-face events and workshops; as always, impact and metrics should be measured based on the engagement.

04. INTEGRATION WITH BROADER PROCUREMENT STRATEGY AND PLANNING PROGRAMS

(e.g., inclusion programs as central components of a multi-year strategic sourcing roadmap).

06. BE A MARKETING VOICE

...this could be as simple as having formal reference programs that allow procurement to speak to the media (without marketing's blessing) and other potential customers for these targeted supplier groups (based on the company's experience) all the way through to publishing a list of top-performing (or other) inclusion suppliers to the general public annually.

05. WORKING CAPITAL COMPONENTS

...which should include, at a minimum, favorable payment terms and even "pay on invoice receipt" options for designated suppliers; ideally these programs should also consist of grants and/or forgivable loans and related programs that target specific organizations not just based on diversity ownership (within a supplier), but additional metrics centered on creating a "multiplier" effect on the social output of spend — number of jobs created, workers trained in specific skills, etc.

07. TECHNOLOGY TO SUPPORT THE EFFORT

...this is motherhood and apple pie, so to speak, but the number of companies that maintain up-to-date supplier profile information (SIM) and master data on current and prospective suppliers, and synchronize this across systems, is minimal. Here's your test: If information is not at the fingertips of every potential consumer in your organization of this data, the current technology environment is not sufficient.

09. POLITICAL ADVOCACY AND LOBBYING

...engage your public affairs department to lobby and work with policymakers to support your goals. Make inclusion a top priority effort from a spend perspective in terms of encouraging localized programs, such as technical education in targeted communities that in turn will guarantee employment at specific suppliers (with scholarship aid available, funding by your organization and other grants). Another example would be waiving any requirements for not hiring ex-convicts convicted of felonies (and allowing these employees within your supply base).

08. SHARED- SERVICES FOR MULTI-TIER SUPPORT

...in most companies, the current tracking of supplier diversity data at the multi-tier level is almost farcical in terms of the actual economic impact on communities who need it most (meaning that it measures the wrong things). But the incorporation of shared services programs for suppliers that encompass all of the above areas can drive meaningful inclusion by providing suppliers with the means to be effective.

10. FLEXIBILITY IF THE IMPACT CAN BE MEASURED

...for example, a white-owned business that operates in a defined "inclusion zone" or ZIP code that hits certain metrics for hiring of local residents, employment, salaries, job training, etc. (see 1 and 2) of minorities may qualify for specific treatment and counting of spend. And by the same token you may banish the diversity MSP from your inclusion program entirely after taking stock of its actual impact on black, Latino or other defined communities that you are trying to impact vs. the owner alone.



BEYOND “DIVERSITY”: THE PATH TO SUPPLIER INCLUSION

It’s easy to start a supplier diversity program and turn on a portal in the hope diverse suppliers will find you. It is more impactful to be intentional about your spend, because it is the actual spend that matters to the suppliers who need it most.

This is the foundation of supplier inclusion.

But procurement should not be alone in this journey to empowering communities to create self-sustaining economic opportunity. There are no doubt numerous components that will have to come together to achieve inclusion and drive opportunities, especially in black communities where the cycle of poverty is repeated from generation to generation.

Granted, some components will be short-term (e.g., police reform, reduced incarceration for non-violent crimes, etc.) But others, which are truly critical to solving the problem permanently, will require a long view and sustained effort from the private and public sector. And bringing small and minority suppliers into your overall strategy also allows them the opportunity to help you solve challenges and develop innovations.

We believe that of all functions in business and government, procurement is best positioned to drive lasting impact through actions it can, in many cases, begin to take very quickly.

For all of us, healing is not a “selfless” objective. Nor is it a liberal or conservative one. If we can succeed at tackling supplier inclusion once and for all, the benefits will be in hard-dollar terms: higher GDP, reduced government spending, and, perhaps most important, greater resilience as a country and society.

ARE YOU READY TO BECOME PART OF THE SOLUTION IN THE SUPPLIER INCLUSION JOURNEY? IF SO, WE WOULD LOVE TO HEAR FROM YOU.

DARYL HAMMETT | DARYL@CONNXUS.COM

A highly regarded and influential mind in supplier relationship management software and procurement technologies, Daryl has been recognized as a Top COO by Cincinnati Business Courier for his significant achievements – leading cutting-edge advancements in software development at ConnXus – recently named a Top 50 Company to Know by Spend Matters. Hammett has also partnered with top procurement organizations to drive Supplier Risk education and Supplier Relationship Management and is certified in Supply Chain Management, Third-Party Risk Management and Intelligent Software Automation.

Daryl is a seasoned C-Suite business leader and thought leader. Prior to ConnXus, he spent 15 years as Senior Vice President and General Manager where he led US operations at Luxottica Group – a multi billion-dollar publicly-traded company, represented by brands such as LensCrafters, Sunglass Hut, Pearle Vision, Sears Optical, and Oakley. As a Certified Business and Executive Coach (CEC), he is an expert in Executive Team Alignment and administering and interpreting assessment tools including Herrmann Whole Brain Assessment, Situational Leadership, DiSC, and others. He employs his executive experience, leadership strategies, and coaching expertise to expand operational and team excellence. This leadership experience has been a great asset in his current role at ConnXus, a startup company has earned the rank of 1927 on the 2019 Inc. 5000 list of the fastest-growing private companies in America.

JASON BUSCH | JBUSCH@SPENDMATTERS.COM

Jason is the founder of Azul Partners, which he started in 2004. He is regarded as one of the leading experts in the scintillating world of procurement, finance and supply chain technologies. Prior to Azul Partners, Jason got his on-the-job education in procurement solutions working at FreeMarkets in corporate development, strategic sourcing, marketing and other areas. Before that, he started his career in consulting and merchant banking. Jason holds undergraduate and graduate degrees from the University of Pennsylvania in English Literature and History.

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