PLAYBOOK

Business Diversity

Embracing new approaches to strengthen the supplier diversity pipeline.

CEO Action for Racial Equity is committed to advancing an innovative approach through a racial equity lens that expands beyond the traditional procurement cycle into professional services, centers the Black-owned business experience, and provides tools, resources, leading practices, and networking opportunities to accelerate learning and improve success.

CEO ACT!ON FOR RACIAL EQUITY SOURCE

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Business Diversity: An Intentional Strategy and Practice

Business diversity is the intentional practice of cultivating and supporting diverse and disadvantaged business owners by expanding the scope of a company's sourceable spend to include diversity in professional services; and through collaborative engagement between all entities that create and maintain contractual relationships between purchasing organizations and diverse suppliers.

Although supplier diversity programs have been around for decades, they have been largely underfunded and not prioritized. The average Fortune 500 company's annual spend on minority-owned suppliers is only 2%—far short of the 10-15% goals set by many corporations last year.[1]

Commonly cited reasons include difficulty in locating and accessing minority-owned suppliers, and challenges in compiling and reporting supplier diversity data. The cumulative effect leaves purchasing organizations unable to transform supplier diversity from a "program" into a natural way of doing business.

This inability on the part of corporations harms minority-owned businesses and contributes to a glaring wealth gap between Black and white Americans. In 2016, Black American families averaged $17,600 in total wealth—about a tenth the wealth of the average white American family ($171,000. [2])

Closing the Wealth Gap

The Black-white wealth gap has traditionally been associated with home ownership. But significant wealth also comes from business ownership. Here, too, we find major racial disparities.

Among Black families, only 7% of assets lie in business equity, compared with 15% for white families.[3] And although Black Americans make up 13% of the U.S. population, they own less than 2% of small firms with employees.[4] By contrast, white Americans—60% of the U.S. population—own 82% of small employer firms.[5]

1 Channick, R. (2021, February 11). Chicago-based Ariel Investments launches 'Project Black' to grow minority-owned businesses with $200 million from JPMorgan Chase. The Chicago Tribune

2 Florant, A., Julien, JP., Stewart, S., Yancy, N., Wright, J. (2020, February 25). The Case for Accelerating Financial Inclusion in Black Communities. McKinsey & Company.

3 Dettling, L.J., Hsu, J. W., Jacobs, L., Moore, K.B., Thompson, J.P. (2017, September 27). The Fed - Recent Trends in Wealth-Holding by Race and Ethnicity: Evidence from the Survey of Consumer Finances.

4 Center for American Progress. (2020). A Blueprint for Revamping the Minority Business Development Agency - Center for American Progress

5 Ibid.

By transforming traditional supplier diversity programs to a business diversity strategy, Corporate America can effectively mitigate barriers that impede the growth of Black businesses, while helping to add $290 billion in business equity.[6]

Entrepreneurship as a Path to Wealth Creation

With business ownership a major tool for building wealth, it's important to acknowledge that different kinds of businesses build wealth at different levels and in different ways.

Black-owned businesses, for example, tend to be in social and service sectors for the simple reason that these sectors require lower start-up costs and developmental support than other industries; and Black business owners—especially just starting out—lack access to capital (bank loans or credit) more readily available to their white counterparts.

Still, while social and service start-ups require less in the way of seed money and funding than industries like wholesale or tech, they also tend to *generate less revenue*.

When corporate America chooses to level the playing field to help Black businesses to generate more revenue, the cumulative positive effect is noteworthy. For one thing, Black businesses tend to hire locally— meaning they hire more Black employees. So, as they grow, their businesses create jobs and reduce unemployment in their communities, while generating wages that fuel local economies.

In fact, if Black and white Americans were to realize the same level of business ownership and success, an additional 860,000 Black-owned firms would be employing more than 10 million people.[7] Such expansion would benefit not only Black business owners and their communities, but also corporations and buyers— through increased competition, reduced concentration risk, improved innovation, and positive brand equity— as well as our economy and our country at large.

Social Context

Recent watershed events have forced a national reckoning of the racial inequities that continue to divide our nation. One was the murder of George Floyd, and its aftermath of protest and, social unrest, which brought dangerous and discriminatory policing behavior more fully into the light. The other was the COVID-19 pandemic, and its disproportionate impact on the Black community.

For many Black enterprises in the social sector—most operating within their own communities—mandatory shutdowns combined with illness and personal loss made ongoing business unsupportable. According to Forbes, more than 40% of Black-owned small businesses were shuttered within the first two months into the pandemic.[8]

Given further longstanding inequities in access to capital and credit, it is hardly surprising that federal relief programs failed to save these companies. And even businesses that survived are still coping with loss of revenue, temporary closures, reduced budgets, and cuts to owners' wages.[9]

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6 Baboolall, D., Cook, K., Noel, N., Stewart, S., Yancy, N. (2020, October 29). Building Supportive Ecosystems for Black owned US Businesses, McKinsey & Company.
7 Center for American Progress. (2020). A Blueprint for Revamping the Minority Business Development Agency - Center for American Progress
8 Washington, K. (2021, June 3). Covid-19 Has Had A Disproportionate Financial Impact on Black Small Businesses.
9 Guidant Financial. (n.d.). Black Entrepreneurs – 2021 Trends.

About this Playbook

We created this playbook knowing that CEOARE signatory companies are seeking ways to strengthen their supplier diversity pipelines and increase the corresponding spend.

As you go through, you'll find industry insights, case studies, leading trends, and actionable ideas for transforming your supplier diversity program into a business diversity strategy. You'll also hear the voice of Black business owners, and better understand how they stand ready to deliver value to your company.

Voice of the Black Suppliers

In developing this playbook, we sought out the experience of Black business owners whose voices have often been excluded from supplier diversity discussions.

The Black business owners we spoke with work in growing professional service sectors, including legal, marketing, accounting, technology, and wealth management.

A fair and robust corporate business diversity strategy will recruit and welcome diversity suppliers not only in industries like manufacturing and construction, but in these professional services sectors, too.

"The right business ecosystems can mitigate or negate the effects of structural obstacles to business development for Black suppliers—and add $290 billion in business equity."

—McKinsey & Co.

Challenges Facing Black Suppliers

Here are some challenges that came up repeatedly in our discussions with these Black suppliers:

Lack of Access to Capital

In a 2017 report, the Board of Governors of the Federal Reserve System concluded that Black-owned businesses were found to be twice as likely as their white counterparts to be denied credit— even after controlling for creditworthiness.[10] Another study also found that even when approved for loans, Black business owners are charged higher interest rates."[11]

Inequities such as redlining, whether overt or covert, harm Black Americans' prospects of funding their businesses. For example, banks have traditionally used homeownership as a measure of creditworthiness. But some Black business owners don't own a home. And even when they do, there is rarely enough liquidity to improve their chances of securing a loan.

10 (2017, September). Report to the Congress on the Availability of Credit to Small Businesses. Washington: Board of Governors of the Federal Reserve System.

11 Mac, C., Wheat, C., Farrell, D. (2020, July). Small Business Owner Race, Liquidity and Survival. JPMorgan Chase & Co. Institute (2020).

A Bank of America study found that 56% of Black business owners report that obstacles to credit are restricting their ability to grow.[12] Consider this: the average start-up capital for a Black-owned business is $35,000. For white-owned businesses it's $107,000[13] —over three times as much.

Lack of assets is a typical rationale for denying loan and credit applications. But one Black supplier we talked with described how even "money in the bank" didn't translate into a substantive line of credit (LOC). This supplier had everything in order and the right credentials. But when he applied for an LOC to launch his new company full-time, the bank would offer only an unsecured line equal to five percent of the value of his assets at the bank. Why? Because even with a strong *personal* credit history, he had no business credit history. Until then, he had paid only cash for his business's needs. In this real-life "Catch-22" scenario, the irony is that this entrepreneur needed to prove a business credit history to get a much-needed business line of credit.

Unconscious Bias

Another barrier faced by Black suppliers is the common misperception that supplier diversity programs and contracts with minority-owned businesses force corporations to lower their standards. This myth, resulting from unconscious bias, hurts Black-owned businesses.

When Black suppliers seek work through diversity programs, they're not "looking for a handout." What they want— and deserve —is the opportunity to demonstrate the value—in quality goods and services—they can provide.

Draconian Requirements

Just as banks put greater onus of proof on Black business owners applying for credit, corporations generally hold Black businesses to higher standards as well. Black business owners are required to present more documentation of their capabilities and experience, and greater proof of educational background and certifications.

Dr. Kelly Burton, Executive Director of the Black Innovation Alliance, and founder of the Nexus Research Group notes that the very supplier diversity programs meant to facilitate points of entry, in fact deny them: requiring people of color to "go through additional steps" simply to get through the door.

A Flawed Process

With different certification processes for the various underrepresented or underserved groups, some minority business owners qualify for more than one. Another inequity: the cost multiple applications and renewals adds up; several can be prohibitively expensive.

For example, a Black woman veteran supplier who identifies as LGBTQ, may need to register with a) National Minority Supplier Development Council, b) Women's Business Enterprise National Council, c) National Veteran Owned Business Association, and d) National LGBT Chamber of Commerce.

12 McKinney, J. (2021, March 1). 56% of Black Entrepreneurs Say Gaining Access to Capital is a Lingering Challenge, Lessening their Ability to Grow
13 Fairlie, R, Robb, A, Robinson D. (2016, December 15). Black and White: Access to Capital among Minority-Owned Startups | Stanford Institute for Economic Policy Research (SIEPR)

When you consider that maintaining just one agency certification can cost upwards of $1,200 a year (a fee that doesn't cover valuable networking events) it's easy to see how several agency certifications can pose an impossible financial burden.

In addition to being time consuming and expensive, the certification process can also be —as described by the owner of a Black energy service firm—"very intrusive." Among other evidence, she was required to present to a certifying agency that she was the highest-paid person on payroll, and that she was a signatory of the bank accounts.

She also had to produce legal documents proving that she controlled 51% of the company. Then came a mandatory walkthrough of her office—to verify signatures on certain documentation and confirm that her company was not a shell. Altogether, the process—also involving scrutiny of drivers' licenses, birth certificates, personal taxes, and utility bills—took thousands of person hours and more than nine months.

Again, rigor intended to remove shells, frauds, and fronts in fact burden, discourage, and exclude deserving and legitimate minority suppliers.

"My original birth certificate did not have [my] race on it—I was born on an army base. I had to get my dad's birth certificate to prove that I am Black"

—Amy, Black entrepreneur

Corporations become members of certifying bodies to gain access to agency-vetted lists of certified minority businesses. Across multiple certifiers, the applying entity must be 51% owned and operated by an individual or group that is part of a traditionally under-represented or underserved group. [14]

Here are some reputable certification-granting agencies for small businesses.

- Federal government certifications: 8(a) Small Business Certification, HUBZone Business Certification, Women–Owned Small Business, Economically Disadvantaged Women-Owned Small Business, Veteran-Owned Small Business, Service-Disabled Veteran–Owned Small Business.
- Agency Certifications: Minority Business Enterprise certification awarded by the National Minority Supplier Development Council (NMSDC); Certified LGBT Business Enterprise awarded by the National Gay and Lesbian Chamber of Commerce; Certified Women's Business Enterprise (WBEs) awarded by the Women's Business Enterprise National Council (WBENC).
- State and Municipal Certifications

14 See, e.g., National Minority Supplier Development Council, Why You Need a Supplier-Diversity Program (nmsdc.org ("A diverse supplier is a business that is at least 51% owned and operated by an individual or group that is part of a traditionally underrepresented or underserved group") (Aug. 24, 2020)

Lack of Development Support

According to a June 2021 McKinsey & Company article, "With more education and training, small businesses can develop skills in accounting, business planning, and general management to spark growth or stay afloat during an economic crisis." [15] This is particularly true in professional, financial and technology sectors.

Example: When a large private employer switched to autonomous machines for cleaning store floors, the training required to program such machines well superseded those required to push a broom. As corporate and consumer demands evolve, businesses need to learn how to support innovation—especially in operationalizing their enterprises.

Black businesses owners need to be informed of training opportunities and invited to participate in programs that help them to apply new skills and information. A small Black business owner told us that during the months of pandemic lockdown, it was only by chance—through a social media group—that she learned about Payroll Protection Plan (PPP) loan support and training specific to her enterprise. Several programs, she reported, fell short of helping participants translate new information into meaningful action for their small businesses.

Relationships & Sponsorship

Black businesses often report difficulty navigating disparate programs around training, funding, and direct exposure to buyers and key corporate decisionmakers. Likewise, they feel generally uninformed of organizations' strategic needs and corresponding opportunities. They report that even getting "in" to bid, much less being awarded a contract, can be a daunting challenge.

Lack of Commitment to Supplier Diversity

Sometimes Black suppliers are left feeling that buying organizations engage with them simply to "check the diversity box", with no real intent of following up. Several have reported requests to provide products and services at no or greatly reduced cost - just to get a foot in the door.

Such requests put untenable stress on already-strapped-for-capital Black businesses seeking a fair chance to prove their worth. The result of these unfair demands? Black businesses miss out on growth-building contracts and healthy buyer/supplier relationships; and buying organizations miss out on the value Black businesses can bring.

15 Baboolall, D., Fitzhugh, E., (2021, June 11). Black owned businesses face an unequal path to recovery. McKinsey & Company.


Carla Walker-Miller, CEO

CASE STUDY

Black-owned Business Case Study
Walker-Miller Energy Services

Background:
With almost two decades of corporate energy experience, Carla Walker-Miller started her own firm, providing new solutions to meet the traditional needs of energy suppliers. In July 2002, when Walker-Miller Energy Services first opened its doors, it became the first Black Detroit-based distributor to represent a complete line of major transmission and distribution electrical equipment.

Today the company, which provides equitable energy efficiency services and thought leadership to major companies in five states, has over 140 employees. But for this Black entrepreneur, the road to growth and success was not without bumps and detours.

In 2009, when the recession nearly forced the company out of business, Walker-Miller managed to pivot its focus from only utility equipment sales to the fast-growing (just enabled by then-new state regulatory acts) industry of energy services.

Walker-Miller grew the business steadily and carefully. Four years later, the company achieved a major milestone in the form of a prime contract with the City of Detroit. Still, Walker-Miller is quick to distinguish between revenue creation and sustainable profit, which took several more years to achieve.

The Importance of Banking Relationships
At a time when business financing was virtually non-existent for Black owned, service-oriented companies, Walker-Miller credits her banking relationships with the company's ability to secure loans needed to pursue growth.

In 2014, she participated in Goldman Sachs' 10,000 Small Businesses Program (GS10KSB), which required her to create a business growth plan, and introduced her to bankers and finance professionals. With plan in hand, Walker-Miller had a viable roadmap for pursuing energy efficiency as a high-growth opportunity.

The next year, she managed to leverage her banking relationships to borrow several hundred thousand dollars from Invest Detroit with GS10KSB funding - and secure the financing needed to pursue a major contract with a large energy company, which we will refer to as "E-CO".

CASE STUDY

Charting a Path to Profitability

In fact, her professional relationship with E-CO. went back twenty-five years, from her years as a corporate employee responsible for the E-CO account. And it was E-CO's Chief Supply Chain Diversity Officer who had first encouraged her to start her own business. Walker-Miller acknowledges that the quality of the relationship was instrumental in her business winning the E-CO contract. Still, as a minority owner, she still faced challenges.

Taking a Seat at the Table

Her company's second prime energy efficiency contract, she notes, came about when E-CO made known, internally, and externally, that it was committed to giving Black and Brown companies access to energy efficiency contracts. As a result, a major energy efficiency services company reached out to collaborate with her company.

In majority-minority business partnerships, she says, the minority company rarely gets the opportunity to prime. Far too often, the majority company primes—taking profits off the top and leaving the Black or Brown business to benefit in any way it can.

But E-CO doubled down on its business diversity commitments. Even without direct discussion with the majority company, E-CO asserted its expectation that Black and Brown companies should benefit in such relationships. "After some negotiation, " says Walker Miller, "we decided to pursue the business as the prime contractor."

It was this prime contract that tipped Walker-Miller into the realm of sustainable profitability and growth.

Lessons Learned

Along the way, she encountered other challenges common to minority small business owners.

One is that there's "often no distinction between your personal and your business credit score." That is, a small, limited liability company is unlikely to have a business credit score until it has amassed capital in the bank.

Despite her company's steady growth trajectory, it wasn't until 2019 that Walker-Miller managed to secure a business loan without attaching her home as a personal guarantee. Up to then, each loan she'd signed had put her family home at risk.

Surviving the pandemic

Walker-Miller believes that lessons learned in the 2008 recession gave her the resiliency to weather the COVID-19 pandemic. For one thing, the recession had taught her that "the worst time to try to borrow money is when you need it most." Since that time, she had intentionally cultivated and maintained relationships with bankers and finance industry professionals.

CASE STUDY

In 2020, she once again found the need to leverage those relationships, which she did — participating in the first tranche of federal Payroll Protection Plan (PPP) loans that helped not only to keep the business going, but also to realize her most profitable year to date.

Facing down Unconscious Bias

Ask Walker-Miller what's the biggest challenge faced even by high-performing Black-owned companies like hers, and she'll answer in two words: unconscious bias. She's convinced it's even more of a factor for Black business owners who are women. Majority corporations need to understand, she says, that contracting with Black-owned and Black women-owned businesses requires no lowering of standards or expectations. Still, in terms of expectations, she often has to deal with this: when she walks into meetings with her brother (the company's President), white people nearly always turn their attention to him—until they're informed that she, in fact, is CEO.

Despite these challenges (which Carla Walker-Miller is clearly confronting directly) she encourages Black entrepreneurs to enter the rapidly expanding fields of energy efficiency and sustainability, noting that both are woefully under-represented in both women and Black business owners.

Essential Takeaways:

Walker-Miller's experience is hardly unique to the industry or Black business. Rather, it is consistent with that of other Black-owned business owners we talked with—regardless of industry or sector.

Here's what we learned corporations need to do to become intentional about supply chain diversity:

- Across the communities your company serves, communicate your intent to increase spend and utilization of Black-owned businesses.
- Consider that Black-owned businesses probably don't have budgets to fund typical relationship-building efforts like shared meals, golf outings and buying tables for charitable events. So, take the lead in getting to know Black businesses.
- Use your corporate leverage to help Black-owned business gain access to capital; implement and invest in a corporate development program.
- Address unconscious bias through training programs for decision makers and employees who contract for goods and services.
- Analyze data in order to confirm that Black business in every field, including high tech, have the same access and inroads as majority businesses to your full spectrum of needs and opportunities.
- Recognize the value diverse businesses bring, in innovative problem solving and new perspectives that can positively affect your brand and bottom line.

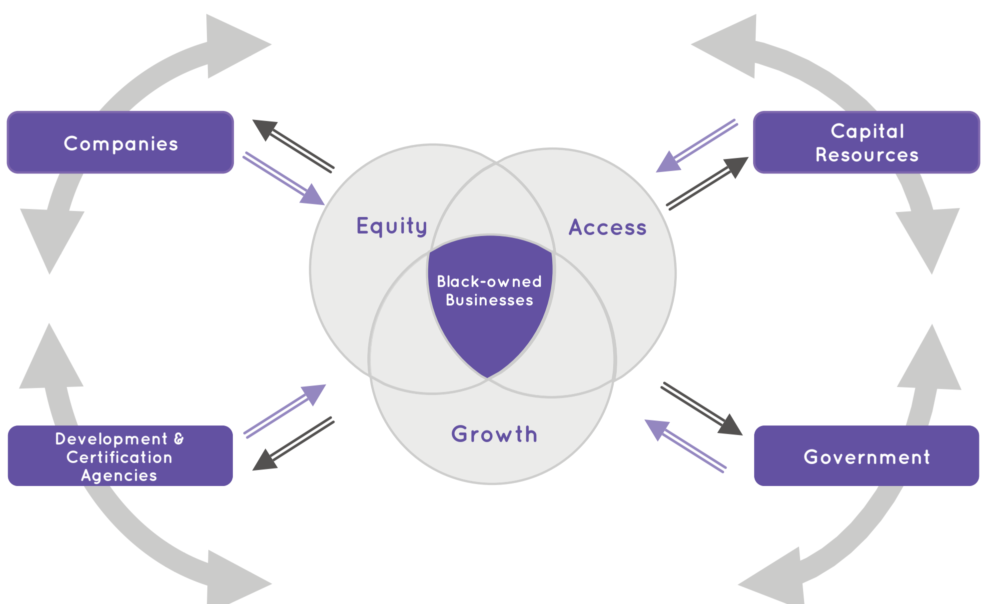
Re-envisioning Supplier Diversity

In traditional supplier diversity models, Black-owned businesses absorb the burden of navigating buying entities, certifying agencies, capital resources, and government entities. Likewise buying entities talk about the difficulty of having to "go it alone" as they try to improve the supplier diversity process.

The resulting lack of visibility, access, and transparency precludes opportunity on both sides. We should develop approaches that put Black-owned businesses at the center of a holistic experience that facilitates working together for mutual benefit—with buying entities aligned with certifying agencies, leveraging access to capital resources, and pushing for governmental policy change.

By harnessing the "power of the collective" signatory agencies can lighten the heavy lifting on both sides— bringing together critical stakeholders while promoting equity, access, and growth. The goal is to evolve our companies from treating supplier diversity as a "program" to recognizing it as an embedded practice in which collaboration and intentional inclusion bring benefits to both supplier and buyer. In this way, we move the needle from supplier diversity to business diversity - a win/win for all.

Business Diversity Ecosystem



The CEOARE fellowship's vision

Working together, CEOARE seeks to improve the quality of life for our country's 47M+ Black Americans through advocacy in advancing solutions that seek to end systemic and structural racism.

Our focus on Black-owned businesses demands a **business diversity ecosystem** that creates and sustains a symbiotic relationship between businesses, companies, development agencies, government, and capital resources across the business diversity ecosystem.

Black-owned businesses

A Black-owned business is traditionally defined as having Black owners that hold at least a 51% or greater stake in the business.

Among intersections with other minority designations, Black-owned businesses can also be women-owned, LGBTQ, veteran-owned, disabled, service disabled, or a small business enterprise. Across different certifying bodies, nuances and variations exist in qualifying definitions and criteria.

What is irrefutable is that Black-owned businesses have been historically underrepresented and continue to be underrepresented across the supply chain, and they are practically nonexistent in providing professional services to traditional companies.

Since Black entrepreneurship is a path to creating sustainable Black generational wealth, it's important to recognize its potential to interrupt long standing-patterns of exclusion that have marginalized Black Americans, as well as the role of minority-owned businesses in economic growth and community development.

According to the Brookings Institution, "Black, Brown, and Asian American firms are more likely to report that their neighborhood is the site of most of their business transactions, which points to a willingness to serve a community as well as restricted markets."[16]

Successful businesses create jobs, contribute to the local tax base, and often provide philanthropic support within these communities. With developmental support from non-governmental organizations, local chambers of commerce, and state and federal programming, these businesses will have greater opportunity to become successful in bidding and winning contracts.

Companies

Companies are buying entities: organizations that source and procure products and services to meet the needs of business operations and ultimately customers. Most companies rely heavily on their supply base to deliver products and services that are both innovative and cost-effective.

Across the business diversity ecosystem, companies, with their immense influence within the business world and on public policy, serve as primary business partners to Black owned businesses. The voice of these companies, in standing up for racial equity and advancing business diversity as a way of doing business, has the potential to catapult Black businesses forward.

It is important for companies to recognize the many ways supplier diversity can strengthen their bottom line by driving innovation and competition by incorporating perspectives that more accurately reflect their consumer and employee base and enhancing brand reputation and community good will—to name just a few.

We urge buying organizations to leverage their considerable influence to make certifying bodies more accountable to Black suppliers—in promoting their development and increasing the number of Black-owned businesses that companies engage.

Capital Resources

Capital resources, including financial institutions, provide a wide variety of deposit, lending, and investment products to individuals and businesses.

Black businesses and individuals, however, have historically been excluded through structural policies and practices that preclude access to seed capital, term loans, mortgages, lines of credit and other financial services essential to building and growing enterprises.

16 Perry, A. Romer, C. (2020, December 31) To expand the economy, invest in Black Businesses. The Brookings Institution.

Research reveals across lenders, even when other factors are equal, Black entrepreneurs are confronted with more stringent requirements, and are denied credit more than twice as often as their white peers.[17] Even when approved, the financial products and terms they're offered put them at more of a disadvantage.[18]

To improve access to capital, all funding players—central, retail, and commercial banks, credit unions, savings and loans associations, investment companies, mortgage companies, community development financial institutions, non-bank online lenders, federal, state and local funding programs, organizations that provide grants to small business owners, private equity firms, venture capitalists, and angel investors, to name a few—should work together to reimagine the policies that continue to leave Black businesses behind.

William Towns, a social impact lecturer at Kellogg School of Management at Northwestern University. recommends that financial institutions not make credit scores and available credit limits primary factors in determining loan eligibility. He suggests that they focus instead on applicants' credit and payment history. "We now know through research and data that [using a larger portion of their credit limit] is not a good indicator of who's a good person to lend to, and it has no impact on their ability to be a good borrower."[19]

Developmental and certifying agencies

Notable agencies such as the NMSDC (National Minority Supplier Development Council) and WBENC (Women's Business Enterprise National Council) act as a conduit between traditionally underrepresented business owners and corporations.

While entities on both the supplier and buyer side realize value in the services of these agencies, processes required to obtain certification can be cumbersome and onerous. Streamlining can improve ROI for both suppliers and buying companies.

For example, a coalition among certifying bodies could serve as a vetting arm that could simplify the process, allowing minority suppliers to make one application and pay one fee, instead of several, for overlapping certifications. In this way, the coalition could focus on increasing outreach, i.e., certifying more Black business owners. Corporations, too, would benefit in paying only fee for multiple memberships to all coalition agencies.

For corporations, developing strategies for self-certification processes could remove the burden of national, state, or local certification requirements that currently make certification a barrier to working with Black-owned businesses. Such strategies can draw on technology solutions and services that offer access to public records to better vet suppliers, e.g., to determine that a business is legitimately 51% owned and operated by an individual or group that is part of a traditionally underrepresented or underserved group.

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17 (2017, September). Report to the Congress on the Availability of Credit to Small Businesses. Washington: Board of Governors of the Federal Reserve System.

18 The Minority Business Development Agency: Vital to Making America Great. Minority Business Development Agency. U.S. Department of Commerce

19 Meier, M. (2020, July 20). Black owned Businesses Often Struggle to Access Capital. Here's How Financial Institutions Can Change That. Kellogg Insight.

While the goal is a streamlined process and lower costs, for now, corporations could also unite to create a fund to ease related costs to Black-owned businesses.

Government

Federal, state, and local governments continue to play a significant role in the certification, funding, and utilization of Black-owned businesses. The U.S. Federal government is the largest purchaser of goods and services in the world.[20] In his recognition of the Tulsa Race Massacre, President Biden pledged the following:

- Use the federal government's purchasing power to grow federal contracting with small, disadvantaged businesses by 50 percent, which would translate into an additional $100 billion over five years, and help more Americans realize their entrepreneurial dreams.
- Invest $31 billion in small business programs to increase access to capital and provide mentoring, networking, and other forms of technical assistance to socially and economically disadvantaged businesses seeking to access federal contracts and participate in federal research and development investments.[21]

On December 2, 2021, the Biden-Harris Administration announced a set of reforms to the federal procurement process to help meet the ambitious targets described above. Increasing the Black business spend at the federal contractor level, along with funding for and development of Black-owned businesses, require long-term federal policy strategy and change. Companies may want to explore opportunities to engage even further than solely expanding their business diversity efforts, by advocating for more permanent policy solutions to the Black-white wealth gap, such as:

- Disaggregation of agency contractor data in publicly published reports. Analyses based on disaggregated data would allow federal agencies—consistent with President Biden's Racial Equity Executive Order—to create policies, practices and procedures that close gaps that currently exert negative impact on Black-owned businesses.
- Increasing funding for the U.S. Small Business Administration (SBA) programs, including increasing the number and amount of loans to Black-owned businesses.
- Strengthening the power and reach of the Minority Business Development Agency, for example by providing it with rulemaking capability, and increasing its budget to meet the needs of minority businesses.

Equity

Achieving equity calls for recognizing the systemic challenges imposed on disadvantaged groups that negatively affect their access to resources, and intentionally creating policies and practices to address them.

Disaggregating diversity data reveals that different minority groups face different challenges. In supplier diversity, Black suppliers are generally at the bottom of the list, while white women-owned businesses are at the top.

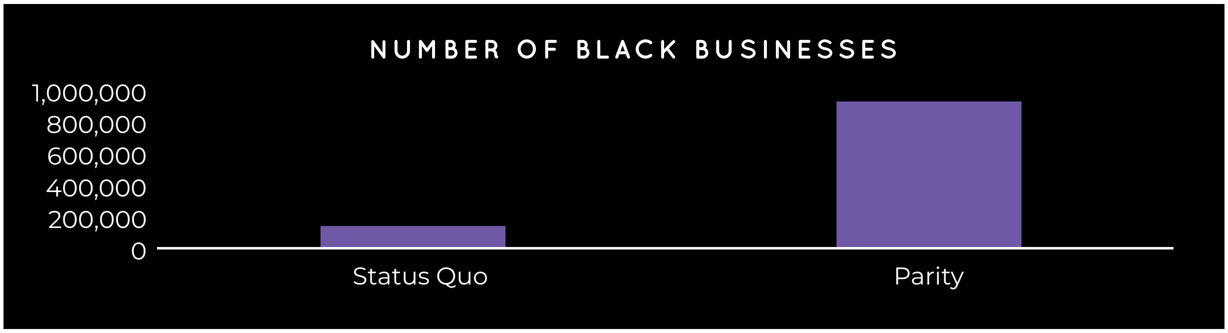
Given that Black businesses represent only 2.2% of enterprises with more than one employee, the percentage of spend with Black businesses would initially be unlikely to mirror the percentage of the Black population in the United States (14.2%).[22]

20 Issue Briefs. (2021, December 01). The Benefits of Increased Equity in Federal Contracting. The White House.

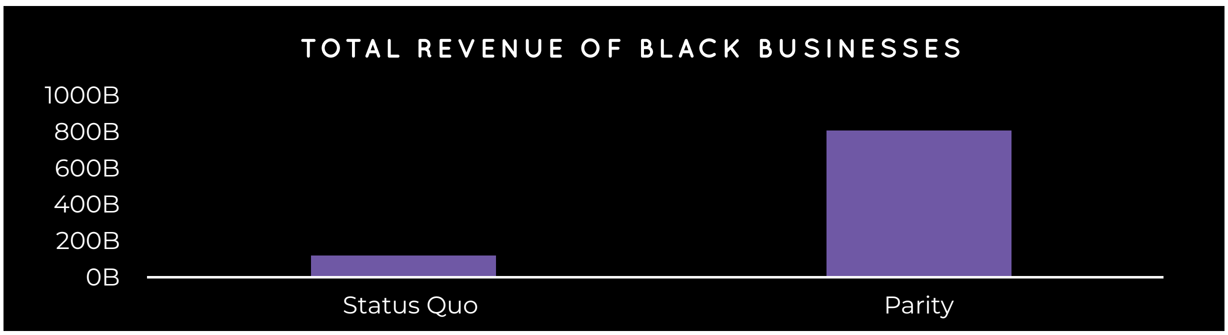
21 The Briefing Room. (2021, June 01). Biden-Harris Administration Announces New Actions to Build Black Wealth and Narrow the Racial Wealth Gap [Fact sheet]. The White House.

22 Perry, A.M., Romer, C. (2020, December 31). To expand the economy, invest in Black businesses (brookings.edu). The Brookings Institution

Still, achieving greater parity, through substantial increases to the spend with Black businesses would create astronomical impact on the American economy. Brookings Institution projects the potential of this impact:



"There are 124,004 Black businesses, accounting for 2.2% of employer businesses. If Black businesses accounted for 14.2% employer firms (equivalent to the Black population), there would be 806,218 more Black businesses."[23]



"Currently, Black businesses bring in average revenue of $1,031,021, compared to $6,485,334 for non-Black businesses. If Black businesses increased their average revenue to the level of non-Black businesses, it would increase total revenue in Black businesses by $676,356,621,618." [24]

"If the number of Black businesses matched the population size and the revenue of each of those firms matched non-Black businesses' revenue, then the total revenue of Black businesses would increase by $5.9 trillion ($5,904,952,124,000)."[25]

It's impossible to overstate the positive impact of investing in Black businesses —in increased revenue, job creation, and wages— all of which fuel economic growth and help communities thrive.

23 Ibid.
24 Ibid.
25 Ibid.

Access to capital
Access to capital has been a persistent challenge for diverse suppliers, although there have been some recent favorable developments.

For example, companies with more mature business diversity programs are using capital access to differentiate themselves in attracting suppliers and creating strategic relationships.

Such use of capital access creates a path for diversity suppliers to build, scale, and compete with larger firms on a more level playing field.

In this playbook, we introduce three options that companies can use in improving access to the capital that can enhance their business diversity approaches:

- **Improved Payment Terms for Receivables -** Black suppliers, who are often small businesses, are forced to accept net-60 and net-90-day payment terms, which undermines their ability to sustain and grow their businesses.

  They are also required to pay significant financing costs (sometimes as high as 15% of the gross receivables) if they use lending institutions to finance the time gap while waiting to be paid. That is, these suppliers are effectively being taxed on assets that they are owed but are being withheld from them. Companies can counter these adverse effects by extending Black suppliers more favorable payment terms.

- **FinTech Liquidity Solutions –** Recently, several financial technology companies have launched disruptive business models to undercut traditional financing charges, shorten the time-to-payment for suppliers, and shift the burden of payment from the corporate buyer to the FinTech service.

  With these new business models, suppliers can get paid within five-business days for a fee as low as one percent of gross receivables. While such businesses are still nascent, they're growing quickly and beginning to make headway in mitigating barriers of access to capital.

- **Venture Capital –** In the technology industry, it is standard practice for larger companies to develop captive venture capital funds and business incubators so they can identify small firms that complement their strategic objectives. More recently, some of these tech companies have extended the VC model they use for incubating strategic acquisitions to their supplier network.

  The end goal is the same: to identify promising small or start-up companies that offer services that align with their broader business strategy; and to inject them with enough equity capital for them to quickly scale up and grow. If the supplier company is successful, the investing company may want to exercise rights of acquisition, and/or further integrate them into the broader business model.

By combining resources to facilitate environments of strategic introductions and relationship-building, ecosystem participants can help Black-owned businesses gain greater access to the opportunities and networks essential to their success. Likewise, corporate buyers can become sponsors of Black-owned businesses—providing exposure through advocacy and creating platforms for Black suppliers to showcase their talent and expertise.

Growth
Another way companies can support the growth of Black businesses is through mentorship and incubator programs. Incubator programs can help Black-owned businesses integrate more fully and effectively with a company's strategic initiatives and grow within its supply chain portfolio.

Onboarding a set of diverse suppliers is only a first step in developing strong business relationships. The more effective programs also include training, mentoring, and networking. See the examples below of developmental programs offered by several corporations:

Sponsored Learning
Leading organizations sponsor Black-owned business's participation in multicultural business forums or workshops. Office Max, for example, offers multicultural suppliers scholarships that allow Minority-and-Woman-owned Business Enterprise (MWBE) and Physically Challenged (PC) suppliers to attend the Tuck School of Business at Dartmouth College.

To promote leading practices and provide coaching and mentoring, Office Max also hosts quarterly webcasts with managers and business experts. A founding member of NMSDC in 1972, Office Max is still an active member of the association.[26]

Capital One – Diverse Supplier Business Development
Catapult, a program that was developed and facilitated by Capital One's Supplier Diversity team in collaboration with national certifying organizations, offers an intensive, seven-month transformational journey to ten diverse business owners.

Designed to help minority business owners bridge the digital skills gap, Catapult provides participants with instructional courses, workshops in collaborative thinking, access to one-on-one meetings with subject matter experts (SMEs), and regular meetings with a dedicated Advisory Board.[27]

Over a one-year Strategies to Advance and Grow Enterprise (SAGE) Advice program, participants receive active support in quarterly classroom sessions; and engage in biweekly check-ins with their business relationship partner (BRP).

A cornerstone of the program is the support system established for each participating Women Business Enterprise (WBE). At its end, participants walk away with a number of important assets: a one-page business plan, a completed budget, and Capital One's commitment to continue its mentorship through quarterly progress check-ins, and readiness to answers questions and help troubleshoot issues that arise.[28]

AT&T – Supplier Diversity
AT&T's supplier diversity strategy nurtures the economic growth of diverse companies and communities through diverse supplier spend and utilization, diversity job creation and workforce impact, diverse business fostering and advocacy, and Tier 2 supplier growth.

To enliven the strategy, company executives and managers participate in forums, business expos and business matchmakers to increase opportunities for supplier engagement. AT&T also advocates for current and prospective diverse suppliers—working closely with

26 Diversity Best Practices: Diversity Primer, page 85, Chapter 11.
27 Capital One Diverse Supplier Business Development: Corporate Information & Company Initiatives | Capital One
28 Ibid.

sourcing organizations, business unit partners, and prime suppliers to identify and promote opportunities for broader inclusion.

Among these efforts: supplier coaching, mentoring, and capability assessment in support of current and prospective supplier contract success.[29]

Collaborating with Higher Education Programs
Historically Black Colleges and Universities (HBCUs) and other universities sometimes work with local, state, and regional organizations, corporations, and governmental entities to create stronger place-based supplier diversity ecosystems. For example:

- Georgia Institute of Technology has developed business incubators and accelerators to foster stable and sustainable businesses.
- Howard University and University of Texas San Antonio Small Business Development Centers offer consulting and advisory services around starting, financing, maintaining, and growing a business, as well as a variety of training programs, and an extensive referral network.

As your company initiates and grows its supplier diversity programming, here are some questions to ask:

- How can mentoring strategies help to align suppliers with your company goals and objectives?
- Which areas of your company's expertise and capacity can be germane to the development process?
- How can your company create an environment that's more welcoming of diversity businesses?
- What else can you do to help diverse businesses navigate your organization's needs and culture?

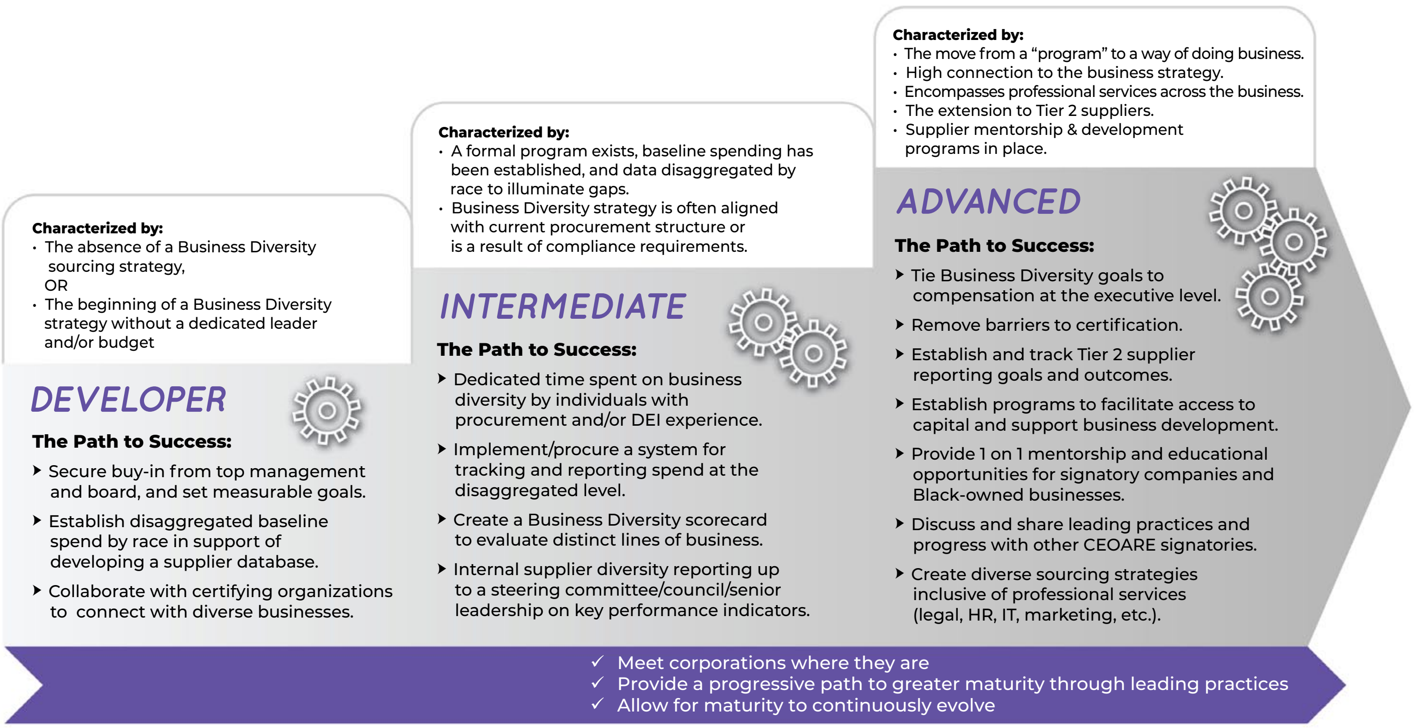
29 AT&T Supplier Diversity Programs: https://about.att.com/sites/supplier_diversity/programs

Business Diversity Maturity Continuum

Our Business Diversity continuum approach simplifies the maturity journey by focusing on meeting companies where they are and showing them a path to greater maturity.

It allows for more flexibility, recognizing that corporations are not on a linear path and can build capability in many areas of business diversity simultaneously.

Finally, this approach provides room to continuously improve and evolve the end-state as we collectively push the boundaries of traditional supplier diversity to that of a business diversity ecosystem.



The maturity continuum provides a framework of leading practices from our signatory pilot community for corporations to consider as they advance business diversity.

From interviews our team conducted with procurement leads at companies across a variety of industries and at different points of their supplier diversity journey, we were able to capture descriptions of the different stages within the maturity continuum.

Developer

Starting out

Companies at the start of the business journey fall into two categories: Beginner and Novice.

At the Beginner stage, a company has no real strategy or concrete plans around diversity sourcing and inclusion. Often there's general buy-in to the idea of supplier diversity but no developed path to implementation.

At the Novice stage, an organization may have some supplier diversity awareness based on regulation, stakeholder demands and/or a stated commitment to diversity, equity, and inclusion (DEI). But with limited strategy or support from senior management, it's impossible to put ideas into action.

Characteristics

Beginner:

- Supplier diversity is not a priority of senior management; nor is it integral to corporate strategy or culture.
- No dedicated leader or staff to support such initiatives.
- No budget or resources allocated to supplier diversity.

Novice:

- Senior management has not yet advanced supplier diversity as a key business strategy.
- Procurement, Community Affairs or Human Resources "owns" the process or program.
- Limited tracking of diverse supplier data.
- Limited or no outreach to diverse suppliers.
- Limited or no participation in M/WBE trade fairs.
- No external marketing of the program to signal interest to diversity suppliers.
- No program budget.

Intermediate

Making Progress

Here, the company has developed and begun to implement an intentional program, empowered by a person or team with strategic sourcing/procurement backgrounds that include exposure to DEI.

Usually, business diversity strategy is aligned with DEI strategy, in support of the organization's overall values, and business goals. The organization has already established a baseline spend and has disaggregated racial data that illuminate spending gaps.

At this stage along the continuum, corporations are actively seeking opportunities for growing their roster of diverse suppliers.

Characteristics

- Dedicated supplier diversity personnel with procurement background and exposure to DEI reporting.
- Strategy is aligned with regulatory or contractual compliance.
- An understanding of Tier 1 & 2 baseline spend within the organization and across lines of business.
- Use of internal resources, including a technology platform, to analyze spend data.
- Clearly outlined goals in supplier diversity spend.
- Internal diverse supplier catalog shares information with internal buyers, influencing RFIs, quotes, proposal and/or bid (RFX) processes.
- Efforts in place to seek alignment of internal and external resources.
- Collaboration with DEI in developing processes to remove barriers within current supplier diversity system.
- Review process for vendor selection and remove systemic barriers to engagement.

- Organization-wide quarterly reports include activity logs, inclusion analysis, good faith efforts and outreach, as well as statistical and industry analysis.
- Established relationships with certifying bodies and key external business collaborators, e.g., state, and federal minority business offices, help to identify diverse suppliers.
- Participation in major national supplier diversity initiatives such as matchmaking services and recruiting events.

Advanced

Getting There

In the mature stage of the Business Diversity continuum, CEOs recognize supplier diversity as the "smart thing to do" for business. Their clear and full support of the program is openly communicated shaping attitude and actions throughout the organization.

The company has defined and amplified its supplier diversity value proposition and has allocated the resources needed to sustain it.

The company has also empowered its supplier diversity leaders and managers to use these resources— leveraging them in mutual wins for the company and for diverse businesses.

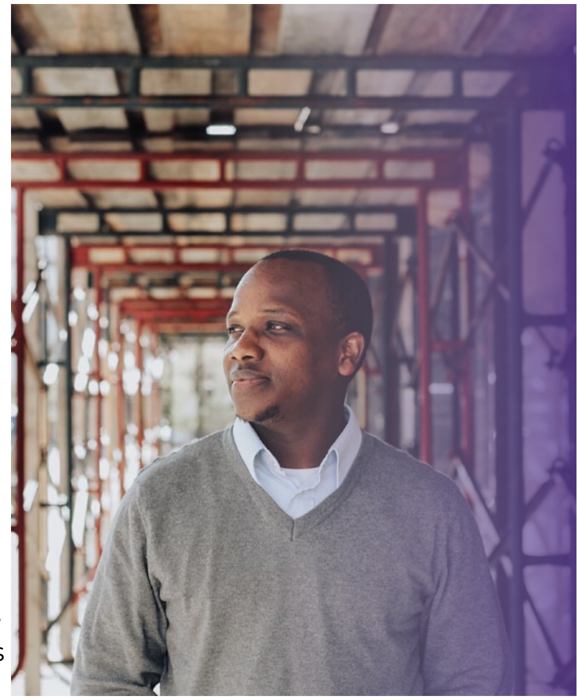
With buyer and key executive training programs in place to reinforce the company's commitment, all are engaged in company-wide support.

By now, among senior management, business diversity planning and reporting are viewed as standard business practice.

Characteristics

- Supplier diversity manager as key contributor to the company's overall management strategy.
- Diverse suppliers are included in professional services and outsourcing opportunities.
- Engagement enlivens collaboration between category management, strategic sourcing, marketing and sales, sustainability, and the community.
- Strategic plans that enable collaboration between procurement and service lines and functions help in sourcing spend with diverse suppliers.
- Spend analytics and procurement teams collaborate to disaggregate data to improve supplier diversity reporting.
- Regular reporting to internal stakeholders, key clients, and government compliance agencies help to identify and close gaps.
- Senior and executive leadership, too, are given frequent reports on trends, benchmark data, emerging practices, and corporate/industry impact.
- Established goals by spend category.
- Continuous identification, expansion, and intentional engagement with Black-owned business enterprises.
- Continuous outreach strategy to build quality and quantity of diverse supplier relationships.
- Strategies to drive accountability with Tier 1 suppliers for Tier 2 reporting with the goal of increased diversity spending.

- Company-wide training to reinforce the organization's commitment to supplier diversity while cascading this to their Tier 1 suppliers.
- Robust B2B training strategy for all staff internal training makes everyone accountable
- External DEI training for Tier 1 suppliers— requesting that their suppliers go through similar face-to-face or e-training, too.
- Mentoring to increase engagement, communicate opportunities, foster connections, and increase community presence.



Paths to Success

The elements of the Business Diversity continuum are foundational and the paths to success below represent leading practices of companies that have taken business diversity to the next level. They are provided as examples to consider as you develop your business diversity strategy.

Developer

Communicate the Benefits of Business Diversity
Secure buy-in from the CEO/executive team and key stakeholders, including management, by making a value-based case for business diversity.

Use data to reinforce benefits like collaboration, innovation, promotion, multiple procurement channels for goods and services (that reduce supply chain risk), increased competition, price reduction, community and economic impact, talent recruiting and retention, and access to diverse networks.

Set measurable goals
With approval for implementing a business diversity initiative, the next step is to set performance targets. But first establish a baseline that reflects the current state of your strategic sourcing strategy. Identify and record upcoming bid opportunities and commit to including diverse suppliers for participation. Here, a third party can help with the perspective needed to identify gaps and suggest adjustments as you go.

Around diversity spend, it's a good idea to set 'SMART' goals (specific, measurable, attainable, relevant, time-bound) early on. Start low and commit to increasing your company's spend with Black-owned businesses by 5% over what it is now. You can also set SMART goals around the number of Black suppliers to include in the bid process. Also, decide how often—e.g., monthly, or quarterly—to evaluate goals against performance.

It's useful to align the strategy with more general corporate goals involving cost savings and new revenue, increased market share, penetration of diverse markets, risk mitigation, and improved corporate image.

You may also want to set goals in terms of increased utilization of Black firms beyond your company and across the enterprise. When you communicate your commitment and goals with partners and stakeholders, you build trust, create opportunity, and enhance your brand through greater community engagement.

Collaborate with other organizations
Once goals are set, it's time to act. It's important to be intentional in identifying Black-owned businesses and exploring and following up on ways to engage with them. There are numerous governmental and nonprofit entities charged with aiding minority enterprises can help in this process. Organizations like the MBDA, SBA, and NMSDC hold conferences, networking events, and other outreach initiatives for the purpose of connecting diverse suppliers with corporations looking to do business with them.

Implement a supplier database
Invest in a database that captures relevant supplier diversity information by industry, goods, or services, as well as annual revenue, number of employees, past participation in RFXs, current contracts, diversity status and certifications, and performance feedback.

Get the word out. Let Black-owned businesses know you're interested in engaging directly. Create links on your company's websites to organizations like those listed above. Invite Black-owned businesses to provide company information that feeds directly into your supplier database.

Promote diversity, equity, and inclusion
Strong business diversity solutions calls for sustainable collaborative relationships between corporations and Black-owned suppliers.

As you grow relationships with Tier 1 suppliers, hold them accountable for developing, implementing, and reporting their spend with Black-owned and other historically disadvantaged businesses.

Remember, business diversity confers layers of benefit on both buyers and suppliers. Diverse businesses tend to be more flexible, innovative, and driven. By including diverse businesses in your company's supply chain, different perspectives can help your company develop exceptional products and services.

Intermediate

Use technology to track and report diversity spend
Data software and services such as Supplier.io, Quantum SDS, and TealBook can help companies and suppliers build and manage more diverse and inclusive networks.

Technology can be an accelerator. For example, once you've agreed on a standard of reporting, use it to collaborate with peers and develop insights that can grow your program.

Disaggregating data early on can help raise awareness and identify gaps. As long as each line of business is tracking regularly and reporting its spend, you can analyze this data to determine next steps.

Engage members of the procurement and/or DEI teams
Make business diversity a strategic priority through your words and actions. Some companies designate a dedicated Business Diversity team (specific FTEs). Others assign shared responsibility across members of existing procurement/DEI teams. Close relationships and coordinated efforts between procurement and DEI are essential to success.

Communicate the commitment of senior leadership
Without CEO and senior leadership involvement and support, a business diversity program can quickly become irrelevant. Operations and business units need to recognize that leadership will hold them accountable; that performance assessment is tied to successful integration.

Talk about your commitment to business diversity; make it known across the organization and publicly. When your people and stakeholders understand its impact on both their performance and company goals, they'll be much likely to do what it takes to achieve it.

Enterprise-wide commitment through awareness and training
Beyond the commitment of leadership, winning enterprise-wide buy-in requires raising awareness and training. To get there, corporations may consider having awareness training for all employees regularly, with more specific training for all procurement, strategic sourcing, and contracting personnel, through live, virtual or e-learnings.

Corporations may also consider instituting policies that would encourage inclusive bidding slates and creating procurement and contracting processes that require at least one Black supplier (or a written explanation for a lack of such requirement). In this way you make business diversity intentional with an expectation for everyone involved in the process.

Use scorecards to evaluate progress
Develop a scorecard—a report comparing, over time, key performance indicators to performance targets.

Make metrics a core competency in driving change—stressing the relationship between accountability and results. In some organizations, scorecards factor into senior executives' year-end bonuses.[30]

Capturing Tier 2 spend
Evaluate master service agreements to decide if they need to incorporate language requiring Tier 1 contractors to track diversity utilization and spend with Black-owned businesses.

30 Lin, A. (n.d.). What Makes a Good Diversity Scorecard/Dashboard? Diversity Inc

Advanced

Tie supplier diversity goals to executive compensation
Promote supplier diversity across the organization through goals and metrics that tie accountability directly to variable compensation at the senior executive level.

You might set a specific supplier diversity goal or include supplier diversity in broader DEI goals.

Some companies have tied as much as 30% of variable compensation to DEI and/or supplier diversity outcomes.

Remove barriers to certification
The certification process can impose a significant burden on the Black business owner. You can implement processes that alleviate and even remove some of that burden.

Some companies have created an affidavit process that allows Black business owners to self-certify, i.e., document their minority business-owner status in their efforts to do business with you.

Create transparency in supplier diversity data
Successful supplier diversity programs require Information, data, and metrics. Leading practices enable data transparency across the enterprise and directly to businesspersons who make final purchasing decisions.

Full transparency educates decision makers, helps drive accountability deeper into the organization, and improves decision-making. In some cases, it helps to provide direct access to supplier diversity systems to business leaders, too.

Programs that facilitate access to capital and support supplier development
In Massachusetts, MM Catalyst Fund (MMCF) is developing a dual-pronged approach to expanding entrepreneurship by growing technology and sustainability-driven business in less-developed regions of the Commonwealth, and by driving growth by funneling capital for business expansion into financially underserved Black businesses.

MMCF is building a diversified portfolio of early- and mid-stage companies across the state. Requirements are stringent. Early-stage companies will need to show solid proof of concept, significant market traction or revenue, and standout leadership teams. Mid-stage companies will have to prove annual recurring revenue of $1 million+, along with scalable revenue streams and strong management teams. MM Catalyst Fund investments will range from approximately $250K to $2 million per company.

Top-down, bottom-up culture
Strong successful supplier diversity programs happen when senior management is engaged and accountable. Leading companies also leverage internal employee groups and networks to help drive the culture forward.

By bringing your employee base into the strategy, you can empower them to influence purchasing decisions with an eye toward inclusion of diverse suppliers.

Using Technology to Power the Ecosystem

Supplier diversity professionals are turning to dedicated technology solutions for program management and reporting. Supplier diversity technology solutions offer:

- Data scrubbing to identify diverse suppliers within a company's supply chain.
- Tools for sourcing targeted diverse suppliers.
- Supplier certification and registration.
- Analysis of primary and Tier 2 supplier spend by race, ethnicity, gender, and LGBTQ status.
- Community platforms that help buyers promote their supplier programs and sellers promote their products and services.
- Reporting and analysis tools.

To date, no technology tool offers a full suite of capabilities within a single product. As the industry consolidates, however, merged firms offer expanded capabilities and solutions.

The companies that offer services in this space range from start-ups to large, well-established firms. Most are privately held and financed with venture capital. Their services fall into five categories:

Turnkey/comprehensive supplier management solutions

Turnkey systems offer a front-to-back solution that includes supplier program consulting, sourcing tools, contracting modules, reporting, second tier tracking, and analytical tools.

Vendor sourcing/tracking and reporting solutions

Sourcing and reporting solutions are less comprehensive than turnkey but provide a serviceable resource for supply chain and diverse supplier management teams.

Ecosystem/community platforms

These are open networks, designed to create communities of suppliers and buyers that make up a marketplace where buyers can solicit suppliers and suppliers can market their ideas, experience, and expertise.

To date, we have identified only one company that meets this description, though we anticipate there will be additional entrants into this category.

Consulting Services

Consultants in this space help clients create and execute diverse supplier strategies to increase spend and impact.

Fintech Supplier Financing Solutions

These solutions became available only recently when new business models were developed to disrupt traditional finance business payment cycles—empowering small businesses by accelerating time to payment and lowering financing costs to suppliers.

Some companies that provide a core suite of supply chain management services have added diverse-supplier functions. Others offer sophisticated stand-alone solutions that expand the range of available functionality. These supply chain systems are playing an ever-increasing role in changing the way companies make decisions about suppliers.

CEOARE Business Diversity Pledge

Core to an effective business ecosystem, business diversity can mitigate or remove the structural obstacles to business-building that have hindered the growth of Black businesses.

With greater corporate engagement increasing the number of contracts with Black businesses, along with the corresponding spend, we can begin to close the Black-white wealth gap. For Black businesses, increased revenues will result in greater growth opportunities and positive economic impact within their communities.

We are asking you, as signatories, to commit to the fair inclusion of Black suppliers in your procurement activities by pledging to:

Increase equity for Black suppliers across all services

Create more access to capital and networks for Black suppliers

Develop growth and scale opportunities for Black suppliers

Join us to collectively share leading practices, resources, insights, and data

Commitment to racial equity takes all of us.

CEO ACTION FOR RACIAL EQUITY