

## Supplier Diversity Efforts and Legal Services

*By Jason L. Brown*

Supplier diversity programs have played a pivotal role in the exponential growth of minority businesses in traditional areas such as construction, janitorial services, security, manufacturing, and distribution. These programs have not, however, provided the same measure of growth and opportunities for minority and women-owned (M/WBE) professional service providers in fields such as public relations, finance, and legal. Some corporations have made strides to improve upon their utilization of M/WBE professional service providers, but this appears to be the exception to the rule. Unfortunately, the identification and utilization of M/WBE professional service providers, specifically legal services, appear to be lagging behind – if not excluded – by most corporations in the application of their supplier diversity programs.

### DEVELOPMENT OF SUPPLIER DIVERSITY PROGRAMS

The United States has made verifiable progress in managing and promoting supplier diversity initiatives. Since implementation in 1972, the amount of purchases by National Minority Supplier Diversity Council corporate members from minority businesses has grown from an estimated \$86 to \$101.1 billion in 2009 in the areas of goods, supplies and general services.<sup>1</sup> The U.S. Department of Commerce's Minority Business Development Agency reports that minority businesses employed 5.8 million people in 2007 and concluded that minority firms are an "engine of job creation." However, these programs have not provided the same measure of growth and opportunities across all industries—leaving fields such as public relations, finance, and legal lagging behind.

Chicago United, an advocacy group promoting multiracial leadership in corporate governance, highlights reasons for the underutilization of minority-owned professional service firms in a 2004 report titled "Chicago United's Professional Services Model (PSM): A Business Management Tool for Large Corporations to Address the Problem of Limited Utilization of Minority Professional Service Firms." The author writes, "During the 1990s, program rationale began to shift, focusing less on social implications and more on the business case." This explains why supplier diversity programs have become—or remained—commodity focused: the system is easily quantifiable and produces clear return on investment in support of the business case. Additionally, some professional services tend to be contracted on an as-needed basis with the issue both arising and needing to be rectified quickly. For example, a company cannot predict when they will face a class action law suit or whether they will have to embark on a marketing campaign to protect their corporate image. Due to the unpredictable and time sensitive nature of contracts for professional services, evaluation of a supplier's diversity position seems tangential to simply identifying a reputable firm quickly from existing suppliers or an in-house referral.

### THE NEGATIVE RESULT

In the legal community, many M/WBE firms suffer from a lack of opportunity to develop relationships with in-house counsel who are decision-makers. The Chicago United position paper reports on the important role existing relationships play in selecting professional services—relationships sometimes

generations old—calling the subsequent disadvantage to M/WBE firms “profound”. The author based this analysis on a series of candid discussions with executive and senior-level managers in major national corporations revealing that they chose firms however they wanted and did not have to report “how much or with whom they were spending their dollars.” The fact that purchases were with majority firms indicates that executives often choose firms from within their ranks of personal or professional contacts. This creates a potential problem, however, where relationship connectivity—rather than a formal evaluation of capacity, cost, and capability—produces a perception of value for a firm that may or may not be accurate. This method creates an atmosphere where M/WBE law firms are often excluded from fairly competing for opportunities to showcase their legal expertise.

There is inconsistency and unconscious bias in evaluating minority firms as well. Some believe that because most M/WBEs are smaller and younger firms than majority owned law firms, they often lack the capacity to compete effectively for contracts. According to Reginald T. Williams, who is credited by some as coining the phrase "supplier diversity", there exists an inherent perception that minority firms put companies' reputations at risk and executives who have discretionary spending authority are clearly more comfortable with majority firms.<sup>2</sup> There are two indicators that this perception is influenced by an unconscious bias: (1) companies do not question the capacity of small, majority owned boutique firms and (2) empirical findings on affirmative action procurement programs indicate that it is not capacity but rather discriminatory barriers that limit M/WBE growth in the marketplace.<sup>3</sup>

## CONCLUSION

Research produced by The Hackett Group shows that companies that focus on supplier diversity generate 133% greater return on investment than businesses who do not. Such companies spend an average of 20% less on their buying operations and have procurement teams half the size of their peers whose supplier programs are not as diverse.

The emergence of supplier diversity programs and professionals has had a tremendous impact on increasing the awareness, viability and inclusion of M/WBEs in corporate America. However, many corporations still lack focus on increasing diversity and inclusion with respect to their procurement of professional services. The business case for the utilization of M/WBE professional service providers is the same, if not more beneficial, as it is for the utilization of M/WBE suppliers of goods and/or distribution services. An effective and innovative supplier diversity program must include a focus on professional services. It is often easier for companies to simply continue the methods of the past when retaining professional services, especially when the results have been largely positive. However, companies should consider the tremendous value and benefits that will be obtained by re-examining and re-focusing their methods on hiring diverse professional service providers. The failure to do so will continue the perpetuation of exclusion and bias many M/WBEs confront while competing for opportunities. The positive impact on a company that utilizes M/WBE professional service providers will be measured by increased value, diverse perspectives and a genuine reputation for inclusiveness.

## REFERENCES & SUGGESTED READING:

<sup>1</sup>See [National Minority Supplier Diversity](#) Web site, [Corporate Purchases \(1972-2009\)](#)

<sup>2</sup>2008. "The Man Who Coined the Phrase 'Supplier Diversity'." *Engage UK* 006. Accessed May 10, 2011. <http://www.purdue.edu/supplierdiversity/pdf/EngageCoverReggieWilliams.pdf>

<sup>3</sup>Bates, Timothy. 2001. "Minority Business Access to Mainstream Markets." *Journal of Urban Affairs* 23:41-56. Accessed May 10, 2011. doi: 10.1111/0735-2166.00074

Chicago United. 2004. "Chicago United's Professional Services Model (PSM): A Business Management Tool for Large Corporation to Address the Problem of Limited Utilization of Minority Professional Service Firms." [http://www.chicago-united.org/PSM\\_Position\\_Paper.pdf](http://www.chicago-united.org/PSM_Position_Paper.pdf)

"The Hackett Group: Supplier Diversity Does Not Drive Increased Costs." *The Hackett Group*. Accessed May 10, 2011. [http://www.thehackettgroup.com/about/alerts/alerts\\_2006/alert\\_08172006.jsp](http://www.thehackettgroup.com/about/alerts/alerts_2006/alert_08172006.jsp)