



## **Chicago United**

Closing the gap between race and business.

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### **POSITION PAPER**

# **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**

**November, 2004**

## **RESEARCH METHODOLOGY**

This Position Paper was commissioned by Chicago United for the following purposes: 1) to elevate the discussion about the limited utilization of minority professional service firms to the CEO level; 2) to provide a tool for supplier diversity/procurement managers; 3) to continue to integrate the issue of minority professional service firm utilization into corporate leadership initiatives on supplier diversity; and 4) to bring visibility to an issue that has been under-discussed within large corporations. The concept of the paper originated with Chicago United leadership and consultants. Its content is the result of their opinions, research and discussion with minority professional service firms with real life experience.

To develop the most thought-provoking position paper, Chicago United formed a Blue Ribbon Panel co-chaired by the Chairman and CEO of Abbott Laboratories, Mr. Miles White, and the Chairman and CEO of Ariel Capital Management, LLC., Mr. John W. Rogers, Jr.. Other members of the panel included individuals with corporate diversity experience and minority business owners. The purpose of the panel was to ask the questions that would strengthen our position and guide the writing process.

The paper was researched and written by an expert consultant in the field of supplier diversity, program development and minority business relations. Research was also supported by an experienced consultant in the field of workforce diversity. The primary consultant conducted extensive research to identify supplier diversity trends and issues. The data reviewed included trade publications, industry journals, supplier diversity-related web sites and past corporate minority business development program engagements. These data were collected to validate Chicago United's position on the underutilization of minority professional service firms included in this qualitative analysis. The goal of Chicago United is to support its position based on industry experience that will assist key decision-makers and influencers in implementing the solutions set forth in this document.

## INTRODUCTION

For more than 30 years, major corporations in this country have developed and implemented comprehensive supplier diversity initiatives to increase business opportunities for minority firms in hopes of building mutually beneficial business relationships. Since the inception of these initiatives, the dollars spent with ethnic minority firms have increased from \$86 million in 1972 to \$63 billion in 2001 in the areas of goods, supplies and general services.<sup>1</sup> Business opportunities for minority professional service firms, however, have been conspicuously limited. For more than a decade, professional service programs and initiatives implemented by many local and national advocacy organizations, such as the Chicago Minority Business Development Council (CMBDC), the Alliance of Business Leaders and Entrepreneurs (ABLE) and the U. S. Hispanic Chamber of Commerce (USHCC), have demonstrated that the underutilization of minority professional service firms is a concern that deserves special attention. Although many large corporations understand the business case for utilizing minority firms, their supplier diversity programs and outreach efforts have not historically included opportunities for ethnic minority professional service firms.

**For more than a decade, professional service programs and initiatives implemented by many local and national advocacy organizations have demonstrated that the utilization of minority professional service firms is a concern that deserves special attention.**

As we strive to create a business environment where minority firms have equal opportunities to compete and grow, we set forth the premise that race really does matter. It is critical for us to understand why minority professional service firms are not afforded the same access to business opportunities as their majority counterparts. To that end, this Position Paper will provide the following:

- A qualitative analysis of the underlying causes explaining why minority professional service firms are underutilized by large corporations
- Anecdotes underscoring that minority professional service firms are underutilized even by corporations with robust supplier diversity programs already in place
- A Professional Services Model (PSM) for facilitating and improving relationships between minority professional service firms and the corporations purchasing those services and for increasing utilization of minority professional service firms.

The PSM is designed to take supplier diversity initiatives to the next level without compromising cost, quality of service or shareholder/stakeholder interests. It encompasses a number of strategic objectives, e.g., developing corporate commitment at the CEO level, developing end-user commitment at the executive management level and creating a results-oriented interaction process between the end user and minority professional service firm.

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For purposes of this Position Paper, we have defined professional services to include services in such areas as advertising/marketing/public relations; creative consulting; financial services (i.e., risk management, accounting, asset management, and banking); information technology; human resources; legal; and general management consulting.

This paper will address the historical challenges of supplier diversity programs, minority business growth during the past 30 years and obstacles to opportunity for minority professional service firms. Also discussed is a *Call to Action for CEOs* to align bottom line objectives and business strategies with our proposed *Professional Services Model* to increase minority firm utilization.

## HISTORICAL CHALLENGES OF SUPPLIER DIVERSITY PRACTICES

### Evolution of Supplier Diversity

Recognizing that race does matter, policymakers enacted mandates that supported contracting with minority owned businesses. Small business initiatives began as early as 1953 when Congress created the Small Business Administration (SBA).<sup>ii</sup> The creation of the SBA was the federal government's attempt to address the interests of small business. The creation of the SBA was the impetus for passing and signing into law more than twenty-five (25) bills affecting small, minority and women-owned business enterprises between 1968 and 1999.<sup>iii</sup>

In an attempt to address the evolution of an ever-changing marketplace and mirror the mandates of the federal government, corporate diversity programs began to emerge. The purpose of these programs was to address the disparate purchasing practices of major corporations with small, minority and women-owned business enterprises. Corporate diversity practices among major corporations were initiated in the late 1960s and built momentum in the 1970s and 1980s. During the 1990s, program rationale began to shift, focusing less on social implications and more on the business case.

Initially, corporate minority purchasing programs were supported by one-person departments with limited capital resources and shared human resources. These persons were responsible for driving the program internally and externally, including designing and developing an internal and external communications plan, vendor outreach strategies and a vendor database. Today, these programs, now called Supplier Diversity Programs, have evolved into sophisticated departments contributing to corporate bottom lines and competitive advantages in the marketplace. Notwithstanding their growth, stature and sophistication, these programs have not been largely successful in integrating professional services opportunities into the overall procurement process.

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According to the most recent data published by the U. S. Department of Commerce (Minority Business Development Agency's 1997 Survey of Minority-Owned Business Enterprises), revenue among minority businesses has grown from \$92.1 billion in 1982 to \$591.3 billion in 1997.<sup>iv</sup> According to the 2002 Business Women's Network, Diversity Best Practices, 75% of Fortune 1000 companies have a diversity initiative.<sup>v</sup> Further, most federal, state and municipal entities have programs in force that have opened doors that may have remained closed. The combination of these initiatives could be considered a contributing factor in the growth of minority business revenues.

Over the years, supplier diversity programs have enabled minority businesses to grow exponentially in traditional areas of business, such as general and specialty construction, janitorial maintenance and supplies, temporary service, security and manufacturing and distribution. The growth trend among traditional service areas was due in part to the structure of supplier diversity programs and their relationship to the purchasing process. Supplier diversity programs leaned heavily toward the purchases of goods and services to achieve immediate, attainable and sustainable results. As an example, during the 1980s some consumer goods corporations implemented aggressive minority business development programs that focused primarily on purchasing commodities.

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As in past programs, current supplier diversity programs are largely commodity driven.

Consequently, the increased utilization of ethnic minority professional service firms has not traditionally been an area of focus. We believe this is based on the following: 1) professional services fall outside of the traditional supply chain; 2) it has been easier to set goals around commodities; and 3) primary buyers of professional services are in business units that have higher spending discretion and typically do not go through the purchasing/supply chain process.

### **The Purchasing Process and Its Relationship to Supplier Diversity**

At inception of these initiatives, the purchasing process was not directly linked to supplier diversity. In some instances today this still holds true. As a result, it was incumbent upon supplier diversity managers to build necessary relationships with purchasing managers, contract administrators and buyers, who are critical players in creating opportunities for minority firms.

**Professional service buys, however, are unique in that they are usually determined at the end-user/departmental level where subjectivity is added into the process.**

The primary function of the purchasing department is to make procurement decisions that are most favorable to the company. These decisions are based on price, quality, reputation, delivery time and capacity. Professional service buys, however, are unique in that they are usually determined at the end-user/departmental level (i.e., financial, legal, consulting services, etc.) where subjectivity is added into the process.

For example, the legal department of a corporation will not generally consult with purchasing to contract legal services unless it is a required target market or strategic sourcing opportunity. According to a report published in 2002 by CAPS Research (Center for Advanced Purchasing Studies) entitled *Defining and Determining the "Services Spend" in Today's Service Economy*, more than 50% of their respondents, many of whom were responsible for supplier relationship management within Fortune 1000 companies, indicated that they had no purchasing control over financial, legal and marketing services, specifically.<sup>vi</sup>

### **How Perceptions Impact Purchasing Decisions**

A survey conducted by the Rensselaer Small Business Procurement Services addressed the notion of how minorities are perceived in the procurement process. There are standard misperceptions of ethnic minorities, coupled with supply chain processes, which inhibit the utilization of minority professional service firms, including:

- Minority firm prices are higher and comparatively noncompetitive
- Minority firms encumber the quality assurance (QA) professional standards of the purchasing process<sup>vii</sup>
- Minority firms have inferior intellectual capacity as compared to their majority counterparts

In addition to the above-referenced survey, other areas of concern were identified by our expert consultants, including concern that minority firms have limited backroom capacity and scope necessary to conduct large-scale engagements. Corporations are not averse, however, to utilizing small, majority-owned boutique firms.

Moreover, minority firms are far less likely to have access to the relationships with persons who have buying authority in large corporations. This means minority businesses are less likely to be given the opportunities available to their majority counterparts.

## Corporate Spending

In relation to supplier diversity, the corporate spend on professional services is critical to understand because it represents a large portion of discretionary spending outside of the supply chain. According to the previously noted CAPS Research report, *Defining and Determining the “Services Spend in Today’s Service Economy*, the service spend in relation to total purchasing is between 5% for manufacturing and 86% for other industries.

The survey further noted that the average total purchase spend for the 115 organizations surveyed was \$2.98 billion, with services averaging \$985 million annually and increasing on average 3.5% per year since CAPS initial report in 1995. Furthermore, this benchmark report indicates that average corporate spending on professional services is approximately \$623 million.<sup>viii</sup> With such significant amounts of money in play for professional service spends within major corporations, what precludes minority firms from participating in the process?

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## Minority Professional Service Firms’ Competitive Ability

Minority business enterprises have grown in total numbers, as well as in size and capacity of individual businesses. Notwithstanding challenges, supplier diversity programs have managed to serve and grow a business sector that would otherwise have remained stagnant. The most recent data published by the U. S. Department of Commerce’s Minority Business Development Agency indicates that the number of minority businesses owned in the United States has grown from 1.3 million in 1987 to 3 million in 1997.<sup>ix</sup> This represents an increase of approximately 130 percent. Minority businesses also employ 4.5 million people.<sup>x</sup>

To illustrate how minority firms have reached critical scale, we compared three decades of data. In 1973, *Black Enterprise Magazine* began publishing the top 100 African-American owned companies in the United States. During the 1980s, the total of all *Black Enterprise* (BE) 100 companies surpassed the billion-dollar mark.<sup>xi</sup> In 2004, the professional service firm listed as number one of the BE 100 generated one billion dollars in sales.<sup>xii</sup>

## Obstacles to Opportunity

Minority professional service firms are still at a competitive disadvantage in spite of their growth in size, revenue and capacity over the past 30 years. Although we have articulated a number of circumstances that preempt opportunities, the generational relationships enjoyed by their majority counterparts, especially prevalent in the more conservative industries of financial, legal and consulting services, is one of the most profound inhibitors. Even though minorities now have the opportunity to attend the best schools and work and excel within Fortune 500 companies, they do not have the benefit of historical family and social ties. Consequently, relationship connectivity appears to be one of the most dominant competitive advantages of the majority business community.

To validate our assumptions, we conducted a series of candid discussions with executive and senior level managers in major national corporations. These executives had discretionary budgets and spending authority to procure professional services. In these discussions it was determined, unequivocally, that notwithstanding company-wide diversity commitments, they could procure professional services from any firm they chose. They did not have to report how much or with whom they were spending their dollars. We found their purchases to be with majority companies that had long-standing relationships with their organization, reputedly solid track records of performance, and/or referrals from someone within the organization (*See Appendix A*).

An additional inhibitor for minority professional service firms included the notion that their engagement posed a significant risk factor. According to “A Buyers Guide on How to Do Business with Minority Vendors,” written and published by Reginald T. Williams, race does matter. Minority firms are viewed as a risk and buying personnel are more comfortable with non-minority firms.<sup>xiii</sup> Typically, there is an inherent perception that minority firms would put reputations and companies at risk. As a result, buyers will oftentimes encourage strategic alliances between majority and minority firms for purposes of evaluating minority performance. These alliances have proven to be valuable in helping minority firms further develop their competencies and establish solid track records. Conversely, poorly executed strategic alliances can become more costly to corporations due to increases in prime (majority firm) user fees. Consequently, misperceptions among buying personnel continue to perpetuate the notion of potential risks associated with doing business with a minority firm.

**Diversity programs serve to build a company’s customer base, increase opportunities for large corporations to win contracts in both the public and private sectors, enhance long-term relationships with minority suppliers and create a cost-effective purchasing process.**

Supplier diversity allows a company access to the “best and brightest” minds that otherwise would have been unavailable due to misperceptions and stereotypes. There are cases where talent in minority professional service firms, educated in the best schools and trained within large corporations, typically enjoy no real advantage when they become entrepreneurs. Their educational and professional training cannot match the value of personal and individual relationships held by their majority counterparts.

## **THE BUSINESS CASE FOR SUPPLIER DIVERSITY**

The business case for supplier diversity remains compelling after 30 years. Diversity programs serve to build a company’s customer base, increase opportunities for large corporations to win contracts in both the public and private sectors, enhance long-term relationships with minority suppliers, and create a cost-effective purchasing process.<sup>xiv</sup>

This is evidenced by the continued growth over the last 15 years of supplier diversity programs among Fortune 1000s. The “old” and “new” generation of major corporations recognize that in order to remain competitive in the global marketplace, diversity will have to be addressed at all levels.

Ralph G. Moore, supplier diversity expert and President of RGMA, noted the following observation from his experience:

*“While consulting with a substantial number of Fortune 500 corporations during the past 25 years, I have observed that sustainable opportunities for minority professional service firms exist only in corporations where senior leadership not only understands the strategic value of supplier diversity, but where a culture of excellence permeates the entire corporation. These leading CEOs feel that if we are to be a world class corporation, we must have a world class supplier diversity initiative.*”

**“...sustainable opportunities for minority professional service firms exists only in corporations where senior leadership not only understand the strategic value of supplier diversity, but where a culture of excellence permeates the entire corporation.”**

*Procter and Gamble CEO A.G. Lafley’s statement on supplier diversity is a prime example. He notes:*

- ‘Supplier diversity is a fundamental business strategy of Procter & Gamble.’

- 'We will continue to expand and build our supplier diversity results'
- 'Supplier diversity is no longer an issue of social conscience.'

*This strong commitment to supplier diversity sets the tone for the entire corporation to follow his mandate. The result of Mr. Lafley's leadership is a World Class supplier diversity process which includes robust activity with minority professional service firms."*

### **CEOs Call to Action**

According to a recent CEO roundtable discussion convened in May of 2004 by *Chief Executive*, global competition is driving diversity. Changing demographics have CEOs looking at diversity more strategically. Dan Carp, CEO of Eastman Kodak, noted for his leadership in the area of diversity, made the following statement:

*"There are concrete examples of benefits. We see much more creative problem solving when we have a diverse team looking at a problem. We've been able to get new ideas from suppliers by broadening our minority supplier base."*<sup>xv</sup>

A Chief Executive Officer is responsible for maintaining the overall continuity of the business. Continuity includes sustaining the company's growth and health and forecasting its future market position.

The business case for expanding the original intent of supplier diversity objectives into the professional services arena gains momentum when looking at the following:

- Demographics in ethnic minority populations are expected to grow 8-times faster than majorities by 2045<sup>xvi</sup>
- Ethnic minorities currently exercise 20% of the U.S. purchasing power at \$1.3 trillion and growing
- As minority population and income levels increase, so do market opportunities
- Global marketing and diversity are key elements of a corporation's sustainable growth
- Minority professional service firms represent future talent with innate diverse perspectives
- Minority professional service firms represent potential customer resources

Diversity is largely present in the global marketplace. Corporations have acknowledged "diversity" as a competitive advantage. To ignore it will negatively impact sustainable growth and global competitiveness.

With so much at stake, a company's internal and external value system should be reflective of its consumer base, strategic partner base and the larger environment in which it is conducting business. Increasing professional service opportunities would serve as a growth area for both new and mature supplier diversity programs. Corporate America recognizes the power these programs have in facilitating growth in multicultural markets. They also recognize that these special segments impact long-term financial objectives. Diversity programs are no longer viewed as just the right thing to do, but the impetus for implementing a bold new set of initiatives. With increased scrutiny, companies should work proactively to promote positive corporate images.

**Forward-thinking corporations make diversity a priority at all levels. However, the most notable results are present among corporations with diverse Boards of Directors that help support diverse initiatives.**

## THE PROFESSIONAL SERVICES MODEL (PSM) FOR LARGE CORPORATIONS

### The Solution Proposition

Forward-thinking corporations make diversity a priority at all levels. However, the most notable results are present among corporations with diverse Boards of Directors that help support diverse initiatives. If the Professional Services Model is to be effective, it must include the identification and involvement of all relevant stakeholders, along with a comprehensive review of an organization's professional services needs.

It is prudent to assess how the need for professional services and service firm relationship history determine contract awards within the corporate framework. The following model illustrates a four-phased approach to tackle the problem of underutilization of minority professional service firms. *It is important to note that this model is designed to be used in part or in its entirety for seamless integration into any corporate diversity initiative.*

### PHASE ONE: GAIN AND MAINTAIN BUY-IN OF CHIEF EXECUTIVE OFFICER AND EXECUTIVE MANAGEMENT TEAM

To create a results-oriented model with sustainable mutual benefit, the implementation process should evaluate existing corporate relationships. These contribute to the primary problem: a lack of relationships with minority professional service firms at the executive management level.

However, to achieve meaningful results and create scenarios for future opportunities, it is critical to have a meaningful commitment from the top. Phase One of the proposed business model includes the following steps

Step 1: Apply the business case for supplier diversity to support the minority professional services initiative

Step 2: Have CEO and diversity/procurement officers confer to develop a strategy and support for the initiative. This will also be an opportunity to develop relationships between minority professional service firms and executive management.

Step 3: Engage the executive management team through an internal policy issued by the CEO.

Step 4: Appoint professional service area champions within each business unit to direct and disseminate opportunities. Working in conjunction with supplier diversity managers, their primary objectives will be to identify and engage potential and existing firms qualified and capable of providing professional services.

Step 5: Conduct periodic meetings with the CEO and the executive management team to provide status updates, identify opportunities and strategic direction, and maintain their active and ongoing involvement.

**It is important to note that this model is designed to be used in part or in its entirety for seamless integration into any corporate diversity initiative.**

**To achieve meaningful results and create scenarios for future opportunities, however, it is critical to have a meaningful commitment from the top.**

After gaining buy-in from the CEO, and executive management team, and then appointing professional service area champions, the model will have the required credibility and technical assistance necessary for implementation.

## **PHASE TWO: CONDUCT AN ANALYSIS OF PROFESSIONAL SERVICES SPENDING**

Phase One achieves buy-in among the key players, while Phase Two will begin to unearth new business opportunities. These opportunities may be associated with organizational growth and therefore may not require moving business from current majority professional service firms. Instead, organizations should take every advantage presented by new projects and expansions as opportunities to further utilize minority professional services firms, even when business may have previously been awarded to the incumbent firms without competitive evaluation. New opportunities represent a significant area of relationship development for minority firms. In any case, minority professional service firms should be included in any periodic review of ongoing business requirements. The focus then becomes closing the gap between the minority professional service firm community and key executives. The analysis will continuously review categorical professional service procurement strategies at all levels in the following steps:

**The focus then becomes closing the gap between the minority professional service firm community and key executives.**

- Step 1: Review and assess monthly, quarterly and annual objectives of the strategic planning unit for potential strategic business opportunities as they relate to organizational growth.
- Step 2: Review and assess all professional service spending and purchasing cycles within each business unit to determine areas of opportunity.
- Step 3: Review relationship history of all current professional service providers.
- Step 4: Review and assess all professional service single/sole source engagement specifications and criteria used to evaluate unique capabilities of a firm.
- Step 5: Review and assess all other professional service engagement specifications to determine specific decision-making criteria.
- Step 6: Review and assess the top 50 professional service providers and service categories to determine unique capabilities and relationship dynamics.
- Step 7: Review and assess by business unit the current contract award process based on the information gathered in Steps 1 through 5.
- Step 8: Identify and review all contracts for professional services that are up for review, scheduled to expire within 90 days or have been terminated for non-performance, non-compliance, etc.

The end result of Phase Two will be the identification of professional services currently engaged and their corresponding purchasing cycles. Other results include determining how relationships are juxtaposed to the professional service buying framework and developing key strategies to integrate minority professional service providers into the process.

### **PHASE THREE: IDENTIFY STRATEGIC PROFESSIONAL SERVICE BUSINESS OPPORTUNITIES**

Phase Three of the Professional Services Model (PSM) will be the culmination of Phase Two, leading to acceptance of the hard data on how, where, why and with whom the money is being spent. The steps in Phase Three will identify immediate opportunities for current and potential minority professional service firms and initiate substantive dialogue with these firms.

- Step 1: Prepare a comprehensive spend analysis based on the data compiled on the top 50 professional service providers. This data will demonstrate buying patterns within business units.
- Step 2: Conduct an analysis of current minority professional service providers and core competencies to match against the top 50 majority providers' service categories. These data are a source of potential/immediate opportunities for minority professional service firms.
- Step 3: Outline relationship building strategies designed to link minority professional service firms and executive management teams. Empower the professional service area champions to maintain the flow of dialogue between the internal and external constituencies.

### **PHASE FOUR: TRACK AND MONITOR MINORITY PROFESSIONAL SERVICE FIRM PARTICIPATION**

In addition to gaining CEO buy-in, another precondition to achieve meaningful results is the establishment of a process with sufficient controls to monitor and benchmark a company's progress. The development of a metric tracking and monitoring system to report results will prove to be an important and necessary motivator. To track and monitor minority professional service participation, the following steps would be implemented:

**In addition to gaining CEO buy-in, another precondition to achieve meaningful results is the establishment of a process with sufficient controls to monitor and benchmark a company's progress.**

- Step 1: Create an internal minority professional services task force composed of professional service area champions and supplier diversity managers/directors.
- Step 2: Establish or expand a minority business advisory committee to address professional services.
- Step 3: Conduct periodic quantitative analysis of overall performance by individual business units, to be prepared and submitted by the professional service area champion. These reports would be presented at the periodic meetings with the CEO and executive management team.
- Step 4: Develop baseline minority professional service firm goal metrics.
- Step 5: Tie compensation for all members of the executive management team to performance against minority professional service goals.

This proposed model can be the key driver in promoting action to increase the utilization of minority professional service firms. It can further promote corporate relationship building with potential minority professional services partners.

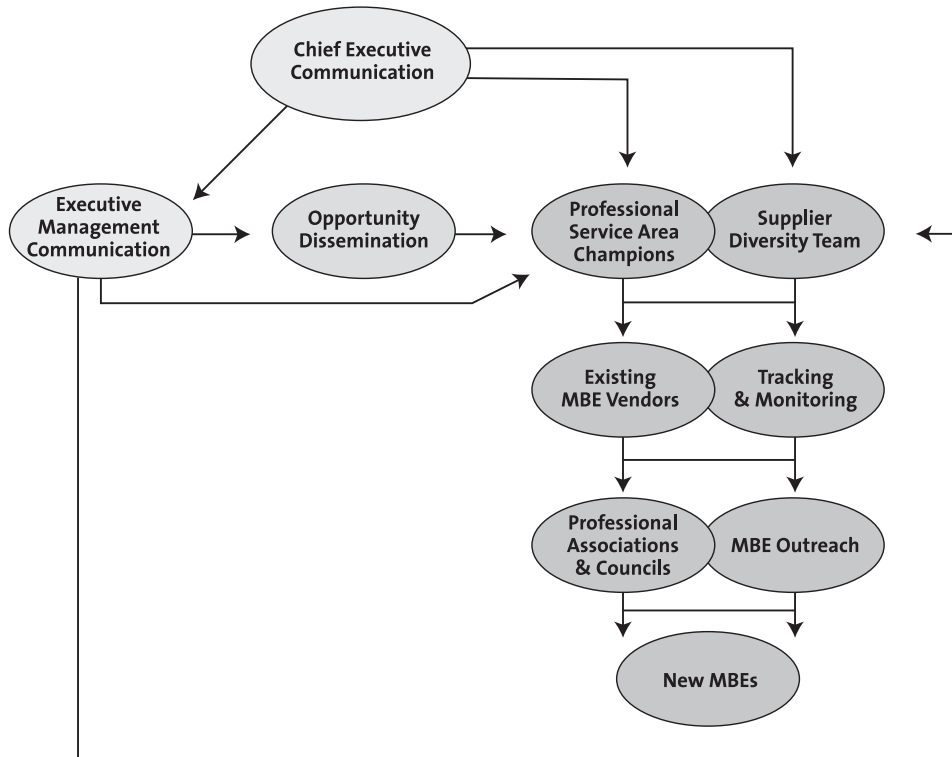
**MBE PROFESSIONAL SERVICES UTILIZATION COMMUNICATION MODEL**

**Leadership Communication**

The following communication paradigm has been designed to support the development and execution of the Professional Services Model. The ability of minority professional service firms to penetrate the relationship pipeline is paramount to the success of any business model promoting inclusion.

This opportunity proposition will be successful with the commitment of the CEO. Corporations should promote opportunities for minority professional service firms by way of policy and/or a commitment statement endorsed by all executive and senior level managers with discretionary spending authority.

**WHAT DRIVES RELATIONSHIP BUILDING AND RESULTS?**



This paradigm is designed to maintain dialogue among all relevant stakeholders and continuity in the process, as well as generate actionable results. It further demonstrates the level of commitment required from the CEO and executive management team to keep the communication channels open to achieve success.

## SUMMARY

In keeping with the spirit of diversity, the Professional Services Model (PSM) and the communication paradigm were designed to facilitate actionable results. Moreover, these processes are designed to be adjusted and integrated seamlessly into any corporate supplier diversity initiative. With strong support at the CEO and executive management level, the implementation of this process can increase utilization of minority professional service firms.

Over the past 30 years, supplier diversity programs have provided value and bottom line results to many corporations. Although not without controversy, these programs have overcome seemingly insurmountable obstacles and have been relatively successful. The PSM will take supplier diversity initiatives to the next level. Evolving program initiatives are constantly striving to raise the bar and set new performance standards. This business model is a catalyst that will spur greater progress.

In an effort to facilitate a business environment that supports giving minority firms equal access to opportunities and critical business relationships, the PSM encompassed five strategic areas:

- Sponsorship at the CEO and Executive Management Levels
- Identifying Professional Service Spending Levels
- Identifying Strategic Professional Service Business Opportunities
- Developing Goal Metrics
- Developing Minority Professional Service Firm Performance Audit

**Inclusion must now extend beyond hiring practices and traditional product and service areas, and embrace the utilization of minority professional service firms.**

Based on our understanding of the problem, penetration in these areas will: 1) increase the number of opportunities available to minority professional service firms; 2) address the underlying causes of underutilization; and 3) improve the relationship building process.

As our qualitative analysis indicated, stereotypes and misperceptions were among the leading inhibitors for minority professional service firms. Given this competitive disadvantage, it is critical for large corporations to adopt a philosophy that broadens the meaning of “inclusion.” Inclusion must now extend beyond hiring practices and traditional product and service areas, and embrace the utilization of minority professional service firms.

In closing, diversity initiatives provide added dimension to long-standing one-dimensional processes, helping companies grow and flourish economically and making good companies even better.

**APPENDIX A**

**QUALITATIVE ANALYSIS OF  
THE UTILIZATION OF MINORITY PROFESSIONAL SERVICE FIRMS**

## QUALITATIVE ANALYSIS METHODOLOGY

In the content of this Position Paper, we have articulated a number of circumstances preempting opportunities among minority professional service firms. This Appendix is an expansion of the results of a series of discussions conducted with six corporate executives from six selected Fortune 500 corporations. The corporate representatives were among the 100 largest publicly held companies in the Chicago area.

The six executives were composed of the following:

- (1) General Counsel
- (1) Chief Financial Officer
- (1) Chief Procurement Officer
- (1) Chief Information Officer
- (1) Executive Vice President of Marketing
- (1) Executive Vice President of Human Resources.

The executives were selected based on the following criteria:

- Currently holds or has held in the past 24 months a senior executive position in a Fortune 500 corporation represented among the 100 largest publicly held companies in the Chicago area.
- Position reports directly to the corporation's Chief Executive Officer.
- Position has discretionary spend authority over monies used to purchase professional services from external service providers.

Each of the interviews was conducted via telephone by Dr. Arin Reeves and ranged in length from forty minutes to one hour. The interviewees were given a list of eight preparatory questions, as follows:

1. Does your organization have a formal supplier diversity program? If so, how does it fit into the overall organizational chart? Who heads it? To whom does the head report?
2. Does the CEO of your organization have a specific set of guidelines that govern supplier diversity in general? Do these guidelines include services procured by heads of business units that may or may not procure services through the traditional procurement channels? If such guidelines exist, is the commitment by senior leaders to these guidelines evaluated in their performance reviews? If so, what are the evaluation criteria? What are the systems of accountability?
3. Are you aware of the types of requisitions or requests for proposals/qualifications that are primarily channeled through the supplier diversity function? Are you aware of how RFPs for professional services are treated within the supplier diversity function?
4. In your particular business line, do you have the opportunity to hire professional service firms as outside vendors? If so, in what capacity? Do you have to channel these contracts/purchasing agreements through the supplier diversity function?
5. When you have an available contract, how do you create a short list of possible firms? What sorts of information do you seek in your RFPs/RFQs?

6. Has your organization generally or your business unit specifically worked with minority professional service firms? If so, what has been the experience?
7. What do you perceive as the primary challenges facing minority professional service firms in accessing business opportunities with your organization? With your specific unit?
8. How can organizations such as yours create better partnerships with minority professional service firms?

## **SUMMARY OF FINDINGS**

### **CHALLENGES IN THE UTILIZATION OF MINORITY PROFESSIONAL SERVICE FIRMS**

#### **Professional Services Situated Outside of the Traditional Supply Chain**

- All executives indicated that professional service procurement situated outside of the traditional supply chain presented a challenge to integrating these purchases within the supplier diversity strategy.
- Only some of the executive purchases were routed through procurement channels, but spends were not tracked or measured.
- Executives are not given any guidelines about how to integrate supplier diversity principles into purchasing decisions. This allows them complete discretion with minority firm utilization.
- Executives are not required to engage services through a formal bidding process. This limits minority participation and strengthens long-standing relationships with current firms.
- One executive indicated that although the no-bid process is economically counterproductive, services procured outside of the supply chain are typically haphazard and conducted based on immediate need.

#### **Lack of Minority Professional Service Firms in Current Networks**

- All executives indicated that the utilization of professional service firms generally occurs within a well-established network of firms that have built relationships with the corporation over time.
- The established networks based on “immediate-buying habits” present a serious challenge to integrating minority professional service firms that are not part of the network.
- Minority professional service firms need to be integrated into the network far in advance to be noted on the buyers’ radar screen and considered a contender.
- Many minority firms are not generally integrated into the “established network” because the network consists of vendors with personal and professional relationships among the buying executives.

### **Perceived Lack of Capacity of Minority Professional Service Firms**

- The executives agreed that minority professional service firms lacked capacity in breadth of experience and depth of support to manage large corporate engagements.
- Two executives conceded that the perceived capacity issue has presented a challenge when they have identified minority firms with whom they would like to build relationships.
- When asked if the perception of limited capacity was based on factual/actual analysis, the response was mixed.

### **Increased Risk Associated with Using Minority Professional Service Firms**

- Four executives responded directly about their perceptions that hiring a minority firm for professional services involved greater risk.
- These perceived risks were based on alleged lack of capacity and experience among minority firms.
- One executive noted the contradiction inherent in this analysis that majority firms with the same capacity were considered less of a risk than their minority counterparts even though this contradiction was not explicitly recognized or articulated by many decision makers.

## **SUCCESSFUL STRATEGIES TO INCREASE UTILIZATION OF MINORITY PROFESSIONAL SERVICE FIRMS**

### **CEO Commitment**

- Clear and consistent commitment from the CEO in integrating the utilization of minority professional service firms is one of the best tools to create awareness and focus on this issue.
- Two of the executives in this study were in corporations whose CEOs had made this issue a strategic priority to overcome the challenges that had historically created an underutilization of minority professional service firms by executives with discretionary spending.
- One executive indicated that when corporations begin the process of creating metrics, collecting data and reporting that data, the issue takes on an importance that cannot be achieved in the absence of measurement strategies.
- Only one executive reported that this issue was integrated into the performance evaluation process for executives.
- Many of the executives reported that their corporations had focused on identifying appropriate minority professional service firms and begun the process of building business relationships with these firms.

The results of this independent study support the contents of this Position Paper. This study was conducted as a “Pilot” to substantiate the understanding about the underutilization of minority professional service firms.

## **ABOUT CHICAGO UNITED**

Chicago United is an advocacy organization that enriches the economic fabric of Chicago by building sustainable diversity in business leadership.

Chicago United works on its advocacy mission through its organization as a corporate member organization whose active participants are the most senior level officers of the corporations. Our membership is made up of both corporate CEOs and minority enterprise CEOs. These leaders are closest to the key issues in the business environment and recognize the value of diversity and inclusion in their own organizational health and success as well as the larger positive impact on the economic fabric of Chicago and our nation. As the thought leaders that develop the advocacy position and programs of Chicago United, our members focus on sustainable diversity in the business community as a channel through which they can contribute to and impact the local social and economic structures in which their businesses operate and thrive.

To have the greatest beneficial impact in the business environment, we take a holistic view in developing sustainable diversity. For that reason we focus on three key interrelated areas of multiracial leadership:

- Governance
- Management
- Business Partnerships

### **Programs and Products**

Chicago United develops programs designed to identify issues affecting race and business and to provide a platform for discussion and exploration. Some of our programs include the Race & Business Forums and the Changing Color of Leadership Conference and Bridge Awards.

Chicago United products are developed to measure and benchmark the progress of diversity in the Chicago business community. Some of those products include the Annual Corporate Diversity Profile and the Business Leaders of Color, which is published bi-annually.

### **Contact Us**

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**THE WORK OF CHICAGO UNITED IS MADE POSSIBLE BY THE  
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United Building Maintenance, Inc.  
University of Chicago Hospitals  
University of Illinois Chicago  
USG Corporation  
Washington, Pittman & McKeever  
Winston & Strawn

**APPENDIX B**  
**ACKNOWLEDGEMENTS**

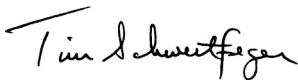
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Sincerely,



*Tim Schwertfeger*  
CEO  
Nuveen Investments  
Chairman, Executive Committee  
Chicago United



*Gloria Castillo*  
President  
Chicago United

## END NOTES

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- ii *United States Small Business Administration Web Site  
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