

Responsible Sourcing and Community Investment

GREG HAMEL

Greg Hamel serves as an Executive in Residence in the College of Business Administration at the University of Detroit Mercy. Prior to joining Detroit Mercy, he spent 35 years at Ford Motor Company, where he held a series of leadership roles culminating in responsibility for Ford's global indirect purchasing operations. In this role, he oversaw approximately \$25 billion in annual expenditures for non-production equipment and services. He also led the development of Ford's supply strategy and directed North American supplier diversity initiatives.

Should we judge a charity's performance by the makeup of its board, or a sports team's performance by the immutable characteristics of its coach? Most people would not, as those factors are poor substitutes for actual performance metrics like public benefits delivered or wins and losses. And yet, in the realm of measuring responsible sourcing as it relates to minority sourcing of materials and services by major corporations, we sometimes resort to the former over the latter. Diversity in sourcing and the expansion of economic opportunities for underserved communities are universally shared goals. This proposal argues that there is a better way to measure that effort than we do today, enabled by big data, analytics, and transparency.

Business investment and employment in underserved communities are arguably a better engine for

community revitalization than governmental action, as they don't require economic subtraction in the form of higher taxes to fund incentives like empowerment zones or tax abatements. It also avoids a poor history of the government picking winners and losers, and any corruption that (sometimes) accompanies it. Encouraging businesses to partner with and locate in underserved communities on their own accord is a worthy goal - especially considering the 1.5-1 to 5-1 secondary jobs multiplier depending on the industry.⁶

Aside from limited reach through executive orders (i.e., government contracting), a primary means of achieving these goals today is through influential NGOs that track, report, and reward major corporate sourcing to minority, women, and veteran-owned businesses. The largest of these industry-funded NGOs are the National Minority Supplier Development Council (NMSDC), the Women's Business Enterprise National Council (WBENC), and the Veteran-Owned Business Verification (VOB). They provide valuable coaching and support for minority-owned businesses. Still, they measure a company's commitment to the effort by the dollar value of sourcing from minority-owned, women-owned, and veteran-owned companies. There are also state-level organizations underneath these that utilize similar metrics. They have a rigorous certification program to confirm that a business is principally owned and operated by a qualifying minority leader. There are

⁶ Bivens, J. (2019, January 23). *Updated employment multipliers for the U.S. economy*. Economic Policy Institute.
<https://www.epi.org/publication/updated-employment-multipliers-for-the-u-s-economy/>

systems of carrots (industry awards and recognition) and sticks (pressure from 3rd-party or shareholder advocacy groups) employed to move toward the desired outcome: increased minority representation in the U.S. business value stream.

This infrastructure has been in place for years and has been generally successful in ensuring that businesses make minority sourcing part of their objectives. However, there are three issues with this present state:

While the certification process tries to be rigorous and resistant to gaming, like anything else, it is not foolproof. This former purchasing executive has experienced cases in which companies were certified that should not have been.

Because the emphasis is on minority-owned private businesses only, sourcing from publicly traded companies (28% of U.S. Companies with \$550M+ revenue)⁷ does not register a positive credit rating, regardless of how well those companies serve the community. The same is true for privately-owned companies without a single identifiable owner (e.g., private equity owned). As a result, a very large proportion of the business community has no incentive to stretch their investments for community benefit.

Minority ownership is being used as a surrogate for minority community benefit, when that trickle-down

⁷ iCapital. (2024, July 25). *iCapital market pulse: The case for private equity*. <https://icapital.com/insights/investment-market-strategy/icapital-market-pulse-the-case-for-private-equity/>

effect may or may not be true, and in fact is not measured. A minority-owned business is subject to the same economic factors as any other, so the physical and economic footprint of that business is, in many ways, dependent on logistics, land costs, taxes, utilities, and other factors rather than serving a community that looks like the owner. Today, sourcing a non-minority-owned supplier that invests heavily in an underserved community gets you no credit, while sourcing a minority-owned company that invests in a more affluent area does.

We could move to a more objective measure of community investment using existing corporate and government data. For example, we can geo-map the employment footprint of all of a corporation's facilities using publicly available data. We also have Census Bureau and other data on ethnicity and average household income by zip code. It would not be difficult to amalgamate this data and develop a 'responsible community sourcing score' for corporations based on how many of their facilities and employees are in underserved or lower-income areas. A company with a larger footprint in underserved areas would achieve a better score than one with a footprint in wealthier areas, possibly with a more homogeneous population. Such an index could also account for differences in 2nd-order job-creation profiles across facility types (e.g., office buildings versus manufacturing facilities). Such an index could serve as input to an overall corporate ESG score, encouraging companies to invest more in facilities in areas of greatest need as public awareness increases. And this would apply to all companies

regardless of ownership, so that the leverage would be much greater. This approach perhaps offers a better way of achieving the worthwhile goal – after all, what gets measured gets done, and the simpler and more reliable the measure, the more weight it carries.

This concept seems a reasonable theory at this point, but would need to be feasibility tested and reliability tested before becoming a legitimate tool used in such a public and consequential way. It is not to say that this is a replacement for much of what the present NGO ecosystem does, which is to provide important training and coaching resources to help diverse suppliers grow and thrive; it is only to change the metric for success that has the stated shortcomings. The goal of this essay is to air this concept in the hope that some entity, be it government, academic, or ESG professional, will take the next step of proof of concept and see if there is merit in pursuing it further. This index, or scoring method, could be a more useful lever to transition our employment footprint and the community benefits that come with it into areas of greatest need and to level the economic playing field over time.