INCREASING DIVERSITY & RACIAL EQUITY IN SUPPLIER NETWORKS

WASHINGTON EMPLOYERS FOR RACIAL EQUITY

SPOTLIGHT: MINORITY-OWNED BUSINESS CERTIFICATION

BLACK RESIDENTS COMPRISE 4% OF THE WASHINGTON STATE POPULATION, BUT BLACK-OWNED BUSINESSES MAKE UP ONLY 0.2% OF WASHINGTON'S TOTAL BUSINESS REVENUE. ACKNOWLEDGING THIS DISPARITY, WERE MEMBER COMPANIES SET A SHARED GOAL TO INCREASE INVESTMENT IN BLACK-OWNED BUSINESSES. MINORITY-OWNED BUSINESS CERTIFICATION IS ONE TOOL COMPANIES USE IN DIRECTING THAT SPEND.

THIS REPORT OUTLINES EXISTING AND EMERGING CERTIFICATION STRATEGIES SUCH AS THE PROMISING PRACTICE OF SELF-ATTESTATION. IT DETAILS HOW, AS PART OF A SUPPLIER DIVERSITY PROGRAM, PURCHASING FIRMS CAN USE CERTIFICATION PRACTICES TO INCREASE RELATIONSHIPS WITH BLACK-OWNED SUPPLIERS AND OFFER THEM BROADER ACCESS TO DEVELOPMENT TOOLS AND CONTRACTING OPPORTUNITIES.

In December 2020, a coalition of CEOs and senior private sector leaders came together to launch **Washington Employers for Racial Equity** (WERE), a statewide coalition committed to building a racially equitable future.

All WERE members start by signing the **Commitment to Progress**, committing their company to collective goals and the work necessary to advance racial equity in their workplaces and communities. This work focuses first on equity for Black Washingtonians, with the goal of equity for all.

WERE members examine the impacts of company and institutional processes, policies, and systems that influence the development and advancement of Black talent and Black-owned businesses in Washington state. WERE seeks to learn from Black-owned businesses and workers about the intentional actions that companies can take to accelerate equity and share examples of best and promising practices.

THE TRADITIONAL SUPPLIER CERTIFICATION PATHWAY: PUBLIC SECTOR CERTIFICATION

Minority business enterprise (MBE) certification programs are one of the most widely utilized supplier development tools.[1] At least 47 states, Washington D.C., and Puerto Rico have a MBE development program. The benefits vary by locality, but overall, certification facilitates access for those businesses to a network of customers, contacts, and resources.[2]

In Washington, the **Office of Minority and Women Business Enterprises** (OMWBE) manages a state certification process for minority- or women-owned companies that want to work with state agencies, local governments, school districts, and public universities. OMWBE also offers federal certification for projects funded by the U.S. Department of Transportation and other federal sectors.[3]

BENEFITS OF PUBLIC SECTOR CERTIFICATION

- **Opportunity and access.** Certification is a step toward opening opportunities for MBEs to pursue contracts and business relationships. Conversely, MBE certification programs provide corporate and institutional procurement teams access to a network of minority-owned suppliers.
- **Wraparound supports.** Certification programs can offer additional support services for MBEs, such as technical training on procurement policies, reporting, and compliance procedures.

CHALLENGES WITH PUBLIC SECTOR CERTIFICATION

- **Complex and time-consuming processes.** The certification process ranges from 10 days in some states to four months in others.[4] Acquiring public sector certification in Washington state takes about 45-90 days.[5] The MBE seeking certification may be required to provide significant documentation (i.e., months of bank statements) to prove minority ownership. Support for multi-lingual communities is not always available.[6]
- **Size limitations and growth challenges.** Government certification programs place limits on the net worth of the company, and some public sector programs also set limits on the net worth of the owner. This excludes medium and larger MBEs from supplier diversity programs and benefits. It implies that MBEs are, by definition, smaller and less capable than non-certified businesses. It also limits the ability of MBEs to scale and grow.
- **One-dimensional framework.** Certification is based on business ownership (requiring the business to be 51% owned by someone from a racial or ethnic minority or another historically marginalized group). This framework does not consider the diversity of the prospective supplier's workforce or its subcontractors, nor does it assume any additional work the prospective supplier may be doing to advance minority talent or support an ecosystem of thriving MBEs.

OMWBE CERTIFICATION ELIGIBILITY

TO QUALIFY FOR CERTIFICATION, PRIMARY OWNER(S) MUST OWN AT LEAST 51% OF THE COMPANY AND CONTROL THE BUSINESS. THE OWNER MUST BE BOTH SOCIALLY AND ECONOMICALLY DISADVANTAGED. IN GENERAL, THIS MEANS THAT THE OWNER MUST BE A WOMAN OR A MINORITY AND HAVE A PERSONAL NET WORTH UNDER $1.32 MILLION. FINALLY, THE BUSINESS MUST BE SMALL, AND NOT HAVE GROSS RECEIPTS OF MORE THAN $28.48 MILLION.

Office of Minority and Women's Business Enterprises

EXPLORING MBE CERTIFICATION PATHWAYS BEYOND THE PUBLIC SECTOR MODEL

IN WERE'S VIEW, AN EQUITABLE SUPPLIER CERTIFICATION SYSTEM WOULD SUPPORT A MEANINGFUL INCREASE IN BOTH THE NUMBER AND SIZE OF MINORITY-OWNED SUPPLIERS TO WASHINGTON-BASED FIRMS. IT WOULD YIELD TANGIBLE BUSINESS BENEFITS TO BLACK-OWNED COMPANIES WITH MINIMAL PAPERWORK BURDEN OR WAITING PERIODS. IT WOULD INCENTIVIZE SUPPLIERS AND PURCHASERS ALIKE TO INVEST IN BLACK AND OTHER COMMUNITIES OF COLOR ON MULTIPLE LEVELS—SUCH AS THROUGH DIRECT BUSINESS INVESTMENT, EMPLOYMENT, AND COMPENSATION DECISIONS, AND COMMUNITY-BASED INVESTMENT.

Throughout the first half of 2022, WERE members explored existing and emerging pathways for MBE certification beyond the public sector model. Some of the options are well-tested, while others are concepts aligned to our values that have not been implemented at scale. As a coalition, we hope that presenting these concepts will assist WERE members in their efforts to develop robust supplier diversity programs, foster new supplier-purchaser relationships, and increase racial equity in vendor and contracting decisions.

EXISTING PATHWAY:
UTILIZE THIRD-PARTY CERTIFICATION WITH SUBSIDIZED COSTS FOR MBES

Third-party certification via an established independent organization can be more efficient than public sector certification. It also can be a starting point for some companies in identifying and connecting with minority-owned suppliers. As with public sector certification, this practice has challenges. Third-party certification can be costly or even cost-prohibitive for MBEs, particularly for new or emerging enterprises. WERE members and other private sector companies and institutions considering third-party certification also should consider subsidizing certification costs incurred by the MBE. Doing so ensures that the pool of potential suppliers accessed via third-party certification is not limited due to the cost of entry.

PRACTICE IN ACTION IN WASHINGTON:

Northwest Mountain Minority Supplier Development Council (MSDC) is a 501c3 affiliate of the National Minority Supplier Development Council (NMSDC), the only national organization providing certification throughout the U.S. for minority-owned suppliers ready to do business.

Northwest Mountain
Minority Supplier
Development Council

The Northwest Mountain MSDC supports close to 400 certified MBEs. The council assures consistent certification of MBEs, requiring the business be for-profit and 51% minority-owned, operated, and controlled by a U.S. citizen. Northwest Mountain MSDC-certified MBEs range from newly launched to well-established organizations. Unlike public sector certification, there is no limit on the size of the MBE to be certified or the wealth of the business owner. There is a cost to the MBE to be certified, which purchasers should consider subsidizing as part of their supplier diversity strategy. In Washington state, Bank of America, Lowe's, and MUFG Union Bank sometimes provide scholarships that cover MBE's first-year certification fees.

Corporate members utilizing the MSDC certification pathway must have or be in the process of establishing a supplier diversity process that tracks opportunities, inclusion, engagement, and contract awards to perpetuate MBE growth. This means members must track their annual spending with certified MBEs, and take action to promote existing business opportunities for certified MBEs.

EMERGING PATHWAY:
ALLOW MBES TO "SELF-ATTEST" TO OWNERSHIP STATUS

Self-attestation is a practice in which the business self-certifies to the purchasing firm that they are Black-owned, women-owned, etc. Self-attestation can be relatively quick and typically includes signing a form or registration, which binds the company to follow existing requirements for all suppliers, including honest representation. There is little to no cost for the MBE. Like third-party certification, self-attestation enables purchasers to track their overall spending with MBEs and direct them toward additional programmatic benefits. Self-attestation is gaining momentum as a pathway for identifying and supporting a diverse supplier network.

PRACTICE IN ACTION:

Costco adopted self-attestation after discussions with suppliers that revealed third-party certification to be a barrier to minority-owned suppliers promoting their products to retailers. Costco chose self-attestation as part of its efforts to expand access to minority-owned suppliers, noting the minimal risk of misrepresentation of minority ownership status given that suppliers engage with buyers directly to discuss quality and performance standards. The use of this new process is evolving, and challenges remain in helping smaller suppliers navigate the demands of supplying large organizations.

PRACTICE IN ACTION:

Before 2021, Microsoft only accepted third-party certification for diverse-owned suppliers seeking to join their supplier diversity program. In reviewing their programs, Microsoft procurement leaders saw evidence that some self-identified diverse-owned suppliers were opting out of third-party certification. As a result, they were not included in the supplier diversity program, which offers supplier matchmaking, brand-building, process workshops, and mentorship opportunities.

To better engage these potential partners and reduce barriers to entry, Microsoft began allowing diverse-owned suppliers who were doing $1 million or less in business with the company to self-attest to their ownership status. The $1 million annual spend threshold for self-attestation aligns with other existing policy thresholds at Microsoft, making it relatively simple to implement.

The self-attestation pathway is streamlined and efficient. Suppliers who are 51% owned, operated, and controlled by a racial or ethnic minority, woman, veteran, a person with a disability, or LGBTQ+ person can upload a completed attestation form to Microsoft's supplier portal, and, upon submittal, the supplier's profile is designated as diverse, and they are automatically included in Microsoft's company-wide supplier diversity program. A supplier code of conduct link is included in the form and suppliers are reminded to renew their self-attestation annually.

Broadening options for certification is one initiative within Microsoft's company-wide program to improve racial equity in its supplier community. The company works intentionally to help diverse-owned suppliers—particularly Black-owned suppliers through the Racial Equity Initiative—grow their professional networks and gain visibility across the enterprise.

SELF-ATTESTATION PATHWAY BENEFITS:

- NO COST TO THE SUPPLIER AND SWIFT ENROLLMENT, WHICH INCREASES PROGRAM PARTICIPATION.
- IMPROVED EFFICIENCY AND RELATIONSHIP BUILDING OPPORTUNITIES FOR PURCHASERS

PRACTICE FOR FURTHER EXPLORATION: MEASURE SUPPLY CHAIN IMPACT WITHIN THE BLACK COMMUNITY MORE HOLISTICALLY

PROBLEM STATEMENT: OWNERSHIP IS ONLY ONE PART OF THE IMPACT A SUPPLIER CAN HAVE

Using certification to confirm minority business ownership of potential suppliers is one part of a supplier diversity strategy. It offers companies a way to ensure investment in racial and ethnic minority-owned companies and to diversify perspectives within their supply chain. Some companies are looking beyond ownership-based certification to make investments that grow minority-owned businesses and advance equity and diversity.

THE FUTURE IN ACTION: EXPAND THE DEFINITION OF SUPPLIER DIVERSITY BEYOND BUSINESS OWNERSHIP

WERE members have begun investigating how a private sector supplier certification process could evaluate the impact of supplier investments and support a broader range of actions that suppliers may take to support communities of color. For example, allowing companies to certify suppliers on a range of criteria would support businesses making a significant impact in advancing racial equity inside their workforces, networks, and communities.

> "COALITION MEMBERS HAVE DISCUSSED THE CHALLENGES ASSOCIATED WITH THE BINARY APPROACH TO CERTIFICATION AND THEY ARE INTERESTED IN TRIALING EFFORTS TO IMPROVE THIS PROCESS FOR SUPPLIERS. THIS COULD INCLUDE EXPANSION OF SUPPLIER DIVERSITY PROGRAMS TO INCLUDE SUPPLIERS SELF-ATTESTING TO THE DIVERSITY OF SENIOR LEADERSHIP AND STAFF, COMMUNITY ENGAGEMENT, AND EXISTING DIVERSITY PROGRAMS."
>
> – Dean Allen, CEO of McKinstry and co-chair of WERE Supplier Diversity Task Force

EVALUATION COMPONENTS COULD INCLUDE:

Multiple Metrics to Measure Impact

- **Ownership:** This is the current certification model measuring the percent ownership of a company (e.g., 51% of a company is Black-owned).
- **Leadership & Staff Diversity:** Assessing leadership and staff demographics within an organization (e.g., the majority of executives are Black, Indigenous, and people of color).
- **Procurement Activity/Investment:** Looking at how suppliers invest with subcontractors (e.g., a firm whose subcontractors are majority Black-owned).

Sliding Scale to Assess a Company's Performance

- Instead of measuring against one standard (e.g., 51% ownership), prospective suppliers could be assessed along a sliding scale or points-earned basis. This practice could reward progress made and incentivize companies to advance continually.

CERTIFICATION IS A TOOL; INCREASED INVESTMENT IN BLACK BUSINESSES IS THE GOAL

Certification is one tool to help companies increase investment in Black-owned businesses, but only if purchasing firms use it effectively and not in isolation. Certification should open the door to meaningful, measurable benefits for suppliers – more contracts, investment, and closer relationships with their purchasing partners. It should help purchasing companies hold themselves accountable to their investment goals and provide transparent progress tracking. It should not be used as a barrier to keep Black-owned businesses from opportunity or growth or as a way to shield those businesses from the primary supplier process.

As Black-owned businesses and other minority-owned suppliers put in the work to get certified or self-attest to business ownership, corporate purchasers and procurement teams also must work to build out supplier diversity programs and put real dollars behind these suppliers. Purchasing firms should be transparent about supplier diversity and business investment goals and hold themselves accountable. Working together, we can make a difference in Black- and other racial and ethnic minority-owned business participation and growth in Washington state, increasing opportunities for all our communities to thrive.

THE PURSUIT OF RACIAL EQUITY REMAINS URGENT

WERE focuses efforts where we can have the most impact—the workplace. Follow our efforts & download additional policy & practice resources at **EMPLOYERS4EQUITY.ORG/RESOURCES**.

SOURCES:

1. National Conference of State Legislatures, "State MBE Certification Programs," Feb. 2016.
2. Just Works, "THE MWBE Certificate: An Intro to the What, Why, and How," July 24, 2020.
3. Office of Minority and Women Business Enterprise, "Certification," accessed May 18, 2022.
4. National Conference of State Legislatures, "State MBE Certification Programs," Feb. 2016.
5. Office of Minority and Women Business Enterprise, "Certification FAQ & Fact Sheets," accessed May 18, 2022.
6. Latino Businesses in Oregon and MWBE Certifications, University of Oregon.