



# Supplier Diversity Is Evolving Amid a Challenging Political Environment

Recent court rulings limiting affirmative action and diversity, equity and inclusion (DEI) programs, alongside political polarization, are forcing organizations to reevaluate their supplier diversity strategies for impact and innovation. This report presents the findings of a survey and interviews with senior corporate supplier diversity professionals who shared their views on and strategies for coping with the changing political environment.

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- **Amid growing political challenges and recent US court rulings on affirmative action, scrutiny of supplier diversity programs will likely intensify.** The political and legal landscapes are, in some cases, re-shaping supplier diversity. The Supreme Court's decision against Harvard University's affirmative action admission policies opened doors for a potential reversal in supplier diversity programs designed to provide economic opportunity to minorities including Black, Brown, Native American, and Asian citizens. The case has already influenced supplier diversity programs. In March 2024 a federal judge in Texas ruled that the Minority Business Development Agency (MBDA) violated the Equal Protection Clause of the Constitution by presuming racial minorities are socially disadvantaged. Additionally, attorneys general of 13 states have cautioned Fortune 100 CEOs about "serious legal consequences" tied to race-based employment preferences and diversity policies.
- **Most survey respondents say they have not yet felt internal pressure to eliminate or alter their supplier diversity programs.** However, many say that they are considering changes to their programs and are increasingly being asked to ensure that their programs are on solid legal footing. As a result, supplier diversity professionals are focused on

quantifying the empirical benefits of their programs to all stakeholders and moving away from moral justifications such as “the right thing to do” reasoning. Demonstrating how a viable, sustainable, and diverse small business community drives economic growth and community well-being can mitigate future pressure on supplier diversity programs.

- **With challenges growing, companies and supplier diversity professionals should consider adopting a proactive approach and perform a program reset to insulate their firms from risk.** While growing legal and political changes have forced corporations to evaluate their programs, it also represents an opportunity to review and refine strategies, priorities, commitments, and communications. This will likely require adjusting the balance between appeasing external—and in some cases internal—groups that may be opposed to the supplier diversity program and those who are the beneficiaries of these programs.
- **When doing a program reset, companies need to address two major issues.** First, there is reputational risk: changes may affect how corporations are viewed by minority or historically under-utilized communities, potentially being seen as unfriendly or opposed to doing business with them. This perception can lead to reduced sales if these communities feel neglected or undervalued. Second, from a programmatic standpoint, there is the risk of diluting the effectiveness of such programs by making changes solely for legal or political compliance, turning their initiatives into symbolic gestures with reduced impact on the community.
- **When asked about their concerns regarding the future of supplier diversity programs, almost 50% of respondents cite multiple factors including vendor quality, scalability, innovation, stakeholder support, social and business shifts, and changing organizational priorities.** Just under 10% point to recent Supreme Court affirmative action decisions as the major factor. Other factors affecting the availability and readiness of diverse suppliers include increased consolidation in the business environment leading to fewer opportunities and evolving industry specifications. Regarding internal challenges, respondents cite the need for more active participation by business units, expanded department capacity and budgets, and more active engagement from other internal stakeholders.
- **Some companies are considering rebranding their supplier diversity programs while navigating a complex legal landscape.** This may involve renaming their programs to eliminate “trigger” words such as *diversity*, *equity*, and *minority*; and instead use terms such as *economic inclusion*, *supplier inclusion*, or *supplier relations* that better reflect the program’s role in business operations, its alignment with procurement, and the value delivered to local communities. Conversely, some practitioners believe the term “supplier diversity” has brand equity; doubling down on the name could help to unify the industry around the issue. However, it remains uncertain whether renaming programs would shield them from criticism since the perceptions of program beneficiaries are likely to outweigh any semantic changes.

## Supplier Diversity Timeline: Evolution Through Different Political Environments

Corporate supplier diversity programs (CSDPs) have evolved since they originated in the late 1960s from set-aside goals established by the federal government for large government contractors to today, when programs are largely voluntary, found in nearly every industry, and are based on return-on-investment calculations.

### 1969–1980: Compliance Era

In response to a wave of urban unrest, President Richard Nixon signs executive orders establishing the MBDA and outlines support for the National Minority Supplier Development Council (NMSDC).

The federal government establishes Offices of Small Disadvantaged Business Utilization (OSDBU) in each federal department and uses its buying power to redirect contracts to eligible minority firms

OSDBUs' goals focus on small, women-owned, HUBZone, and service-disabled businesses. Because of court challenges, references to Black or minority suppliers are excised.

Government allows OSDBU to enforce the achievement of goals by withholding federal funding to departments and payments to contractors until contracting goals were achieved.

### 1980–2005: Right Thing to Do Era

Corporations adopt federal compliance approach, focusing on diversity as "the right thing to do" and begin to develop internal supplier diversity programs.

The NMSDC becomes a private not-for-profit organization and shifts focus from the government to corporations, promoting supplier diversity as a social responsibility for companies.

Dedicated supplier diversity directors hired to facilitate procurement opportunities for diverse firms.

### 2000s–Present: Business Case Era

Economic slowdowns and competition lead to demand for economic justification of supplier diversity programs.

Consumer product companies have the easiest business case to make due to their large, diverse consumer markets.

Business-to-business companies face pressure to justify supplier diversity efforts,

emphasizing such efforts as providing a competitive advantage

### 2020–Present: Renewed Commitment Era

Social unrest prompts corporations to renew their commitment to supplier diversity, aligning it with environmental, social and governance efforts.

Formation of investment funds and grants targeting support for diverse businesses, particularly Black-owned enterprises facing disparities in the ability to secure venture capital funding to scale businesses.

Challenges in US courts and state legislatures persist regarding diversity and inclusion efforts, including supplier diversity programs.

## Meeting the Challenges: The Future of Supplier Diversity

### Supreme Court affirmative action cases

Following the *Students for Fair Admissions v. the President and Fellows of Harvard College* case, Students for Fair Admissions sent letters to the CEOs of some of America's largest companies cautioning them about potential lawsuits if they do not cease DEI and supplier diversity programs that, in their view, discriminate against non-minority employees and business owners. As a result, supplier diversity professionals are under pressure to demonstrate that their programs are not racially biased and are on strong legal footing.

### Corporate vulnerabilities

In some instances, court rulings have forced corporations to reevaluate their programs to ensure they align strongly with other impact initiatives and programs that impact their employees and customers. Any adjustment to their programs requires a balancing act between appeasing external and internal groups that may oppose these programs, and beneficiaries as well as the communities impacted. Often, the answer is not straight forward.

**Programmatically**, if companies are pressured to alter their programs to achieve legal or political neutrality, they risk diminishing their effectiveness and community impact, reducing them to symbolic gestures lacking real authority or influence.

**Reputationally**, changes can affect how corporations are perceived in minority or historically under-utilized communities by potentially labeling them as “unfriendly” or against doing business with certain groups. This perspective can impact sales if these groups choose not to patronize these corporations, feeling that they are not supported or seen as viable partners. It is a classic “damned if you do, damned if you don’t” scenario.

## Impact of globalization

Globalization poses both challenges and opportunities for corporate supplier diversity. The COVID-19 pandemic exacerbated these challenges, revealing vulnerabilities in global supply chains. The resulting shortages of essential supplies forced companies and governments to reassess their supply chain strategies, prioritizing security and resilience over just-in-time and low-cost approaches.

The pandemic-prompted shift toward building more robust local supply chains, particularly for essential goods and services, led to the passage of the US Innovation and Competition Act of 2021. The legislation allocated significant investments, including \$280 billion for technological advancements, \$39 billion in tax benefits for domestic chip manufacturing, \$11 billion for semiconductor research, and \$100 billion for various advanced technologies. These initiatives were aimed at reducing the US' dependence on global supply chains.

The impact of these investments on diverse businesses could be profound. However, the extent to which diverse businesses will be able to capitalize on these opportunities remains uncertain. As these initiatives unfold, major US industries are likely to experience lasting transformations driven by advancements in technology and the shift towards more resilient domestic supply chains.

## The Continued Relevance of Advocacy Groups

Advocacy groups such as the NMSDC have historically played a vital role in fostering corporate supplier diversity with various groups emerging to champion specific demographics: the Women's Business Enterprise National Council (WBENC) for women-owned businesses, the National Veteran Business Development Council and the National Veteran-owned Business Association for veteran-owned enterprises, the National LGBT Chamber of Commerce for LGBTQ businesses, and Disability:IN for disability-owned enterprises. These organizations have long served as the primary conduit linking diverse businesses seeking corporate partnerships and corporations seeking certified diverse suppliers.

However, as organizational priorities and public perceptions of diversity change the relevance and long-term viability of these groups, they are being challenged since they typically compete for the same corporate member dollars—a significant source of their revenue. Moreover, changing demographics and a generation less acquainted with the historical context of supplier diversity underscore the importance of articulating their value proposition. While these groups remain integral to the economic landscape for now, they face the imperative of reevaluating their value proposition and service offerings to corporations.

## Other business factors impacting supplier diversity

Another factor impacting supplier diversity is increased consolidation in the business environment creating fewer opportunities for diverse suppliers. Additionally, changing industry specifications have contributed to this challenging environment, impacting the availability and readiness of diverse suppliers.

According to the Census Bureau, more than 4.4 million new businesses were created in the US in 2020, which represents the highest total on record—a 24.3% increase from 2019. While the number of diverse businesses rose, they are still vastly underrepresented as business owners compared to their population in the US. Further, the majority of diverse businesses employ fewer than 20 people and are less likely to scale to \$100,000 in annual revenue. These factors make it even more challenging to find suppliers ready to respond to the increasingly varied and complex procurement needs of corporations.

## Corporate Supplier Diversity Responses to the Current Political Environment

### Renaming and rebranding supplier diversity

The term diversity can evoke strong emotions, particularly in discussions surrounding DEI initiatives, and can lead to backlash against anything bearing the diversity label. Currently, while more general DEI initiatives face the brunt of criticism, supplier diversity programs are also under scrutiny, albeit to a lesser extent. Despite their longstanding role within corporate structures, this backlash has prompted some to consider reevaluating their programs' naming convention.

Some supplier diversity professionals we spoke with suggested renaming their programs to avoid "trigger" words such as *diversity*, *equity*, and *minority*; opting instead for terms that better capture the comprehensive role of supplier diversity, its alignment with business and procurement, and its value to the broader business community. These alternatives include *economic inclusion*, *supplier inclusion*, and *supplier relations*. Conversely, others argue that the term "supplier diversity" holds significant brand equity and reinforcing its use can foster industry unity.

However, it remains uncertain whether renaming programs can shield them from criticism. Ultimately, perceptions of program beneficiaries may outweigh semantic changes, potentially rendering nomenclature debates inconsequential.

### Refocusing supplier diversity outcomes

Supplier diversity professionals are also redirecting their focus towards capacity building, intensifying efforts to enhance the readiness of diverse suppliers. They note that emphasizing economic impact enables them to craft a more compelling business narrative, reducing reliance on community relations or other altruistic justifications such as "the right thing to do" reasoning.



Quantifying the business impact through stronger suppliers can demonstrate how a robust and sustainable small business community benefits everyone—irrespective of race, gender, or political affiliation.

## Reducing and eliminating supplier diversity/pressure to make changes

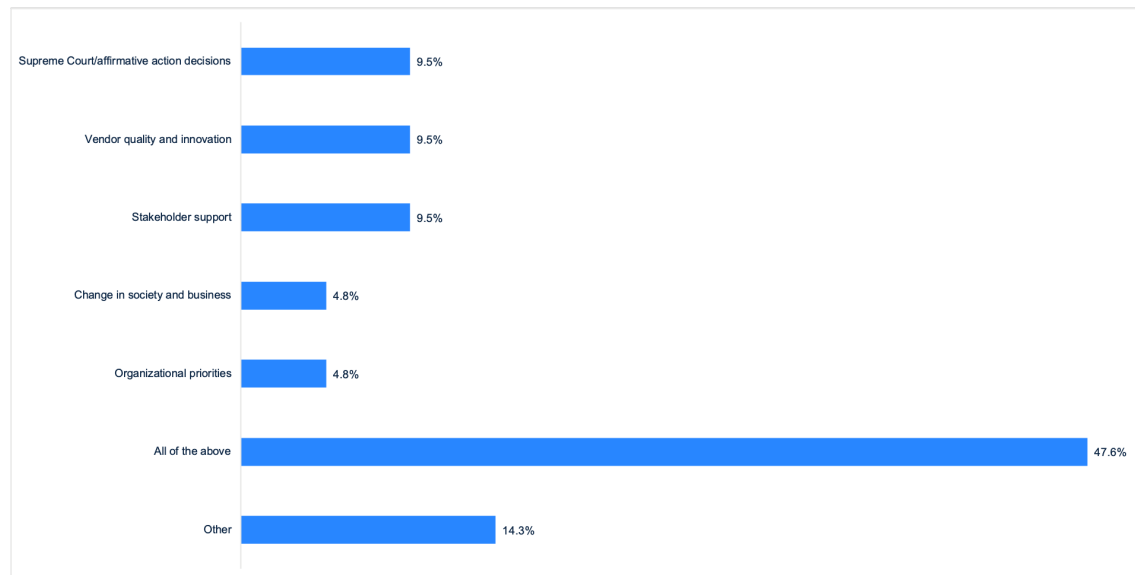
While legislative issues and their impacts on programs are top of mind and always at the forefront of any supplier diversity program, most respondents indicate they have not felt internal pressures to reduce or eliminate supplier diversity, despite the focus on the Supreme Court affirmative action decisions. However, many say they are considering changing and evolving their programs.

Interestingly, when asked about pressing concerns in regards to their supplier diversity programs, nearly 50% indicate it was not just one factor, but a number of factors collectively, that may influence the effectiveness of their programs and their ability to have the desired impact.

Figure 1

### Many factors are contributing to companies looking to diversify their supply chains

Q: What external forces do you think will impact supplier diversity at your organization?



Source: The Conference Board White Paper Survey Results, 2024.

## Recommendations to Mitigate this Changing Landscape

While we do not yet know the long-term effects or the outcome of this shift in the diversity landscape, below are actions corporations' supplier diversity professionals are taking to adjust and adapt their programs to this changing environment:

**Emphasizing location and localization.** One supplier diversity leader indicated an emphasis on location and a more localized, micro approach to supplier diversity tailors the team's efforts to respond to the needs of the local business community. Companies located in specific communities like public sector organizations (states, counties, and cities) have been recognized as having a right to target local taxpayers/residents for programs. For example, the City of Chicago can provide incentives to utilize Chicago-based diverse businesses in public contracting. *Prima facie*, location is independent of race. Thus, corporations pursuing supplier diversity may benefit from focusing their programs on specific locations.

**Educating the organization to gain support** Organizationally, many supplier diversity leaders indicated increased focus on professional development and industry knowledge, not just for their immediate supplier diversity teams but also for other internal stakeholders and departments.

**Emphasizing business acumen in the function and strategic alignment of the program.** One participant indicated supplier diversity professionals must have more business acumen and the ability to align supplier diversity strategy with the corporation's business objectives. Rather than retracting on diversity, corporations must continue to empower supplier diversity leaders because there is an enormous change that can happen when the human spirit is unlocked.

**Fostering ideation, innovation, and stressing impact.** Talk with other functions within the organization. Such an exchange perpetuates ideation, innovation, and impact—all of which are valued commodities in a corporate environment and move far beyond processes and transactions. Supplier diversity is life changing for those who embrace the work; and its effect has measurable, purposeful, and sustainable business results in the form of direct, indirect, and induced impact in local economies.

**Be aware that relationships will change.** Third-party business certification and support organizations will need to change how they interact with their corporate members and the diverse business community. One of the reasons for this change is the perceived decline in significance of formal certification. When non-governmental organizations such as the NMSDC and the WBENC started certifying businesses, there was not an overwhelming amount of information available about companies that was accessible. As recently as 1980, most diverse supplier companies did not have websites that described who owned the company, where they were located, what goods and services they provided, etc. Now, this and other information is easily accessible, decreasing the value of formal certification processes. Members of The Conference Board noted that non-governmental organizations will need to add to or refocus their activities to continue being relevant."

## Conclusion

Since its inception, supplier diversity has seen and weathered several shifts, constantly evolving to demonstrate its relevancy as a path to economic opportunity. As the questioning of formal diversity programs continue with the recent US Supreme Court ruling and several state



agencies and institutions such as the University of Florida, various Texas universities, and, most recently, the University of North Carolina System legislatively doing away with DEI programs, it is likely that it is only a matter of time before the trickle-down effect impacts supplier diversity. The question we need to ask is, “What would be the impact on communities and a corporation’s bottom line if supplier diversity is impacted?”

The genesis of supplier diversity is to increase access to procurement opportunities for diverse and historically marginalized businesses. And the bottom line, literally and figuratively, is that supplier diversity has proven to be an effective opportunity equalizer and a driver of entrepreneurship and economic growth, not only in local communities but also on a national scale. The potential impact of losing supplier diversity on society would be costly, both economically and socially.

Many of the senior supplier diversity leaders interviewed indicated they view supplier diversity as much more than a conduit or connector. Their approach to supplier diversity is as a partner and an equalizer to persistent economic disparities that exist in communities across the country.

Corporations, which are not mandated to have supplier diversity programs, have nonetheless reaped significant benefits from these relationships and have seen the positive impact on their business through increased competitiveness, access to innovation, market adaptability, and flexibility and continued goodwill. It is this mutual benefit that underscores the importance of an ongoing commitment to supplier diversity and the broader economic ecosystems in which they operate.

## About This Report

This report presents key findings and insights from original research by The Conference Board that focuses on the political impacts on supplier diversity. The insights stem from data from a number of sources between October 2022 and March 2023, including quantitative surveys and anecdotal interviews of senior supplier diversity professionals from leading corporations across a variety of sectors, industry subject matter experts, and various public sources.

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