

The Synergy between Minority Business Enterprises and Corporations: A Proposed Supplier Diversity Relationship Framework

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Abstract - Relationships between businesses as customers and suppliers have been an area of research for a long time [12], [14]. Some of the interacting business relation entities include corporations, small businesses, consumers and minority business enterprises. Through the years the growth of Minority Business Enterprise (MBE) movement in the United States can be traced from the 1970's when President Nixon opened the first Office of the Minority Business Enterprise. Today Minority Business Enterprises in the United States are classified as businesses that are owned and controlled by individuals identified as minorities [24], [28]. Growth is evident in underrepresented fields such as construction, industries and wholesale [2]. This growth has led to stronger relationships between more corporate partners and MBEs [24]. Through the National Minority Supply Development Council Network (NMSDC), MBEs are connected to 3,500 corporate members including America's top publicly-owned, privately-owned and foreign-owned companies, as well as universities, hospitals and other buying institutions [24]. To sustain this growth, the relationships between the corporate member participants and the MBEs require cultivation. Yet, no documented framework describes the relationships which are crucial to this growth. Therefore, this paper proposes to enhance the discussion on MBE-Corporation relationship. The paper explores the importance of MBE-Corporation relationship in expanding MBEs. In addition the paper develops an initial conceptual MBE-Corporation relationship framework that explains the different conceptual levels that lead to attaining and maintaining such a relationship.

Keywords - Minority business enterprises, Supplier relationship, Supplier diversity, Supplier networks, Buyer Relationship

1. Introduction

The MBE's relationship with corporate business is important for both minority businesses and the corporation. Between the years of 2002 to 2007, the number of minority businesses increased by 45.6%, creating 5.8 million new businesses, and thus increasing the economic output by one

trillion dollars [32]. In addition, by 2011, corporations and government entities awarded ten billion dollars' worth of contracts to minority businesses [23]. With the business interaction between MBEs and corporations increasing, a stronger connection between the two creates a multiplier effect that results in a winning relationship [18]. MBEs activities affect not only the owner of the business but go further to create job opportunities for the community. Four million minority businesses are estimated to contribute over 4 million jobs and \$660 billion in revenue [4]. As these businesses grow, they are empowered to hire more workers and in turn, to provide a greater benefit to society. The minority population is also expected to grow to almost 34% of the US population. The data further projects that minorities will be the majority by 2050 [33]. Therefore, the corporations that are comfortable with cultural diversity and change will have an edge in terms of how they strategically respond to their customers. Therefore, they will be the ones that survive [4]. The role of MBE's and the subsequent knowledge and experience to corporate America emanating from the MBE-Corporation relationship creates a competitively effective and inclusive business environment on a global scale.

This paper develops relationships and provides a conceptual framework of ties that guide the interaction between MBEs and corporations. Guided by the Activity-Resource-Actor framework, the focus is to integrate the 'Flying High, Landing Soft' framework that was developed with an aim to empower small, minority and women-owned businesses with resources in the emerging markets [5] with the common variables of autonomy in a franchise relationship that include operation activity, communication and performance [29]. The importance of the relationship between the MBEs and corporations is on the rise [28], suggesting the need for a framework expounding the relational links of supply transaction between the two members. The research conceptualizes the framework in three areas: entry relation, partnership relation and advanced relation. The entry relationship in this study is the initial contact that an MBE has with a corporation. This involves an MBE's preparation before the supply relationship is

established as well as programs that jumpstart this relationship. The partnership relationship refers to the formal interaction and connection between the MBE and the corporation. This relationship is built on relationship contracts, communication between parties, supply share control and the success level of the MBE supplier. The final relationship level is the advanced level that refers to the level in which the MBE supplier is recognized by the corporation as part of an important strategic supplier. This is the point in which an MBE supplier becomes a part of the “old-boy’s” network due to the strong relationship with the buyer corporation.

2. Business Relationship Theoretical Framework

Different models have been used to describe the interaction between businesses. This study looks at the business to business (B2B) relationship where buyers are the corporation while sellers are the MBEs using the Activity-Resource-Actor framework (ARA). Relationships between businesses matter as both the supplier and the buyer business seek to lower their costs and also find innovative ways to accelerate their growth [18], [19]. The significance of these relationships stems from business to business marketing. Research conducted by IMP (Industrial Market and Purchasing group) in the 80’s shows evidence of robust and continuous relationships between businesses built on customer-supplier relationships in the market [3]. The IMP framework highlights that interaction between businesses involves people and resources and as a result, potential benefits are achieved through possible supplier-customer relations [3]. A specific example can be a MBE supplier of stationary to a major corporation (e.g., Exxon Mobile). Such a relationship may involve millions of dollars of transactions between the entities. However, this interaction is complex and needs to be defined in terms of content and function [19], [27]. Such business relationship complexities and their expected consequences are expounded by the ARA framework [14].

The ARA framework provides three layers that are important in understanding business relationships. First, business interactions require an activity link. That is, they are connected in how they carry out their supplier and buyer production, logistics, administration, deliveries and information handling [18], [19]. Second, organizations have resource ties. Businesses connect to achieve cost efficiencies by sharing tangible resources, such as physical items or plant equipment, and intangible resources, such as knowledge, through created interfaces [9]. Finally, business relationships can be identified through actor bonds. This involves the mutual commitment, trust, appreciation and influence on each other [19], [27]. Through actor bonds, businesses coordinate better activity links and also resource ties, which affect the relationship strength as well as strategic learning [10]. The three layers are interdependent and one layer can stimulate the development of another. Using this framework, this study conceptualizes a model on how relationships between MBE’s and corporations permeate through the actor bond. By developing supplier

diversity programs that allow activity links (buying and delivery of products) and resource ties (market knowledge sharing), the ties between the MBE and the corporation develop to one of commitment, trust, appreciation and influence on each other. Research shows that occurrence in one relationship can have a ripple effect in the indirectly connected relationships, in the businesses that are part of the relationship and in the relationship itself [11]. Therefore, empowering MBE’s suppliers to develop relationships with corporations may result in success stories that can evoke ripple effects to other aspiring businesses or businesses with which the MBE has relationships. This study creates a path that defines the relationship levels (entry, partnership and advanced) that results in bonds and consequently successful business ties [11]. This path is significant in that it provides the foundation for the design of a study to test the relationships proposed in the MBE-Corporation model. Findings can assist researchers and leaders in organizations as they pursue the aspect of minority supplier diversity. The relationship starts from contact through different organizations such as NMSDC (Entry Level Relationship), and progresses to partnership through the activity link between the MBE and corporation (Partnership Level Relationship), and then to bonding into formidable suppliers (Advanced Level Relationship).

3. Entry Level Relation

Ability to connect to a corporate buyer for an MBE is crucial in the process of business growth. One path in which small scale businesses are developed is through the supplier diversity programs. The supplier diversity programs are enhanced through organizations that support supplier diversity initiatives. Companies such as Exxon Mobile, AT&T, Ford and Chevron have established diversity programs that seek to ensure equal access to purchasing opportunities for diverse suppliers. In addition, an organization such as the National Minority Supplier Development Council that was established in 1972 facilitates business relationships for MBEs by connecting them to corporations, thus increasing their business procurement opportunities. Supplier diversity is an initiative that aims to increase the number of minority owned businesses that supply goods and services to both public and private sector organizations, either directly or indirectly through other enterprises [28]. Some of the challenges that minority suppliers experience include lack of capability to deliver products of high-quality, low-cost, and high-consistency which the corporate buyers need [5], [6]. Moreover, few minority suppliers have the ability to participate in the emerging markets opportunities [5], [6]. As a result of these challenges, MBEs that cannot fulfill supply requirements drop out of this critical supply-entry relationship.

To overcome some of these challenges, a program curriculum ‘Flying High, Landing Soft,’ was developed with the aim to empower small, minority and women-owned businesses with resources in the emerging markets (flying

high) and to develop a five-step “landing soft” curriculum to enable capable minority suppliers to participate in the emerging markets opportunities [5]. Using Chen’s [5] flying high and landing soft curriculum framework that empowers MBEs, the flying high five level course module that gives the tools to MBEs to be reliable and sustainable suppliers of corporations becomes the first step for the entry relationship. The flying high curriculum consists of three elements. The first was the innovative Mobile Classroom approach, originally developed by Louisiana Business & Technology Center at Louisiana State University with sponsorship from Shell [5]. The purpose was to give vital business counseling to growing MBEs as they expand. The second element was an opportunity to create corporate buyer relationships and frequent collaborative engagements with Supplier Diversity Communities. The third element was to cultivate success storytellers of entrepreneurship in each of the five levels of supplier diversity through networking, team building, and coaching [5]. Through success stories more minorities are encouraged to start business and also existing MBEs pursue more opportunities due to such stories. Pursuing such opportunities allows more business and also an increase in entry relationships between new MBEs and corporations. To achieve the flying high status an MBE has to also go through five levels: supplier diversity awareness through Mobile classes; supplier diversity certification; resource pooling and leveraging to win supplier diversity projects; leveraging for advancing the supplier diversity program and global supply chains and opportunities for MBEs [5]. While the flying high curriculum elaborates ways in which to prepare MBEs for the supply opportunity relationships, Chen [5] also describes the landing soft curriculum that helps MBEs attain the initial supply relationship opportunity connection.

The landing soft curriculum also consists of three basic elements: First there is a need to create Soft Landing programs (services) through organizations such as NMSDC, Women and Minority Business Enterprise and National Minority Business Council. These organizations help MBEs land softly as they venture to create supply relationships by connecting them to corporations key decision makers and also providing services of revenue generation; secondly MBEs have to go through the Five ‘landing soft steps’ noted below and third ensuring that successful MBEs tell their story on the entrepreneurship journey in each of the five steps of soft landing through networking, team building, and coaching [5]. The five soft landing steps include, 1) developing a social networking opportunities with key decision makers in corporations; 2) developing a social media platform for further networking; 3) developing MBE-corporate owner network mobility by having them visit with decision makers; 4) assisting MBE owners to develop sound business plans of revenue generation into functioning business entities and finally 5) working with other supplier diversity clients to build their connections and business [5]. The flying high landing soft program therefore prepares MBEs and supports them as they embark on the entry relationship with corporations.

Apart from the flying high landing soft program assisting MBEs, corporations need to evaluate their supplier diversity programs and discern areas in which they would like to improve so as to strengthen their relationships with MBEs. Using Moore’s [20] five level standards (level’s 0-5) corporations should weigh their strengths (e.g. Online registration tools), weaknesses (e.g. lack of diversity suppliers), opportunities (e.g. Increasing budget and expanding the diversity supply job to a full-time position) and expected threats (e.g. Precarious outlook in challenging economy). Strengths include what tangible action the organization is doing to promote supplier diversity and as a result their relationship; weaknesses are the areas that the organization may have overlooked that are necessary in supply diversity relationship success; opportunities are areas in the initial relationship that the corporation has the capability and room for improvement and threats include overwhelming circumstances that may impede the supply diversity program that the organization has little control [20]. Evaluation of their programs’ strengths and weaknesses creates corporations ‘flying high’ standards while implementation of the opportunities and preparing for threats creates a ‘landing softly’ environment for the diverse suppliers.

The flying high and landing soft framework allows the MBEs to prepare (Fly High) as well as connect (Land Soft) for entry relationships with corporations by training, teaching as well as creating initial relationship contact. On the other hand Moore’s [20] five level standard allows a self-reflection on the part of the corporation to enhance diverse supply relationships. With the challenges facing MBEs that stem from low capacity and resources, the flying high landing soft framework provides a pathway as well as necessary resources that push them to the next level. Therefore, using the entry relationship analogy, an MBEs initial contact and information gathering on how to connect to corporate suppliers is established through the flying high and landing soft program.

Proposition 1: For MBE participants in the flying high landing soft program, the greater their participation, the stronger the success to their initial relationship ties with corporations.

Proposition 2: For corporate participants in Moore’s five level standards program, the greater their participation, the greater the success to their initial relationship ties with MBE suppliers.

Proposition 3: Corporate internal supplier diversity evaluations are positively related to a stronger MBE-Corporation initial relationship.

4. Partnership Level Relation

The process interaction between two businesses affects the relationship dynamics for the parties involved as well as

their business network [19], [27]. Formal relationships such as contracts define the relationship boundaries of interactions between businesses even though they can be altered depending on unforeseen market conditions [1]. Using the franchise autonomy relationship characteristics, the study highlights the formal ties (Partnership) that exists between MBEs and Corporations. Unlike the franchise relationship that has a dependency relationship analogy between the franchisor and franchisee [29], this study looks at MBEs and corporations as independent entities that are connected through the supply process. Similar to the franchise relationship, the partnership level relationship conceptualizes that the process activity links that formally unite the MBE and Corporation affects the operation, communication and performance relations.

Operational activity between Corporation and the MBEs develops as their relationship moves from the entry level to one built on trust [10]. Just like a regular business to business relation, an initial contract on how both parties would like the relationship to be partnered is a key part of their operation interaction [29]. However, such a contract is an ineffective way of dealing with uncertainty, conflict or crises in relationships [11]. To enhance operation capability, more so for the MBEs, who the suppliers are in this case, corporations can seek to improve their core competence by offering advice on areas that need improvement. Where core competences in this case span individual business ability to perform distinctive activities, these activities constitute organizational routines and processes such as quality and knowledge acquisition [31]. Improving core competence involves the corporation assessing which operations an MBE supplies and how they can use diversity related programs to bring them to standard. Partnering with organizations such as the National Minority Supplier Development Council, corporations can improve the operational standards of MBEs by having them reach the certification and compliance levels. Such operational guidance positively affects the activity links in the production, logistics, administration, deliveries and information handling [19] of the MBEs.

Communication has been identified as the basic tenet for a harmonious relationship between a buyer and a seller [22]. Communication between a supplier (MBE) and the buyer (corporation) are based on perception of the relationship [25]. How the supplier or buyer views the relationship depends on how easily and effectively they communicate issues that are routine, operational, or innovative in nature [21]. Corporations and MBEs can use different forms of communication, for example through affiliate supplier diversity programs and directly (e.g. using face to face meetings, emails or telephone). Communication levels also depend on the type of existing cooperation. High level cooperation may increase frequency of communication as compared to low level cooperation [25]. Therefore, for an MBE-Corporation relationship to grow in the partnership level the study proposes a reasonable level of communication based on feedback and routine operation to

encourage improvement. Nevertheless we would expect frequency of communication to be decided by both partners.

Performance in a supplier-buyer relationship is pegged on how the supplier achieves the target buyer's goals and also the supplier's level of reliability, cooperation and competence [15]. Even though certain guidelines are articulated by the buyer and attainment of these guidelines represents success, performance is also an ambiguous entity based on the perception of the buyer and the seller [25]. If goods are delivered on time and in the right condition, it can be referenced as a successful performance. On the other hand, if the goods are delivered late and in poor condition it is an unsuccessful performance. Therefore, for performance relationships to improve MBE suppliers are obligated to meet the supply standards of corporations. As a result of the small size and capability of some of the minority businesses, corporations enlist organizations such as the NMSDC to assist in certifying MBE's to a level that they can perform to set corporation standards. With high performance from a supplier MBE, the MBE-Corporation relationship improves and consequently the partnership level relationship solidifies.

The partnership level relationship encompasses the relational contractual activities that an MBE supplier requires to sustain the interaction with corporations. Having a high level operation unit that is integrated with the buyer, plus open lines of communication and feedback, and standard-reaching performance levels, creates a relational bond that furthers relational integration between MBEs and corporations.

Proposition 4: High mutual operational activity, communication and performance between the MBE and Corporation are positively related to a stronger partnership relational tie.

5. Advanced Level Relation

Businesses seek to create closer relationships with their suppliers. They also seek to build bridges with their trusted suppliers by combining activities and resources and hence creating efficient supply routes. The first entry level part of the study's relationship process as described seeks to create interaction that builds connection between MBE and suppliers while the second partnership level encourages transforming processes between the parties to develop the business relationships. The advanced level harbors the characteristics of actor bonds that involve mutual commitment, trust, appreciation and influence [19], [27]. Business interaction and relationship building takes time and transforms to that of which businesses interlock in behavior fueled by the trust between both parties. How resources and activities are shared and utilized between a supplier and buyer depends on the time and outcome of their interaction [16]. The advanced stage level represents the bond consummation between the MBE-Corporation relationships, and as a result, an MBE can join the "old-boy's" supply

network. This relationship is long term in nature and has features such as negotiating power, formal and informal communication, development of norms and standards of conduct, and so on [7], [12], [13].

In the advanced stage, the MBEs, as the suppliers, are able to perform at high standards set by the buyer, allowing them to have leverage during contract consideration and negotiation. The buyer-supply negotiation usually involves reviewing, planning, and analyzing contracts to achieve acceptable terms and conditions in the agreement [8]. Most negotiations have a give and take between the parties. Therefore, for an MBE to be at a good negotiating platform, they have to possess a performance-driven relationship as mentioned in the partnership relationship. This negotiation therefore, is based not only on the price of the contract but also on the quality of product, delivery and other relational factors such as communication [30]. Formal and informal communication is developed in the partnership stage. Open and feedback based interaction between the supplier and buyer plays a role regarding the relationship continuity and also influences positively service performance [26]. This allows growth in the relationship and further improves the commitment and trust. Finally, the advanced stage creates a

relationship bond that allows the buyer and supplier to develop standards and norms based on their continuously strong interaction.

Through feedback and understanding each other's processes, the MBE can create its own standards to ensure the best product is delivered. Moreover, the corporation is able to tailor its processes and norms with an understanding of the supplier's activities. The advanced stage therefore is conceptualized as the top level in the relationship link between the MBE and corporations. This stage solidifies the interaction between the parties and creates a high reputation for the MBE which triggers a multiplier business effect where other corporations may seek their business.

Proposition 5: Strong actor bond characteristics (e.g. commitment, trust, appreciation and influence) are positively related to advancing MBE-Corporation relationships.

Figure 1 below depicts the proposed relationships among the constructs being explored. It is a conceptual model that illustrates the connection between the different stages of the MBE-Corporation relationship.

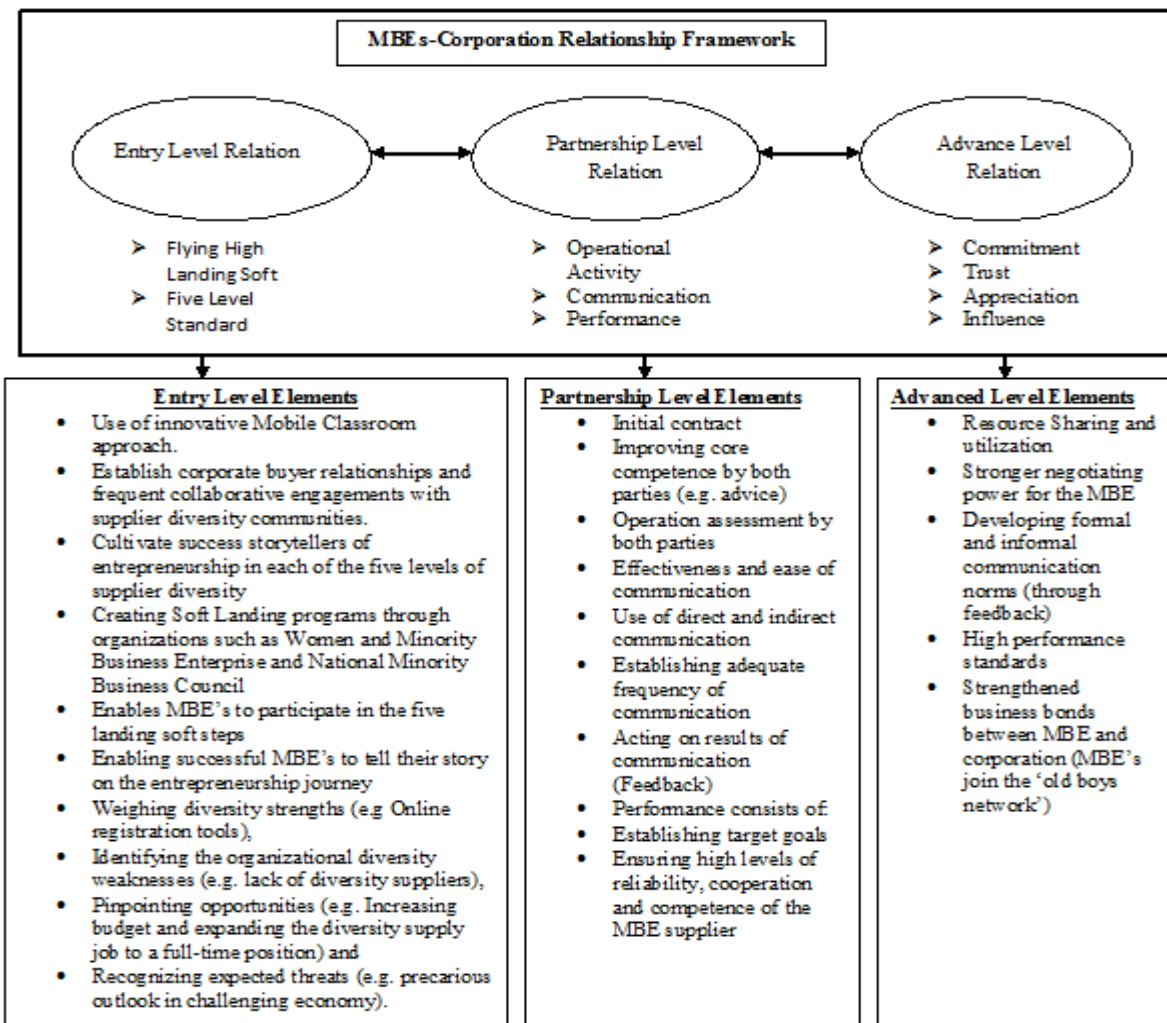


Figure 1. Conceptual model

6. Conclusion and Discussion

The relationship analogy research between MBEs and corporations is limited. This paper makes an important contribution by presenting an initial relationship framework that connects effective interactions between MBEs and Corporations. Using the flying high and landing soft framework and business features that describe the franchisee-franchisee relationship, the study's framework generates a three step relationship connection based on entry, partnership and advanced level relation. The entry level relationship highlights the basic need for connection to corporate markets for MBEs. In addition, the partnership level articulates how the relationship grows with interaction in activities between the MBEs and Corporation. Finally, the advanced level analyzes a level of trust and commitment built between the MBE and corporations. The study applies the supplier-buyer literature to the model. Using this literature, the paper attempts to bring synergy between MBEs and corporations and how that is attained and maintained.

From a theoretical perspective, the paper offers a contribution to the buyer-supplier relationship literature by focusing on minority business relationships. Existing MBE-Corporation relationship literature assumes that MBEs are capable and ready to take advantage of the opportunities available through the supplier development programs. Unfortunately, this may not be the case because a large number of minority businesses have problems accessing capital, inability to attract qualified talent to run their businesses, and minority suppliers' are relatively small size, which may lead to over-reliance on large customer firms [17]. Therefore, a more detailed empirical analysis of the framework in the future would not only contribute to a future Buyer-supplier theory endeavor but also identify the supply ready MBE's that can sustain the relationship levels described.

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