



# Supplier Diversity: Creating a Framework for Success

## California's General Order 156



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Supplier Diversity has moved from a social justice program to a business imperative for participating California companies. This paper highlights some of the key steps in the transformation, explains why such a policy exists, and discusses the California Public Utilities Commission's (CPUC) role in encouraging supplier diversity from its regulated companies. This paper also describes best practices in a private and public partnership working collaboratively on Supplier Diversity Program implementation and management. Lastly, it is intended to serve as an example for those agencies and corporations who are looking to implement a proven model.

### **GO156 – Transformation from Social Justice to Business Imperative**

General Order 156 (GO156) is a set of rules governing the development of programs to increase participation of women, minority, and disabled veteran business enterprises in procurement of contracts from participating companies. There are many diversity programs and most companies have their own diversity policies, but what distinguishes the companies participating in the GO156 program is that they all have a common platform. GO156 allows these participating companies to report their performance based on a consistent set of guidelines as well as setting a consistent set of goals. Other programs exist on an individual basis without a platform to gauge performance. GO156 is the stage that brings all the participants together. It's the main reason why the participating companies in California have transformed their own supply chain and diversity programs from goodwill to good business.

More than twenty years ago, the California legislature enacted a series of statutes to encourage supplier diversity. Then the CPUC created GO156 to encourage a fair proportion of total utility contracts and subcontracts for products and services to be awarded to women, minority, and disabled veteran business enterprises. The purposes are to:

- a) Encourage greater economic opportunity for women, minority, and disabled veteran business enterprises (WMDVBE);
- b) Promote competition among regulated public utility suppliers to enhance economic efficiency in the procurement of electrical, gas, and telephone corporations' contracts; and
- c) Clarify and expand the program for the utilities' procurement of products and services from diverse enterprises.

In GO156, the CPUC established voluntary procurement goals for each utility of 5 percent from woman-owned, 15 percent from minority owned, and 1.5 percent for disabled veteran-owned business enterprises, equaling 21.5 percent of total procurement. There are about 30 California utilities and telecommunication companies participating in this program. GO156 also established a Clearinghouse to conduct a certification process to ensure the integrity of the program. The Clearinghouse certifies minority owned and women owned businesses that establish a minimum of 51 percent ownership and control of their business. The certification must be renewed every three years to ensure that the majority ownership and control is maintained with the business. The Clearinghouse maintains a database of the certified suppliers. The disabled veteran certification is established through the California Department of General Services (DGS) and periodically the Clearinghouse downloads the data from DGS and compiles all diverse suppliers into the Clearinghouse database. This database is then used by the 30 participating companies to find suppliers that meet their specific needs. The reporting requirements to meet the 21.5 percent procurement goal rely on a supplier database that maintains the intent of GO156 by containing only those suppliers that meet the definition of a minority or woman owned business by having at least a majority (51%) ownership and control of the business. Currently, there are over 6,000 diverse suppliers in the database available to conduct

business with the participating companies. As a comparison, a national certification agency covering all 50 States has about 15,000 certified suppliers.

The utilities report annually on their procurement purchases from diverse suppliers, and their companies' progress in meeting the procurement goals. On September 1<sup>st</sup> of each year, the CPUC files an annual report with the Legislature detailing the progress by each utility towards implementing the policies. The report also contains information about aspects of the individual utilities' programs which contributed to their successes and recommendations for improvement. There is also an annual CPUC hearing where the leadership of the major participating companies speak about their respective company's performance and future plans to take advantage of the diverse supply base; the hearing is led by the CPUC's five Commissioners and invited California legislature members.

In the most recent CPUC [report to the legislature](#), utility spending on WMDVBE procurement increased from \$3.47 billion in 2008 to \$4.27 billion in 2009, an increase of 23.05 percent. There was also an increase as a percentage of total utility procurement; amounts from WMDVBE firms increased from 13.19 percent in 2008 to 16.72 percent in 2009. The table below shows a breakdown of the total WMDVBE procurement spending by minority owned (MBE), women owned (WBE), and disabled veteran owned (DVBE) businesses:

Category	Procurement Amount	Percentage Achieved	Goal
MBE	\$2.80 billion	10.97%	15.0%
WBE	\$1.34 billion	5.24%	5.0%
DVBE	\$132 million	0.52%	1.5%

The second table illustrates the performance of our major energy utilities and telecommunication companies.

Utility	Total Procurement	WMDVBE Procurement	Percent
AT&T California	\$2,156,383,641	\$750,089,752	34.78%
PG&E	\$3,630,251,430	\$928,412,652	25.57%
Edison	\$3,089,488,944	\$729,506,594	23.60%
SoCalGas	\$585,032,944	\$202,017,398	34.53%
SDG&E	\$818,384,652	\$237,955,293	29.08%
Verizon California	\$464,408,410	\$169,399,633	36.48%

The sheer dollar figures are impressive, but what's more telling are the examples of innovation and process improvements that have come about as a result of the inclusion of diverse suppliers in the utility supply chain. For example, a diverse telecom supplier created an innovative costing model for providing call center services; it created an incentive based pricing structure that charged the company only when it made a sale to a consumer. In 2009, an energy utility held its annual supplier conference and more than 70 suppliers attended. Three of the top six awards went to diverse suppliers. In fact, the top award was received by a woman-owned business that was recognized for consistently high levels of customer service, focus on workplace safety, and environmental leadership. In addition, this vendor also increased its year-over-year subcontracting with other WMDVBEs. Two other minority owned firms were recognized for strategic

thinking, high quality products/services, cost reduction and ongoing process improvements. Additionally, these suppliers exhibited leadership by mentoring and developing diverse suppliers in their supply chain. The annual reports to the CPUC also cover the qualitative aspects of the utility programs; describing improved quality, cycle time, and innovation diverse businesses bring to corporate supply chains. Job creation is also a natural by-product of a supplier diversity program; when diverse businesses grow, employment often follows.

### **Supplier Diversity as a Policy Initiative**

The policy of supplier diversity originated not as a front for affirmative action, but rather a program about fairness and inclusion. It is important to note that this policy is not about set asides or preferences, but rather about opportunities and how a diverse workforce and diverse procurement investment can help companies venture into new markets and increase shareholder value. The CPUC's role in this area is in conjunction with one of its main regulatory goals: ensuring that consumers receive utility rates that are reasonable. The CPUC regulates utility services, works to stimulate innovation, and promotes competitive markets, where possible. Ultimately, the policy is and has been focused on managing California utility costs through increased competition and inclusion in the utility supply chains.

The CPUC, in conjunction with the California legislature, took the first step by creating a platform for companies to examine their diversity and inclusion practices in the form of GO156. And indeed, the government has a critical role to step in when the market cannot or does not provide the investment in the future. Two decades later research has shown that including women, minority and service disabled veteran suppliers in the utility supply chain makes good business sense. In fact, according to the *Journal of Supply Chain Management*, nearly half of companies that rated themselves as having a good supplier diversity program say their company's rationale for doing business with minority and women-owned establishments is that these firms offer competitive prices and quality products and services. It is, therefore, smart business to take advantage of the fastest growing segment of the U.S. economy. According to the Small Business Administration minority and women-owned business enterprises are among the fastest-growing segments of the U.S. economy. There are more than 12 million such firms accounting for over \$4 trillion in annual gross sales. If diverse businesses are not a part of a company's supply chain, not only is the company deprived of the fastest growing segment of our economy, but it's deprived from tapping into the rich perspective and talent of our communities. The Census Bureau estimates that minorities, both arriving from abroad and born in the U.S., will account for nearly 90 percent of the total growth in the U.S. population from 1995 to 2050.

Corporate leaders need to get out of their traditional comfort zones and take advantage of the untapped or under-utilized resources that are available so that consumers receive the best product and service at the lowest possible cost. Supplier diversity provides businesses with a significant competitive position in terms of enriching communities that these businesses are looking to serve.

### **Best Practices**

In order to insure an effective supplier diversity program, any government agency or private corporation establishing or making changes to existing programs, should observe the following as guiding principles:

- A consistent set of guidelines with performance appraisals must be established to highlight success and areas of improvement.
- A written supplier diversity corporate policy should clearly define executive management commitment and measure success.
- Diverse business utilization/metrics should be included in annual performance goals for the utility and for each business unit/division of the utility.

- Management must establish its Supplier Diversity Program as a policy of the company.
- The Supplier diversity policy must articulate the rationale supporting the initiative. This policy must be communicated to staff and implemented.
- An executive advisory council/committee must be created composed of key stakeholders to drive the program's progress.
- All levels of management are accountable for diverse supplier development.
- Management should be directed to incorporate supplier diversity in the supply chain.
- As corporate purchasing organizations are involved in driving supply chain decisions, the corporate Supplier Diversity Program should reside in, or be closely linked to the Procurement department for most companies and business models.
- A Supplier diversity strategy should be about increasing competition and lowering cost and not a "social" policy statement.

Given the guiding principles, executive and senior level management's involvement and a high standard of accountability at all levels of management are key ingredients in sustaining the most effective supplier diversity program. We have reviewed other corporations' supplier diversity programs for their guiding principals; generally there are two basic policy reasons that are the building blocks for their respective programs:

- To increase the sponsoring company's market share within the nations expanding multicultural/diverse communities.
- To include companies in the supply chain owned by historically under- represented groups, thereby creating wealth for these groups and growing the customer base.

A few of the corporations we examined were: Apple Computer, Bank of America, Citigroup, Comerica, Ernst & Young, FHL Bank of San Francisco, Johnson and Johnson, JP Morgan Chase & Co., MetLife, Oracle, Union Bank, US Bancorp/US Bank, Wal-Mart, and Wells Fargo. Our review found that many of the programs were established in the 90s. Most program structures require 51 percent ownership and accept a variety of certifications (NMSDC, WBE, WBENC, Hub-Zone, W/M/DVBE, and LGBT).

We cite Union Bank as an example:

It established its supplier diversity program in 1996, and set a 10-year goal of discretionary purchases for MBEs. The program was re-negotiated in July 2005. While the intent of its program structure is for W/M/DVBE, Union Bank encourages Small Businesses and LGBT to participate in its supplier diversity database, but they are not identified nor counted in its program goal. W/M/DVBEs must be 51 percent ownership and controlled. Union Bank accepts all certifications and self-certification for suppliers with less than \$100,000 in annual spend. Union Bank has an established supplier diversity goal of 12 percent (and, an aspirational goal of 20 percent by 2015) and; its annual procurement spend for 2009 was \$678 million. In 2009, Union Bank's percent W/M/DVBE spend was 16.4 percent or a total W/M/DVBE spend of \$113 million.

Our review of the major corporations also showed that in comparison to GO156, which has strict reporting guidelines, there are inconsistencies on how data is collected and reported by these corporations, or in some cases no data are reported. These programs seem to operate on a standalone basis, without a set of consistent goals and reporting to substantiate the results.

Through GO156 our regulated utilities and carriers have produced remarkable results. Where most Fortune 500 companies struggle to get past 10 percent, the large California utilities have consistently achieved well over 20 percent procurement from diverse suppliers. GO156 and the CPUC's commitment to this program

have created the platform for our regulated utilities to showcase their achievements. GO156 has been successful because regulated companies were encouraged to make the investment and provide an equal opportunity for diverse suppliers to compete for utility business. Not surprisingly, these companies realized that diverse suppliers actually create significant value in their supply chain and there are business benefits associated with investing in all types of businesses. Government created the arena, but it is businesses that have transformed their supply chain. The CPUC will continue to provide this platform in the form of our annual hearings and reporting mechanisms, because supplier diversity is a journey.

## **Conclusion**

There are other agencies as well as companies who are looking to establish their own programs. For instance the California legislature is currently reviewing a proposed bill that would require the Department of Insurance to adopt similar GO156-type goals for insurance companies. Additionally, at the Federal government level, the Financial Reform bill signed into law in 2010 mandated greater transparency, accountability and oversight of the industry and created Offices of Women and Minorities. It established at least 20 Offices of Minority and Women Inclusion to ensure the fair inclusion and utilization of minorities, women, and minority-owned and women-owned businesses in activities of the various federal agencies. Each Office will have a director to develop policies promoting “fair inclusion” in the agency’s workforce and the workforces of its contractors and sub-contractors.

We hope that GO156 can serve as a proven model of a successful private/public partnership. It is important to understand that GO156 established the guidelines and allowed for consistency, but it was the utility companies who transformed their supply chain to expand their procurement base, thereby increasing competition and lowering costs.