

# **Adoption of procurement & supplier diversity policies to reduce poverty**

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Ananda Jeeva  
School of Information Systems  
Curtin University of Technology  
GPO Box U1987  
Perth, Australia

## **Introduction**

Poverty in third world and developing countries is an acutely perceptive topic and persistent problem at the same premise. Global aid organisations have for the past fifty years been trying to eradicate poverty without much success. Effectiveness of economic aid programs seems to be less than desired. Most international aid organisations' projects focus on education, health, housing and social infrastructure. Very few focus on ground zero projects in the procurement and supply strategies of multinational companies. This seems to be left to individual governments and large organisations to focus and link it to reducing poverty levels as part of ethical accountability.

Business environments are very challenging and volatile. Competition is increasing. Customers are more educated and aware of product and services pricing and quality attributes. Businesses are streamlining their supply chains and optimising their supplier base. However, corporate social responsibility is also gathering momentum. Governments are also becoming more concerned with poverty issues among their population.

As part of corporate social responsibility and increasing market share campaigns, some multinational companies and larger businesses are slowly adopting supplier diversification strategies. This paper investigates the prospects of procurement strategies and how it may be adopted by businesses to reduce poverty and raise the economic status of minority and disadvantaged communities.

As part of the International Monetary Fund's objectives, this paper extends it by suggesting its application at ground zero in the actual communities where poverty may be reduced. This paper will discuss and propose how large corporations can enhance their strategic plans with procurement policies while at the same instance raising the standard of living of minorities in lower socio economic regions. The raising of the standard of living will in turn raise the poverty level.

This paper will also discuss the implications of adopting supplier diversity philosophy while looking for new market revenue opportunities. The current business environment is very unpredictable. To be sustainable, companies need to ensure that they have a steady and established customer base. Corporations are always expanding their customer base and looking for ways to maintain this customer base. Supplier diversity strategy is one means of sustaining this strategy. This paper will suggest how supplier diversity strategy needs to be derived and designed to link procurement policies to the established customer base within the business environment.

This conceptual paper begins by defining poverty, supplier diversity and procurement. Then it analyses some of the success stories in the US. It also reviews limitations and possible

constrictions in adopting SD policies and suggests some plausible implementation process. It also investigates the advantages and disadvantages of SD programs. Finally it discusses the challenges of supplier diversity adoption and how they may be overcome.

### **Definition of poverty**

Poverty is caused by both monetary and non-monetary factors. UNESCO, the World Bank and the International Monetary Fund (IMF) define poverty and set the poverty level differently. The common consensus seems to be the minimum standard of living, although the standard of living in different regions is seen differently. Different governments set the poverty level based on different criteria and the accepted concept of poverty in their region. Others measure poverty based on income distribution or level of income. A few commonly accepted definitions of poverty are discussed below.

The World Bank states that poverty monitoring involves tracking progress over time in achieving results in terms of reduction in poverty and are an essential component of any poverty reduction strategy. It suggest four activities of selecting the correct indicators; setting the appropriate targets for benchmarking; poverty monitoring systems to track progress; and running statistical systems to collect, analyse and deliver data.

During the World Summit on Social Development in Copenhagen in 1995, the United Nation declared absolute poverty as *“a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information as well as services”*. In 2001, United Nations Committee on Social, Economic and Cultural Rights defined poverty as *“a human condition characterized by sustained or chronic deprivation of the resources, capabilities, choices, security and power necessary for the enjoyment of an adequate standard of living and other civil, cultural, economic, political and social rights”*.

During the 2000 UN Millennium Summit, the Heads of States and Government signed the Millennium Declaration Goals (MDG) to end poverty by 2015. The MDG has eight goals of end hunger, universal education, gender equity, child health, maternal health, combat HIV/AIDS, environmental sustainability and global partnership. This paper proposes the small part that supplier diversity and procurement policies linked to corporate strategies can play in achieving the objectives of the MDG in reducing poverty.

### **Definition of Supplier Diversity**

Ram et al. (2007) define supplier diversity (SD) as *“a strategic process that aims to increase the number of minority business that supply goods and services to an organisation”*. Whitfield and Landeros (2006) define supplier diversity as *“a proactive business process that seeks to provide minority and/or women owned suppliers’ equal access to supply management opportunities”*. Adobor and McMullen (2007) state that supplier diversity *“involves the purchasing of goods and services from businesses owned and operated by visible minority groups”*. They outline three minority categories: Women Business Enterprises (WBE), Disabled Veteran Business Enterprises (DVBE) and Minority Business Enterprises. All these authors propose the idea that supplier diversity can become a source of competitive advantage if implemented correctly.

### **Definition of procurement**

Lysons and Farrington (2006, p. 6) define procurement as a wider term than purchasing, which “*implies the acquisition of goods or services in return for a payment of money, which may include borrowing or leasing*”. Van Weele (2005, p. 10) states that procurement relates to “*the function of purchasing inputs used in the firm’s value chain, including raw materials, supplies and other consumables as well as machinery and equipment*”.

Laudon and Traver (2007, p. 689) expand the definition into the procurement process which includes “*searching and qualifying suitable suppliers, negotiating terms, purchase orders, invoicing, shipping and remittance payment*”. Hence, procurement involves many internal departments of an organisation. Therefore, this paper proposes that supplier diversity initiatives need to include organisational vision and strategies encompassing the whole organisation, for it to be successful.

### **History of Supplier Diversity**

A brief discussion of the origins of supplier diversity is necessary to understand its evolution and linkage to business competitiveness. In the 1950s the US government recognised the importance of small businesses and established the Small Business Administration (SBA) as a federal agency to assist to start, build and grow small businesses ([www.sba.gov/aboutsba/](http://www.sba.gov/aboutsba/)). The civil rights movement in the 1960s led to greater awareness of socio-economic status of blacks and other minorities (Shah & Ram, 2006). The National Minority Supplier Development Council was formed in 1972 to provide a direct link between corporate America and minority owned businesses to provide increased procurement and business opportunities.

Some of the well known corporate America supplier diversity initiators are: Apple Inc. established a formal supplier diversity program in 1993. Apple offers training and feedback to minority groups to develop their business. Boeing supplier diversity program has been in existence since 1951. Boeing’s first chief engineer was Wang Zhu who was born in Beijing. Dell relies on a variety of diverse groups – small disadvantaged businesses, woman owned businesses, veteran owned businesses and minority enterprises. Ford started its supplier diversity development program in 1978 which identified high potential minority business persons and assisted them to grow their businesses. Procter & Gamble established its supplier diversity program in 1972. Gloria Jeans takes proactive steps to mentor potential MWBE suppliers – Minority and Women Owned Business Enterprises (Shah & Ram, 2006). The growing minority population with increasing purchasing power means greater business opportunities, that larger firms recognise the economic benefits of broadening their customer base. Wal-Mart, since 1994, has focused on woman owned and minority owned businesses (Adobor and McMullen, 2007).

However, in retrospect there still is inequality of gender in many societies worldwide. In most countries, women make up about 50% of the population, which means they represent half the country’s potential. Subjugation and exploitation of women and their inactive involvement in the mainstream of economic activities and development means half the potential to develop a nation is lost. Similarly, half the potential to eliminate poverty and raise living standards is also not utilised. Supplier diversity is one way of reducing poverty a means to an end for this disadvantaged group of the population.

### **Aid Organisations, Local Government & Supplier Diversity**

Global aid organisations do not implement aid projects. Their staff have very little interaction with recipients at ground zero (Satterthwaite, 2001). They contract and fund other organisations normally local government ministries or agencies. Therefore, the success, quality, capacity and capability depend on these local implementers.

Local governments as part of the legislative assembly should spearhead SD strategies in all regions. They have a role to play in the economic development of the local region as well as development of the community. By sourcing locally, it contributes to the local economy and encourages businesses to employ more local workers. This strengthens the local community and its economy.

Local governments are also a change agent in the local community. They have tremendous potential to change the thinking and operations in the local community. They also can change behaviour by educating the community. They can provide or create opportunities for minority business ownerships (Edmonson et al., 2008).

The federal government as well the local governments must legislate appropriate laws and policies to encourage organisations, including government, and its agencies to modify their procurement policies and guidelines to promote 'buy local first'. Buy local first could be applied in all local governments, therefore benefitting all regions in a country. It is both equitable and fair to the residents of that local community.

By 'buy local first' policy, new suppliers are forced to be created. These may be minority or non-minority groups. The objective is that it benefits that community and its economic structure, thereby reducing poverty in that community.

### **Benefits of procurement policies**

Recent studies have identified the importance of strategic procurement strategy for effectively competing in today's global marketplace (Baier et al., 2008). Although most procurement research and publications promote the concept of strategic procurement as a cost reduction strategy, this paper promotes the concept that strategic procurement can be used to expand the customer base and additional market revenue opportunities. This concept is based on the idea that the same suppliers of raw materials and components will be the consumers of the finished products into which their raw materials are composed of. It is like a closed economy where the community's production is consumed within the community members and

### **Women power to make change on supplier diversity**

The individual and collective relationships of women provide self-confidence, empowerment and strength to challenge gender inequalities. Women may have to create their own agencies to break the gender discrimination cycle.

### **Competitive advantages of supplier diversity**

From wide literature review, it may be summarised that the main reasons for supplier diversity may be grouped into four categories.

- Legislative
- Ethical influences
- Stakeholder expectations

- Economic opportunities

Legislative – US origins government intervention through public policy – affirmative action plans to ease racial and social tensions. The past four decades has seen government develop many programs to increase Minority Business Enterprises (MBE) in public procurement with a flow on effect into public companies bidding for public contracts. However in the UK Affirmative Action is seen as anti equal opportunity and does not have the same government support as the USA. It is a neglected public policy instrument in procurement legislation (Worthington et al., 2007).

Ethical Influences – in the UK corporate social responsibility (CSR) is promoted through their 'think small first' program which promotes all small business including MBEs. It seems ethical concerns were the main drivers for CSR strategies such as SD. Now competitive advantages are recognised via public relations. It recognises that the supplier base represents their customer and workforce base. Although the origins in the UK may have been surrounded by social and racial issues, the current issues are protecting and enhancing corporate reputation, an intangible asset that can be linked to strategic advantage.

Stakeholder expectations – SD programs may be used to sustain legitimacy in the eyes of the stakeholders like potential customers, employees, government, lobby groups and business partners. Here SD is seen as a representation of the community. SD is used as a tool to enhance stakeholders' satisfaction thereby creating a competitive advantage (Shah & Ram, 2006)

Economic opportunities – localised economic development through the domino effect where MBEs actively seeking contracts with large purchasing organisations in turn help local and regional economies. Alternatively organisations may seek to address economic disparity where capitalism has failed. This can lead to creating environments with less crime and overall better quality of life as well as an expanding customer base. Therefore SD is a strategic competitive advantage.

Building supplier relationships and supplier networks are critical for the buying organisation and management of its supply chain and competitiveness. Supplier development and relationship management can be an arduous process and time consuming. This can be seen as a disadvantage as the elements of trust and power may rear its ugly head. SD groups are highly motivated and seeking to become suppliers to large buying organisations, so the onus is on them to comply with the buyers' requirement in terms of quality, lead times and other critical factors.

Another disadvantage is technological innovations in SRM. These SD groups would most probably not have the technological savvy, knowledge, equipment, etc to interface with the large buying organisations. Hence, these large buying organisations need to be flexible and complacent in the supply interface context when dealing with these SD groups. The trade off could be CSR benefits.

Competitive advantages of SD could link to future markets. Demographic studies in the US (Worthington et al., 2007) indicate that the current rate of increase in minority group population census could mean that by 2045, minority groups would represent 46% of the US population. Therefore engaging in SD now could establish strong links to future markets. This could also deter potential new entrants and create a competitive advantage. SD strategy also provides an understanding and insights of the needs of a diverse customer base (Slater et al., 2008).

Other reasons that SD may benefit Thailand are that the agricultural sector in Thailand has changed. Many farmers are involved in both farm and non-farm activities for various reasons (Rigg & Nattapoolwat, 2001). Many farmers are involved in piece meal like artificial flower making because it provides similar income as rice cultivation and is more fun and less demanding physically.

Agile suppliers can be demand driven and can react better to a volatile market (Christopher et al., 2004). Golder (2004) states that smaller minority and women owned business enterprises (MWBE) have a greater ability to react to economic changes or customer requirements because the organisational structure is smaller.

### **Key drivers in Supplier Diversity programs**

Shah and Ram (2006) suggest some key drivers from their research study:

- Outreach activities and raising awareness of minority businesses
- Developing long term relationships
- Embedding good practice
- Active monitoring of minority participants in the supply chain.

Outreach activity is seen as an important way of interacting and raising awareness within the community. Activities can include regional and national fairs, in-house business fairs, seminars, business presentations. But will these work in Thailand and other LCC?

Mentoring programs. Proactive steps to provide nurturing and mentoring to minority and women owned businesses (Bates, 2001) which will lead to long term relationships. Nurturing and mentoring becomes critical if there is scarcity of suppliers or suppliers lack capability.

From a procurement perspective, this program would require close monitoring of its implementation and suppliers have to submit performance reports and quality reports.

### **Need for supplier diversity**

Edmonson et al. (2008) state that businesses can play an important role in potentially reducing poverty in society. A SD program in Australia, in conjunction with other government programs, has the potential to allow indigenous Australians to gain the capacity to break free from the welfare cycle. Whilst in America, organisations have the incentive to introduce this program, increased revenue; the same cannot be said in Australia with the minority population significantly lower than America (Blake, 2007). Therefore, in Australia other incentives for organisations to introduce SD programs, such as contributing to the local economy whilst encouraging the development in the community are plausible. This creates jobs and builds capacity within the community.

Supplier diversity does not just imply increasing the supply base; rather it is about being more creative in the way in which organisations purchase its goods and services. This is an important part of the procurement concept. Ram and Smallbone (2003) state that small businesses can offer a more customised and flexible solution than larger suppliers. One of the main reasons for this is that in smaller firms organisational culture and organisational structure is smaller hence more flexible. Smaller suppliers are normally owner operated so more flexible and dynamic to adapt to buyer requirements.

Kerr (2006) states that firms making the effort to buy more from diverse suppliers seem noticeably more successful due to the increase in minority businesses. Corporations that source from qualified minority firms by giving them business on a competitive basis is also encouraging this sector to grow and improve their competitive advantage. This applies to women owned suppliers. In the US minority population will be 40% by 2050.

In Thailand and in many other third world countries this is happening to women in particular. With other concerted efforts of raising the profile of women by aid organisations, women are the new wave of minority customers and consumers. They are becoming more educated and have increasing buying power in terms of decision making and disposable income.

### **Risks associated with supplier diversity**

There are risks associated with SD initiatives. The main concern for buying organisations is that supply disruptions means stoppages in production runs and hence delays in delivering orders to customers. Quality, price and lead time are other concerns. It is essential for buying organisations to spend sufficient time, especially in the early stages to clearly articulate the intended business benefits and outline the intended goals to launch SD program.

Questions that may need to be asked or analysed are:

- is the program viable within the current corporate structure?
- are there qualified and suitable suppliers?
- low technology or high technology suppliers?
- capability evaluation?
- capacity evaluations?
- ability to form long term contracts?
- is pre-qualification of suppliers necessary?
- is a tender process necessary?
- is there over commitment to support SD initiatives?
- susceptibility of suppliers to failure during economic downturns.

### **Setting up a SD Program**

Many organisations feel that managing a more diverse range of suppliers would be more costly. A recent research by the Hackett Group (Marshall & Heffes, 2006) found that the reserve is true. They state that organisations with a high level of diverse suppliers tend to have a 133% greater return on the cost of procurement operations than average performers. Therefore multi sourcing can be more cost effective than single sourcing, which encourages the implementation of supplier diversity strategies.

Procurement incentives aimed at offering under represented businesses the same opportunity to compete to supply goods and services as other suppliers A study of three multinational firms (Shah & Ram, 2006). Found that they have to take proactive steps to mentor potential suppliers from the minority group. They also found that outreach activities were clearly discernible. Outreach activities included presentations, business opportunity fairs, 'meet the buyer' sessions and virtual trade shows. Although in third world countries, technology for virtual reality and fairs might not be the given, it is critical that information is disseminated at ground zero.

Whitfield and Landeros (2006) state that SD must be supported by all staff in the buying organisation. There must be visible commitment from senior management. SD programs need

to be set up in alignment with procurement strategies. Companies should generate a pool of suppliers that mirrors the customers that purchase their products or services. Define the guidelines, target groups, requirements and set clear objectives. Create policies where the vision, mission statement, public perceptions, message to public are written and marketed to the public. Assign staff who are committed to the SD program or empower staff and provide them the means to track performance using set metrics. Set goals and measure progress of the goals using timely reviews. Ensure public awareness and CSR, and maintain good community relations.

### **Supplier rationalisation**

The current thinking is consolidating, optimising and streamlining the supplier base. In most procurement publications encourage the move towards supplier rationalisation. Pearson et al. (1993) found that in many situations, organisations are endeavouring to reduce the number of suppliers and establish longer term buyer-supplier relationships to achieve competitive advantage through more effective use of their supply base. Adobor and McMullen (2007), suggest that the use of modern production systems and philosophies such as Just In Time, means that buying corporations are become even more dependent on a few preferred suppliers, which means supplier rationalisation. The idea of SD may seem to appear counterproductive in this concept of supplier optimisation. However, minority suppliers can form cooperatives with purchasing power on the minority supply side and then rationalise their supply to large corporations. Hence, the cooperatives act as a buffer in terms of supplier relationship management by these large organisations.

There is also useful evidence that businesses recognise SD program based on the idea that there are economic potentials and benefits to businesses. Carter et al. (2006), state that more diverse range of suppliers may open up the possibility of innovative and/or cost effective solutions that provide strategic advantage through differentiation or cost leadership.

### **Challenges for using SD**

Businesses are buying from few suppliers and average contract sizes are increasing and this makes it difficult for new suppliers, especially minority group suppliers to compete. Moreover, it is also difficult to assess such large corporations. Large corporations have also reported difficulties in obtaining quality diverse suppliers. Finding diverse suppliers with the correct requisite capacity to supply large corporations are often seen as a major barrier to supplier diversity adoption as they tend to cluster in relatively few industries, lack specialist skills, capital and technology. Dollinger et al. (1991) state that small businesses that are anxious to compete may intentionally or unintentionally misrepresent their capabilities in order to win a corporate contract. Businesses are also not confident that there are enough number of minority suppliers or are qualified enough. Krause et al. (1999) states that some of the key problems are accessing capital, buyer's efforts to optimise their supplier base, lack of qualified staff.

### **Overcoming problems in SD adoption**

CAPS (1999) recommend not having the SD program aligned with company culture and corporate business strategy. Company and organisational culture and business strategies are designed for procurement and supply management optimisation, including the sales and operations planning objectives. In the vast majority of the cases, SD objectives are not aligned with corporate objectives. SD is an added incentive on the sidelines to encourage CSR.

Current procurement strategies promote the idea of cost savings and improving organisational efficiency by streamlining their supplier network (Baily et al., 2008). Similarly, this paper promotes the streamlining of the supplier network but the objective is to raise poverty by implementing supplier diversity policies. This may project the image of increasing supplier risk and complications in supplier relationship management (SRM). But the intangible returns of corporate social responsibility (CSR) far outweigh SRM constrictions.

### **Possible solutions**

Even with beneficial economic growth, the Northeast part of Thailand is still the region with the largest incidence of poverty (Kakwani & Krongkaew, 2000). This casts serious doubt that foreign aid is helping the population in this region. Hence, future poverty reduction projects must be monitored at ground zero at the source similar to cottage industries.

Cottage industries are where the creation of products and services is home-based, rather than factory-based. While products and services created by cottage industry are often unique and distinctive given the fact that they are usually not mass-produced, producers in this sector often face numerous disadvantages when trying to compete with much larger factory-based companies.

Extent literature has established that cottage industries already exist in many third world countries. These cottage industries are created to be small scale factories. Their objective is to produce the finished project for sale to consumers or to buyers who use them in their finished products. These cottage industries may have limitations that they are not part of the supplier network of large corporations. Large corporations need to cultivate them as part of their supplier network and provide initiatives and encouragement.

Slater et al. (2008) study of 178 US large organisations found that for SD initiatives to be successful, it is imperative that senior management ensure SD commitment is enshrined in the organisational culture and that there is constructive and productive behaviour by all employees. It requires deep commitment to inherent values, beliefs and behaviour within the buying organisation. They also suggest several actions to increase commitment. These include demonstration of diversity to organisational success; line management needs to implement SD strategy top executive passionate involvement; clear targets with specific action plans and measurement metrics; identify and cultivate diverse suppliers; emphasise fairness and rationale; manage and avoid conflicts early in the process.

### **Conclusion**

Supplier diversity is a proactive business process that seeks to provide suppliers equal access to supply management opportunities. Discussions suggest that there is a strong business case for adoption of supplier diversity initiatives since minorities now represent the largest sales growth markets for many products in many countries. The same may be applied in Thailand and other developing and third world countries.

Although supplier diversity programs started with minority and other disadvantaged groups this paper has shown that it can be applied where the poverty level is high or the standard of living is low. This paper has proposed the idea that procurement policies in commerce is one of the ways to reduce poverty. A four prong strategy may be used. The first is for large businesses

and multinational companies to establish corporate social responsibility (CSR) policies. Second, extend their CSR policies into their procurement policies and supplier diversity management. The third, local government to take an active part in identifying supplier groups or communities that may benefit from supplier diversity initiatives. Lastly, local governments must assist in developing capacity and capability including training and education.

This paper has also shown that the benefits of SD provides positive publicity, improved corporate image, help minority groups, responsible contributions to economic growth, environmental impact, social prosperity, positive commitment to become socially responsible. It improves social performance, increases customer loyalty, attracts better employees and promotes a positive public image among minority and disadvantaged groups.

The findings also suggest that:

- SD can become a source of advantage when firms integrate the program into their business goals and develop capabilities to manage them effectively.
- Objectives can be and need to be linked to organisational performance.
- Evaluate supplier strategies and identify realistic opportunities for including diverse suppliers in the procurement process
- Link SD to overall organisational performance
- Businesses need to seek corporate advantage by linking purchasing from diverse suppliers, to their long term strategies

However, for SD programs to be more successful quicker, governments must also introduce legislation to encourage or force the procurement of local produce first. This may also be implemented on all procurement including the corporate sector. This needs to be implemented as soon as possible to achieve the targets set by the UN Millennium Declaration Goals.

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