

Poverty reduction strategies via procurement policies

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Poverty has been blamed for many of the global human sufferings. For the past five decades governments and NGOs have had variable success in reducing poverty. This paper proposes that the concept of regional 'low cost country' phenomena can be created and implemented in most developing and under-developed countries to reduce poverty. Raw materials and other resources can be sourced within most of these developing and under-developed countries to produce low tech products for local consumption. This reduces trade deficits and helps circulate the local economy thereby improving the local socio-economic conditions. This paper further promotes the idea that strategic procurement can assist in poverty reduction and eradication strategies and these need to be self sustaining and self promoting.

This paper further supplements strategies for the United Nations Resolution of Millennium Declaration 55/2/III – development and poverty eradication/reduction. It promotes the concept that multinational companies and local governments can assist and should assist in improving the socio-economic status of poor regional areas in third world countries by developing and implementing procurement policies and strategies..

The United Nations Millennium Development Goals (MDG) was to adopt commitments to eradicate poverty among other objectives. Its development goals for poverty eradication are to achieve sustained and broad-based economic growth. The millennium goals have also identified priority areas that need to be addressed to eliminate extreme poverty. Some of these are alleviating hunger, support for social initiatives, strengthening capabilities, assisting capacity building, policy implementation to ensure food security, access to clean water, education, health, gender equality, youth unemployment, vocational training, self sustaining development of domestic resources and increase trade. Global aid organisations, governments and non-government organisations have for the past fifty years been trying to raise the socio economic level, but with little success.

Much of the global human population still live below the poverty line. In 1980 there were 1.9 billion people were living below the poverty line. In 2005, the World Bank's working paper 4703 indicates that an estimated 1.4 billion or one quarter of the developing world was below the international poverty line of \$1.25 a day. So in twenty five years not much has changed from the perspective of population increase. It is hoped that sustainable procurement policies can assist in reducing poverty by 2015 as part of the Millennium Goals. The improvements in the socio-economic conditions will have a positive flow-on effect in improving education, freedom for women, peace, security, quality of life, human rights, better governance and the environment.

The 2000 UN Millennium Summit has eight goals - 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.

This working paper postulates that procurement policies can help to reduce poverty and sustain a higher socio economic level. Procurement policies can be amalgamated into macroeconomic policies within the purchasing and procurement activities in large firms and government agencies. This paper intends to investigate 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.

Traditionally, it is seen that the vast majority of multinational corporations shift their manufacturing operations to third world countries because of the cheap labour. They invest in foreign direct investment, transfer the basic required technology and establish a manufacturing plant. They normally source their raw materials from these third world countries within close proximity.

These manufacturing plants are also geographically located near transport hubs like sea ports. This leads to the sustainable economic development of these areas. A good example is the special economic zones set up in China in 1980. However the phenomenal growth of these special economic areas has led to labour exploitation, environmental destruction, corruption and high crime rate. This paper also suggests that new manufacturing ventures may be established in regional areas where the socio-economic levels are lower than the urban areas. Hence these regional areas can then become developed areas. The transport infrastructure may need to be developed to support the manufacturing industries.

Establishing manufacturing hubs in regional areas satisfy the corporate social responsibility of many multinational organisations. The corporate social responsibility can be extended to sourcing from that regional proximity or required raw materials may be cultivated in that regional proximity for long term sustainability.

This paper discusses poverty and procurement. The links between aid organisations, local governments, and supplier diversity is examined, and key drivers for supplier diversity programs are outlined and links are made to procurement policies. The competitive advantages provided by supplier diversity programs are discussed, along with risks and challenges associated with implementation. Finally, possible solutions are offered and discussed.

Poverty definition

The World Bank, UNESCO and the International Monetary Fund (IMF) define poverty as the minimum standard of living, although the standard of living in different regions is perceived differently. Poverty is also based on income distribution or level of income. Some governments set different criteria on the poverty level based on the accepted concept of poverty in that region.

The World Summit on Social Development in Copenhagen (1995) 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"*.

Procurement definition

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"*. 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"*. 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.

As well as the internal focus, procurement may also be viewed as an external activity, through a focus on sourcing from a diverse range of suppliers. This diverse range of suppliers may include non traditional suppliers, like regional suppliers. Such suppliers may need to be coached and developed as part of corporate social responsibility, requiring greater levels of engagement than more traditional procurement practices..

Supplier Diversity

Supplier diversity (SD) means working with a wider range of non-traditional suppliers. The origins of supplier diversity began when the US government recognised the importance of small businesses in the 1950s. It established the Small Business Administration (SBA) as a federal agency to assist to start, build and grow small businesses (www.sba.gov/aboutsba/). In the 1960s the civil rights movement led to greater awareness of socio-economic status of blacks and other minorities (Shah & Ram, 2006). In 1972 the National Minority Supplier Development Council was formed to provide a direct link between corporate America and minority owned businesses to provide increased procurement and business opportunities.

Diverse suppliers include a variety of groups such as small disadvantaged businesses, woman owned businesses, veteran owned businesses and minority enterprises. One of the best-known corporate America supplier diversity initiators is Apple Inc., which established a formal supplier diversity program in 1993. Other large firms have started to recognise the economic benefits of broadening their customer base as the growing minority population has increasing purchasing power which means greater business opportunities.

Gender inequality is still a significant feature 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. Programs can be formulated that help encourage employment and entrepreneurship amongst women in communities like cottage industries. 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.

Supplier Diversity in Local Government

One of the most powerful change agents are Local Governments within the regional community (Edmonson et al., 2008). They have tremendous potential to change the thinking and operations in the local community. By educating the community they can also change the behaviour of the residents. They have the power to provide or create opportunities for minority business ownerships and link them to multinational corporations and global aid organisations.

Global aid organisations contract and fund local organisations normally local government ministries or agencies to implement their projects. Therefore, the success, quality, capacity and capability depend on these local implementers. The global aid organisations' staff frequently has very little interaction with recipients (Satterthwaite, 2001). Therefore the synergy to create a sustainable project is non-existent.

Local governments, however, are embedded within their communities and draw on the community and serve the community. As part of the legislative assembly local governments should spearhead aid projects and ensure that the strategies are sustainable. They have a role to play in the economic development of the local region as well as development of the community. The Local Governments can source locally, which contributes to the local economy and encourages businesses to employ more local workers. This strengthens the local community and its economy.

The Federal Government as well the Local Governments may need to 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 department and agencies, therefore benefitting all regions in a country. It is both equitable and fair to the residents of that local community.

Through the implementation of 'buy local first' policies, new suppliers are forced to be created to meet the procurement objectives of government organisations. These new suppliers 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.

The importance of strategic procurement strategy for effectively competing in today's global marketplace has been identified (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 is an economic impetus that can be used to expand the customer base and additional market revenue opportunities; drawing supplies from the local community provides financial support to residents, who in turn consume services and outputs from government organisations 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 the economic activities are generated.

Buying organisations have a role in promoting and encouraging SD programs. Policies relating to non-financial considerations can be extended to examine the role played by diverse suppliers in their internal procurement practices. Government organisations are able to support local communities through implementing SD initiatives that support the local users of government services. Further support can also be provided through infrastructural improvements that can help diverse suppliers to gain the capabilities to engage with businesses, through training and education programs.

Procurement policies and need for supplier diversity

There is a critical need for SD programs together with procurement policies to reduce the poverty levels. 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 type of program, increased revenue; the same cannot be said in many other countries like Australia where the minority population is 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. Leadership in this area may come from either local or federal governments through providing financial incentives, legislating requirements, or providing a role model to other organisations through implementing such procurement policies themselves.

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.

Competitive advantages of supplier diversity

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.

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.

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.

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)

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).

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. 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. 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 reverse 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. There is also evidence businesses may see economic improvements through SD programs. 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.

Such programs can potentially offer an organisation the following strategic benefits:

- Enhancing the corporate image through effective CSR models
- Providing opportunities in local communities creating a domino effect
- Improving stakeholder satisfaction in communities
- Providing engagement with important future markets
- Increasing agility and flexibility in the supplying organisations

- Providing increased returns on procurement activities

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.

Examples where SD may benefit regional areas is Thailand. In the regional Thailand agricultural regions 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. In many third world countries these changes frequently involve 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.

Strategic and supplier diversity risks and challenges

SD initiatives have their own unique risks and challenges in implementation. Supply, quality, price and lead time are some of the main concerns for buying organisations. Large organisations facing supply disruptions may lead to halted production runs and delays in delivering orders to customers. 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. There may be a necessity for trade-offs between corporate social responsibility and profit margins.

Since these regional suppliers may require assistance in capability and capacity development initially, some idea of the following facts must be analysed:

- Future technological capacity and capability
- Contractual obligations
- Pre-qualifications
- Corporate commitment
- Influence of economic downturns

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.

There must be visible commitment from senior management. Whitfield and Landeros (2006) state that SD must be supported by all staff in the buying organisation. SD programs need to be set up in alignment with procurement strategies. These observations indicate that there are internal requirements that need to be considered, in terms of resourcing such initial attempts to develop SD programs. Companies should generate a pool of suppliers that mirrors the customers that purchase their products or services. Work must be done to ensure clearly defined guidelines, target groups, requirements, and clear objectives are set. Policies need to

incorporate the vision, mission statement, public perceptions, message to public are written and marketed to the public. Assignment of staff should consider which individuals 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.

Multinational corporations are usually driven by a focus on shareholder value and increasing dividends. The current thinking is procurement tends to favour procurement approaches that consolidate, optimise and streamline the supplier base in an attempt to 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 become increasingly dependent on a few preferred suppliers which is naturally connected to a rationalisation of the supply base. 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.

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 is seen as a major barrier to SD adoption; diverse suppliers tend to cluster in relatively few industries and usually 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. Buying organisations also express a lack of confidence that there are adequate numbers of diverse suppliers that are suitably qualified. Krause et al. (1999) states that some of the key problems are accessing capital, the conflict between efforts of organisational efforts to optimise their supplier base which conflicts with SD adoption, and lack of qualified staff in diverse suppliers that reduces the ability of the diverse supplier to attract business.

Outreach activity can be 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 activities may not be feasible in some third world countries. However they may be applicable in developing countries.

To promote and develop long term relationships mentoring programs can be used. Larger organisations may need to consider proactive steps to provide a nurturing environment through mentoring to minority and women owned businesses (Bates, 2001) which can lead to long term relationships. Nurturing and mentoring becomes critical if there is scarcity of suppliers or suppliers lack capability.

These programs would require close monitoring of its implementation and suppliers have to submit performance reports and quality reports. Such practices require more than just a champion in a large organisation; the practices need to be codified and embedded within the

organisational processes to ensure that they have an on-going impact. Such practices may also include the processes involving monitoring the suppliers within the supply chain. Careful monitoring may be required initially.

Overcoming problems in SD adoption

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. 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. Separate objectives relating to CSR, incorporating elements of SD programs, need to exist separately.

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 with the objective to reduce poverty by implementing supplier diversity policies. Initially this may be seen as increasing supplier risk and complications in supplier relationship management (SRM); long-term benefits, such as the intangible returns of corporate social responsibility (CSR), far outweigh initial SRM considerations.

Possible solutions from suppliers

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 by buying organisations to promote SD development. The first is for large businesses and multinational companies to establish 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.

Supplier-based initiatives, such as forming cooperatives in a cottage industry, may also help to alleviate several of the challenges faced by SD programs. Cooperatives can be formed by suppliers, but may require government support to help provide infrastructure or training to ensure that necessary capabilities can be developed.

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:

- Strategic procurement policies and SD can become a source of advantage when firms integrate the program into their business goals and develop capabilities to manage them effectively.
- Corporate Social Responsibility objectives can be and need to be linked to organisational objectives and mission statement.
- Evaluate supplier strategies and identify realistic opportunities for including diverse suppliers in the procurement process
- Overall organisational performance linked to supplier diversity
- Conduct environmental scanning to select low risk geographical regions for establishing SD programs that complement strategic procurement policies to reduce poverty.

For SD programs to be more successful quicker, businesses' main corporate objective must be corporate social responsibility rather than profit orientation. Governments' main procurement objective must be buy local and/or develop local sources. These objectives must be aligned to and linked directly to achieving the targets set by the UN Millennium Declaration Goals.

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