VENDOR DIVERSITY IN PUBLIC SECTOR PURCHASING: THE CASE OF THE FLORIDA DEPARTMENT OF HEALTH

Steven A. Watson, Robert G. Brooks, Thomas Arnold,
Kathy Mason and Cathy McEachron*

ABSTRACT. This article explores the use of a quality management model by a public sector agency to implement a socially responsible purchasing initiative related to minority diversity of the vendor pool. There is a description and discussion of the use of a quality management model for planning and implementing the initiative with a focus on changing organizational culture and reinforcing organizational policy priorities. The initial success of the initiative in increasing total contracted dollars to minorities suggests that a quality management implementation model is a useful approach for initiating a socially responsible policy within an organization.

INTRODUCTION

During the past decade, there has been a significant shift in the way procurement processes and systems are viewed within the broader context of organizational management. While the focus on cost savings and accountability continue to be important priorities in most private and public sector procurement departments, there is a growing realization among scholars and practitioners that successful procurement systems also embrace issues related to organizational culture and supplier management. The parameters of procurement management have grown to include such issues as the integration of procurement processes with the overall mission and values of an organization, the need for education

* Steven A. Watson, DPA. MC, is Owner, Watson Companion Care, Inc., Tallahassee, Florida. Robert G. Brooks, M.D., is Associate Dean for Health Affairs, College of Medicine, Florida State University. Thomas Arnold is Deputy Secretary, Florida Department of Health. Kathy Mason, Ed.D., is Dean, School of Nursing, Florida State University. Cathy McEachron is Operations and Management Consultant, Florida Department of Health.
and training for procurement officials, streamlining of procurement activities through information technology, and the introduction of management models such as quality management and logistic management.

Another important development within the procurement arena is the realization that purchasing activities can be used to reinforce or shape organizational policy objectives. One good example of this trend is the increasing interest shown by both public and private sector organizations in demonstrating socially responsible behavior through management of procurement processes.

The introduction of quality management concepts and approaches in procurement systems has been fairly well documented, especially within the business private sector management literature. Much of the literature has attempted to redefine the relationship purchasing departments have with suppliers to focus more on creating partnerships and strategic alliances that meet the goals and objectives of organizations (Choi & Rungtusanatham, 1999; Stuart & Mueller, Jr., 1994). Other efforts have examined purchasing in the broader context of its role within the entire organization (Carter & Narasimhan, 1996; Fernandez, 1995).

This article explores an effort by a public sector agency to implement a socially responsible purchasing initiative related to diversity of the supplier pool. There is a description and discussion of the use of a quality management model for planning and implementing the initiative with a focus on changing organizational culture and reinforcing organizational policy priorities. The initial success of the initiative increasing total contracted dollars to minorities suggests that a quality management implementation model is a useful approach for initiating a socially responsible policy within an organization.

INCREASING MINORITY CONTRACTING AT THE FORIDA DEPARTMENT OF HEALTH

In March 2000, the Florida Department of Health embarked on an important and challenging process to increase the use of minority vendors in the department’s purchasing and contracting activities. This action was initiated in response to an executive order (99-281) issued in November 1999, by Florida’s Governor Jeb Bush. The executive order, which was part of the Governor's "One Florida" initiative, was a
comprehensive effort to address barriers to minority participation in procurement, hiring, and education. In regard to procurement practices, the executive order challenged state agencies to reform procurement practices to encourage the use of vendors that reflects the full diversity of Florida’s citizens.

The Department of Health accepted this challenge by creating a systematic and innovative process for changing the way vendors and contractors are utilized through the use of a quality management implementation process. This required a revamping of the ways vendors and contractors are identified by programs and offices within the department, and instilling the importance of diversity into the culture of the organization. Efforts were made to prioritize diversity among senior managers and procurement officials, communicate the expectation by the department’s Secretary that programs and offices would increase use of minority vendors and contractors, educate department staff to the importance of diversity and ways to identify minority vendors, and formalize processes through policy development and tracking systems.

In the past, levels of involvement with minority vendors by the department were established through the state’s minority business enterprise program which sets artificially low goals and standards for all state agencies. The One Florida Initiative required state agencies to approach the use of minority vendors in a new light – moving from a mode of achieving compliance by reaching minimal standards to striving to reflect the population of Florida in its vendor pool.

The focus of the One Florida Initiative as it related to procurement was on the need for state government to take social responsibility for the way it chose its vendors and contractors. The Florida Department of Health embraced this challenge by creating a very comprehensive and unique initiative that illustrated how procurement processes can be shaped to address policy priorities and how the issue of racial disparity can be addressed in a systematic and measurable manner.

**FLORIDA DEPARTMENT OF HEALTH AS AN ORGANIZATION**

Before describing the initiative in detail, it is important to address specific structural and environmental characteristics of the department that influenced the way the initiative was developed. The department is a large organization of approximately 14,000 employees. Structurally, the organization is fairly flat and decentralized, with the majority of
employees working from field offices. Field offices are comprised primarily of 67 county health departments, approximately 35 other remote sites that provide a wide variety of public health services to citizens of and visitors to Florida, and headquarters which contains the Office of the Secretary and a variety of divisions and bureaus. The county health departments, in most cases, are not only accountable to the Florida Department of Health but to county commissions that fund many of their activities. The county health departments are fairly autonomous, with each having their own procurement staff or sharing staff with a consortium of several other counties (smaller counties). Many of the other remote sites also have procurement staff, as do the various units located at headquarters.

The decentralized nature of the department provided special challenges to the introduction of large-scale initiatives such as One Florida. Information was diffused from headquarters to field sites through written correspondence, conference calls, and occasional teleconferences or face-to-face conferences. The considerable variety of political and social conditions found in Florida also required that interventions be flexible and adaptable enough to meet the needs of specific counties or areas.

The Department of Health’s model for implementing quality management is illustrated in Figure 1. The systematic linkage of the management and cultural environment (step 1) with the policy and resources (step 2) is then followed by action, evaluation and feedback (steps 3-6). Each of the criteria in the Malcolm Baldrige type model of performance excellence is reflected in the implementation model and is aligned with the respective step in the implementation model. The criteria are collectively represented in an array of initiatives across the department, all aimed at improving performance through an organizational change culture which is one of continuous improvement. Quality management initiatives include the development of research-based competencies for all departmental managers, followed by a year of individual professional development with integration of the competencies into performance evaluation systems in the third year of implementation. Selection of new managers who are high performers, as assessed using the competencies, is now included in the hiring process as well. Strategic planning for the department now includes the development of business plans for all operational units, highlighting the
linkage of local strategies with those that cut across the department as a whole. The human resources- and customer-focused systems are supported through ongoing employee and customer satisfaction surveys which provide data for each operational work unit of the department as well as department-wide data. As a result, there is a congruence of effort toward continuous improvement and goal achievement.

The successful integration over a span of several years of quality management principles and practices into the organizational culture of the department provided an important foundation for developing a workable implementation approach for increasing the use of minority
VENDORS FOR PROCUREMENT OF GOODS AND SERVICES. THE NEXT TWO SECTIONS describe the department’s recent efforts to reform its procurement processes and specific efforts to increase vendor diversity using quality management processes.

PROCUREMENT WITHIN THE FLORIDA DEPARTMENT OF HEALTH

During the past year and a half, the department instituted a variety of procurement reforms that were conducive to successful implementation of the One Florida Initiative. Many of the improvements involved rethinking traditional approaches to purchasing, such as processing paper purchase orders, and utilizing instead new technologies that have become available. The department developed an automated purchase requisition system which allows on-line ordering, supervisory approval and receipting of deliverables. This system is available to staff department-wide and is much more efficient than the paper process. Another improvement to the procurement process was the implementation of the Visa purchasing card. Again, the purchasing card allows designated staff to bypass the often time-consuming preauthorization process and make credit card purchases more timely (or more quickly). An on-line post audit is conducted to ensure accountability.

A third change in department practice was to utilize the Internet and a departmental Intranet network to make all purchasing reference materials, forms, and guidelines available to all staff. This network capability became increasingly important to provide purchasing staff with the resources and tools necessary to identify and reach out to minority providers in a timely manner.

ASPECTS OF THE FLORIDA DEPARTMENT OF HEALTH’S INITIATIVE TO INCREASE USE OF MINORITY VENDORS

Implementation of the initiative centered around several processes that were based on quality management principles as outlined above. In addition, many activities that comprised the initiative are reflected in best practices for other supplier diversity programs.
Leadership and Communication

Early in the overall process, top management developed a strategy for sensitizing department managers and procurement staff to the importance of increasing use of minority vendors. The organization’s chief executive officer (the Secretary) utilized several information forums such as monthly management meetings to reinforce his vision of the importance of the initiative and his expectation that positive results would occur. These expectations were transmitted to procurement staff and other staff by the managers. Approaches used to demonstrate top management’s commitment to the initiative included the following:

- Conducting several teleconferences with operational offices, headquarters, as well as field offices, to outline the new initiative and communicate expectations and time frames. These teleconferences set the stage for other elements of the initiative.

- Reinforcing the importance of the initiative during regularly scheduled management meetings and meetings among procurement staff. It was essential to blend the new initiative into general management discussions which were occurring within the department.

- Conducting a teleconference at the end of the fiscal year to review the importance of the initiative and congratulate staff for their successes in increasing use of minority vendors. This teleconference was also used to challenge all staff to keep up the effort for the next fiscal year.

Customer Focus

Efforts were made to expand the definition traditionally used within the department for “customer.” In the past, the idea of customer usually referred to the citizens of Florida, with the objective being to purchase the best quality products and services at the least cost possible. While this definition continued to be important, efforts were made to expand the concept of customer to include supplier diversity. Meeting the needs of customers also included striving to utilize a supplier pool that reflected the composition of Florida’s population.
Employee Participation

Efforts were made to encourage department employees to feel invested in the initiative. These included:

- Establishment of a 14-member Action Team consisting of a cross-section of staff representing all sectors of the department at both supervisory and non-supervisory levels. The team was appointed by the Secretary and chaired by the Deputy Secretary. The team was responsible for planning various aspects of the initiative, monitoring progress, and recommending changes or improvements.

- Department staff was encouraged to submit ideas for attracting more minority vendors through an employee incentive program that offered monetary awards for ideas that were implemented.

Education and Training

One of the most critical aspects of this initiative was the education and training of both internal (managers and procurement staff) and external constituents (vendors). The pre-existing purchasing infrastructure, including rules, manuals, policies, and informal practices, had been developed and evolved under previous administrations. It was essential to update procedures and rules to better reflect new environmental conditions. There were a variety of interventions that were introduced to prepare department staff and potential vendors for implementation of the initiative:

- **Internal Marketing Plan.** Efforts were made to communicate the importance of the initiative by encouraging supervisors to include discussions of the One Florida Initiative in their staff meetings. Additionally, posters were placed in department offices throughout the state. Desktop notepads were also printed as another reminder of the importance of the initiative.

- **External Marketing Plan.** Efforts were made to encourage minority vendors to seek business with the department. Newspaper advertisements were placed in major newspapers around the state and department staff attended purchasing fairs where minority vendors were encouraged to become involved. At these fairs, purchasing staff provided minority and other vendors with the department purchasing plans so that they could determine their interest in doing business. In addition, the department marketed the
new streamlined paperwork process developed by the state for businesses to become certified as minority business enterprises.

- **Training.** In-depth training sessions were developed for procurement staff that provided useful information about the reasons for the initiative as well as ways to attract minority vendors.

**Accountability and Performance Measurement**

As a way to institutionalize the activities and goals surrounding the new initiative, top management established accountability standards. These included the following:

- Procurement staff were required to complete a self-assessment of their purchasing practices related to use of minority vendors. These assessments were shared with senior management who provided suggestions for improvement. In many cases, innovative approaches that were already being used by offices were shared with other offices.

- A base line of activity with minority vendors was established for each office using the department’s tracking system that was already in place. This tracking system was also modified to provide more useful information for senior managers and procurement staff. Progress was tracked on a regular basis by senior management staff, who then identified problem areas. Feedback was provided to the various offices so that changes could be made if necessary.

- Performance standards for senior managers and procurement staff were revised to include reference to the new initiative.

**RESULTS OF THE EFFORTS TO INCREASE USE OF MINORITY VENDORS AND CONTRACTORS**

All of these efforts have resulted in very significant increases in minority purchasing by the Florida Department of Health. Figure 2 illustrates the increase in minority expenditures over the last three fiscal years. In fiscal year 1997-1998, minority purchases in the department totaled approximately $4 million. In the next year (1998-1999) expenditures increased to $9.0 million. Driven by the One Florida Initiative and the department’s interventions described in this article, fiscal year 1999-2000 minority expenditures surpassed the two previous
years’ results combined, for a total of $20.5 million. The rapid increase in expenditures to minority vendors continued in fiscal year 2000-2001 with a total of $32.5 million.

**DISCUSSION: WHAT MAKES A SUCCESSFUL MINORITY VENDOR DIVERSITY PROCESS**

Much of the discussion about successful vendor diversity programs is found in the business management literature. This does not mean that
efforts to attract minority vendors do not occur in the public sector, but it does suggest that procurement issues are not addressed as comprehensively in the literature that focuses on the public sector as they are in the business management literature.

The focus of discussion on developing better access to purchasing opportunities for minority vendors is placed in two areas: problems or barriers to accessing minority vendors and how to develop successful supplier diversity. Barriers addressed in the literature often relate to organizational and cultural issues. Dollinger, Enz and Daily (1991) suggest that discriminatory or biased attitudes and practices within organizations are major contributors to problems in implementing supplier diversity programs. These authors point out that inadequate communication between minority vendors and procurement personnel also contributes to implementation difficulties. Examples cited include lack of information and knowledge about organizational procurement processes by minority vendors; difficulty of procurement personnel in identifying sufficient numbers of minority suppliers; and difficulty of minority vendors in dealing with bureaucratic “red tape.” Min (1999) observes that procurement personnel often rely on established relationships with non-minority vendors and are reluctant to develop new and potentially problematic relationships with new vendors. Min suggests that sensitivity to the use of minority vendors requires an integration of supplier diversity philosophy and practices into the culture and management of organizations.

In regard to the implementation of successful supplier diversity programs, common themes include: commitment by top management and purchasing staff (Scheuing, Goldman & Rogers, 1994; Aukalnis, Ketchum & Carter, 1995; Carter, Aukalnis & Ketchum, 1999); education and training of procurement staff (Moore, 1993; Scheuing, Goldman & Rogers, 1994; Aukalnis, Ketchum & Carter, 1995; Min, 1999; Carter, Aukalnis, & Ketchum, 1999); measurement and reporting of progress, (Scheuing, Golman & Rogers, 1994; Newman, Richards & Butler, 1994; Aukalnis, Ketchum & Carter, 1995); communication of program goals and objectives (Moore, 1993; Scheuing, Goldman & Rogers, 1994; Newman, Richards & Butler, 1994; Aukalnis, Ketchum & Carter, 1995; Min, 1999); and performance evaluation and certification programs (Aukalnis, Ketchum & Carter, 1995; Carter, Aukalnis & Ketchum, 1999).
When faced with the challenge of improving minority contracting over a short period of time, the department chose to use the tools of quality management to focus and direct the process. “Quality management” has been receiving increased acceptance in the public sector, primarily the federal government, since the mid 1980s. Although several agencies such as the Internal Revenue Service, Department of Defense, and the Equal Employment Opportunity Commission were taking note of total quality management in 1985, the total quality movement was formalized in 1988 with the creation of the Federal Quality Institute. The introduction of “quality management” into the federal government was part of a wider effort during the 1980’s to transfer private-sector management techniques to the public sector (Cohen & Brand, 1993). The primary role of the Federal Quality Institute was to promote the use of quality management principles in federal agencies and serve as a clearinghouse for quality and productivity information.

Since the 1980s, state and local governments have embraced quality management, but at a much slower rate. Several surveys conducted during the past decade have documented this trend. For example, the National Governor’s Association reported that at least 36 state governments were at least in the early stages of developing quality management programs (Rosenhoover & Kuhn Jr., 1996), while Kravchuk and Leighton reported in 1993 that 31 of the 50 state governments were implementing such programs. There were also several surveys and case studies conducted of local governments that mirrored this trend (Poister & Streib, 1994; Dobbs, 1994; West, Berman & Milakovich, 1993; Walters, 1992).

The public administration literature has approached the study of quality management in a variety of ways. Several scholars have noted concerns that quality management cannot translate well to the public sector due to unique conditions not found in the private sector (Poister & Harris, 1996; Pollitt & Bouckaert, 1995; Stupak & Garrity, 1993). Other scholars have identified specific aspects of quality management for study as they relate to the public sector. For example, Vinzant and Vinzant (1996) discuss the usefulness of blending strategic management and quality management practices while West, Berman and Milakovich (1993) focus on the importance of leadership to quality management. Berg (1997) examines the importance of employee involvement in the successful implementation of quality management.
An examination of the management literature related to quality management identifies several broad categories or approaches that are viewed as being essential to successful implementation.

- **Leadership and Management.** Quality management requires commitment and support from top management to guide organizational transformation (West, Berman & Milakovitch, 1993; Vinzant & Vinzant, 1996). Top management must establish and communicate a clear vision of organizational philosophy, allocate adequate resources, define roles and responsibilities, be a good role model, and monitor progress (Dobbs, 1994).

- **Customer Focus.** Quality management maintains that customer satisfaction is the benchmark by which the organization must measure success (Harrison & Stupak, 1993) and quality standards must be customer-driven (Dobbs, 1994). All systems have multiple customers and their definitions of quality must be understood and reconciled (Cleveland 1992). In addition, citizens are critical customers, so their participation must be encouraged (Stupak & Garrity, 1993).

- **Employee Participation.** Employee participation has become central to regular quality improvement efforts (Berg, 1997) and quality management is anchored in the notion of participative management (Harrison & Stupak, 1993). With quality management, employees gain influence over work processes, which improves management’s ability to achieve an organization’s goals (Cohen & Brand, 1993). Quality management in the public sector will lead to people empowered to make decisions (Stupak & Garrity, 1993).

- **Education and Training.** Education and training can help to reinforce the socialization process critical to quality management (Dobbs 1994). Teaching and learning is not a separate “stand-alone” process but is integral to an effort to implement new work processes and must be a regular integrated element of an organization’s operations (Cohen & Brand, 1993).

- **Data Analysis and Performance Evaluation.** The systematic use of facts and data to guide decision-making is an essential element of quality management (Harrison & Stupak, 1993). Harrison and Stupak also point out that many organizations train and reward managers to collect data and problem solve in a reactive mode rather than a proactive mode, as is found in quality management. In
addition, quality standards and measures are essential within quality management, with the focus being on the customer (Dobbs, 1994).

The Florida Department of Health’s experience illustrates the importance of securing top management support for an initiative based on social responsibility as well as the use of quality management concepts. Commitment from the department’s Secretary, deputy secretaries, and other senior managers was the initial driver of the process. Implementation of the remaining four components fanned out from management efforts to set priorities and provide a framework for proceeding. Much of the actual implementation of the initiative rested with department employees having technical and operational expertise in specific areas. For example, procurement staff and staff from the department’s communications office assumed primary responsibility for providing the education and training needed to support the initiative. The One Florida Action Team took on the responsibility of steering the course of the initiative, monitoring progress, and recommending changes when necessary. Procurement staff, along with their managers, located within the field sites and divisions and bureaus were held accountable for their own performance.

Components of the department’s quality management model also mirror best practices that have been described in the procurement literature. There is considerable focus in the literature on educational and training activities (Giunipero, 2000; Krause, 1997; Cruz & Murphy 1996; Carter & Narasimham, 1996; Fernandez, 1995; Kulchin, & Guinipero, 1993), internal and external communication channels (Arnold et al., 1999; Choi & Rungtusanatham, 1999; Fernandez, 1995), involvement from top management (Elram, et al. 2002; Choi & Rungtusanatham, 1999; Johnson, Leenders & Fearon, 1998), and development of databases and performance measures to track progress and make adjustments as needed (Elram, 2002; Simpson, Siguaw & White, 2002; Tan, 2002; Narasimham, Talluri & Mendez, 2001; Boyer & Pagel, 2000; Arnold et al., 1999; Choi & Rungtusanatham, 1999). It is also reasonable to suggest that many of the interventions described in the literature and implemented by the department would reduce or eliminate many of the barriers cited as contributing to the failure of supplier diversity programs. For example, ongoing monitoring and accountability processes should diminish unethical or illegal behavior on the part of procurement staff and vendors. Education and training activities should
reduce negative and discriminatory behavior by procurement staff and assist minority vendors to compete with their non-minority counterparts.

One potential challenge to the usefulness of the quality management model relates to the potential “top-down” or authoritative tone that an initiative such as One Florida can assume. It is true that an executive order from the Office of the Governor can carry considerable weight, especially when considering the potential impact that failure to act or show positive results can have on the jobs and reputations of those responsible for its implementation. However, it is important to note that the One Florida initiative focused on obtaining results and not necessarily on processes used by the various agencies to achieve those results.

Results from the Florida Department of Health’s efforts to create more diversity within its supplier pool suggest that a quality management model is very useful in changing organizational culture surrounding socially relevant issues. A comprehensive approach encompassing broad components of leadership and communication, customer focus, employee participation, education and training, and accountability and performance measurement, can result in changes in organizational priorities and perspective.

REFERENCES


