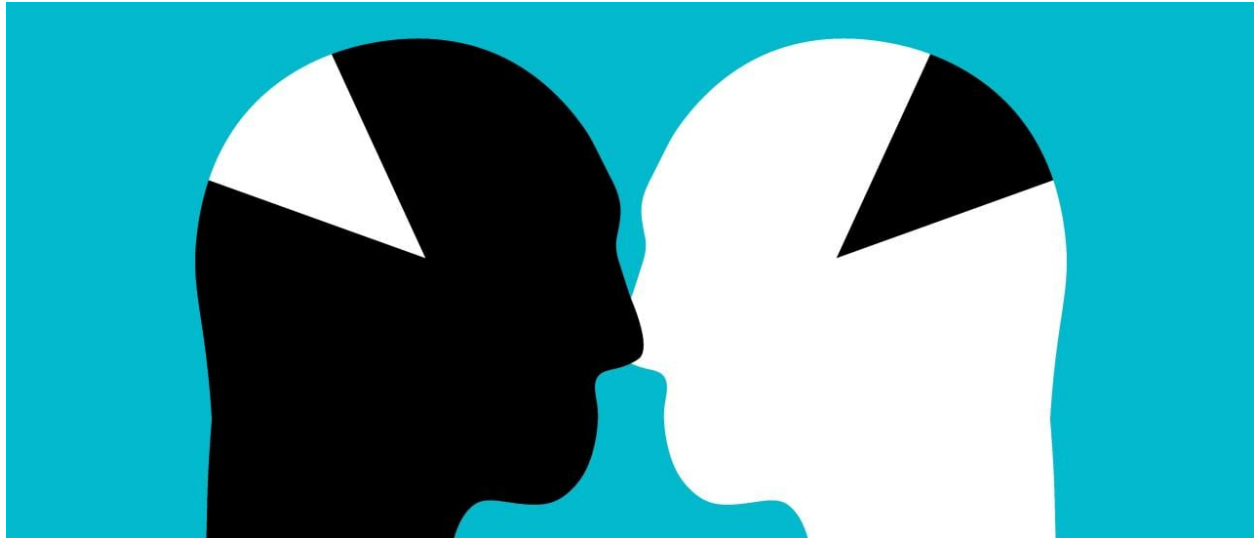

How Race Can Impact Sourcing Decisions



By Karca Aral , Syracuse University, and Luk Van Wassenhove , INSEAD

Winning contracts from buyer firms is crucial to the survival of small businesses - but racial bias can get in the way.

Racial discrimination and inequality are pressing issues throughout the world. Notably, a 2021 [report](#) by McKinsey revealed that unless progress accelerates, it could take up to 320 years to eliminate existing gaps in outcomes for White and Black Americans and achieve racial equality.

Given the interpersonal nature of racial discrimination, it has been researched in relation to labour, housing and peer-to-peer markets, which has led to the creation of [protective laws](#). Surprisingly, whether and how racial discrimination affects inter-corporate dealings remains largely unexplored, potentially due to the assumption that business-to-business relationships are immune from such bias.

While this may be the case for formalised trade relationships between large firms, racial bias could creep in in less formal settings, with negative implications for more vulnerable small businesses. If so, entrepreneurial activity, which is widely regarded to be a prime tool for addressing the [racial](#)

wealth gap, cannot fulfil its promise.

In our research published in *Production and Operations Management*, we investigated whether racial discrimination influences sourcing decisions. The survival of businesses – particularly small, minority-owned ones – depends on winning contracts from buyer firms. The presence of racial bias in sourcing would suggest that entrepreneurship cannot serve its function as an organic economic-levelling mechanism. Uncovering whether discrimination exists in sourcing is therefore of utmost importance to help create and steer policies and managerial guidelines.

What's in a name?

We ran a series of controlled experiments to study whether racial discrimination affects sourcing decisions. These focused on two stages of the procurement process, which are the key responsibilities of a procurement manager: order management and supplier selection. Study participants – individuals in the United States who held a management role – were randomly assigned to either a control or treatment condition.

Our aim was to analyse if the race of the sales manager (on the supplier side) affected the procurement manager's choice in selecting a supplier. To do so, we manipulated the buyer's perception of the sales manager's race by using names that, according to prior research, are perceived as racially distinctive. Additionally, we conducted a test on the perceptions of race associated with first and last name combinations to ensure they were perceived as racially distinctive for the purposes of our study.

In the control condition, participants assumed the role of a procurement manager and were presented with the choice between two suppliers with “White” names (i.e. Todd Meyer and Brad Hershberger), where one of the suppliers offered the buyer a lower price. In the treatment condition, participants were also asked to choose between two suppliers. However, in this case, the supplier offering a cheaper unit price had a “Black” name (Lamar Jackson) while the other had a “White” name (Brad Hershberger).

We found that participants were 6.5 percent less likely to opt for the supplier presenting a lower price when the latter had a distinctively “Black” name. While 61.6 percent of participants in the control group chose the cheaper supplier, only 55.1 percent of those in the treatment group made the same choice. The difference was statistically significant. This effect was observed

when controlling for the race and gender of the buyer, and additional analysis confirmed the robustness of our findings.

The effect of racial bias in sourcing

Overall, our findings indicate that there may be considerable racial bias when it comes to making sourcing decisions. One could say that in real life, where procurement and sales managers are likely to interact in person (which leaves no room for race perception mistakes), discrimination could be even more pronounced than the extent we detected in our experiments.

Even when organisations are committed to responsible operations, they may unknowingly become discriminatory buyers and perpetuate the racial divide through the actions of their procurement managers. This can significantly hurt the businesses' profitability by limiting its supplier pool, as potential suppliers who may have been a good fit for the company are eliminated due to racial discrimination. As a result, buyer firms may be left with higher-cost suppliers, as well as a smaller supplier base than what is optimal. This consequently leads to an increase in procurement costs, impacting the firm's bottom line.

If, instead, buyer firms can eradicate racial bias in supplier selection, they are more likely to include more suppliers that are owned and operated by individuals from underrepresented or underserved groups. This could increase the size of their supplier base and decrease procurement cost. What's more, increasing the ratio of minority-owned suppliers would help improve the corporate social responsibility (CSR) profile of the company.

The road ahead

We suggest that procurement bias training and supplier diversity programmes (where firms set targets for purchases from minority-owned suppliers) can help improve profitability by expanding the firm's supplier pool. Procurement bias training would help procurement managers build awareness on how bias could impact supplier selection, as well as provide tools to help them recognise and mitigate their own implicit biases. Supplier diversity programmes may result in guidelines that stipulate a minimum percentage of suppliers that are owned and operated by individuals from underrepresented and underserved groups.

Our findings can inform the ongoing policy debate on the importance of corporate diversity legislation. In the US, there are currently limited regulations that require organisations to promote corporate diversity, and existing ones are often **challenged in court**. To address the issue of racial bias in sourcing decisions, equal opportunity laws (similar to those in place in the labour market) could be required specifically for the sourcing context. Their adoption can help enhance the CSR profile and profitability of the affected firms.

We are witnessing an **intense backlash** against corporate **diversity, equity and inclusion (DEI) efforts** in the US, alongside a shifting policy debate around DEI. Indeed, it was **reported** that Microsoft recently axed its entire DEI team, while other organisations including Meta, Google and Home Depot have **made deep cuts** to their DEI programmes. Minority-owned businesses are **bearing the brunt** of this alarming pivot, with Black business owners reporting a decrease in the support they experienced previously in terms of investment opportunities and access to capital.

Our research suggests that corporate DEI programmes – particularly those that deal with supplier diversity – are not only the responsible thing to do but can also be beneficial for business. Beyond supplier selection, organisations should also recognise that the diversity of their workforce can influence the diversity of their supplier base and should therefore work to improve both aspects simultaneously.

Find article at

<https://knowledge.insead.edu/operations/how-race-can-impact-sourcing-decisions>

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About the research

"[Racial Discrimination in Sourcing: Evidence From Controlled Experiments](#)" is published in *Production and Operations Management*.