Increasing Supplier Diversity in Canada

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Introduction

Supplier diversity is a strategic business process where large organizations, in both the public and private sector, aim to provide businesses owned by diverse groups an equal opportunity to become their suppliers. Generally, a supplier is classified as diverse if it is at least 51% owned, operated and controlled by historically marginalized groups. This may include women, visible minorities, Indigenous people, people identifying as LGBT+, people with disabilities, or veterans.

Supplier diversity programs have important benefits: they can facilitate the growth of small and medium enterprises owned by disadvantaged groups that may not otherwise be able to access large clientele. They can also provide large organizations with access to new markets, improve their corporate image, and enhance flexibility and competition in their supply chains. Further, supplier diversity programs are a strategy for social change: they can promote equity by providing disadvantaged groups and communities with decent work and improving their economic inclusion.

The programs may include different elements, including requiring a certain percentage of suppliers to be diverse; listing supplier diversity on requests for proposals; ensuring staff are trained on supplier diversity; mentoring and developing diverse suppliers; investing in training of diverse suppliers; and making use of a supplier certification program, such as through the Women Business Enterprises Canada Council.

In the United States, federal public procurement includes set-aside policies, ensuring that a certain percentage of contracts goes to racial minorities, women, and business owners from other disadvantaged groups. Such policies have set a standard for supplier diversity that many private companies in the United States now follow. In comparison, as detailed in this report, Canadian companies and governments are lagging. Research suggests that stronger efforts could be made to strengthen supplier diversity in Canada, both in corporations and in public procurement. This policy brief discusses the state of supplier diversity in Canada, benefits of implementing it, potential barriers, and how companies and policymakers could better support it.

Supplier diversity in Canada

There are not many studies on the prevalence of supplier diversity in Canada. The few that exist have been published by non-profit organizations, and suggest that formal supplier diversity programs are not in widespread use. However, a lack of representative sampling in these studies suggests that results are not generalizable. Further research is necessary to gain a better understanding of the proportion of Canadian organizations undertaking supplier diversity.

For example, a 2012 survey of 165 supply chain professionals from multiple industries, the majority of whom were based in Ontario, discovered that 25.5% had a supplier diversity program, even though 47.6% had an employee diversity policy or program. Further, the study found that of 95 employers in the Greater Toronto Area in Canada’s Top 100 Employers list, only 13.7% had supplier diversity programs, although 73.7% had employee diversity programs. Note that the study did not detail what these employee diversity programs entail. A follow-up study conducted in 2016 found that, of 242 organizations from different industries across Canada, 39.1% had supplier diversity initiatives.
Both of these studies discovered that Canadian companies that are connected to or are headquartered in the United States are more likely to have a supplier diversity program. This is likely influenced by set-aside policies from the United States federal government, established in the 1960s, which aimed to give racial minority-owned businesses a fair chance at bidding on contracts. These led to the formation of extensive supplier diversity initiatives in both the public and private sector, which soon expanded to target other groups, such as women. For example, United States federal agencies currently allot 5% of procurement contracts to women-owned businesses, 5% to small disadvantaged businesses, and 3% to service-disabled veteran-owned small businesses. In terms of the private sector, the Billion Dollar Roundtable in the United States, established in 2001, celebrates companies that have spent at least USD 1 billion on women and minority-owned suppliers.

In contrast, Canada appears to be lagging behind in promoting supplier diversity, particularly in the public sector. The 2016 study mentioned above found that only 21.1% of public sector and government agencies that were surveyed had a supplier diversity program, compared to 51.2% of private organizations surveyed and 39.1% of all organizations surveyed. The concept of supplier diversity does appear in Canada’s federal public procurement strategy with a set-aside program, called the Procurement Strategy for Aboriginal Business, which ensures that Aboriginal businesses can receive federal contracts. However, this policy does not mean that all government bodies or agencies have supplier diversity programs in place. Further, business owners from other disadvantaged groups are not benefitting.

### The benefits of supplier diversity

**Economic benefits**

Scholars have suggested that supplier diversity programs can improve economic opportunities for disadvantaged groups. Diverse suppliers are likely to be small or medium enterprises (SMEs), employing fewer than 500 employees. Although men own the majority of SMEs in Canada, the number owned by women has experienced relatively fast growth, increasing from 232,800 in 2005 to 300,000 in 2013 (33%). The number of men-owned enterprises increased by only 22% in the same period. Further, in 2009, visible minorities owned about 10% of all SMEs in Canada, and data suggest that visible minority business owners are more likely to own new enterprises (created within the last two years) than non-visible minority business owners. Generally, however, data also suggest that survival rates of new women and minority-owned businesses tend to be lower than men- and white-owned businesses, respectively.

There has been a focus in Canada on supporting and growing these diverse SMEs by providing access to financing, such as through the Government of Canada’s Women Entrepreneurship Fund or through the Business Development Bank of Canada. However, a higher prevalence of supplier diversity programs would allow diverse SMEs to better access markets, which in turn would lead to potentially more long-term and sustainable financing. Indeed, one study from the United States showed that racial minority business owners face barriers to accessing markets compared to white business owners, due to discrimination and lack of networks. Having access to government and large business clients through set-asides allows them to compensate for this disadvantage. Another study showed that public procurement policies to assist Black-owned businesses in the 1970s in the United States facilitated their growth, which
in turn encouraged others in Black communities to pursue business ownership. Stron

Supplier diversity programs could thus prove effective in supporting minorities’ and women’s entrepreneurship in Canada, in conjunction with other SME development strategies.

Supplier diversity can also economically benefit large organizations. The rapid growth of businesses with women and minority owners suggests that if large corporations focus on supplier diversity, they have an opportunity to create and expand business networks, gain access to different markets, and increase their customer bases, all of which could enhance financial performance. Moreover, working with smaller, numerous suppliers could lead to enhanced flexibility in the supply chain, and increased competition for suppliers can mean higher product and service quality for large organizations. From a corporate social responsibility perspective, a strong supplier diversity program can also improve corporate image and reputation.

**Social benefits**

Supplier diversity programs offer the possibility of increased inclusion for marginalized groups, and of investment in local communities. For instance, considering that Canada’s public procurement spending is CAD 22 billion annually, public procurement is not solely an administrative concern, but is also directly related to social policy. That is, the government has the opportunity to use this spending to promote decent work and distributive justice. Firstly, public procurement contracts can prioritize human rights standards, for example by ensuring that neither their suppliers nor their suppliers’ subcontractors are violating any labour or environmental laws. Secondly, aiming to contract with groups that are economically disadvantaged could improve their socioeconomic inclusion, poverty reduction, and skills development.

Further, as large companies increasingly focus on their social impact on a broad range of stakeholders, supplier diversity programs are one means for transforming business operations to achieve social and economic good. In August 2019, 181 CEOs from the Business Roundtable, a group of influential business leaders, signed a statement redefining the purpose of a corporation to benefit all stakeholders, not just shareholders. Moreover, impact investments in Canada (investing made with the intention to generate beneficial social and environmental impact) increased from $8.15 billion in 2016 to $14.75 billion in 2018. Thus, the imperative to contribute to social benefit is becoming more prescient for corporations.

**Barriers to supplier diversity**

**Limited access to networks for diverse suppliers**

Diverse suppliers often do not have access to networks or social capital to find out about, or compete for, supply opportunities with large organizations. For instance, scholars have noted how government procurement often uses “old boy networks” to find construction contracts in the United States. Researchers have also found that diverse small businesses—particularly those owned by visible minorities or immigrants—are likely to be involved in specific sectors, in specific geographic locations. A study from the United Kingdom detailed that racial minority-owned businesses tend to be concentrated in retail, catering, building, or other low-reward areas of the economy, and located in poor urban areas. This can limit their abilities to connect with large organizations. Even though there are supplier councils in place in Canada—such as the Canadian Aboriginal and Minority Supplier Council, or Women Business Enterprises Canada—to create links between certified diverse businesses and large organizations, large
organizations may not use these resources, or small businesses may not see the purpose in being certified.

**Lack of resources of suppliers to bid on contracts**

Small businesses owned by women and minorities tend to have limited internal financial or staff resources. Research shows that complex requirements, business jargon, and unreasonable pre-qualification processes to bid on contracts could be insurmountable hurdles.26 27 28 Large organizations also may not pay supplier invoices promptly, an important factor for small firms.29 Indeed, one policy report found that small business owners do not bid on contracts because they perceive that the high investment put into responding to a request for proposal will not yield a worthwhile return.30

**Resistance from procurers**

Resistance or backlash from within a large organization can prevent the implementation of supplier diversity.31 Organizations may already have established supplier relationships, and implementing a new program comes with significant commitments in time and effort.32 Further, organizational stakeholders may not understand why supplier diversity is important, or may perceive that it is illegal to procure based on diverse business ownership.33 34

Thus, the culture of an organization can influence supplier diversity program success. One research study found that organizations with “constructive” organizational cultures—that is, culture that encourages employee collaboration and interaction to meet organization needs—are more likely to have higher spending on supplier diversity and diversity programming, as compared to cultures that are characterized by avoidance, power, or competition.35 Organizations that do not educate and collaborate on supplier diversity, including with leadership and procurement departments, will be less inclined to support this programming. It follows that research has also found that top management support and champions for supplier diversity are necessary for a strong supplier diversity program.36

**Narrow procurer criteria for economic efficiency**

Academic studies on public procurement for social good have pointed to an ongoing trend, since the 1980s, of prioritizing economic efficiency by streamlining the procurement process and obtaining goods and services at the lowest possible price.37 Specifically, this entails reducing the number of suppliers and instead collaborating with larger vendors that can provide a high volume of varied products. Indeed, working with many small, diverse businesses may be costly and even risky, because these businesses are likely less established.38 However, a dominant focus on obtaining services for a low price, rather than considering overall benefits, can disadvantage implementation and progress of supplier diversity programs.

**Poor design or lack of other supports**

Some academic studies on supplier diversity programs in the public sector have noted that they may not result in positive outcomes for small businesses if the programs are not well-designed, or if complementing supports are not provided. For instance, research on American diverse public procurement programs in the 1970s has suggested that fraud was a significant impediment to program success: “front firms”, which appeared to be owned by racial minorities while most of the work was in fact done by white contractors, were common. It became necessary to implement monitoring and certification processes, and to better track actual participation of minorities.39
Further, one study of set-aside public contracts for racial minority businesses in New Jersey found that set-asides increased the number of contract bids from racial minority business owners, as well as the money awarded to these businesses in general. However, because the number of available contracts stayed the same, competition increased and minority businesses’ success rates in winning contracts declined.\(^{40}\) Indeed, even with supplier diversity, larger and more established minority-owned businesses may dominate public contracts and experience growth, while smaller businesses may not see benefits.\(^ {41}\) Another notable study from the United States found that racial minority-owned businesses that received at least 25% of their revenue from government business were significantly more likely to go out of business within four years than those that did not heavily depend on public procurement. The authors noted the importance of having diverse clientele, and of avoiding over-reliance on government programs, for the survival of minority-owned businesses.\(^ {42}\) Both of these studies also suggested that minority-owned businesses continue to face discrimination from potential clients even with supplier diversity programs in place. As such, supplier diversity must be implemented in conjunction with other initiatives to support small diverse businesses, in both the private and public sector.

**Recommendations for increasing supplier diversity**

**Set procurement goals, including in public policy**

Large organizations should start by setting specific targets for diverse suppliers. A 2018 report from Carleton University’s Centre for Research and Education on Women brought to media attention that this is a crucial step for the government to take in order to better promote diversity in public procurement.\(^ {43}\) The Canadian Women’s Chamber of Commerce has since suggested that legislation should require at least 15% of public procurement spending to be allocated to women and visible minorities. This could also include subcontracting, which would allow public spending to improve contractors’ own supplier diversity programs.\(^ {45}\) Companies in the private sector can set similar goals for their procurement needs.

**Build capacity for diverse suppliers**

Research has found that training sessions on procurement for SMEs reduce their perceived barriers to accessing procurement contracts.\(^ {46}\) Indeed, supplier diversity programs will not be effective without building capacity in the small businesses themselves. Government, private companies and intermediary organizations such as supplier councils can contribute to capacity-building by providing training, development, and mentoring services through their supplier diversity initiatives. In this way, business owners that do not have sufficient knowledge about bidding on supplier contracts can understand where their gaps are and how to fill them. For example, training may focus on how to become certified as a diverse supplier, how to write bids, and how to be placed on bid lists for local contracts.\(^ {47}\)

**Reduce red tape for diverse suppliers**

Onerous and bureaucratic processes to apply for supplier contracts can limit supplier diversity. Both the private and public sector can facilitate these business relationships by simplifying and streamlining processes for applications and ensuring that they are easy for potential suppliers to navigate. For instance, contracts that are too large for small suppliers to bid on will not benefit diverse businesses with limited resources, so contract unbundling is important.\(^ {48}\) Further, organizations can target their postings for supplier contracts to areas and sectors that are more likely to have diverse businesses. Suppliers
should be able to access information about processes for bidding on contracts, have ample time to apply, and have easy access to certification. Large organizations should also ensure they pay suppliers promptly.

**Conduct research, monitoring and evaluation on supplier diversity**

Data on supplier diversity programs in Canada are currently sparse and not representative. Policy researchers and government can conduct surveys on the supplier diversity programs of large organizations to get a more accurate picture of the state of supplier diversity in Canada. They can also better track the business activities of diverse suppliers. Procurement departments could prioritize the monitoring and evaluation of their supplier diversity programs and publish their data. Success stories and case studies from this data could lead to buy-in from other companies who may be resistant to supplier diversity.

**Ensure human resources and diversity professionals’ expertise is used in supplier diversity**

Scholars have suggested that human resources and diversity professionals in companies are often focused on employee diversity, such as recruitment and inclusion strategies, while external projects such as supplier diversity tend to be left to the procurement department. This is a missed opportunity because these professionals are likely to have expertise in building diversity programs for their organizations, and can therefore help improve the organization’s supplier diversity program as well. For example, they can increase employees’ knowledge and support of supplier diversity by including content on supplier diversity in employee diversity training programs. Another example is that professionals working on employee diversity may already have business contacts belonging to minority groups or from marginalized communities, who could in turn facilitate networking and business relationships between the company’s procurement department and diverse suppliers.

**Communicate with, and educate, stakeholders**

Studies have pointed to backlash and resistance as a barrier to achieving supplier diversity, as some perceive that it is a barrier to a free market or is unfair. It is imperative that education on the benefits of supplier diversity is widespread and applies to all stakeholders. Supplier diversity will not be effective unless business and policy leaders, procurement professionals, and even suppliers themselves are invested in the program.

**Conclusion**

Considering the growth of women and minority-owned small businesses in Canada, and the barriers that these groups can face to economic inclusion, an expansion of supplier diversity in both public and private sectors in Canada’s economy could provide significant benefits across society and to organizations themselves. The government and large private organizations can begin to reduce barriers to supplier diversity through legislating or setting targets for supplier diversity, providing more capacity building and training programs, undertaking frequent data collection, and streamlining processes for suppliers.
References


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