



SUPPLIER DIVERSITY IN THE GTA: Business Case and Best Practices

November 2012

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About the Author

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Dedications

To the memory of Medgar Evers, and other immortals of the civil rights movement; to the memory of my Dad, Douglas E. Larson, coach of the Minneapolis City Champion Hennepin United Methodist basketball team, who showed me and my brother David the wonders of diversity many years ago; and to my wife, Joan E. Larson, Natalie M. Larson and Lee Banford, who continue to shine a light on the beauty and power of diversity.

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EXECUTIVE SUMMARY

Statistics Canada predicts that nearly 63 per cent of people living in the Toronto census metropolitan area will belong to a visible minority group by 2031. These are the future customers, employees, investors and taxpayers of the Greater Toronto Area (GTA). They will also be the future owners and operators of businesses that will supply commercial, not-for-profit and governmental organizations. Now is the time to prepare for this future, the time to embrace supplier diversity (SD).

This report, part of the DiverseCity Counts research series, is an examination of supply chain policies and practices of large public, private and voluntary organizations. These policies and practices are important, yet often overlooked, levers of change and influence. This study focuses on SD programs; more specifically, on procurement policies and practices centered on doing business with suppliers owned by visible minorities.

This issue is of paramount importance to the GTA. It can promote economic development by creating opportunities for small businesses, which are increasingly owned by visible minorities. There is a lot at stake. The GTA organizations represented in our research account for at least \$100 billion in spending annually, or about 33 per cent of the region's economic activity.

With assistance from the Ontario Institute of the Purchasing Management Association of Canada and the Ontario Public Buyers Association, a sample of supply chain professionals was invited to complete an online questionnaire in August and September 2012. These associations have members across the province, with especially strong representation in the GTA.

In addition, social responsibility or diversity reports and websites of organizations based in the GTA were analyzed. For comparison purposes, a group of companies based in the Chicago area was also examined. Three sources were used to identify these

organizations: *Greater Toronto's Top Employers for 2012*, *The Financial Post* 2011 FP500, and U.S. *Fortune* 500 2012 companies based in Illinois.

Our research found a strong and direct link between employee diversity and SD. Indeed, it is hard to find an organization that has a SD program without an employee diversity program, suggesting that employee diversity is a prerequisite for SD. Perhaps not surprisingly, we also found a strong link between organizational size and supplier diversity, with larger organizations more likely than smaller ones to have established SD programs.

Chicago-based companies are much more likely than GTA companies to have SD programs – 77.4 per cent in Chicago compared with 23.3 per cent in Toronto. This difference can be partly explained by legislation which arose in response to the civil rights movement. These laws required companies to engage in diversity supply chain policies in order to do business with government. No such supplier rules or regulations exist in Canada.

Interestingly, Canadian organizations with a connection to the U.S. – generally as a subsidiary or as a parent company to an American firm – are more likely to have SD programs than organizations with no U.S. link. Among the GTA top employers analyzed, those with an American connection are twice as likely as those without to have an established SD program. Among the largest GTA-based FP 500 firms, those with ties to the U.S. are five times more likely to have SD programs than FP500 firms that do not have a connection. But not all Canadian companies with American parents have been included in the parent company's SD program. For every SD program at an American parent firm that includes its Canadian subsidiary, there are three SD programs that include the U.S. part of operations only.

The research revealed that the biggest barrier to SD, traditionally, has been difficulty finding qualified

minority-owned suppliers. Organizations, such as the Canadian Aboriginal and Minority Supplier Council, which certify minority-owned suppliers and organize events to make introductions, can help break down this barrier.

Despite the barriers, organizations have cited the following motivations for creating SD programs: To improve their corporate image, broaden social responsibility programs, bring social and/or economic benefits to communities, satisfy requirements of direct (first-tier) customers, and to reduce costs.

Establishing SD is easier where there exists commitment from management and established supplier development programs. (Supplier development is a process wherein large organizations work with suppliers for the purpose of performance improvement.) Other notable facilitators to creating SD within an organization include a supportive organizational culture, commitment to diversity throughout the supply chain, and performance metrics that include SD.

Four leading practices to implement SD were identified in our analysis, based on their adoption by more than 80 per cent of the organizations represented by survey respondents. The most common practices cited are as follows: The inclusion of supplier diversity criteria on requests for proposals released to prospective suppliers; and training internal staff about supplier diversity. Other best practices include supplier certification, (which is done by organizations such as the Canadian Aboriginal and Minority Supplier Council in Ontario), and focusing on both second-tier and first-tier suppliers. A large firm is more likely to find minority-owned suppliers at the second-tier because their first-tier or direct suppliers tend to be large and established.

Other important practices for implementing SD, adopted by more than 60 per cent of survey respondents, include the following: measuring SD performance, covering SD in the annual social responsibility report, and mentoring/developing diverse suppliers.

There is potential to encourage organizations to implement SD policies by promoting the business case. Diversity in the supply chain can lead to increased customer satisfaction (and sales revenue), increased employee satisfaction (and reduced turnover), increased investor confidence (and access to capital), an improved public image, enhanced innovation, and better product/service quality at lower cost due to greater and more diverse competition.

Given the compelling business case, organizations of all types are urged to consider SD. There appear to be five stages of SD development. An organization is advised to determine its current stage and consider advancing its SD program to the next stage.

Stage 0 – no supplier diversity

These organizations have yet to consider SD.

Stage 1 – equal opportunity

Stage 1 organizations explicitly state they do not discriminate against suppliers based on race, gender, etc. However, they have yet to take proactive steps to reduce barriers to diversity in their supply chains.

Stage 2 – initial supplier diversity

During stage 2, organizations create a SD policy and train staff about the business case and practices of SD.

Stage 3 – partial supplier diversity

Now, organizations begin to actively seek visible minority suppliers. SD is reflected in their requests for proposals, where diversity is noted and perhaps even given special consideration.

Stage 4 – full supplier diversity

Stage 4 organizations fully embrace SD. The program includes mentoring, outreach to bring diverse suppliers to the table, tracking diverse supplier spending, and a second-tier program.

Organizations interested in learning more have opportunities to benchmark and learn from the best. While world-class SD programs are mostly in place at American organizations, there are numerous examples in Canada: CIBC, Deloitte & Touche, Ernst & Young and RBC are Canadian firms and subsidiaries deeply committed to supplier diversity.

We have a glimpse of the future of the GTA. Its people are increasingly diverse. These people will be the customers of GTA organizations. These people will be their employees. Who will be their suppliers?



INTRODUCTION

Now is a good time for organizations to prepare for the future; a time when increasing numbers of customers, employees and leaders will belong to a visible minority group.

Statistics Canada predicts that approximately three Canadians in ten (30.6%) will be a member of a visible minority group by 2031, when Canada will have between 11.4 and 14.4 million visible minority persons. In the Toronto census metropolitan area, more than three persons in five (62.8%) will belong to a visible minority group by 2031, compared with 42.9 per cent in 2006.¹

There are three ways that organizations can prepare for a more diverse future. First, they can establish and implement employee diversity policies. Second, they can make sure that there is ethnic and racial diversity in their leadership, both within their organizations and on their boards. (While diversity can be defined much more broadly, this report focuses on racial and ethnic diversity.) Third, organizations can ensure that they do business with organizations that are owned and operated by visible minorities – in other words, they can infuse diversity into their supply chains. This report covers this third pillar because it is vitally important to the GTA's and the region's prosperity.

Purpose

A growing body of research-based evidence suggests that employee and leadership diversity is an asset for the Greater Toronto Area (GTA) – and beyond. Diversity has been linked to improved financial and organizational performance, increased capacity to link to domestic and global markets, expanded access to skilled labour pools (in a time of looming labour shortages), increased creativity and innovation and enhanced social inclusion.

Similarly, the academic research reveals a significant link between supplier diversity and a host of economic and social benefits. Including diversity in

the supply chain can help organizations access new markets, enhance their reputation and improve the bottom line.

This report, the latest in the DiverseCity Counts research series, seeks to determine the extent to which organizations in the GTA are reaping the benefits of diversity in the supply chain. It includes an examination of supply chain policies and practices of large public, private and voluntary organizations. Supply chain policies and practices are important – yet often overlooked – levers of change and influence. This study focuses on supplier diversity (SD) programs – the procurement or purchasing policies and practices centered on doing business with suppliers owned by visible minorities.

Objectives of the study include the following: Estimating the number or percentage of GTA organizations that have SD policies or programs; comparing organizations in the GTA to those in a similar-sized city in the United States; contributing to the small, but growing, literature on SD, with a focus on Canada; highlighting best practices and making recommendations on their implementation.

Supplier diversity and the supply chain

Supplier diversity (SD) “seeks to identify diverse supply partners and systemically integrate inclusive practices,”² and to “provide suppliers equal access.”³ SD includes initiatives to increase the number of minority-owned businesses that supply goods and services to organizations.⁴

The Institute for Supply Management (ISM), based in Arizona, is arguably the leading global authority on SD programs. The institute includes “diversity and inclusiveness – supply base” among its nine Principles of Sustainability and Social Responsibility.⁵ The institute encourages supply chain professionals to do the following: “(a) provide diverse suppliers the opportunity to participate in sourcing opportunities;

Definitions

Supply chain: A group of linked organizations, starting with raw material suppliers and ending with final consumers. Supply chain organizations include farms, mines, manufacturers, retailers, service providers, government agencies and not-for-profit entities. The objective of a supply chain is to provide end customers with products and services.

Procurement: Buying of goods and services to enable and support the operation of an organization.

Supply chain diversity: For our purposes, diversity refers to the people who own, operate and control supply chain organizations, with special emphasis on those that provide goods and services to the focal organization.

Tier 1 Supplier: An organization's direct supplier; a person or another organization that provides goods and/or services to the focal organization.

Tier 2 Supplier: An organization's supplier's supplier; a person or another organization that provides goods and/or services to the tier 1 supplier.

Tier 1 Customer: An organization's direct customer; a person or another organization that the focal organization serves.

Tier 2 Customer: An organization's customer's customer; a person or another organization that the tier 1 customer serves.

Visible minority supplier: A supplier that is at least 51 per cent owned, operated and controlled by a person or persons who are members of a visible minority group. Visible minority suppliers are also known as minority business enterprises. Appendix A shows the visible minority groups identified by Statistics Canada.

(b) promote inclusion of diverse suppliers in the organization's supplier development and mentoring programs; (c) ensure long-term program viability through application of forward-thinking concepts, ideas and innovation; and (d) encourage and support diversity of thought, ideas and innovation."

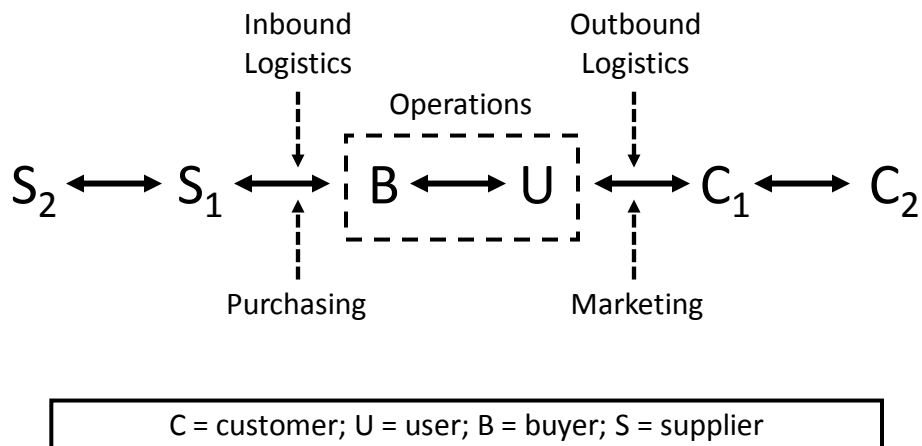
SD involves purchasing goods and services from businesses owned and operated by minority business enterprises, women business enterprises and disabled veteran business enterprises.⁶ In the U.S., minority business enterprises are defined as "businesses in which more than 50 per cent of the ownership and management of daily operations are controlled by one or more of the following groups: Black

Americans, Hispanic Americans, Native Americans, Subcontinent Asian Americans and Asian-Pacific Americans."⁷ To be an American minority business enterprise, the business also must be located in the United States.⁸

In Canada, minority-owned businesses are defined somewhat differently, based on the Statistics Canada classification of visible minorities. There are 12 different categories of people defined as visible minorities by Statistics Canada (see Appendix A).

The Supply Chain model, shown in Figure 1, defines the roles of various key supply chain players and activities in SD. Within an organization, professional

Figure 1. The Supply Chain Model



buyers make purchases of goods and services on behalf of their users, their organizational colleagues. The colleagues, as well as first-tier customers (C1), second-tier customers (C2), and consumers, can influence how buyers make decisions. SD programs can extend throughout this supply chain, beyond first-tier suppliers (S1) to suppliers' suppliers or second-tier suppliers (S2). Considering the entire supply chain, including internal operations, will enable the most thorough understanding of the business case for SD.

The Research

This report examines the extent to which GTA organizations are involved in supplier diversity, what motivates them, the barriers they face, and identifies how these barriers can be overcome.

The research consisted of a literature review, a survey of supply chain professionals and a content analysis of publicly-available information for 138 GTA organizations that account for approximately 33 per cent (over \$100 billion annually) of the region's economic activity. An additional 32 Chicago-based companies were analyzed for comparison purposes. Finally, a number of interviews were conducted to help clarify and understand some of the issues related to diversity in the supply chain.

LITERATURE REVIEW

Although there are quite a number of short stories about supplier diversity (SD) programs or quick and dirty how-to guides published in the trade press,⁹ rigorous academic research on the topic is sparse.¹⁰ According to one report, “the relatively few existing studies are almost all based on U.S. experience in implementing programs aimed at sourcing from minority and/or women-owned suppliers.”¹¹ Although limited, the existing literature is helpful in identifying the motivators, barriers, facilitators, and the business case for SD.

Motivators

Early motivators for SD in the U.S. included following government regulations, as well as fulfilling corporate social responsibility goals and creating opportunities for the minority population.¹² In the U.S., minority purchasing programs became prevalent following federal legislation and rulings during the Carter Administration. In 1977 the president signed the Public Works Employment Act, requiring at least ten per cent of federal funds awarded to state or

local governments for public works projects be used to contract for services or supplies from businesses owned by minorities.

As a result, early efforts to establish minority-owned business enterprise purchasing programs were a way for companies to demonstrate their commitment to corporate social responsibility and respond to demands from community groups and the government.¹³ The U.S. Congress has passed a number of pieces of legislation on minority-owned businesses and procurement. Public Law 99-661 passed in 1986, for example, requires companies under contract with the federal government to source at least five per cent of each contract from minority-owned businesses.¹⁴

Canada has no comparable legislation or regulations around supplier diversity. The Federal Employment Equity Act, however, has been credited with spurring employee diversity efforts, suggesting that a supplier policy may have the same effect.

Supplier Diversity Motivators^{18,19}

- legislation/public policy mandates, such as affirmative action guidelines in the United States
- stakeholder expectations, including expectations of government agencies, taxpayers, consumers, employees, lenders, and of parent companies upon their subsidiaries
- ethical influences, driven by corporate social responsibility efforts and public relations considerations
- economic opportunities, based on demographic shifts, economic development—and the business case
- advancing a social good by diffusing economic disparity
- enhancing creativity and innovation
- reducing dependence on current suppliers
- increasing networking opportunities
- realizing cost benefits of local sourcing

Into the new millennium, the business case for SD has become increasingly prevalent as a key motivator for introducing policies around supply chain diversity. One source notes three main drivers of SD: government rules and regulations, goodwill and social responsibility, and the business/market-driven case.¹⁵ Demographics were changing; minority markets were growing as a percent of the total.¹⁶ One article describes the primary motivators for three leaders in SD: Unisys, JPMorgan Chase and Ford Motor Company. Unisys is inspired by customer pressure; JPMorgan is motivated to reduce costs and reach new markets; and Ford is driven by a desire to create wealth in the community, enabling people to buy Ford cars.¹⁷

Barriers

The literature also identifies a number of barriers to SD.

When SD policies were first developed, a barrier to their success quickly emerged – the problem of finding minority-owned suppliers.²⁰ Essentially, the perception that there were only small numbers of minority business enterprises made it difficult to find qualified suppliers. In addition, atmosphere and opportunism have been listed as key impediments to minority business enterprise supplier programs. Atmosphere refers to the discriminatory, unfriendly or patronizing environment suppliers may face. Opportunism occurs either when a supplier overstates its capabilities, or when a buyer solicits bids from suppliers who have little chance of winning.²¹ (Hopefully atmosphere has improved during the last twenty years.) Other barriers include perceived “hassles” in meeting minority business enterprise purchasing mandates, the undercapitalization of minority business enterprises, disillusionment of minority business enterprises with corporate bureaucracy, and minority business enterprises having difficulty finding contracts to bid on.²²

Because minority suppliers tend to be small businesses, SD seems to be contrary to the current trend in business of consolidating the supply base, and doing business with fewer, larger suppliers.²³ There is also some debate about the impact of just-

in-time delivery systems on SD. Just-in-time delivery systems are often associated with supplier reduction and greater reliance on fewer, preferred suppliers,²⁴ perhaps closing the door on small minority business enterprise suppliers. Just-in-time also has the potential to create opportunities for SD, however, because the process generally requires supplier certification and development and tends to favour local suppliers.²⁵

Other possible barriers to SD programs include internal resistance. This may include buyers not wanting to break out of established relationships with non-minority business enterprise suppliers or cases where buying is not being done by purchasing professionals. It also takes time and money to monitor the program and report to relevant stakeholders.²⁶ Further, there are costs of setting up and administering SD programs, along with costs of training staff and communicating internally and with suppliers.²⁷ The Conference Board of Canada argues that turbulent economic times and lack of a consensus definition of SD may stall such initiatives.²⁸

Facilitators and Tools

If all of the above barriers are the bad news, the good news is that there are a variety of facilitators and tools available to overcome many of these barriers.

Facilitators of minority purchasing programs include the following: having top management support, developing a formal policy, designating a responsible individual, setting goals and assessing performance. Two examples of overall performance measures are the percentage of total spending with minority business enterprise suppliers and the number of minority business enterprise suppliers used. Other tools, such as use of supplier directories, becoming a member of a minority business group, such as the U.S. National Minority Supplier Development Council, and advertising in non-traditional media can help buyers find minority business enterprise suppliers.²⁹ Arguably, acceptance of SD throughout the organization is as important as top management support.³⁰ Attending minority business enterprise trade

fairs, checking supplier references and credit and encouraging minority business enterprise suppliers to improve quality can also facilitate SD.³¹

One survey of minority business enterprise purchasing programs found top management support and performance measurement to be significant predictors of SD program success.³² According to research conducted by Richards and Ballenger, “accountability is critical to ensuring supply chain professionals are delivering on their commitment to supplier diversity, and that diverse suppliers are providing the best value.”³³ In another report the following measures of SD performance were identified: percentage of organizations with a policy posted on a public website; percentage of organizations with policies and procedures urging purchasing professionals to contract with diverse suppliers; number of employees assigned to the program; number of SD outreach events sponsored or attended; percentage of organizations that require suppliers to have supplier diversity programs; and percentage of organizations

with a process for verifying diverse suppliers.³⁴

Additional facilitators and tools include supplier development and mentoring, second-tier supplier programs, internal communication and training and targeted advertising.³⁵ Second-tier programs focus on a suppliers’ suppliers. This has the effect of extending SD up the supply chain often by encouraging first-tier suppliers to implement SD programs.

Whitfield and Landeros examine organizational culture as a facilitator of SD. They link elements of the Organizational Culture for Diversity Inventory to spending with diverse suppliers.³⁶ Constructive cultures – characterized by achievement and encouragement – are associated with greater levels of SD spending. Supportive cultures are spontaneous, empathetic and affirmative; while non-supportive cultures are evaluative, oppositional, competitive and perfectionist.³⁷

Facilitating Supplier Diversity

Adobor and McMullen offer the following six broad guidelines for developing supplier diversity:

1. integrate SD into business goals;
2. gain top management support;
3. promote SD champions;
4. develop a supportive organizational culture;
5. build strong relationships; and
6. create strategies to recruit diverse suppliers.³⁸

Cole suggests six strategies for taking SD to other countries, i.e. bringing American-style SD to Canada:

1. redefine “diversity” in each country;
2. acquire an understanding of cultures, history and values in each country;
3. align corporate initiatives with government policy guidelines;
4. inform diverse suppliers on the value of certification;
5. educate purchasing professionals about global supplier diversity; and
6. create partnerships with foreign outreach organizations.³⁹

Although all these are important, the Conference Board of Canada emphasizes the need to establish and reinforce the business case for SD, ultimately focusing on return on investment.⁴⁰

The Business Case

Perhaps one of the most striking themes in the literature is the growing acknowledgment that a diverse supply chain can improve the corporate bottom line.

According to Carter et al. "sourcing from minority business enterprises [MBE] results in more than just window dressing for public relations. MBE suppliers bring value and innovation to the supplier base. Broadening the supply base to include MBEs can also result in suppliers that more closely mirror the buying firm's customer base."⁴¹ By 2000, the case for SD evolved from addressing social responsibility issues to a variety of reasons that make it good for business.⁴²

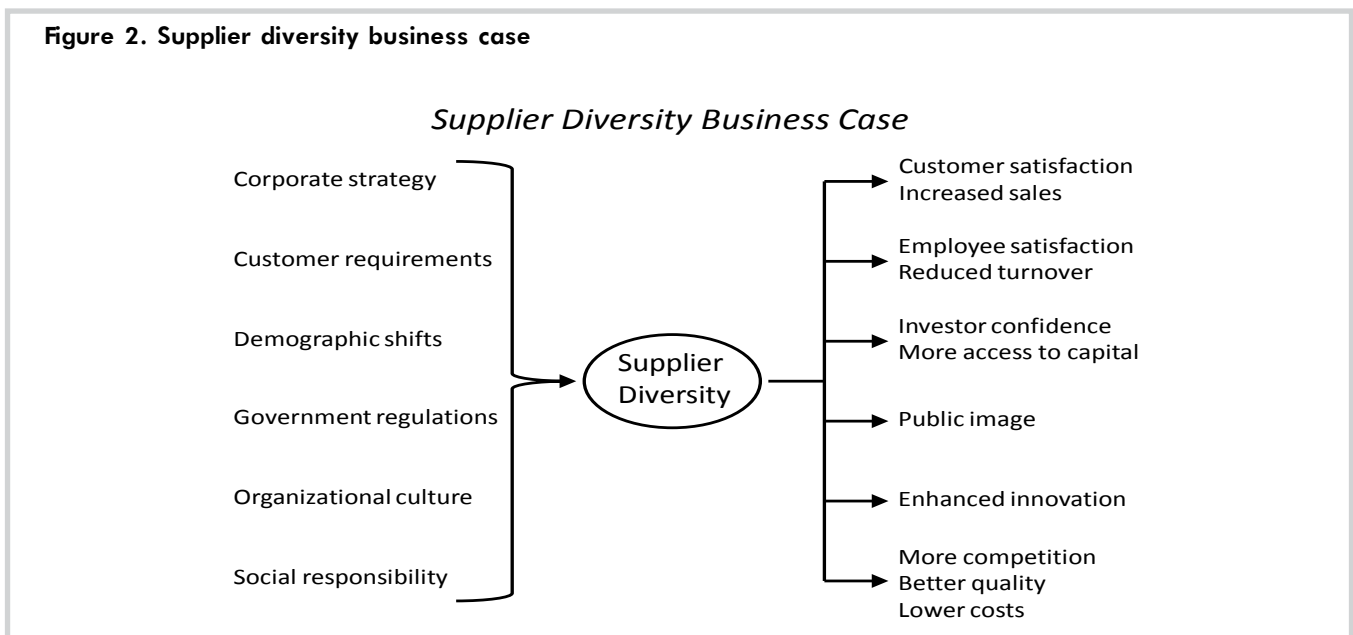
There is an important difference between *socially responsible behaviors*, wherein profits are sacrificed to benefit society, and *privately responsible behaviors*, which attempt to improve the bottom line through corporate social responsibility.⁴³ SD programs can result in cost savings and enhanced flexibility, partly because diverse suppliers tend to be small. SD enables access to ethnic markets and

builds stakeholder relationships and goodwill.⁴⁴ For example, the SD program at Caterpillar involves mentoring smaller businesses and increasing the supply base, leading to lower costs and improved product quality.⁴⁵

Diverse, well-developed supply chains can promote business success by reducing costs, enhancing innovation, successfully integrating acquired businesses and reaching new markets."⁴⁶ Two basic business reasons for SD are outlined by The Conference Board, depending on whether a firm's primary customers are other businesses or ultimate consumers. Business-to-business firms are driven to meet their customers' requirements or government contract terms. On the other hand, business-to-consumer firms tend to focus on increasing sales to diversity markets. SD can further improve the bottom line via increased efficiency and flexibility.⁴⁷

Figure 2 summarizes the business case, as described in the literature. The motivators and facilitators that lead to the creation of a SD policy are listed on the left-hand side. On the right-hand side, the results and associated benefits of SD are described. In addition to social responsibility and organizational culture, other, more business-oriented SD drivers include corporate strategy, customer requirements and demographic shifts.

Figure 2. Supplier diversity business case



Effective SD programs can yield improved customer satisfaction—and increased sales revenue. As more customers embrace diversity, and as customers become more diverse, there will likely be greater demands for diversity. SD can also bring greater employee satisfaction and lower workforce turnover, which would reduce the high costs of replacing people. Further, into the future, SD programs are likely to appeal to investors and give companies more access to scarce capital.

In addition, SD implies more competition among capable suppliers, leading to better product and service quality, as well as lower costs. Finally, SD is likely to improve an organization’s image with the general public and other important stakeholders.



SURVEY OF SUPPLY CHAIN PROFESSIONALS

Design

The foundations for the questionnaire were formulated at the 2012 Canadian Supplier Diversity Conference, held March 23 in Toronto. The event was organized by the Diversity Business Network and sponsored by the Royal Bank of Canada. A panel of interested participants attended a special session designed to briefly describe the project and invite their feedback. People on the panel were asked who should receive a survey on SD, what the barriers to and motivators for SD are, and their views on the business case for SD.

The initial discussion delved into issues such as best practices for SD, the impact and role of government regulations and legislation, differences between Canada and the U.S. on SD, certification of diverse suppliers and other tools to implement SD.

A questionnaire was created and coded for online delivery using information from the conference, academic and practitioner literature on the topic and email feedback on early drafts of the questionnaire from a panel of experts.

Administration

With the help of the Ontario Institute of the Purchasing Management Association of Canada and the Ontario Public Buyers Association, a sampling frame of supply chain professionals spanning a wide variety of industry sectors was invited to complete the online questionnaire in August and September 2012. These associations cover the province of Ontario, with especially strong representation in the Greater Toronto Area (GTA).

Part of the Institute's mission is to encourage member development through education, research and standards of practice and to advance the supply chain profession.⁴⁸ The Association is a not-for-

profit representing public procurement professionals throughout Ontario which promotes ethical and effective expenditure of public funds, and encourages excellence in public purchasing.⁴⁹ Both organizations sent emails to their members inviting them to view and complete the questionnaire by clicking on a hyperlink.

As a response incentive, all persons contacted via email were advised that \$5 would be donated to the Ontario Association of Food Banks,⁵⁰ for each completed questionnaire received.

Results

The results include a profile of the responding organizations and analysis of organizations with and without SD programs.

Profile of respondents and their organizations

These results are based on 165 questionnaires received as of September 20, 2012. Almost 38 per cent of the organizations represented by survey respondents are headquartered in the GTA (37.8%). Another 37.8 per cent are headquartered elsewhere in Ontario. Headquarters for the remaining organizations are in another Canadian province (12.2%), in the U.S. (8.5%) and overseas (3.7%). Half of the respondents are female, 15.4 per cent are visible minorities and 1.3 per cent are aboriginal. These 165 organizations reported average spending on goods and services of \$452 million, representing \$75 billion of annual economic activity.

Nearly half (47.6%) of the organizations represented by survey respondents have an employee diversity policy or program. Only 25.5 per cent have an SD policy or program. This suggests that employee diversity is a prerequisite for SD. Table 1 describes the organizations by percentage of employees who are visible minorities. There is quite a range, from

less than five per cent to more than 50 per cent, represented by the respondents. Nearly 40 per cent of organizations either do not track or do not disseminate information on employee diversity.

Table 2 characterizes the organizations by broad industry sector. The three most prominent sectors represented are government, manufacturing and education, followed by retailing/wholesaling and health/social services.

Organizations with supplier diversity programs

Although this research focused on SD policies for visible minorities, respondents were asked to describe all groups targeted by their organization’s diversity efforts. Inclusion of various groups in the SD policies/programs is shown in Table 3. Women are included in 75 per cent of SD programs. Aboriginal people and visible minorities are included in 69 per cent of the programs. Inclusion falls to 50 per cent for disabled people and 22 per cent for lesbian, gay, bisexual and transgendered (LGBT) people. Table 4 reveals how much business the respondents’ organizations do with suppliers owned by visible minorities, measured as a percentage of annual spend. Nearly 30 per cent (29.2%) of the profiled organizations allocate less than five per cent of their annual spend to minority suppliers. Just 4.2 per cent of the organizations allocate more than 40 per cent. Another 29.2 per cent of organizations with SD policies or programs do not track the percentage of goods or services procured from minority-owned suppliers.

Table 1. Visible minority employees

Percentage of employees who are visible minorities	Percentage of organizations
Less than 5 percent	8.6%
5 to 9.9 percent	14.8%
10 to 29.9 percent	13.6%
30 to 49.9 percent	16.0%
More than 50 percent	7.4%
Unknown; not tracked	39.5%

Table 2. Industry representation

Industry	Percentage of organizations
Government/public sector	27.5%
Manufacturing	23.9%
Education	18.8%
Retail or wholesale	5.0%
Health or social services	5.0%
Other services	11.4%
Other	8.4%

Table 3. Groups covered by supplier diversity programs

Group	Percentage of organizations
Women	75.0%
Aboriginal people	68.8%
Visible minorities ¹	68.8%
Disabled people	50.0%
LGBT people ²	21.9%

1. People who are non-Caucasian in race or non-white
 2. Lesbian, gay, bisexual and transgendered

Table 4. Percentage of spend with visible minority suppliers

Percentage of annual spend with visible minority suppliers	Percentage of organizations
Less than 5 per cent	29.2%
5 to 19.9 per cent	12.5%
20 to 29.9 per cent	12.5%
30 to 39.9 per cent	12.5%
More than 40 per cent	4.2%
Unknown; not tracked	29.2%

Table 5. Motivators for supplier diversity

<i>Motivators for supplier diversity*</i>	Mean	t-stat	p-value
To improve our corporate image	3.85	4.07	.001
To broaden our corporate social responsibility program	3.70	2.57	.009
To bring social or economic benefits to communities	3.65	2.94	.004
To satisfy our first-tier (or direct) customers	3.65	2.04	.028
To reduce our costs	3.63	2.12	.024
To appeal to diverse local customers	3.40	1.51	.074
To broaden our supplier base	3.35	1.07	.149
To increase sales and profits	3.20	0.64	.265
To support expansion into global markets	3.15	0.55	.296
To match demographics of our end consumers	3.10	0.36	.363
To enhance innovation and creativity	3.10	0.35	.367
To improve product and/or service quality	2.90	-0.36	n/a
To match the characteristics of our employees	2.84	-0.53	n/a

*Rated for importance on a five-point scale: 1 = very low; 2 = low; 3 = moderate; 4 = high; 5 = very high
 One-sample t-test H_a: mean > 3 (one-tail)

Respondents were asked to rate the importance of thirteen possible motivators for supplier diversity at their organizations. These results are presented in Table 5. Only the top five motivators are rated significantly above the level of moderate importance. The top three motivators – improving corporate image, broadening the corporate social responsibility program and bringing social or economic benefits to communities – are indirectly related to the business case for SD. The next three most commonly-identified motivators for developing SD – satisfying first-tier customers, reducing costs and appealing to diverse local customers – are more central to the business case for SD.

Table 6 contains results from a question on perceived barriers to SD. Only one barrier – difficulty finding qualified minority-owned suppliers – was statistically significant. This barrier is also frequently cited in the SD literature. It is important to note that concern about minority-owned suppliers’ ability is a much more moderate barrier. Supplier reduction, just-in-time requirements and economic conditions are all perceived to be moderate-to-small barriers to SD.

Table 6. Barriers for supplier diversity

<i>Barriers to supplier diversity*</i>	Mean	t-stat	p-value
Difficulty finding qualified minority-owned suppliers	3.95	3.71	.001
Concern about minority-owned suppliers’ ability	3.15	0.55	.296
Need to focus on other strategic purchasing priorities	3.10	0.38	.353
Lack of clarity on which suppliers are minority owned	3.05	0.21	.417
Consolidation of supply base, i.e. supplier reduction	2.90	-0.44	n/a
Lack of awareness of the benefits of supplier diversity	2.85	-0.57	n/a
Use of e-procurement tools	2.80	-0.66	n/a
Just-in-time delivery requirements	2.80	-0.64	n/a
Legal requirements	2.70	-1.24	n/a
Current economic conditions, i.e. recession	2.65	-1.32	n/a
Power imbalance vis-à-vis minority-owned suppliers	2.45	-2.15	n/a
Concern over possible bid disputes	2.35	-2.46	n/a

*Rated on a five-point scale: 1 = very small; 2 = small; 3 = moderate; 4 = large; 5 = very large
 One-sample ttest H_a: mean > 3 (one-tail)

Respondents were asked to rate the strength of 11 possible facilitators of SD at their organizations. As shown in Table 7, top management commitment or support and existing supplier development programs are the only two facilitators that are statistically significant. These facilitators are frequently mentioned in the SD literature. Trade associations and councils – Purchasing Management Association of Canada, Canadian Aboriginal & Minority Supplier Council and Ontario Public Buyers Association – are rated moderate to somewhat weak as SD facilitators. There may be an opportunity for the above-listed organizations to work together to increase awareness and knowledge about the potential of SD policies and programs.

Respondents were asked to indicate the title of the person responsible for SD within their organizations. Titles range from very senior-level positions, such as VP supply chain and chief administrative officer to relatively junior-level positions, like buyer and operations manager.

Table 7. Facilitators of supplier diversity

<i>Facilitators of supplier diversity*</i>	Mean	t-stat	p-value
Top management commitment	3.61	2.65	.009
Our existing supplier development program	3.39	1.94	.035
Relationship-building capabilities within our organization	3.35	1.24	.116
Supportive organizational culture	3.22	0.94	.181
Commitment to diversity throughout the supply chain	3.18	0.64	.265
Job performance metrics that include supplier diversity	3.11	0.42	.341
Purchasing Management Association of Canada	3.00	0.00	.500
Canadian Aboriginal & Minority Supplier Council	2.94	-0.22	n/a
Local supplier councils	2.88	-0.42	n/a
Availability of diversity champions	2.82	-0.82	n/a
Ontario Public Buyers Association	2.47	-1.85	n/a

*Rated on a five-point scale: 1 = very weak; 2 = weak; 3 = moderate; 4 = strong; 5 = very strong
One-sample t-test H_a: mean > 3 (one-tail)

Table 8. Practices and tactics for supplier diversity

<i>Practices and tactics for supplier diversity</i>	Percent
Inclusion of supplier diversity criteria on requests for proposals	88.2%
Training staff on supplier diversity	88.2%
Supplier certification	82.4%
Focus on second-tier suppliers, as well as first-tier	82.4%
Performance metrics pertaining to supplier diversity	64.7%
Coverage of diversity in our social responsibility/sustainability report	64.7%
Supplier development/mentoring	62.5%
Stating the diversity business case	47.1%
Notices on our corporate website	46.7%
Targeted outreach to community groups, e.g. chamber of commerce	41.2%
Advertisements in trade publications	35.3%
Breaking up contracts into smaller units	35.3%

Table 8 presents the extent to which organizations use various practices and tactics to implement SD. Including SD criteria on requests for proposals and training staff about SD are the two most commonly cited tactics. Diverse supplier certification and second-tier supplier programs are also used frequently by respondent organizations. (Second-tier programs encourage first-tier suppliers to implement their own SD initiatives.) Three additional tactics are used by more than 50 per cent of respondent organizations that have SD programs in place: performance metrics, coverage of diversity in the annual corporate social responsibility report and supplier development/mentoring.

Organizations without supplier diversity programs

This section briefly reports survey results for organizations without SD. Regarding tracking of spend, it is no surprise that a large share of organizations without SD policies or programs (73.3%) do not track the percentage of spend with minority-owned suppliers.

Respondents whose organizations do not have established SD programs were asked to rate the importance of the 13 motivators for SD. The top three motivators – bringing social or economic benefits to communities, broadening the corporate social responsibility program and improving corporate image – are the only ones rated significantly above a moderate level of importance. They are also the same top three as rated by respondents whose organizations have SD programs in place (see Table 5).

Respondents without SD programs rated two barriers quite high – the need to focus on other strategic purchasing priorities and a lack of clarity about which suppliers are minority owned. Trade associations, such as Canadian Aboriginal and Minority Supplier Council and the Purchasing Management Association of Canada, could play an important role in eliminating the second barrier by making clear which suppliers are minority-owned through certification and promotion. The third-largest barrier – difficulty finding qualified minority-owned suppliers – is the

largest barrier perceived by respondents whose organizations do have established SD programs (see Table 6).

Two differences are striking when comparing ratings of SD facilitators at organizations with and without SD programs. First, none of the average ratings of facilitators at organizations without SD are above 3.0, the moderate level. Second, top management commitment, the highest-rated facilitator by those with SD programs, is rated much lower by those without programs. This suggests that lack of any strong facilitators of SD prevents organizations from moving forward with policies and programs.

Finally, regarding usefulness of practices and tactics to implement SD programs, several interesting contrasts emerge between the groups with and without SD programs. First, the top four practices are all rated considerably higher by the group with existing SD programs (see Table 8). Second, the bottom four practices are identical, in terms of order, for both groups. Third, training staff about supplier diversity and supplier certification are among the three most useful practices in the opinions of both groups. Fourth, stating the diversity business case is one of the rare practices rated more useful by professionals representing organizations without SD programs (63.2%), compared with those that have SD programs (47.1%). Perhaps the good news here is that stating the case might be an effective way to encourage more organizations to initiate SD programs.

Financial Institutions and Supplier Diversity

It is no surprise that financial institutions are SD leaders in Canada. Because these firms serve both consumer and business clients, some of their customers are also among their suppliers. Moreover, these corporate giants all have operations in the U.S., where SD has a longer, more established history.

Although financial institutions spend a lower percentage of their revenues on goods and services, compared to retailers or manufacturers, financial institutions steer considerable dollars each year toward SD programs.

Royal Bank of Canada

(<http://www.rbc.com/>)⁵¹

Take the example of the Royal Bank of Canada (RBC). According to the FP500, RBC is Canada's second largest company and the second largest firm with headquarters in the GTA, based on 2010 revenues of \$36 billion. That same year, the firm enjoyed profits of \$5.2 billion. RBC is Canada's largest financial services group with over 74,000 full-time and part-time employees serving more than 15 million clients across Canada, the U.S. and 56 other countries.

RBC recognizes that its employees and customers are more diverse each year. Matching the diversity of these markets is critical to serving them well. Innovation and creativity is enhanced by diverse perspectives. Beyond the business case, RBC sees an ethical case for ensuring opportunity for all. The organization's overall SD goal is to offer women-owned and minority-owned suppliers the opportunity to increase their sales to RBC and to enhance the value of purchases made with women-owned and minority-owned businesses, especially in major markets. As a financial service provider to large and small business clients, RBC has an extra incentive to embrace SD. Suppliers are also potential clients.

RBC is committed to the following: establishing SD guidelines and a reporting and monitoring process in the U.S.; establishing a means of monitoring procurement spending and establishing targets for diverse suppliers in Canada; and assisting women-owned, aboriginal-owned and visible minority-owned business by increasing their opportunities as suppliers.

The firm's senior vice president, head, enterprise services and chief procurement officer is a member of the RBC Diversity Leadership Council. RBC teams up with the Canadian Aboriginal and Minority Supplier Council and other partners to develop a system for identifying Canadian minority and aboriginal suppliers.

RBC is launching two SD innovations: a mentorship program to offer suppliers ongoing guidance, by matching each supplier with a procurement category manager and RBC executive; and a workshop to bring diverse suppliers together with RBC purchasers to network and learn how to compete.

ORGANIZATIONS' REPORTS AND WEBSITES: CONTENT ANALYSIS

This section describes the methods used and presents the results of the content analysis of organizations' reports and website pages on diversity.

Method

Annual diversity, corporate social responsibility or sustainability reports, as well as websites of organizations based in the Greater Toronto Area (GTA) were studied and content analyzed. These organizations included business firms, not-for-profits and government agencies. For comparison purposes, a group of organizations based in the Chicago area was also examined.

Three sources were used to identify organizations for close examination: Greater Toronto's Top Employers for 2012, *The Financial Post* 2011 FP500, and U.S. *Fortune* 500 2012 companies based in Illinois.

Greater Toronto's Top Employers is an annual contest organized by the editors of *Canada's Top 100 Employers*. It recognizes leading GTA organizations in terms of offering exceptional places to work. Any employer with its head office or principal place of business in the GTA (defined as the City of Toronto and Regional Municipalities of York, Halton, Peel and Durham) can apply.⁵²

The *Financial Post* FP500 is a listing of Canada's biggest companies by revenue (sales of goods and services along with rental income). This source was used to identify the largest companies headquartered in the GTA. Forty-three of Canada's largest 129 companies (33%) were found to be based in the region. The complete list of FP500 companies for 2011 is available online.⁵³

To help put the GTA SD experience in context, we compared it with Greater Chicago. Chicago was chosen because it is similar to Toronto. It has a

comparable population, it is located along the Great Lakes and, like Toronto, it headquarters a number of large organizations. Chicago can also be seen as the birthplace of American supplier diversity; the National Minority Supplier Development Council was founded there in the late 1960s. Thirty-two of America's Fortune 500 companies are headquartered in Illinois. This list, which enables a close comparison with the 43 largest GTA companies from the FP500 list, is also available online.⁵⁴

For each organization, in addition to SD, employee diversity programs were noted to assess the expected link between employee diversity and SD. Any connections to American organizations were noted to determine whether Canadian organizations are influenced by SD programs at their American parents or subsidiaries.

The author and the research associate each studied all the documents for 170 organizations (95 GTA top employers, 43 FP500 firms based in the GTA and 32 Illinois-based Fortune 500 firms). In instances where the two researchers disagreed on whether a SD program or U.S. connection was evident, the documents were scanned further until consensus was reached.

Results

This section presents results for each of the three sources separately, followed by a comparison of the largest companies in the GTA and Chicago.

Greater Toronto's Top Employers (2012)

Of the 95 GTA top employers, 26.3 per cent are primarily goods producers and 73.7 per cent are primarily service providers. This breakdown is reasonably representative of Canadian industry. Statistics Canada estimates that 28.4 per cent of the

nation's GDP comes from goods-producing industries and 71.6 per cent comes from services-producing industries.⁵⁵

Table 9 classifies the top employers by broad group – for example, business, not-for-profit or government. For-profit firms are the most common, including businesses and subsidiaries, followed by not-for-profit organizations and government agencies.

Although 73.7 per cent of these 95 GTA organizations have employee diversity programs, only 13.7 per cent have supplier diversity (SD) programs. Another 25.3 per cent of the organizations appear to have a SD program in place at their American parent or affiliate, but it is not practiced at the Canadian operation. More than one-third (36.8%) of the organizations have a strong connection to the United States. Again, this usually indicates the organization has an American parent organization.

Companies that are connected to the U.S. are more likely than those without this cross-border connection to have an established SD program in place. Table 10 reveals the impact of a strong connection to the U.S. on SD programs in the GTA. Note that a large majority (88.3%) of the organizations without a connection to the U.S. do not have SD programs.

Table 9. Classification of the organizations

Group	Frequency	Percentage
Business	27	28.4
Subsidiary	36	37.9
NFP	22	23.2
Government	10	10.5
Total	95	100.0

Also, 65.7 per cent of the organizations with an American connection have SD programs, but only at the American unit. Finally, a strong connection to the U.S. appears to double the odds (from 10% to 20%) that a GTA-based organization has implemented a SD program.

The link between employee diversity and SD programs is made quite clear by Table 11. Not a single organization without employee diversity has a SD program. Moreover, nearly half of those organizations with employee diversity programs also have SD programs, though many of these are in the U.S. only.

Table 10. Connection to the U.S. and supplier diversity

Link to U.S.	Supplier Diversity			Total
	No	Yes	Yes (U.S.)*	
No	53 (88.3%)	6 (10%)	1 (1.7%)	60
Yes	5 (14.3%)	7 (20%)	23 (65.7%)	35
Total	58 (61.1%)	13 (13.7%)	24 (25.3%)	95

Chi-Square = 57.36 (.000)

*Organizations that operate in Canada and the U.S., with SD only in the United States.

Table 11. Employee diversity and supplier diversity

Employee diversity	Supplier Diversity			Total
	No	Yes	Yes (U.S.)*	
No	20 (100%)	0	0	20
Yes	36 (51.4%)	13 (18.6%)	21 (30.0%)	70
Total	56 (62.2%)	13 (14.4%)	21 (23.3%)	90

Chi-Square = 15.61 (.000)

*Organizations that operate in Canada and the U.S., with SD only in the United States.

Table 12. Type of organization and supplier diversity

Classification	Supplier Diversity			Total
	No	Yes	Yes (U.S.)*	
Business	19 (70.4%)	5 (18.5%)	3 (11.1%)	27
Subsidiary	8 (22.2%)	7 (19.4%)	21 (58.3%)	36
NFP	21 (95.5%)	1 (4.5%)	0	22
Government	10 (100%)	0	0	10
Total	58 (61.1%)	13 (13.7%)	24 (25.3%)	95

Chi-Square = 45.88 (.000)

*Organizations that operate in Canada and the United States, with SD only in the U.S.

The content analysis of GTA top employers found relationships between organizational size and SD, as well as sector – goods versus services-producing – and SD. GTA organizations that have SD programs have an average of 16,113 employees. Those without SD programs employ only 3,323 people, on average. Goods-producing organizations in the GTA are nearly twice as likely as their service-producing counterparts to have SD programs (20% compared with 11%).

As shown in Table 12, GTA government agencies and not-for-profit organizations are highly unlikely to have SD programs. Only one not-for-profit organization and no governmental organizations show evidence of a SD program. It is interesting to note that GTA subsidiaries and other businesses are almost equally likely (19.4% and 18.5%) to have SD programs. In the case of a Canadian subsidiary with an American parent, it is three times more likely that only the parent has a SD program (58.3% versus 19.4%). Apparently, when American firms cross the border and set up subsidiaries, they tend to leave their SD programs at home.

Table 13. Connection to the U.S. and supplier diversity (FP 500)

Link to U.S.	Supplier Diversity			Total
	No	Yes	Yes (U.S.)*	
No	14 (93.3%)	1 (6.7%)	0	15
U.S. parent	3 (20.0%)	3 (20.0%)	9 (60.0%)	15
U.S. subsidiary	6 (46.2%)	6 (46.2%)	1 (7.7%)	13
Total	23 (53.5%)	10 (23.3%)	10 (23.3%)	43

Chi-Square = 26.05 (.000)

*Organizations that operate in Canada and the United States, with SD only in the U.S.

Financial Post FP500 (2011)

Of the largest 43 companies with head offices in the GTA, 79.1 per cent have workforce diversity or employee diversity programs, but only 23.3 per cent have SD programs. Average annual revenue for firms with SD programs is \$16.2 billion, compared to \$9.3 billion for firms without SD. Finally, only seven of the largest 22 companies have a SD program.

Table 13 shows how a connection to the U.S. influences SD programs in the GTA. A very large majority (93.3%) of the businesses without a connection to the United States do not have SD programs. Further, 60 per cent of the companies with an American parent have SD programs – but only at the American operation. A strong connection to the U.S. greatly increases the odds that a GTA-based company has implemented an SD program, especially in the case of Canadian firms with American subsidiaries (46.2%).

Chicago Fortune 500 (2012)

Turning to the 32 largest firms based in or around Chicago, 93.5 per cent have employee diversity programs and 77.4 per cent have SD programs. None of these companies have an SD program without having an employee diversity program.

Average annual revenue for firms with SD programs is \$30.8 billion, compared to \$8.2 billion for firms without SD. In addition, 21 of the largest 22 Chicago companies have a SD program.

A comparative summary of the largest Toronto and Chicago companies is shown in Table 14. Although more than 75 per cent of Chicago-based firms have SD programs, less than 25 per cent of those headquartered in Toronto have SD programs. The Chicago companies are also somewhat larger than their Toronto counterparts.

Table 14. A tale of two cities: Largest firms in Toronto and Chicago

Factor	Toronto	Chicago
Number of firms	43	32
Employee diversity	79.1%	93.5%
Supplier diversity	23.3%	77.4%
Average revenue*	\$16.2	\$30.8

*Firms with SD programs; in billions

CASE STUDIES

This section describes the SD initiatives at several organizations across different sectors (goods-producing and services-producing) and supply chain positions (manufacturing, retailing and distribution). This study found no government units and only one not-for-profit agency in the GTA has SD, so the City of Chicago is included as an example of SD in the public sector.

The cases were constructed through detailed study of organizational websites and other reports covering the respective SD programs. In some cases, consideration of these documents was supplemented by interviews with key personnel at the organizations.

All the organizations profiled below would be suitable benchmarks for GTA organizations that are considering initiating a SD program or expanding an existing program. The City of Chicago example may be particularly interesting for the City of Toronto.



Walgreens

(<http://www.walgreens.com>)⁵⁶

Walgreens is a drugstore chain with 8,210 locations. In 2011, the company earned \$2.7 billion in profits on revenues of \$72.2 billion. Walgreens is number 32 on the Fortune 500 list of the largest American companies and the second largest firm, in terms of revenue, based in Chicago.

The retail company defines SD as “an integrated business practice to proactively procure products and services from diverse and small businesses that mirror the diversity of the various communities where Walgreens operates its retail stores.” Its goal is to spend \$1 billion annually with diverse suppliers.

The policy of Walgreens is to spend at least eight per cent of purchase dollars with certified minority business enterprise suppliers and two per cent with other certified diversity suppliers. To qualify, suppliers must be U.S. based, must operate in the U.S., and the owner(s) must have U.S. citizenship. They must be at least 51 per cent owned, operated and controlled by members of one or more of the following groups:

1. Minority business enterprise – American Indian or Alaska Native; Asian; Black or African American; Hispanic/Latino; and Native Hawaiian or Other Pacific Islander
2. Women business enterprise
3. Historically underutilized business; based on principal office located and operated within a historically underutilized business zone, certified by the U.S. government. At least 35 percent of employees must reside within the zone.
4. Gay, lesbian, bisexual, transgender owned enterprise
5. Veteran business enterprise
6. People with disabilities; based on creating job opportunities for people with disabilities
7. Small business enterprise; based on Small Business Administration size standards

The company is also involved in mentoring and partnering with diverse suppliers. The purpose is to develop entrepreneurs and communities, and better serve diverse American consumers. Walgreens wants its stores to reflect the diversity of the neighbourhoods they serve. The firm’s *Community Corner* program, launched in 2010, helps customers identify products on Walgreens shelves that are produced by diverse suppliers. This helps customers to support economic growth in their own communities. Walgreens focuses on second-tier, as well as first-tier, suppliers.

W.W. Grainger, Inc.

(<http://www.grainger.com>)⁵⁷

W.W. Grainger is a leading North American distributor of maintenance, repair and operating items. In 2011, Grainger earned \$658.4 million in profits on revenues of \$8.1 billion. The company is number 318 on the Fortune 500 list of largest American companies by revenue and the 25th largest firm, in terms of revenue, based in Chicago.

Grainger supports development of minority-owned suppliers, women-owned suppliers, and small businesses, through its SD strategy. Given Grainger's supply chain position as an industrial distributor, its SD program meets internal requirements and the needs of its customers. Grainger buys products and services from diverse suppliers for internal use. The firm also helps its customers meet their SD goals.

Having located products that meet diversity requirements for its customers, Grainger saves customers time and money. Grainger offers more than 16,000 items from certified diversity suppliers. More than 57,000 other items that meet Grainger's quality standards are sourced from small businesses. Relevant maintenance, repair and operating items in Grainger's catalogue are identified with a special supplier diversity logo. Customers can search for items from diverse suppliers on the distributor's website.

Grainger also facilitates development of its customers' SD programs, since Grainger's tier 1 suppliers are its customers' tier 2 suppliers. Through tracking and reporting, the distributor helps customers manage compliance, monitor progress and meet specific spending goals with diverse suppliers. Grainger can generate tier 2 diversity spend reports as a service to its customers.

Suppliers in the Grainger diversity program must be at least 51 per cent owned, controlled and operated by a U.S. citizen who is a woman, minority, veteran, disabled person, disadvantaged individual, in a historically underutilized business zone or a small business owner. The supplier must be certified from an agency, such as the Small Business Administration, National Minority Supplier Development Council, or Women's Business Enterprise National Council.

Grainger is an active corporate member of the WBENC and the NMSDC, as well as many of its regional councils. The distributor is also a founding corporate member of the National Minority Manufacturing Institute, which works to mentor and develop product manufacturers from diverse communities. The company offers a web-based gateway, enabling suppliers to apply to join the community of Grainger diverse suppliers. For internal purposes and the benefit of its customers, Grainger maintains an SD database.

(<http://www.navistar.com/navistar/>)⁵⁸

Navistar is a leading manufacturer of commercial trucks, buses, RVs, defense vehicles and engines. In 2011, the company earned \$14.0 billion in revenues and \$1.7 billion in profits. It was ranked 193 on the Fortune 500, and is the 15th largest company in Chicago.

The corporate supplier diversity director is responsible for managing Navistar's SD program. Navistar's SD goals are to exceed five per cent of spend with minority-owned businesses; five per cent with women-owned businesses; three percent with service disabled veteran-owned businesses; three per cent with local historically underutilized businesses and 23 per cent with small businesses.

A multifaceted business case drives Navistar's SD program. First, an SD program is required to do business with the federal government, along with many of the firm's other important customers, such as municipal and state governments, Ford, Walmart, Exelon, UPS and PepsiCo. Second, the minority population is the fastest-growing group in the U.S., projected to be 50 per cent of the American population by 2020. Minorities and women are large consumer market segments in the U.S., and they own a growing number of businesses. Thus, companies who embrace diversity and gain early success will have a competitive edge in the future. Third, diverse suppliers can be a new source of cost savings and customer loyalty.

Navistar believes doing business with diverse suppliers—and encouraging its primary, first-tier suppliers to do the same—is necessary to be competitive and profitable in the 21st century. Thus, the company has implemented a second-tier reporting system, requiring suppliers with contracts of \$650,000 or more to report their diversity spend. This is second-tier spending. To simplify second-tier diversity spend reporting, Navistar uses a web-based tool that allows prime suppliers to enter spend into a database. All prime suppliers are required to report quarterly spend through the online system.

As part of its program, Navistar has about a dozen internal champions of SD, including the firm's vice president and chief procurement officer. In 2011, the firm's spending with minority and women business enterprises reached nearly \$319 million. Navistar and its employees have won multiple awards for their leadership in diversity. The firm was named Corporation of the Year by the Chicago Minority Supplier Development Council and Minority Business Enterprise Input Committee for its commitment to SD initiatives.

City of Chicago

(<http://www.cityofchicago.org/city/en/depts/dps.html>)⁵⁹

The City of Chicago has a population of 2.7 million people, based on the 2010 U.S. census, 45 per cent are white, 33 per cent are black or African-American, and the remainder are American Indian, Asian and of other races. Cook County, Ill., which includes Chicago, has a total population of 5.2 million people. The Chicago department of procurement services contracts for over \$2 billion of goods and services annually for the city.

Chicago's SD program demonstrates commitment to the success of minority-owned and women-owned business enterprises. By promoting opportunities to such companies, the city enhances its growth and economic stability. To access these contracting opportunities, companies must be at least 51 per cent owned and controlled by a minority person or a woman and be certified by the city.

A thriving community of minority-owned and women-owned businesses is considered essential in a world-class city. Chicago offers this community its minority-owned businesses and women-owned businesses procurement program, including annual goals for the participation of diverse suppliers in the city's construction and non-construction contracts. A city ordinance directs the chief procurement officer toward a goal of awarding at least 25 per cent and five per cent of the city's annual spend on all non-construction contracts to minority-owned and women-only business, respectively.

The program's overall goal is to help minority-owned and women-owned businesses grow from small businesses to self-sustaining medium or large businesses. Once a given business exceeds certain size standards, it "graduates" from the supplier diversity program. Presumably, graduates go on to even greater growth and success in government contracting or in supplying the private sector market.

The Chicago city council approved an ordinance to create the graduation phase-out program. This was announced in January 2012 by the mayor, along with the commissioner of the city's department of procurement. The intent is to help minority-owned and women-owned businesses transition into the marketplace.

CONCLUSIONS AND RECOMMENDATIONS

This research examined whether, why and how organizations embrace diversity in their purchasing and supply chain strategies, policies and practices. It included a survey of 165 organizations and a web scan of 138 other organizations in the GTA that account for more than \$100 billion in spending annually, or approximately 33 per cent of the region's economic activity.

While most organizations have employee diversity programs, significantly fewer have supplier diversity (SD) programs. There is also a strong link between organizational size and SD. Large organizations are much more likely than smaller organizations to have SD programs.

GTA organizations are motivated to pursue SD for the following reasons: to improve corporate image, to broaden social responsibility programs, to bring social and/or economic benefits to communities, to satisfy requirements of direct (first-tier) customers and to reduce costs.

Organizations with SD credit much of their success to top management commitment and their supplier development programs. (Supplier development is a process wherein organizations work with suppliers for the purpose of performance improvement.) Organizations continue to have difficulty finding qualified minority suppliers, however, and determining which suppliers are owned by visible minorities. Groups like Canadian Aboriginal and Minority Supplier Council and the Diversity Business Network can help identify diverse suppliers. Of the organizations with an SD program, 29 per cent do not track how much they spend on goods and services provided by visible-minority-owned companies.

Large GTA organizations that have strong connections to the U.S. are about five times more likely to have SD

policy than those with no American link. Connection to the U.S. usually means a Canadian organization either has an American parent organization or has subsidiary operations in the United States. When the largest GTA businesses are compared to the largest Chicago headquartered companies, Chicago firms are more than three times more likely to have a SD program – 77.4 per cent compared to 23.3 per cent.

This international difference can be explained in part by U.S. federal and state policies, which mandate private sector development of SD programs. Thus, SD started earlier and under very different circumstances in the U.S. than it did in Canada (see Appendix B). With or without government encouragement, there are a growing number of businesses recognizing the importance of SD. Diversity in the supply chain can help organizations access new markets, enhance their reputations and improve their bottom lines.

Organizations with SD programs use a variety of practices to implement those programs. Our research identified four leading best practices: inclusion of SD criteria on requests for proposals released to suppliers; training staff about SD; SD certification, done by organizations such as Canadian Aboriginal and Minority Supplier Council; and focusing on second-tier, as well as first-tier, suppliers. A large firm is more likely to find minority-owned suppliers at the second-tier because first-tier suppliers tend to be large and established. Large buyers have a role to play in bringing their first-tier suppliers on board with SD. Other important practices for implementing SD include measuring SD performance, covering SD in annual social responsibility reports, and mentoring/developing diverse suppliers.

Likely outcomes of SD include the following: increased customer satisfaction (and sales revenue); increased employee satisfaction (and reduced turnover);

increased investor confidence (and access to capital); improved public image; enhanced innovation, and better product/service quality at lower cost due to greater and more diverse competition. This is the business case.

Recommendations: The Road to Supplier Diversity

Given the compelling business case, organizations of all types are urged to consider SD. There appear to be five stages of SD. Any organization can determine its current stage and think about moving up to the next stage. Organizations should remember that their customers and employees are going to be increasingly diverse, especially in the GTA.

Stage 0 – no supplier diversity

These organizations have yet to consider SD.

Stage 1 – equal opportunity

Stage 1 organizations have explicitly stated they do not discriminate against possible suppliers based on race, ethnicity, gender, sexual orientation, etc. However, they have yet to take any proactive steps to reduce barriers to diversity in their supply chains.

Stage 2 – initial supplier diversity

During this stage, an organization creates an SD policy and trains its staff about the business case and best practices of SD.

Stage 3 – partial supplier diversity

Organizations in this stage begin to actively seek visible minority suppliers. They may become members of the Canadian Aboriginal and Minority Supplier Council, for example. Interest in SD is reflected in their requests for proposals, where diversity is noted and possibly given special consideration.

Stage 4 – full supplier diversity

These organizations fully embrace SD. The program includes mentoring diverse suppliers, outreach events to bring diverse suppliers to the table, tracking of diverse supplier spending, and a second-tier program.

Organizations interested in learning more about supplier diversity have opportunities to benchmark and learn from the best. While world-class supplier diversity programs are mostly happening at American organizations, there are examples in Canada: CIBC, Deloitte & Touche, Ernst & Young and RBC all represent Canadian firms and subsidiaries deeply committed to supplier diversity.

To get started, Canadian organizations are advised to join groups like the Canadian Aboriginal and Minority Supplier Council and the Diversity Business Network, which organize events that can help them make connections and learn from the experience of other companies.

We have a glimpse of the future of the GTA. Its people are increasingly diverse. These people will be your customers. These people will be your employees. Who will be your suppliers?

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Appendix A – Statistics Canada visible minority classifications⁶⁰

This is a paraphrased version of the Statistics Canada classification of visible minorities (approved as a departmental standard on June 15, 2009) based on a person's marked or written-in response on Statistics Canada census forms.

1 – Visible minority. This category includes persons who are non-Caucasian in race or non-white in colour and who do not report being Aboriginal.

1.1 – Chinese: Examples of write-in responses classified as Chinese include Chinese and Taiwanese.

1.2 – South Asian: Examples of write-in responses classified as South Asian are Bangladeshi, Punjabi and Sri Lankan.

1.3 – Black: Examples of write-in responses classified as Black include African, Nigerian and Somali.

1.4 – Filipino

1.5 – Latin American: Examples of write-in responses classified as Latin American are Chilean, Costa Rican and Mexican.

1.6 – Southeast Asian: Examples of write-in responses classified as Southeast Asian include Vietnamese, Cambodian, Malaysian and Laotian.

1.7 – Arab: Examples of write-in responses classified as Arab include Egyptian, Kuwaiti and Libyan.

1.8 – West Asian: Examples of write-in responses classified as West Asian include Afghan, Assyrian and Iranian.

1.9 – Korean

1.10 – Japanese

1.11 – Visible minority, not included elsewhere (NIE): Persons with no mark-in response who gave a write-in response that is NIE.

1.12 – Multiple visible minorities: Persons who gave more than one visible minority mark-in or write-in response.

2 – Not a visible minority: Persons who gave a mark-in response of White only; persons who reported being Aboriginal; and persons with no mark-in response who gave a write-in response that is not classified as a visible minority.

Appendix B – The Birth of Supplier Diversity in North America

Supplier diversity in the U.S. can be traced to the civil rights movement and the Civil Rights Act of 1964, which made discrimination against minorities illegal in the United States. This led to equal opportunity, affirmative action, and requirements that public sector contracts include participation of minority-owned businesses. Thus, private sector contractors, to bid on lucrative federal government opportunities, had to consider supplier diversity.

In 1968, three organizations – the Chicago Association of Commerce and Industry, the Chicago Economic Development Corporation, and the Chicago Urban League – collaborated to introduce the city's first minority business opportunity showcase: The Suppliers Opportunity Fair. The event was incorporated as the Chicago Business Opportunity Fair in 1969, when it attracted 600 representatives of minority-owned businesses and 200 representatives of large Chicago firms.

Three years later, the National Minority Supplier Development Council (NMSDC) was chartered in Chicago to provide increased opportunities for minority-owned businesses of all sizes. The amount of purchases by NMSDC corporate members from minority-owned businesses has grown from \$86 million in 1972 to \$100 billion in 2010. Currently, minorities represent about 34 per cent of the U.S. population, but minority businesses account for only seven per cent of gross receipts and three per cent of total corporate purchases.⁶¹

While the federal government blazed the trail toward supplier diversity in the United States, the private sector is leading the charge in Canada. In 2004, 32 years after NMSDC was chartered in Chicago, the Canadian Aboriginal and Minority Supplier Council came to be in Toronto.⁶² They facilitate opportunities between Canadian corporations and suppliers owned and operated by aboriginals and minorities.⁶³

DiverseCity: The Greater Toronto Leadership Project

The Greater Toronto Area is the most ethnically and racially diverse region in Canada yet there is a striking lack of diversity at the top of our corporate, public and nonprofit organizations.

This is a missed opportunity.

DiverseCity is building a more prosperous region by changing the face of leadership through nine practical and measurable initiatives.

We will:

STRENGTHEN OUR INSTITUTIONS

DiverseCity onBoard connects highly qualified candidates from visible minority and under-represented immigrant communities with governance positions in agencies, boards, commissions and nonprofit organizations across the GTA.

DiverseCity School4Civics equips leaders to run for elected office or manage campaigns.

DiverseCity BuildingBlocks offers a civic literacy primer to help leaders in low-income communities make their neighbourhoods stronger.

DiverseCity Voices is an online database of subject matter experts from under-represented ethnic or racial groups that is enriching our newspapers, magazines, radio and television. More than 300 leaders are ready to speak to GTA media.

DiverseCity Speakers is an online database for event organizers looking for diverse spokespeople and presenters.

EXPAND OUR NETWORKS

DiverseCity Fellows brings the next generation of city-builders together to become better collaborative leaders who can work across sectors to improve our region.

ADVANCE OUR KNOWLEDGE

DiverseCity Advantage builds the body of knowledge on the economic and social benefits of diversity in leadership.

DiverseCity Perspectives promotes dialogue on leadership and diversity to catalyze shifts in how leaders are chosen, shaped, and imagined.

TRACK OUR PROGRESS

DiverseCity Counts is a research initiative that highlights the GTA's progress toward building a more diverse leadership.

For more on
DiverseCity:
The Greater Toronto
Leadership Project go to:
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