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Chair

Mr. Tom Lukiwski

Standing Committee on Government Operations and Estimates

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• (1100)

[English]

The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)): Colleagues, if we could get everyone to the table, we're not quite here in total. Mr. McCauley just sent me a note that he's on his way. I'm sure Mr. Whalen is going to be here shortly. We're without a full complement, but we will still proceed.

Welcome to both Professor Orser and Professor Riding. Thank you for being here to assist us in discussing and analyzing small and medium-sized enterprises in the federal procurement system.

Colleagues, after we finish a one-hour panel with both Professor Orser and Professor Riding, we'll go in camera for about 15 minutes to do some committee business to try to clean up a few loose ends before we adjourn, this being the last meeting of the year.

Professor Orser, I understand you have a brief opening statement. Please proceed.

Dr. Barbara Orser (Full Professor and Deloitte Professor in the Management of Growth Enterprises, Telfer School of Management, University of Ottawa, As an Individual): Good morning. Season's greetings. Thank you for giving me the opportunity to meet with the committee and talk to you about Telfer research focusing on the engagement of SMEs in federal procurement.

As noted, my name is Barb Orser. I'm a full professor at the Telfer school of management, University of Ottawa. My research focuses on enterprise growth, and specifically SME procurement, financial literacy, access to capital, and feminist entrepreneurship policy.

This morning I will highlight findings drawn from two studies that I hope will inform the committee. The first study profiles Canadian federal supplier SMEs, research conducted in collaboration with Dr. Quang Duong and Jérôme Catimel of PSPC's business analytics services directorate, and Dr. Allan Riding, who has joined me this morning. This is a collaborative piece of work. The second piece of research looks at the efficacy of the U.S. small business set-aside program. It's work that we have also undertaken.

To establish the context for the first study, let me briefly explain the study methodology. Data were drawn from the 2014 survey on financing and growth of small and medium enterprises, a survey conducted by ISED and StatsCan. It reflects the responses of over 10,000 SMEs with earnings of over \$30,000 in 2014. In addition, the sample included a subpopulation of SMEs engaged in public

procurement, that is, firms that had signed contracts with PSPC. I'll refer to SMEs known to have been suppliers to the federal government as "supplier SMEs". The findings are representative of the small business population in Canada.

What did we learn? We learned that one in 10 SMEs had contracted with the federal government in the three years prior to the survey in 2014. We learned that SME suppliers are, on average, larger and older, and disproportionately concentrated in the knowledge- and technology-based sectors, and in construction.

In comparing supplier SMEs and all SMEs, we observed that supplier SMEs were more likely to report innovations, all types of innovation, including product, marketing, organizational, and process innovations. The most likely type of innovation was product innovation.

We learned that SME suppliers are export oriented. About a quarter of supplier SMEs conducted export activity, compared to merely 12% of all SMEs.

It might also be of interest to this committee that female-owned firms were less likely to contract with the federal government compared to male-owned firms. Among supplier SMEs, only 10% were primarily majority female-owned.

What are the reported challenges in doing business with the federal government? A key take-away was that the majority of Canadian SMEs, 82%, simply did not perceive the federal government to be a potential client. Even in those sectors in which SME suppliers are common, for example, knowledge-based industries, ICT, and construction, the government was still not seen as a potential client. For example, 75% of non-contracting SMEs in knowledge-based industries, sectors that are well represented in contracting opportunities, did not perceive the government as a potential client.

Other frequently cited reasons for not selling to the federal government were lack of awareness of contracting opportunities and the perception that the application process was too complicated or time-consuming. Among supplier SMEs, those firms contracting with the federal government, the primary obstacles were again associated with complexity of contracting, 43%; difficulties finding contracting opportunities, 26%; and the high cost of contracting, 27%. Other obstacles included long delays in receiving payment and difficulty meeting contracting requirements.

Interestingly, only 14% of supplier SMEs cited difficulties with respect to providing all services required in the contract. It may well be that supplier SMEs overcame the previously cited obstacles before delivering the services specified in the contract. Alternatively, delivering on federal contracts might not be as onerous or complex once the business has found the contract opportunity, responded to the RFP, and met the contract obligations.

• (1105)

These findings suggest that increasing the engagement of more SMEs in federal contracting requires communicating to SMEs that the federal government is open for business across all sectors. This study breaks down challenges of public procurement by stage of procurement, which is information that may inform other response strategies. A copy of the paper has been distributed through your office, and we have some here. It's available in English and French

Let me now summarize the findings of our study that examined the efficacy or impact of the U.S. women-owned business program, the federal contracting program, because I understand that this is a topic of interest to this committee. This is the U.S. Small Business Administration's supplier diversity initiative, a set-aside program that is intended to increase the diversity of federal contractors.

Again, to establish the context of study, the U.S. government has targeted 23% of its annual half-trillion-dollar spend to SMEs and 5% of its spend to women-owned firms. We examined the efficacy of various certifications, with particular reference to the set-aside for women-owned firms, on the frequency with which SMEs bid and succeeded in obtaining U.S. contracts. The population of interest comprised small businesses that were active bidders to the federal government, and specifically small businesses that were currently performing on a federal contract as a prime contractor.

In the U.S., vendors are required to be certified to qualify for the federal set-aside, for example, women-owned. Our study found that when we controlled for size and sector, that is, we compared apples and apples, the U.S. certification program had no impact on bid frequency or bid success. This is an important finding. It's a finding that suggests replication of the U.S. program is not in the best interests of Canadian business owners or taxpayers.

It is my view, however, that Canadian SMEs would benefit from a well-designed, regulated, and monitored federal supplier diversity program. This is for several reasons.

First, industry has sought such a program for over 20 years. For example, the 2003 prime minister's task force on women entrepreneurs and the 2011 national task force on women's business growth both recommended such programming.

Second, what the numbers do not speak to is that in Canada and the U.S. the agencies that certify minority-owned or women-owned business play a critical role in building capacity through conferences, networks, and fostering B2B relationships.

Third, the private sector has led the way in supplier diversity programs, programs that are creating more robust entrepreneurial ecosystems.

The U.S. set-aside also illustrates that the design and execution of such a program requires strict certification protocols, monitoring, and reporting. For example, it took the Small Business Administration 20 years to reach the 5% procurement target for women-owned businesses, a target that was achieved only in 2016, under the Obama administration.

The U.S. experience suggests that to enhance Canadian contracting opportunities for small businesses, PSPC executives must be held accountable, reporting on consequences for those agencies that do not meet designed targets.

Finally, a hallmark of effective entrepreneurial ecosystems is the engagement of entrepreneurs. A diversity of Canadian entrepreneurs across sectors, business models, and stages of procurement should be consulted on program design, execution, and monitoring. Such engagement will help to address a long-standing assertion that Canadian governments at all levels have been lethargic in employing procurement as a mechanism to support Canadian small and medium-sized enterprises.

Thank you.

• (1110)

The Chair: Thank you very much.

As is our custom, Professors, we will start now with a seven-minute round of questioning.

We'll begin with Madam Ratansi.

Ms. Yasmin Ratansi (Don Valley East, Lib.): Thanks to both of you for being here.

I've read your LinkedIn document and your Telfer report. As we were studying the SMEs and whether the SMEs are benefiting from government procurement, we wanted a gender lens on it as well. Your presentation really shines a light on how women are really not benefiting from it. According to the Conference Board of Canada, businesses owned by women and minority groups are a dynamic component of the Canadian economy, so we want them to participate and benefit.

Last week, we had here some innovative women entrepreneurs who are facing the same challenges. They could not access one bid, not in 50 times. They never got a single contract. When one sold her AI business to a man, the guy got it, so I want to talk to you about how.... You've used the word "visualization". What sort of metrics is visualization? How will it help government make the procurement process more attuned to women so that women find it more applicable to them? You're saying that 82% don't think of government as a contractor.

Also, in your research, have you seen women, especially the innovative ones, using OSME or BCIP?

Dr. Barbara Orser: Thank you for the questions. Certainly, there is a perception that majority female-owned firms in terms of the entrepreneurs are discouraged from applying for contract opportunities. This is evidenced in the two large-scale national initiatives I mentioned: the 2003 task force and the 2011 task force. That perception is real.

As for the data we have in Canada, we have very little data, and I think that's an important take-away for this committee as well. This is one of the first studies that looked at the procurement. We are working with PSPC to dig down into the data so we can do a more robust gender lens analysis and control for things such as size, sector, and age of firm, because these are important indicators of a firm's viability. But this perception remains.

In terms of bringing women into the program for standard contracting opportunities, to the best of my knowledge, there's been no reporting on the programs such as the BCIP. This is an early opportunity, because there's been, what, 200 firms, and that's not hard to dig through. We have no such reporting or monitoring of the profile of those firms in programs or in general procurement practices, and they're not being flagged at entry, so it's impossible to monitor them.

Ms. Yasmin Ratansi: There are some metrics you are suggesting, and I guess I homed in on the word "visualize", in how you visualize the engagement of women entrepreneurs in the Government of Canada innovative agenda. I'm wondering whether you had any thinking around what sorts of metrics the government could use to ensure that when it's measuring contracts, it measures to see that women are benefiting. That's number one.

Number two, in the short run, would it be beneficial if, for example, there was a large contract given out and in the RFP the government mandated that 5% or 10% of that contract should be subcontracted to women entrepreneurs? I would like your thoughts on it, please

Dr. Barbara Orser: Thank you.

With respect to metrics, StatsCan, ironically, has some of the best metrics in the world when it comes to measuring the profile of women-owned firms, but this information is not currently captured in any kind of contract. Yet we do that in many other kinds of contracts, such as social science and humanities research; it's our business, right? You can declare that at the front end, and it's taken away from the contract at adjudication.

Certainly, gauging the profile of a founder is a start. StatsCan uses majority or equal ownership, so we have those good metrics that

other nations are copying to gauge what the profile of the founder is. That's a first step.

Second, in looking at our sector profile, when we're heavying up on certain sectors, is there an opportunity to look at other spending opportunities in professional services, say, where we know that women are overrepresented, as opposed to construction, where we know they're under-represented? There is a bit of a systemic play as well where women aren't coming into the federal process.

Third, we're not sure about the awareness of federal opportunities. We know that it's low right across the board, but we'll be gauging that in more detail with the forthcoming research.

• (1115)

Ms. Yasmin Ratansi: There are women entrepreneurship councils that are working. Are you aware of them? Would you be working with them? If we work in silos, we're not getting the collective synergy.

Dr. Barbara Orser: Yes.

Ms. Yasmin Ratansi: Have you been working with any of them? Some of them sit on the national supplier advisory committee.

Dr. Barbara Orser: Yes. I know Mary Anderson. We work with WBE, WEConnect Canada, and WEConnect International as a friend of those organizations, periodically employing our students to take on research.

I'll share a piece of research we did for WEConnect International. This is the largest global certification group in the world for women entrepreneurs. What we found is that their private sector members were leaders in the advancement of women within corporate opportunities. What we see is that not only are they engaging in procurement diversity initiatives, but they're also walking the talk as corporate players. That kind of trickle-down effect is what we gauge with WEConnect.

Ms. Yasmin Ratansi: Professor Riding, you're dying to say something.

Dr. Allan Riding (Full Professor and Deloitte Professor in the Management of Growth Enterprises, Telfer School of Management, University of Ottawa, As an Individual): No. I think Barbara is covering it very nicely.

Voices: Oh, oh!

Ms. Yasmin Ratansi: You were looking and saying, "I like these ideas."

Dr. Allan Riding: I think one of the issues we face that pertains to your question is, as Barbara mentioned, data. Collectively, I'm not aware of—and we've worked with our colleagues at PSPC—any data that really talks to the profile of subcontractors. We have these data that Barbara mentioned, which we collected at StatsCan after the fact and had the privilege of analyzing.

In terms of subcontractors, we have no information at all that I've seen that allows us to learn about the profile of subcontractors. Your question about requiring subcontractors to be diverse certainly poses the question: how do we go about measuring that? It goes back to your first question, absolutely.

The Chair: Mr. McCauley.

Mr. Kelly McCauley (Edmonton West, CPC): Thank you for meeting with us today. I appreciate a lot of things you've said.

Your article in the *Ottawa Business Journal*, which is how we found you to be a witness today, talks a lot about the difficulty in procuring business with the government, the paperwork. We've heard that repeatedly from all the other witnesses. We've had indigenous businesses here that have been struggling with it, and women as well. It seems that it's across the board. All demographics have trouble dealing with the government in the RFP process, but your article quoted a few people who were saying that it's similar to dealing with any large company.

How much of this do you think is the issue of the complexity and the paperwork of our RFP process, and how much is perhaps the fact that the SMEs just don't have the resources to bid on an RFP that would be considered normal if you're bidding on a Fortune 500 company RFP?

What I want to get at is how much of it is solvable by cleaning up our RFP process, which is, when we talk to businesses, very clearly quite onerous and difficult, and how much of it is, "too bad, that's just the way the world is"?

Dr. Barbara Orser: As a good academic, I'd say both.

Mr. Kelly McCauley: Okay. I'll move on.

Voices: Oh, oh!

Dr. Barbara Orser: We know that in the U.S. the 25% commitment to SMEs has been met. We know that we are—

Mr. Kelly McCauley: Can I interrupt? When you talk about that, have you looked at their procurement process? Is it as difficult as ours?

Dr. Barbara Orser: It is onerous, but I think the commitment by the federal government to engage SMEs has impacted that—

Mr. Kelly McCauley: How did they do that in the United States?

Dr. Barbara Orser: Pardon?

• (1120)

Mr. Kelly McCauley: How did they do that successfully in the United States?

Dr. Barbara Orser: It was a set-aside for SMEs—

Mr. Kelly McCauley: I'm sorry to keep interrupting you, but—

Dr. Barbara Orser: That's okay.

Mr. Kelly McCauley: —for the indigenous we have a set-aside, and we find, in hearing from witnesses, that it's difficult. Either they are not aware or they don't have the capacity or resources, etc. It's easy to do a set-aside, but how do we fulfill that set-aside?

Dr. Barbara Orser: I would suggest that the more transparent and the easier the language.... All the things you've mentioned are a must in order to engage more SMEs in the process. Certainly, on the aboriginal file, the ceiling is low; there's a concern about the amount of the contract.

I also think there's a communication issue here. Think about all those businesses that don't even think about the federal contract opportunities. The office of small business is doing great work, but I think a lot more work needs to be done.

Also, then, looking at the role of government to open up a 25% spend or some percentage of spend, which demonstrates a commitment to bring SMEs in proactively, I think is part of the solution.

Mr. Kelly McCauley: In the United States, how long did it take from setting up the set-aside to achieving that number?

Dr. Barbara Orser: It has been an iterative process. It started after the war with vets, and then moved to disabled vets, and then to minority businesses and urban businesses, and then to women businesses 20 years ago. They've had a long legacy of building this program, but I'll give a caution to Canadians, because with respect to women-owned firms, it's a self-identified certification. If Allan owned a business, he could certify as women-owned as easily as I could.

Mr. Kelly McCauley: Wow. We heard that. It's the same with indigenous.... There are audits once in a while, but there is no pre-clearance.

I do want to touch upon that, because I've asked other witnesses this. With the indigenous and with women it's based on ownership, but what would actually benefit society more? Would it be a figurehead like you owning it, but perhaps Allan doing all the work and the profit, or would it be a pro-rated scale that would deliver...? Maybe a gentleman owns it, but he's employing a majority of women in leadership roles. How do we set that up to best serve society as a whole, to not just tick a box and say, "Look, we have women ownership"?

Dr. Allan Riding: Just to address a couple of your comments, there's a trade-off to be made. One of the problems we learned about with the U.S. set-asides is there are really three stages.

The first stage, I think, is the commitment the U.S. government made and made public with respect to the 23% and the 5% spends. I think that's a very powerful motivator.

Mr. Kelly McCauley: Just so you know, I'm going to let you finish up. You have two minutes.

Dr. Allan Riding: Thank you. That's all I'll need.

Number two is the actual creation of the set-aside.

Number three, and most important, is how that set-aside is operated.

What we found, and indeed what the U.S. Government Accountability Office found, is that it wasn't policed, which touched on your last question. People would declare themselves as women-owned businesses when in fact they weren't, because the government didn't set up a mechanism to check. In fact, the 5% goal was achieved mainly through contracts let outside the set-aside. Our finding that the set-aside wasn't effective has been echoed by a couple of other pieces of work, but it's not a question of set-aside versus no set-aside. It's also very much a question of how the set-aside is organized and monitored.

Mr. Kelly McCauley: Professor Orser, I'm wondering if I heard right. I thought I heard you say that the RFP process in the United States wasn't set up to serve taxpayers well. Did I hear that right?

Dr. Barbara Orser: No. My suggestion is that I think Canadian taxpayers and small business owners would appreciate a more robust set-aside program that is monitored and that holds PSPC accountable to our targets.

Mr. Kelly McCauley: That's what I thought. I thought I'd heard it wrong.

Dr. Barbara Orser: Could I make one comment with regard to your questions?

Mr. Kelly McCauley: Certainly.

Dr. Barbara Orser: You asked again about metrics. I think the tick-the-box "majority female-owned" is a simplistic solution. I think the percentage of women in leadership roles is certainly something that could be considered.

• (1125)

Mr. Kelly McCauley: And indigenous or other...

Dr. Barbara Orser: It could be all the heterogeneity and the intersectionality of what it is to be a business owner.

The other point that Allan brought up is subcontracting. We know that women do not fare well. Often they're brought into contracts as subcontractors on the RFP, and then they fall off when the work is done. I think this is the kind of monitoring we need to deploy to ensure that we serve the mandate of whatever program emerges.

Mr. Kelly McCauley: Thank you very much.

The Chair: Mr. Weir, you have seven minutes, please.

Mr. Erin Weir (Regina—Lewvan, NDP): Thanks very much.

You mentioned a survey of smaller enterprises here in Canada. Another study that our committee's looking at is one by the OECD, which suggests that small businesses have relatively good access to federal procurement in Canada. According to their definitions, about 40% of the value of Canadian government procurement goes to small and medium enterprises. I just wonder if you have any thoughts on that or if you know of any other international comparisons we should consider.

Dr. Barbara Orser: Well, that is certainly another metric. It speaks to the volume of contracting dollars, but it doesn't speak to the number of firms. If this government is interested in engaging more SMEs as opposed to letting a higher percentage of contract to the same SMEs, I think there is merit in looking at both statistics.

Mr. Erin Weir: Yes, for sure. In terms of engaging more SMEs, one issue that's come up before our committee is the question of

standing offers. The concern that the procurement ombudsman expressed or reflected was that it is difficult for smaller enterprises to comply with standing offers and also to maintain an inventory of goods when they don't know whether or not the government will purchase a certain volume based on the standing offer. Do you share those criticisms?

Dr. Barbara Orser: I think they're fair in that dealing with the private sector you have an element of loyalty to a supplier base. With the federal government, the contracts are always up for new renewal. You lose the asset of the relationship, the social capital, that is built between a supplier and a client. So yes, that's problematic.

Mr. Erin Weir: On the flip side, I guess, I've also heard that a standing offer can be good for smaller or medium-sized businesses, because at least it provides a framework in which they can engage. If the federal government were instead to have a process to pick certain preferred suppliers, they would tend to be larger enterprises, and going through the whole RFP process could certainly be challenging for small businesses as well.

Dr. Allan Riding: One recurring theme is the question of scale. It actually takes us back to the gender question. I forget the exact number—it's in our report—but a really high proportion of small firms are really quite small, fewer than five employees. To be able to repeatedly qualify for procurement tenders and even to qualify for a standing offer is problematic. It consumes a lot of the businesses' resources that may be better deployed elsewhere. In particular, there's a really excellent 2016 study by Rosa and Sylla at StatsCan. One thing it showed is that women-owned firms are systematically smaller. We interpret from this that there's less scale available to apply.

These are some of the issues that are before us.

Mr. Erin Weir: Okay.

In terms of building a relationship between the federal government and certain suppliers, one idea proposed before our committee was to develop a rating system where, rather than just looking at all prospective suppliers freshly each time, the Government of Canada would assign a performance rating based on past service and take that into account in the procurement process. What do you think of that idea?

Dr. Barbara Orser: I would suggest that it makes good business sense. It rewards your loyal supplier base, with the provision that there's the opportunity for fresh suppliers into the pipeline and the opportunity to turn over suppliers to enhance competitiveness and the quality of the deliverables. However, I think the loss of that relationship costs the government by not having some sustainability in their supplier base.

• (1130)

Mr. Erin Weir: Okay.

Something that is sometimes required in government procurement is that the supplier has some history of already having sold to governments, or perhaps even that the supplier already sells a certain volume to governments. I suppose that could be consistent with the idea of building a relationship or making sure that the supplier is capable of meeting government contracts, but it could also have the effect of excluding smaller enterprises.

I'm just wondering how you would assess that type of a rule.

Dr. Barbara Orser: It really speaks to the examination of scorecards and what that scorecard might look like. Does that include some experiential evidence, and that would be scored, some diversity evidence, and that would be scored and weighted? Then overall, ensure there is a component that says, "Well, we're new suppliers and with little experience", and maybe they become VIP, in that you have a procurement officer who works with them in a proactive way to usher their bona fide contracts through the process.

Mr. Erin Weir: Okay, so this would be one thing to score it in a points system, but what would you say about an outright requirement that in order to bid or to be part of a process, a prospective supplier needs to have sold a certain amount to the government before?

Dr. Barbara Orser: Well, I would discourage that initially if we're talking about supporting a diversity of SMEs, given the low propensity of SMEs to supply to the government at this point—not contract volume but the numbers. The numbers bring innovation and representation, and I think that that closed-shop perspective would limit innovation and value for our government.

Mr. Erin Weir: Okay.

You mentioned the difficulty in defining women-owned businesses, or confirming that a business that presented itself as being women-owned actually was. This is something that came up at a previous meeting.

Is there a solution?

Dr. Barbara Orser: I think there is.

I think we see evidence with organizations like WEConnect International that are doing this globally that it's a deep dive into the organization. It's not a superficial website that you tick the box. WBE Canada knows its client base.

However, that's only two organizations. If this were to be deployed nationally, I think that the need would be substantial—whether it's through the chamber or through another sort of network of agencies—because there is a lot of businesses that may want to do business with the Canadian government.

The other thing about gender—

The Chair: Unfortunately, we're going to have to stop you there, but Mr. Peterson may want to continue along that line.

Mr. Peterson, you have seven minutes.

Mr. Kyle Peterson (Newmarket—Aurora, Lib.): Thanks, Mr. Chair.

Thank you for being here.

Professor, I will let you finish your thought, if you would like to finish it off.

Dr. Barbara Orser: Thank you.

Back to the metric question, when we're looking at just 51% women-owned, that becomes problematic when the owner dilutes some of the ownership and brings equity capital into the firm. Do we punish growth-oriented women who may no longer own 51%? I think the idea of multiple metrics makes sense.

Mr. Kyle Peterson: Right. Even on that, some of the investors may be women themselves, and do we measure that when it comes to the equity side? It opens a whole bunch of questions, of course, that make it administratively burdensome I think at some point.

I want to take it a step back. Part of the reason we're doing this study is that in the minister's mandate letter, the minister has been mandated to develop initiatives to increase the diversity of bidders on government contracts, among other things.

I think the assumption we're all making—and I just want to know if the assumption is based on any analysis of the data—is that to do so, engaging SMEs is probably an effective way because they tend to be either women-owned or minority-owned, or a more diverse supplier. Is that an accurate assumption?

Dr. Barbara Orser: Yes, there is an argument which says that by increasing the diversity of suppliers, it enhances competitiveness and a more robust look at diversity amongst that pool.

Mr. Kyle Peterson: Okay, I just wanted to make sure we're on the same page. It's nice to get some academic support for the assumptions we're making here around this committee. I appreciate that.

I think the number in your report, and it's the number we've heard around, is that 9.8% of Canadian SMEs were contract suppliers to the federal government.

Is there an ideal number? Is there a target or a sweet spot that we should be aiming for, to say now we are fully and effectively and efficiently leveraging federal procurement to help SMEs and create innovation by doing so? Is there a sweet spot, in your opinion?

Dr. Barbara Orser: Perhaps we should both throw out a number, but...and it is just that. But I think we could learn from the experience of the U.S., which has a commitment to 25%. We know that 98% of businesses in this country are small. We know they're Canadian-owned and we know that they contribute to the tax base on a regional basis, so that's one exemplar.

● (1135)

Mr. Kyle Peterson: Okay.

Dr. Allan Riding: I think we need to remember that the reason for thinking about this is that small firms create a disproportionate share of jobs in Canada and they are increasingly being involved in innovation and exporting.

Yes, it is more burdensome for government to let contracts to a whole bunch of small firms instead of one big firm. It's less efficient. I think the idea is that that's more than made up for by the growth that's generated by the small firms and the impetus to growth that the contracting provides.

Mr. Kyle Peterson: Okay, thank you.

When I read your report, it seems to me that there are almost two classes of small SMEs, when you profile them. It seems there are those that are able to successfully contract with the government and maybe those that aren't. The ones that are able to seem to share some characteristics. They are older and larger, concentrated within the knowledge-based and technology-based industries, and more likely to be male-owned than female-owned.

By the same token, the SME suppliers are more likely to anticipate growth, more than twice as likely to export, more likely to engage in interprovincial trade, more likely to anticipate future exports, and more likely to innovate.

My statistics professor always told me that correlation isn't causation, so which comes first? Is there a causation here or is it simply a correlation that you're drawing out for the reader?

Dr. Barbara Orser: It's simply an association. However, working with PSPC, we will be able to begin that kind of more robust analysis, and that work is under way.

Mr. Kyle Peterson: I think it's important. I wonder how much, generally speaking, of the non-participation of SMEs and diverse SMEs has to do with the high cost of contracting. We've heard that from many of our witnesses. By high costs, we mean not just money, of course, but resources. A lot of SMEs, obviously, have limited human resources and limited capital, and they're just not able to participate competitively in the process, and it becomes an almost self-fulfilling circle here. They figure they'll never get the bid, so they don't want to waste their time. They go about their business, quite happily, and a lot of them quite successfully deal with just the private sector.

How can we overcome that obstacle? Is it a question of education? Could that be a component of overcoming it, or is there more to it?

Dr. Barbara Orser: I think that is the driver here. The percentage of businesses that do not think of the federal government as a contracting opportunity is far more significant than is that of those that are concerned about the actual procurement process.

Mr. Kyle Peterson: Is that something the federal government should be doing, then, as part of whatever new procurement policy and directive come out of this? Is it something we should perhaps be investing some resources in and getting information out there on to say that, yes, you should compete on these bids? Here's why and here's how we can help you.

Is that something we should be doing?

Dr. Barbara Orser: I would strongly encourage it. I've not seen a lot of role modelling. I've not seen a lot of good news stories. I've not seen a lot of social capital being built up around this. We have a whole infrastructure of small business organizations in Canada. Does everybody know somebody in PSPC to talk to about an issue?

Proactive outreach by the federal government and a really strong communication campaign will bring more contractors to your door. By doing that, you're going to increase the quality of your suppliers.

Mr. Kyle Peterson: Okay. This is good. To summarize that, are there three or four recommendations for things we as the federal government can be doing quickly and effectively to reach the goal of engaging SMEs in procurement?

Dr. Barbara Orser: I would say have a strong communication program. I would recommend looking at a 25% goal for procuring from SMEs, and not just because I'm an academic but because there's very little data. Given the size and spend of our federal government, I think this is very badly needed, particularly when we're trying to be creative and think about new strategies to bring SMEs into the pipeline.

Mr. Kyle Peterson: Thank you for that. It's much appreciated.

The Chair: We'll now go into our five-minute round of interventions, starting with Mr. Shipley.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you very much.

Thank you very much for coming here on almost our first day of winter, by the look of it out there.

I have a quick question.

I was interested in the comments—Allan, you mentioned this—regarding the subcontracts. What we find, and what we're hearing, is that this is where a lot of small businesses fit into. They fit into the subcontract because of the number of employees. They don't have the resources, the wherewithal, to meet some of the requirements to take on the full contract, just because of their size.

We also heard from one of the witnesses the other day, which I think was a key part, that small businesses often don't have the resources or the ability to take the long-term investment. Part of this is the payment that comes with federal contracts. If I have to meet my payroll this Thursday, next Thursday, and every Thursday, the comment was, "As small businesses, we have a passionate and a compassionate commitment to our employees to make sure we can keep them. Sometimes we can't get take those long-term investments." As a result, they get the subcontracts. They take these subcontracts.

We also heard as we went through this that it's often too much about price and not about the value of the product, or in coordination.... In the long term, price is important, but the quality and the outcomes of these things are likely more important, as we watch so many things happen around government here in terms of contracts.

Do you have any comments on that?

• (1140)

Dr. Allan Riding: You had a two-barrelled question there.

At its root, one had to do with financial management and the issue of that interim between delivering the product or service and ultimately getting paid. That's a problem small businesses face with almost any supplier, not just government. Whether it's worse with government or not, I don't know. I don't have data on that, but it's certainly an issue for a large number of small businesses.

A 2003 study by a couple of Canadian academics found that the most frequent cause of failure among small businesses is financial error, so part of the issue relates to the financial literacy of our whole small business landscape and the ability of small business owners to bridge that kind of gap.

That's a fascinating story, but certainly it's an issue in failure, and it's an issue in management, meeting payroll. I know that the Financial Consumer Agency of Canada, the CPA, and private sector corporations are undertaking major initiatives in terms of trying to bring up the level of financial knowledge among Canadian business owners. That is a huge issue all by itself.

Mr. Bev Shipley: Okay.

Ms. Orser, you talked about the U.S. set-aside program as an objective for Canada, and then you also mentioned the 25%. However, there was the concern of lack of credibility because of the lack of monitoring with it.

What I understand is that in the United States and Australia, they have targets for the proportion of the procurement, while the United Kingdom has a target for the procurement value.

It goes back a little to my earlier question. Is there a preference? If we were to establish a target, how do we ensure we get the monitoring right?

Dr. Barbara Orser: In terms of preference, I mean they're quite different programs. One is a percentage of the contract, so that's bringing in SMEs as subcontractors potentially. That's important, and they're there already. Although we don't monitor, we know that they subcontract.

I think there is an important commitment to small businesses that they will be primary contractors to our federal government, if we really want to engage as bona fide businesses with PSPC and their client base.

I'm going to indirectly answer your question too. The previous one talked about outcomes, and we rarely think about outcomes. That could be criteria: outcomes such as innovation, such as diversity, outcomes that are being specified by our government as being important at this time.

• (1145)

Mr. Bev Shipley: What we find in women businesses—

The Chair: We are completely out of time.

Mr. Bev Shipley: —is that they are more innovative.

The Chair: We'll go to Mr. Ayoub.

[*Translation*]

Mr. Ramez Ayoub (Thérèse-De Blainville, Lib.): Thank you, Mr. Chair.

Thank you both for joining us today.

I have some experience in economics, and I was also involved in municipal affairs because I was a town mayor.

When the government signs contracts and launches calls for tenders, it has to ensure to get the best value for money. In the discussions we have had so far, on several levels and for all kinds of good reasons, what we are saying to the federal government is that

the process seems difficult and cumbersome for SMEs, among others. We are asking the government, the creator of jobs, to simplify this process, to be more available and to ensure that SMEs can help grow the economy.

I think there is a way to strike a balance when it comes to free markets, free enterprise and free competition. Of course, some governments can be more interventionist than others, but, if a government wants to intervene, is it not simpler to give targeted subsidies to business groups, be they made up of women, aboriginals or people with specific regional considerations? Canada is a very large country.

I feel that we are splitting hairs. It is becoming increasingly complex and, at the same time, we are asking that the process be simplified. There is no figuring it out.

I don't know what you think about simplifying the process—and this may be very naive—by being a bit more hands off with the market and providing targeted subsidies to specific groups.

Awareness also needs to be raised. Companies often don't even know that they could have access to grants. Businesses don't have the information they need, and when they don't have information, they don't have the necessary knowledge.

Can you tell us what you think about that?

[*English*]

Dr. Barbara Orser: *Merci.*

I think I'll take that from a municipal perspective. We know that the City of Toronto is really becoming a world leader in diversity procurement. We know there are practices at the municipal level that the federal government can learn from. Part of that is what we qualify as quality contracts and price, so perhaps being a little more innovative, in terms of what is quality and what is price. The City of Toronto is being critical of those kinds of criteria, so they're opening up a little more flexibility, in terms of who might qualify for those contracts.

We certainly understand the concern of complexity when we roll this out on a national level as well. I do think there are opportunities for learning from the city and those are complex procurement processes as well.

Mr. Ramez Ayoub: Go ahead, Mr. Riding.

Dr. Allan Riding: I think you're touching on the very basic question relating to how a constrained system is always going to operate at a lower level of optimality than an unconstrained system. How do we go about making up for that gap?

I think part of it is to identify the areas within diversity that are different and where people who are different are disadvantaged. That was the goal of the U.S. 8(a) system. They had eight or nine different levels of disadvantage. Being a woman was one. Being a historically underutilized business area was another, as well as being a veteran or being a disabled veteran. They had eight different categories. Do we have a system that tries to even the playing field for people who are disadvantaged like that, but have much to contribute, or do we just let the market operate as it is? I think there is a lot of merit in being inclusive and diverse. The Conference Board has a business case for that, which I would cite.

It's certain that there would be economic losses in terms of constraining people. I think the idea is that those losses will get offset by the job creation and the innovation that would be endemic to the people who then take the contracts.

• (1150)

Mr. Ramez Ayoub: Do we have something to measure that?

The Chair: Unfortunately, you may have to get an answer to that in the next intervention with Mr. McCauley.

Mr. Kelly McCauley: The two of you are experts. I'm wondering if you could walk us through how you would address some of the complexities of our procurement, the red tape. Again, I think it covers all Canadians. We heard from indigenous people, and from previous witnesses who focused on women and procurement, and we heard the same thing: small businesses don't have the resources to tackle the costs and the complexity of the red tape of our procurement system. How would you start to unravel that?

If you read the procurement ombudsman's report, you see that it's very telling. I think 25 of the top 30 complaints are all about paperwork and changing goal posts of the bid. Walk us through how you would address that. If we can clean up the procurement difficulties, it would address a lot of the other issues we are hearing about.

Fix our system in four minutes.

Voices: Oh, oh!

Dr. Barbara Orser: With the suggestion that of course it would have to be beta-tested within a small envelope.... The current system is based on compliance, with heavy legalese. Your procurement officers are bound to meet the terms of that obligation. I think there is opportunity to look at innovation within that system, and we can make it less cumbersome by making the language and the process less legal.

Mr. Kelly McCauley: That's one of the comments we heard from one of our witnesses, that we are very risk-averse. No one ever got fired for hiring IBM—except maybe with Phoenix.

Is it a case of that, that we are purposely so “CYA”, risk-averse, that we go out of our way to make it difficult for everyone?

Dr. Barbara Orser: I think the good people who vet these contracts are bound by those obligations. We may have aspirations at this table to include more SMEs, but when it comes down to adjudicating those contracts, what's on paper is their obligation. To begin to bring out pockets of that kind of procurement activity and be innovative.... Let's look at some outcomes, as opposed to just strict legalese, and let's be creative.

Mr. Kelly McCauley: You mentioned beta-testing, which is a great idea. It's perhaps similar to the agile that we talked about. How would you see that working? Would you take one department or one geographic area and test it?

Dr. Barbara Orser: An immediate one would be the BCIP. It would be very easy to look at the contracts let to date—as I said, there are fewer than 200; you could do that manually—to give you a sense—

Mr. Kelly McCauley: Do you think a lot of the people who are trying to procure business from the government would qualify for BCIP? That, to me, is a very different thing, as opposed to the average SME.

Dr. Barbara Orser: No, but I'm saying that this could be done yesterday, very easily.

Then, if it was women business owners, I would look at those sectors where they are well represented, professional services. You could do that regionally, to be more conservative, and be creative in looking at the outcomes. Bring in SME suppliers to talk about those outcomes. I have not heard of an initiative to open up the conversation of what those metrics should be.

Mr. Kelly McCauley: One of the things we heard from indigenous people and some of the others was about the success they have in the private sector. They were saying that the oil sands and the energy sector especially, by far set the gold standard on providing business to indigenous and other minority groups. Do you think it would be worthwhile to copy their procurement system, or to start from scratch and rebuild it easier?

Dr. Barbara Orser: I can think back to Suncor and some of their world-class initiatives that led the market and brought women into the trades. It was not—

Mr. Kelly McCauley: Indigenous as well....

Dr. Barbara Orser: Right. Indigenous, of course.... It wasn't just procurement. It was a training initiative, and a regional commitment. I would suggest that, yes, we could learn a lot from those organizations, because it was not just procurement-based.

• (1155)

The Chair: Thank you very much.

Monsieur Drouin, go ahead.

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Thank you, Mr. Chair.

Thanks to the witnesses for being here. I'll give a shout-out to Telfer school, as I'm a graduate from there. I wouldn't check my marks, though.

Voices: Oh, oh!

A voice: You got through.

Mr. Francis Drouin: I got through.

You raised a couple of issues. I was curious to find out that to this day the U.S. is not measuring success or measuring whether it's actually women-owned enterprises that are participating. That, to me.... You set a policy, but you don't measure, so lessons learned here. I know that sometimes we do that as well in the Government of Canada. We put out policies, but we don't measure the impact.

The 25% set-aside for SMEs is a recommendation that you've made to this committee. What do you think some of the barriers would be for our NAFTA obligations? Do you see any barriers to our implementing a 25% set-aside for SMEs in terms of our NAFTA obligations, with the understanding that NAFTA stays the same?

Dr. Barbara Orser: During these interesting NAFTA times, the U.S. has 25% for procurement, so I would see that as simply meeting the process and practices of our largest trading partner.

Mr. Francis Drouin: Okay.

The other issue we heard about at the last committee meeting was that sometimes companies will create a fake company essentially to create a fake woman-owned enterprise. How would you recommend that the government measure this without putting too much red tape on the other side? CFIB was here saying there's too much red tape, but at the same time, we have to measure impact without putting too much onus on the company that's either contracting or bidding on an RFP. Have you seen any best practices? I know you've talked about the City of Toronto.

Dr. Barbara Orser: I think all are concerned about red tape, but I know that the private sector also requires demonstrative certification. Again I go back to the comment about WECconnect and WBE. They are certifying with deep dives these businesses, so there is far little opportunity to window dress the profile of ownership. My caution would be that that kind of certification process should be opened up to organizations like the CFIB, which have a very strong retail/wholesale base and which would possibly qualify for contracts. More certifying bodies would be my recommendation.

Mr. Francis Drouin: Essentially the Government of Canada would say, "If you say you're a woman-owned enterprise, then we want to see that certification on the other side."

Dr. Barbara Orser: Correct. Absolutely.

Dr. Allan Riding: There would be a third party certification.

Mr. Francis Drouin: Last week we heard that even our Canadian women's associations are using the international protocol. Would you support that, that 51% plus would be women-owned?

Dr. Barbara Orser: I think in Canada we could do better than that. If we're building a brand new made-in-Canada product, we need not replicate. There are opportunities to recognize that as women dilute ownership in their firm with equity and they grow their firm, it would be to our loss to lose those businesses in the procurement process. Having perhaps a couple of indicators as opposed to this simplistic 51% ownership would be my recommendation.

Mr. Francis Drouin: Okay, great.

Mr. Chair, I'm done. Take it as a merry Christmas that all of my colleagues have done such a great job at asking great questions, I'll stop here. Thank you.

The Chair: Well, in the spirit of Christmas, Mr. Whalen, one minute is yours.

Mr. Nick Whalen (St. John's East, Lib.): Mr. Riding, earlier Mr. Ayoub was asking about this. Obviously if you're going to have set-asides, there's a perception that you will have implementation and enforcement costs and perhaps higher costs for the end bids, and so to offset those costs, we want to see other social goods and other benefits to society. Are there ways to measure those? I think that was the question Mr. Ayoub was asking before you were cut off.

The Chair: You have about 30 seconds to answer, if you possibly can.

Dr. Allan Riding: I can't answer your question with a yes this or that. I can say we can learn from what other people are doing. Whether those methods would work in Canada is certainly up in the air. Right now, we're struggling with a lack of data that's so basic we don't actually know our starting point. So when we talk about a program that's going to encourage suppliers to be innovative, we have to measure that innovation today and we have to measure it at the end of the day to make sure the compliance is there. We are just not equipped with the data right now. We need to sit back and organize a really serious way of collecting the data that is going to answer those questions.

● (1200)

The Chair: Thank you.

Our final intervention will come from Mr. Weir, for three minutes.

Mr. Erin Weir: Thank you.

Are there any lessons we can learn from provincial governments on how to include small enterprises in public procurement?

Dr. Allan Riding: I think we should learn from all of them, study all of them, and find out what the best practices are.

Mr. Erin Weir: Okay, but would there be some specific best practices you could point to from the provincial level?

Dr. Barbara Orser: I think Newfoundland and Labrador was amongst the first to bring diversity procurement into its offshore oil extraction. I think Newfoundland and Labrador is actually leading the way. The City of Toronto has been mentioned. B.C. had an Olympic commitment for diversity. There were some lessons learned there. But the fact that I can name only three would suggest that they're hard to find.

Mr. Erin Weir: Okay, fair enough.

One big area of federal procurement we haven't discussed is defence procurement. Do you have any thoughts on industrial and technological benefits on the national security exception for procurement?

Dr. Barbara Orser: I would think many of the points we have raised would apply to our military and defence, and it gets back to the comments about the oil sands. Here rests an opportunity, perhaps, for more proactive outreach. There is a women in defence small business community, but I wonder if they are well acquainted with the procurement process.

Mr. Erin Weir: What would you recommend in terms of engaging that community?

Dr. Barbara Orser: Meeting, talking, recognizing who their supplier base is, and their skills competencies in terms of delivering product, innovation, and the service process.... Yes, it would be more dialogue, and getting to know each other, but in a proactive way.

Mr. Erin Weir: Is one of your main messages that the federal government should really be out there trying to engage small businesses and let them know about opportunities and processes?

Dr. Barbara Orser: I think that would be my key takeaway—in a proactive way across all sectors.

Dr. Allan Riding: I would add that I think we have mechanisms for doing that effectively, and particularly when we talk about engaging women more, because what we already have in some parts of the country are our organizations such as the Women's Enterprise Organizations of Canada, in the western provinces and in the Maritimes. There's nothing in Ontario that focuses on educating women.

I think these become a mechanism. These organizations provide both early-stage funding to women, but more importantly provide a

great deal of education and encouragement and sometimes, where needed, discouragement about building their businesses. Those mechanisms exist. They're funded by the federal government. To work through those I think could be a very effective way of starting to build competency and capacity even more so among women business owners.

The Chair: Thank you very much.

Professors, once again, thank you for your participation in our discussion today. Thank you for being here, particularly on a snowy winter day in Ottawa.

Should you have any additional information you think would benefit our committee as we continue with our study on procurement in the federal government, I would encourage you to submit all of your comments, recommendations, and suggestions to our clerk. We will be continuing this study for at least a few more meetings come the new year, so there is some time should you have any thoughts over the extended break we have, starting in mid-December until the end of January. You can get those suggestions directly to our clerk. It would be very helpful if you could do that. I would appreciate that.

Colleagues, we're going to suspend for just a couple of moments while we dismiss our witnesses, and then we'll go in camera for about 10 minutes' worth of committee business.

[Proceedings continue in camera]

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