



**Diversity and inclusion
in small and medium
enterprises**

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This report was prepared by Carmina Ravanera and Sarah Kaplan of the Institute for Gender and the Economy at the Rotman School of Management, University of Toronto.

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Executive summary

Small and medium enterprises (SMEs) (below 500 employees) employ more than 90% of the private labour force and provide nearly 60% of all jobs in Canada. Therefore, to achieve inclusion of all underrepresented groups at work, policy makers must focus on helping these employers develop robust diversity and inclusion practices. While much of the policy focus on diversity in SMEs has been on improving access to capital for women and other underrepresented groups to form or grow businesses, a larger impact might come from attending to all SMEs and their ability to implement diversity and inclusion in their work. This would be helpful not only for business owners in general, but also the 16% of SMEs that are owned and operated by women. Many or all of these enterprises are subject to laws and regulations mandating equal treatment, such as the Human Rights code, pay equity and pay transparency legislation, parental leave, and other. At the same time, SMEs do not necessarily have the scale for full-time human resources managers, nor the capacity to implement and assure compliance. Further, smaller businesses may not perceive they have the resources to appropriately address these issues. Unfortunately, little research has been done on what SMEs are doing or what they might do to promote equality for all. This policy brief summarizes what is known about diversity and inclusion in SMEs in the Canadian context and what could be done going forward.

What are small and medium enterprises (SMEs), and why do they matter for diversity and inclusion?

In Canada, a business is defined as “small” if it has between 1-99 employees, “medium” if it has between 100-499 employees, and “large” if it has 500+ employees.

Statistics Canada data from 2017 shows that 99.8% of private businesses in Canada are small and medium enterprises, otherwise known as SMEs (see Table 1 below). Further, micro-enterprises (1-4 employees) alone make up 53.8% of Canadian businesses, while small businesses as a whole make up 97.9% of businesses.

Table 1: Business size by number of businesses and number of employees in Canada.

Establishment size (number of employees)	Number of businesses	Percentage of businesses (%)	Cumulative percentage of businesses (%)	Employees (thousands)	Percentage of private employment (%)	Cumulative percentage of private employment (%)
1-4	634,063	53.8	53.8	4,190.30	36.2	36.2
5-9	230,857	19.6	73.4			
10-19	152,801	13.0	86.4			
20-49	101,353	8.6	95.0	3,977.70	34.3	70.5
50-99	33,695	2.9	97.9			
1-99	1,152,769	97.9	97.9	8,168.00	70.5	70.5
100-199	14,842	1.3	99.1	2,292.90	19.8	90.3
200-499	7,084	0.6	99.8			
500+	2,939	0.2	100	1,130.00	9.7	100
Total	1,177,634	100	--	11,590.90	100	--

Source: Key Small Business Statistics, June 2016 and January 2019, Statistics Canada.

Table 1 shows that, as of 2015¹, small businesses employ 8.2 million individuals in Canada, with 4.2 million working in enterprises with fewer than 20 employees. Medium-sized businesses employ 2.3 million individuals. In total, SMEs employ 90.3% of the private labour force, and around 59.5% of the Canadian labour force. Research has found that SMEs are the “fastest growing segment of the economies of major industrialized nations.”¹

Specific industries have a high concentration of SMEs: more than 99% of businesses in agriculture, forestry, fishing and hunting; real estate and rental and leasing; professional, scientific and technical services; and other services (except public administration), belong to the small business category.²

¹ While there is more recent (2017) data on SMEs from Statistics Canada, 2015 data has more granular categories available for numbers of employees working in different establishment sizes. All data shown here regarding number of employees by establishment size is based on 2015 data.

Many SMEs are subject to equity legislation. All federally regulated businesses with ten or more employees will be required to comply with the recent *Act to Establish a Proactive Pay Equity Regime within the Federal Public and Private Sectors*. Additionally, in Ontario and Quebec, all private businesses with ten or more employees must implement pay equity. Further, federally regulated businesses with more than a hundred employees are required to comply with the *Employment Equity Act*. Ontario, Manitoba, and Nova Scotia also have provincial accessibility legislation, which applies to all employers, while a federal accessibility act for Canada is on the horizon.

Equity, diversity, and inclusion is a legal obligation for SMEs. Yet, despite their prevalence, there is a dearth of research and resources related to the unique structures and constraints of SMEs, especially in terms of diversity and inclusion.³ Indeed, much of the case for diversity and inclusion in businesses has been developed for and by larger enterprises.⁴ It is vital that businesses, governing bodies, researchers, and other stakeholders involved in diversity and inclusion begin taking into consideration that the vast majority of Canadian private enterprises have relatively small numbers of employees, as well as fewer resources.

What data is available relating to diversity and inclusion in Canadian SMEs?

Little data exists relating to diversity and inclusion issues for SMEs. From Statistics Canada, we know that as of 2017, 15.6% of SMEs in Canada are majority-owned by women (women own at least 51% of the enterprise). In contrast, 63.5% are majority-owned by men, and 20.9% are owned equally by men and women.⁵ In general, women-owned enterprises are most prevalent in service industries like educational services, health care, and the arts, while men-owned enterprises are more prevalent in goods-producing.⁶ Further, census data shows that about 21.6% of the Canadian labour force are visible minorities, but only 12.2% of SMEs are owned by visible minorities.⁷

Beyond these high-level statistics, scant research on this topic is available. While SMEs are not homogenous, their differing circumstances compared to large enterprises suggests that they may face unique barriers to creating more diverse and inclusive workplaces and could benefit from specific and evidence-based support and resources. Additionally, more capacity building on diversity and inclusion in SMEs would provide support for the 16% that are owned by women, and the 12% owned by visible minorities.

What are the potential barriers to achieving diversity and inclusion in SMEs?

Lack of financial resources and time

Many SMEs, particularly the smallest enterprises, tend to not have the financial resources or time to devote to diversity and inclusion development.⁸ Diversity and inclusion practices that are common in large enterprises, like expansive recruitment strategies and flexible work allowances, may be more difficult with tight budgetary constraints. One study on SMEs in Europe noted that they tend to hire from within their

family, through word-of-mouth, or from walk-ins, because these are quick and cheap strategies. They do not make use of other avenues that could facilitate more diverse hiring.⁹ Research from the United Kingdom also found that while larger firms tend to use formal flexible work policies, the SMEs they studied granted individuals flexible work on ad-hoc basis, and partially based the allowance on whether or not there would be a significant cost to the organization.¹⁰

Another study in Europe discovered that some SMEs avoided hiring women because they perceived they would not be able to afford recruiting and training new staff during maternity leave.¹¹ Similarly, an Australian study discovered that some SME owners viewed paid maternity leave as a large cost burden and did not offer it to employees, even though they understood its benefits.¹²

Lack of formal structure

SMEs, particularly smaller businesses, are likely to undertake informal human resources management practices. In many SMEs, the owner-manager is the sole human resources manager, while also managing the rest of the business. As such, human resources or even business strategies can be poorly defined with little vision for employee development, including related to diversity and inclusion.¹³

For example, SMEs may not have any formal policies related to workplace or sexual harassment. A 2018 CNBC study in the United States surveyed over 2000 small business owners and found that, of businesses with 1 to 4 employees, only 39% had a sexual harassment policy. On the other hand, 85% of businesses with 50 or more employees did.¹⁴ This is significant because whistle-blowing may be more difficult in the close, often familial cultures in SMEs, and a lack of formal policy may mean that both perpetrators and victims see their organization as tolerant to harassment.¹⁵

Lack of knowledge and guidance

Owners and managers at SMEs may lack knowledge about how to implement diversity and inclusion. An owner-manager who also acts as a human resource manager does not necessarily have any human resources training. In fact, for SMEs, human resources and other developmental training may be perceived as a luxury that takes time away from labour.¹⁶ Yet training and development is necessary for understanding how to achieve diversity and inclusion. For instance, equity legislation can be confusing for those who do not specialize in this area; owners may not fully understand their obligations when employing persons with disabilities, or how to implement pay equity.¹⁷

One small-scale study on digital media SMEs in Ontario found that participants supported diversity and inclusion but felt they did not have guidance for how to be more inclusive. They suggested solutions such as making diversity and inclusion training a precondition for receiving government funding or having access to a government checklist or framework on equity legislation, among others.¹⁸

Other research found that managers and staff in SMEs may lack general knowledge about why diversity and inclusion is important. This suggests the need for training for both owners and employees. In fact, employees who are not trained can be a barrier: if they do not agree with or understand diversity and inclusion, they will not perceive the need for it, or may even actively discourage it.¹⁹

Lack of data

Research regarding SMEs and human resource management is limited, particularly in Canada. A review of English published articles on human resources in SMEs from 1995 to 2014 did not find any sources from Canada.²⁰ Further, Statistics Canada publishes little data regarding diversity and inclusion in SMEs, despite regular surveys on SME growth and financing. Without measurement or understanding of variables like harassment incidents; prevalence and scope of diversity and inclusion-related policies or programming; hiring and recruitment methods; and diversity of SME workforces, leadership, and boards, there are few benchmarks for SMEs to compare themselves to or to work towards.

What could be done to improve diversity and inclusion in SMEs?

Facilitating SMEs' impact on diversity and inclusion requires capacity building. Intermediary organizations such as professional associations, as well as government and government-sponsored agencies, could provide more tools, resources, or incentives.²¹ Because SMEs do not have the same organizational inertia as large organizations, they may be able to take advantage of their organizations' flexibility and adaptability to implement change relatively quickly.²²

Some examples of possible solutions include:

1. Government agencies or professional associations that conduct surveys (and other data collection methods) can be more targeted in gathering data and conducting analytics on diversity and inclusion topics for SMEs.
2. Research funding bodies could launch specific calls for scholarly research on diversity and inclusion in SMEs.
3. Policies could provide financial incentives or tax credits to SMEs for finding and retaining talent from underrepresented groups, or for creating mentorship or sponsorship programs for these groups.
4. Government funding agencies could require diversity and inclusion strategies or training for applications for business financing.
5. Where implementation of legislation is required, policies could create more robust resources for integrating diversity and inclusion into standard processes (such as equity compliance checklists and toolkits), for instance through Innovation Canada's online service for businesses.
6. Professional associations could engage diversity and inclusion specialists and /or trainers who can provide services to their member SMEs at discounted rates.
7. Government agencies or professional associations could support the provision of human resources consulting services, facilitating their relationships with SMEs that may lack human resources knowledge and training.
8. Larger corporations such as banks, that are committed to advancing diversity and inclusion, could provide compliance and training services to the SMEs they serve (e.g., those that are already commercial lending customers).

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