



## MEMORANDUM

December 18, 2019

TO: IQ Advisory Committees  
FROM: Alberto I. Rincon, Facilitation Team  
SUBJECT: Workforce Diversity in the Illinois Energy Efficiency Industry

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Low-income energy efficiency (EE) programs have traditionally focused on energy and monetary savings as their primary goal but have more recently expanded to address the equitable distribution of EE opportunities. In 2015, a collective of Illinois water and energy utilities established the Illinois Utilities Business Diversity Council (IUBDC) as a forum for exchanging best practice information on advancing diverse business utilization. With the passing of the Future Energy Jobs Act (FEJA), it became legal mandate that state utilities annually report to the Illinois Commerce Commission (ICC) on supplier diversity metrics in the procurement of utility contracts.

Much progress has since been made to address issues of supplier and workforce diversity. The work has carried over into the Income Qualified North and South Committee agendas where in 2018 and 2019, the Committees received feedback on the topic via in-person Committee meetings, one-on-one meetings with community-based organizations (CBO), and informal discussions with Committee stakeholders.

This document summarizes the work of the IQ Committees as well as research into the business case for workforce diversity, the current state policies and initiatives supporting diversity, accomplishments to date by utilities, and suggestions on how this effort can be improved by diverse suppliers.

### Summary of Recommendations on Supplier Diversity

Through direct outreach with diverse suppliers and an IQ Committee meeting panel focused on supplier diversity, the facilitation team gathered input on the challenges & opportunities for expanding diverse supplier participation in the utility procurement process. A consolidated set of suggestions from diverse suppliers are provided below:

1. Provide means to address capacity constraints: Diverse suppliers say that their perceived capacity limits are often excuses that undervalue or overlook them. Work to provide capacity-building opportunities and consider creating a small business application queue to ensure they are not unfairly neglected.
2. Review burdensome legal and financial terms: Contracts often contain legal or insurance requirements that smaller diverse businesses don't meet or include payment terms that are too infrequent for these businesses to manage. Review and update these requirements and terms accordingly.
3. Explore ways to expedite certification: Gaining MWDVBE remains a frustrating process for suppliers due to time and cost. Find ways to streamline or support diverse suppliers through this.
4. Support mentorship and networking: Diverse suppliers have less access to mentorship and direct client contact which hinder business development. Pay particular attention to creating networking opportunities that provide diverse suppliers access to key decisionmakers and senior personnel.
5. Create venue for incorporating diverse supplier voices: These suppliers feel they have valuable input and experience that must be incorporated into industry-wide discussions and decision-making processes. Provide an avenue for engaging them in mainstream discussions not just those limited to diversity efforts.

### The Future of Workforce Diversity in IL

Despite existing challenges, many studies find that diversity clearly improves business performance. State-led movement by way of policy and funding efforts indicates that diversity will remain central goal in clean energy in 2020. Given our understanding on diversity in IL, below are a few questions to consider as we move forward:

- What should the goal be in our diversity and inclusion (D&I) efforts? What are we ultimately hoping to achieve, internally and through external partnerships or contracting? When will we know we are successful?
- Regarding supplier diversity, what barriers remain that we might address through this IQ forum?
- What more might utilities do to institute a culture that elevates diversity & inclusion into business strategy?
- How are we measuring the impacts of D&I efforts on overall business performance?

## APPENDIX I: The Business Case for Diversity in Brief

With increasing national attention toward addressing equity in all sectors, companies are being challenged to bolster their corporate social responsibility and diversity & inclusion (D&I) efforts. For those looking toward the future, the change in landscape is clear: an older and less diverse workforce is on the verge of retirement and will need to be replaced by an increasingly more diverse American population. This is especially important given that the Caucasian population under 30 will be less than half of the US population by 2025.<sup>1</sup>

Younger populations entering the workforce are also beginning to demand changes to the way business is done. A 2019 Deloitte survey estimated that about 23% of millennials consider the diversity of a company's leadership and its diversity policies before starting or deepening its relationship with a business.<sup>2</sup> Another study finds that millennials appear to go as far as being willing to take a pay cut to work for businesses that behave responsibly.<sup>3</sup> Lastly, a 2018 study shows that about 74% of millennials believe their companies are more innovative with diversity and a culture of inclusion.<sup>4</sup>

Does the data bear out the importance of D&I? The answer seems to be an unequivocal "yes." Consider the following studies:

- Supplier diversity programs for utilities are associated with lower overall procurement costs due to an increased number of suppliers. Supplier diversity also provides a competitive advantage as poor diversity records miss out on new business or government contract incentives. These programs also improve brand in eyes of consumers.<sup>5</sup>
- A report by the Center for Talent Innovation finds that teams with members who represent the diversity of a target market are as much as 158% more likely to innovate effectively for its end users.<sup>6</sup>
- A BCG study surveying more than 1700 companies across eight countries finds that companies with above average diversity scores have significantly greater revenue stemming from product and service innovation.<sup>7</sup>
- More research finds that the 20 most diverse firms in a 2019 study had an average operating profit margin that was 50% higher than the lowest ranking companies. And although larger companies score better than smaller firms, likely due to greater resources to devote to D&I, the positive effect holds true for smaller companies.<sup>8</sup>
- A McKinsey study finds that greater gender and ethnic diversity in executive teams is correlated with higher average profitability. This underpins the important role that executives play in the financial performance of companies.<sup>9</sup>

As is apparent, business diversity focuses on more than just supplier diversity. It is also more than just race or gender – it includes diverse religious and political views, educational, socioeconomic and cultural backgrounds, sexual orientation, and disability.<sup>10</sup> Companies around the world are beginning to uncover that D&I is a business strategy imperative that not only improves brand and supports disenfranchised communities, but also leads to better business performance.

## APPENDIX II: Current Efforts Supporting Workforce Diversity

### Illinois Utilities Business Diversity Council

In the summer of 2015, the Illinois Utilities Business Diversity Council (IUBDC) was established by the state's major energy and water utilities as a forum for exchanging best practice information on advancing diverse business utilization. The essential goal was to improve the effectiveness of diversity efforts among its members by providing education, technical assistance, and other resources related to business diversity. Additionally, the Council website supports aspiring diverse vendors who are looking for assistance with MWDBE certification or who would like to be added to the IUBDC's list of registered diverse suppliers. An economic impact study reports that the IUBDC helped achieve just over \$1 billion in diverse supplier spend in 2017.

### Future Energy Jobs Act

The Future Energy Jobs Act of 2016 (FEJA) was the first piece of legislation mandating utilities to include employment opportunities for minority- and women-owned business in their work.<sup>11</sup> FEJA also devoted funding to provide training opportunities and assistance to low-income customers, seniors, and disabled veterans. The utilities established this IQ Committee in response to the legislation to help with these efforts. In 2017, the utilities submitted their energy efficiency plans to cover the 2018-21 time period and address FEJA requirements.

As a matter of accountability, the Illinois Commerce Commission (ICC) monitors utility activity on diversity through an Annual Policy Session that is required by Section 5-117 of the Public Utilities Act 220 ILCS 5/5-117, as amended by Public Act 99-0906. These sessions include roundtable discussions on trends and opportunities for increasing the diversity of vendors working with utilities. The Act also requires utility companies of at least 100,000 customers to submit annual reports by April 15 of each year stating all diversity-based procurement goals and spend for the previous year and plans for implementing and realizing goals for the following year. Furthermore, the ICC Office of Diversity and Community Affairs was put in place to assist IL stakeholders with the utility procurement process, analysis of diversity efforts, and as a resource to diversity professions.<sup>12</sup>

### Governor's Executive Order

In January 2017, Governor Pritzker clarified the state's commitment to workforce diversity by ordering a report be put together on better aligning resources for "disenfranchised" communities. The report, to be carried out by the Department of Commerce and Economic Opportunity (DCEO) would be created within 90 days and would contain comprehensive recommendations for helping these communities have greater access to workforce resources in both rural and urban geographies.<sup>13</sup>

### DCEO Plan to Revitalize Economy and Build Future Workforce <sup>14</sup>

In a new report released in October of 2019, the DCEO details that the State will be working with businesses and education centers to bolster skill levels for underserved communities so that the broader economy could thrive. This work is said to include reducing "the equity gap by investing in, providing support to, and taking down barriers for economically disadvantaged populations." Progress will be monitored by tracking average earnings relative to statewide averages for these populations.

The report also emphasizes that the Office of Minority Economic Empowerment has begun issuing \$15 million in grants to minority-owned businesses and incubators that support them. There is a specific mention that more will be done to "improve access to energy efficiency and other clean tech jobs to underserved populations by expanding on successful training and incubator programs." Aside from general equity goals, building the workforce of the future is said to include expanding efforts to help recently incarcerated populations with life skills, career readiness, and occupational training.

A new Apprenticeship Tax Credit will cover up to \$5000 worth of programming that occur in underserved areas, and Regional Apprenticeship Navigators will help coordinate apprenticeship programs for employers. A new bid credit program, called the Illinois Works Jobs program, will help build a diverse pool of workers in construction and building trades by incentivizing contractors to hire from underrepresented populations. Furthermore, a "barrier reduction fund" for apprentices in industries with low diversity will be created to expand opportunities to diverse communities in the skilled trades.

## APPENDIX III: Utility Accomplishments to Date

Illinois utilities have come a long way since first organizing the IUBDC and implementing both privately and publicly mandated diversity initiatives. Here is what utilities are currently saying about their diversity efforts:

*"At ComEd, diversity and inclusion are core values for our employees and those we work with, including our supplier community. Creating opportunities for diverse suppliers to grow and excel is one of the most important roles we play as we continue building a supply chain that reflects all the communities we serve."*<sup>15</sup>

- Joe Dominguez, CEO of ComEd

*"We are committed to diversity and inclusion not just because it's the right thing to do, but because diverse perspectives and an inclusive environment for our co-workers lead to continuous improvement, innovation and better business results for our customers and shareholders."*<sup>16</sup>

- Warner Baxter, Chairman, President, and CEO of Ameren

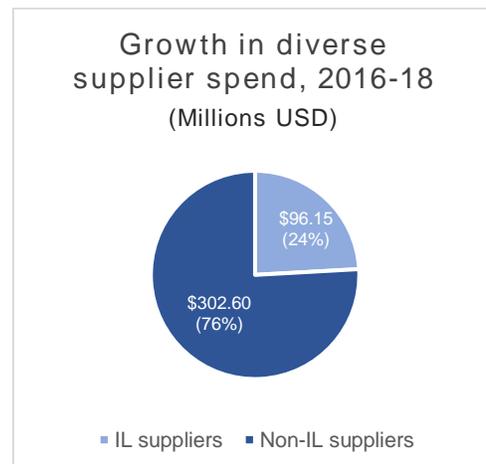
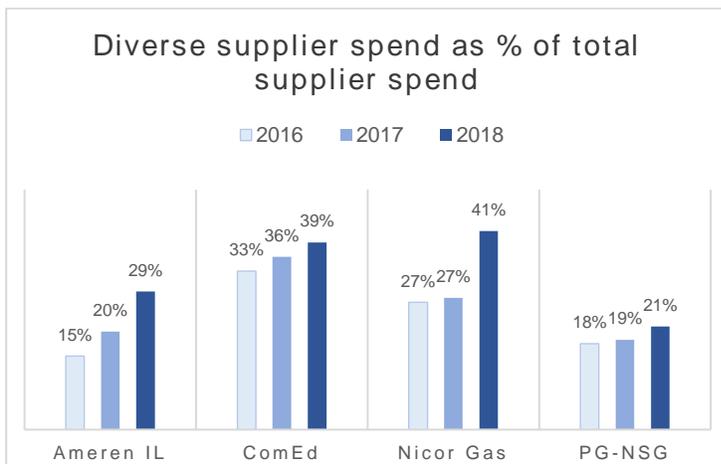
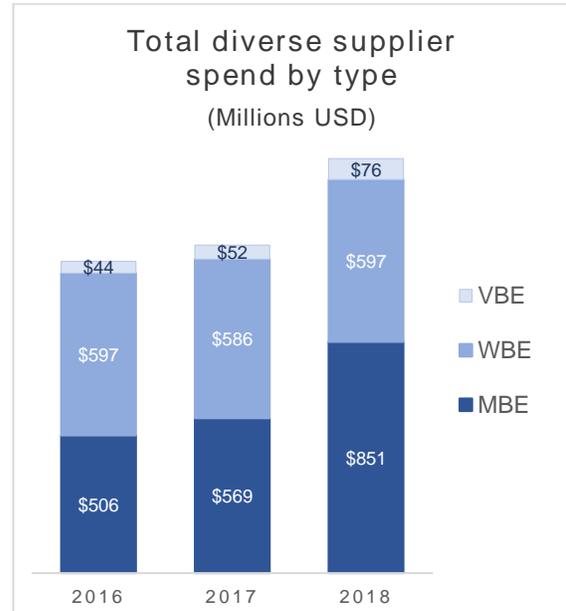
*"By valuing human diversity and treating each other with respect, we maximize individual contributions, organizational effectiveness, and company success."*<sup>17</sup>

- People's Gas/North Shore Gas on Diversity as a Value

*"We continue to build an organization where the culture around supplier diversity is woven into the fabric of our business. We've built bridges to opportunities that will span generations, and we've opened doors and granted access to partners that were turned away for decades."*<sup>18</sup>

- Melvin Williams, CEO of Nicor Gas

Below are summary tables on diverse supplier spend that were built with data from the ICC annual reports:



## APPENDIX IV: Feedback from IL Diverse Suppliers and Utility Responses

In a recent IQ South Committee meeting, we heard from a host of diverse suppliers who provided insight into challenges & opportunities for expanding participation.<sup>19</sup> Moreover, the facilitation team contacted several diverse suppliers as part of earlier research on the subject.<sup>20</sup> A brief summary of key points is listed here:

Recommendations	Utility Responses			
	Ameren IL	ComEd	Peoples Gas / North Shore Gas	Nicor Gas
(1) Capacity: One frequent comment was the view that diverse businesses tend to have inadequate capacity to take on larger contracts. This view tends to undervalue the work of suppliers. Furthermore, some diverse suppliers suggest that it is unfair when a small, diverse business must "stand in line" while larger companies are able to quickly submit multiple applications in queue ahead of them. More must be done to build capacity for diverse businesses by extending resources or establishing a small business queue.				
(2) Requirements: Contracts often contain arbitrary requirements that smaller, diverse businesses fail to meet. Those may include legal or insurance requirements that are more onerous than may be reasonable. This is particularly true for start-ups that either lack knowledge of the requirements and their rationale or fail to negotiate to request changes to these requirements.				
(3) Certification: Gaining a M/W/D/VBE certification still stands as a challenge due to issues with time and cost. Suppliers expressed frustration with the process. Such certifications are needed for purposes of reporting utility contract spending. Making this process more streamlined should be explored.				
(4) Mentorship: In general, diverse businesses have less access to networking with decisionmakers and mentorship that could benefit their business development efforts. Improved mentorship from larger, successful firms and from direct contact with utility clients may aid the uptake of diverse business partners.				
(5) Payment: The idea of conducting work and not being paid for over 30 days is not acceptable to diverse businesses and does not acknowledge the fact that smaller, diverse businesses do not always have large cash reserves to carry costs for a month or more. The reserves that a smaller business has on hand need to cover payroll, equipment and other business costs. Diverse businesses cannot "lend" the utility money without knowing when they will be paid back.				
(6) Voice: There are various energy committees, task forces and other stakeholder groups where diverse businesses want to share input. Participation in these meetings and discussions would be beneficial from a networking standpoint as well as a business development standpoint. Participation would also provide diverse businesses an opportunity to share innovative ideas with decision makers. Diverse businesses seem to be delegated only to "diversity" discussions and lack participation in the "mainstream" discussions. Diverse businesses have relevant information, expertise and experience to share on a wide variety of issues and should be invited to the conversation.				

## APPENDIX V: Endnotes

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<sup>1</sup> Chatlani, Shalina. (2016). "Filling the void: How utilities can embrace diversity in an evolving workforce." UtilityDIVE: August 2, 2016. Available at: <http://www.utilitydive.com/news/utility-industry-diversity-in-workforce/423628/>

<sup>2</sup> The Deloitte Global Millennial Survey 2019. Available at: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/deloitte-2019-millennial-survey.pdf>

<sup>3</sup> Rudominer, Ryan. (2016). "Corporate Social Responsibility Matters: Ignore Millennials at Your Peril." Available at: <https://csic.georgetown.edu/magazine/corporate-social-responsibility-matters-ignore-millennials-peril/>

<sup>4</sup> 2018 Deloitte Millennial Survey. Available at: <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-2018-millennial-survey-report.pdf>

<sup>5</sup> Border States. (2014). Why is Supplier Diversity Important for Utilities; Illustrations of Supplier Diversity Success. Border States Supply Chain Solutions. Available at: <https://solutions.borderstates.com/why-is-supplier-diversity-important-for-utilities/>

<sup>6</sup> Horting, Karen. (2019). "The Business Case for Diversity and Inclusion." Forbes Nonprofit Council. Available at: <https://www.forbes.com/sites/forbesnonprofitcouncil/2019/06/05/the-business-case-for-diversity-and-inclusion/#13d5dd462324>

<sup>7</sup> Lorenzo, Rocio et al. (2018). "How Diverse Leadership Teams Boost Innovation." BCG. Available at: <https://www.bcg.com/en-us/publications/2018/how-diverse-leadership-teams-boost-innovation.aspx>

<sup>8</sup> Holger, Dieter. (2019). "The Business Case for More Diversity." The Wall Street Journal, Journal Reports: Leadership. Available at: <https://www.wsj.com/articles/the-business-case-for-more-diversity-11572091200>

<sup>9</sup> Hunt, Vivian et al. (2018). "Delivering through diversity." McKinsey & Company, January 2018 Report. Available at: <https://www.mckinsey.com/business-functions/organization/our-insights/delivering-through-diversity>

<sup>10</sup> Eswaran, Vijay. (2019). "The business case for diversity in the workplace is now overwhelming." World Economic Forum. Available at: <https://www.weforum.org/agenda/2019/04/business-case-for-diversity-in-the-workplace/>

<sup>11</sup> MEEA. Available at: <http://www.mwalliance.org/sites/default/files/meea-research/supplier-diversity-sept2018.pdf?current=/taxonomy/term/11>

<sup>12</sup> Illinois Commerce Commission. Available at: <https://www.icc.illinois.gov/filings/mwvs/>

<sup>13</sup> Executive Order 2019-03. Issued by Governor: January 16, 2019. Available at: [https://www2.illinois.gov/Pages/government/execorders/2019\\_3.aspx](https://www2.illinois.gov/Pages/government/execorders/2019_3.aspx)

<sup>14</sup> DCEO. (2019). "A Plan to Revitalize the Illinois Economy and Build the Workforce of the Future." Available at: <https://www2.illinois.gov/dceo/Documents/IllinoisEconomicPlan2019.10.9.2019.pdf>

<sup>15</sup> ComEd. "Diversity Works." Available at: <https://www.comed.com/DoingBusinessWithUs/Pages/SupplierDiversity.aspx>

<sup>16</sup> Ameren on Diversity and Inclusion. Available at: <https://www.ameren.com/company/careers/diversity>

<sup>17</sup> People's Gas. "Our Values." Available at: <https://accel.peoplesgasdelivery.com/company/vision.aspx>

<sup>18</sup> ICC Supplier Diversity Policy Session: September 5 2019 Minutes. Available at: <https://www.icc.illinois.gov/meetings/supplierdiversity.aspx>

<sup>19</sup> IQ South Advisory Committee Meeting: October 16 2019. Available at: [https://iqadvisorycommittee.com/wp-content/uploads/2019/10/Meeting-Notes\\_IQ-South\\_10-16-19.pdf](https://iqadvisorycommittee.com/wp-content/uploads/2019/10/Meeting-Notes_IQ-South_10-16-19.pdf)

<sup>20</sup> Shelton, Kelly. (2017). "Workforce/Supplier Diversity Best Practices: An Illinois Review and Recommendation by the Illinois Energy Efficiency Stakeholder Advisory Group." Available at: [https://iqadvisorycommittee.com/wp-content/uploads/2018/10/DCEO\\_Report\\_Workforce\\_Supplier\\_Diversity\\_Final\\_5-31-17.pdf](https://iqadvisorycommittee.com/wp-content/uploads/2018/10/DCEO_Report_Workforce_Supplier_Diversity_Final_5-31-17.pdf)