

CORPORATE SOCIAL PROCUREMENT IN AUSTRALIA

BUSINESS CREATING SOCIAL VALUE

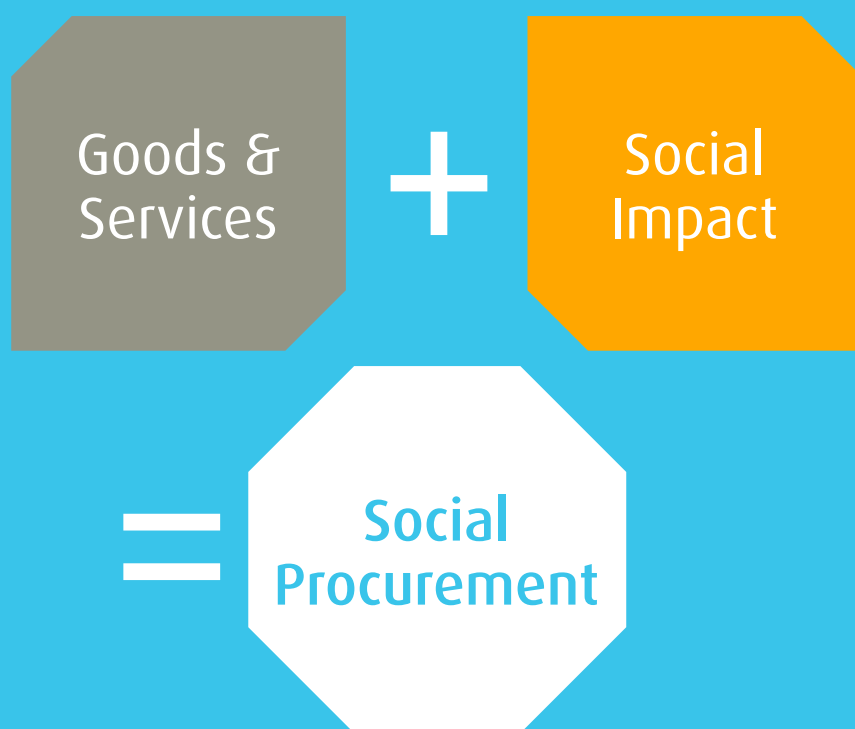


RESEARCH REPORT 2013

SOCIALTRADERS



When buyers use their purchasing power to buy goods and services and social impact, they are undertaking social procurement. It can create jobs and opportunities for people who may have struggled to find work; it can reinvigorate depressed communities and it can drive better business outcomes.



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Introducing Social Traders and The Faculty

SOCIALTRADERS

Social Traders is Australia's leading social enterprise development organisation. Based in Melbourne, Social Traders' vision is a world where the market is used to deliver sustainable social outcomes. This can be achieved by empowering social enterprises to transform communities throughout Australia.

Social Traders partners with government, philanthropy and leading Australian businesses to support social enterprises through capacity building, mentoring, profiling, procurement and direct investment.

By working directly with social enterprises to build their capability and with buyers to help them understand the benefits of buying from social enterprise, Social Traders is growing the social procurement market, and in turn growing the social impact of procurement in Australia.

To learn more about social enterprise contact Social Traders on 03 8319 8444 or go to www.socialtraders.com.au



At The Faculty, we believe procurement is integral to core business strategy. Through commercial leadership, innovation and deep procurement knowledge, we are helping to transform the profession.

The Faculty delivers:

Consulting and change implementation to elevate procurement through operational, functional and systems transformation, strategy development and best-in-class benchmarking

Leadership, commercial and technical skill development to build and embed high-performance procurement teams

Networking and thought-leadership forums to connect and inspire Asia-Pacific's most dynamic and strategic procurement minds

We are not theorists. We are practitioners, committed to delivering innovative and actionable solutions to help you stay ahead of the game.

To learn more about The Faculty contact us on 03 9654 4900 or go to www.thefaculty.com.au

Foreword

‘Companies should think of every dollar they spend in the supply chain as a ‘potential’ tool for social good.’

Marius Kloppers, former CEO, BHP Billiton

Social Traders and The Faculty have worked in partnership over the last two years to raise awareness and promote the value of social procurement to leading Australian businesses. Together we created the Corporate Board for Social Procurement to provide a forum to share experiences of social procurement in practice in order to increase understanding of its benefits.

This report is the result of the Board’s desire to ‘know more’ about social procurement in corporate Australia. In order to do this we conducted research including a literature search related to best practice examples of social procurement around the world and a survey of leading businesses sourced through networks of our respective organisations. We also carried out five best practice case studies of Australian social procurement, and are grateful to Transfield, Thiess, NAB, Rio Tinto, and Telstra for sharing their experiences.

As this report is being launched we are witnessing strong interest in social procurement and a growing commitment to social responsibility, strategic community investment and shared value. Leading companies recognise that genuine and effective corporate responsibility must be integrated with broader business strategy. It is clear that aligning community engagement and investment initiatives with strategy can deliver long-term benefit for business and the community.

Our research found that tangible social outcomes are being achieved by companies that are socially procuring from suppliers that deliver a specific social benefit, such as social enterprises and indigenous businesses. As an example, 58% of Rio Tinto’s joint-venture expenditure in the Pilbara region of WA is being directed towards local indigenous-owned businesses. Similarly, Telstra’s Supported Workforce Program created over 300 jobs for people with disabilities by engaging 14 social enterprises to clean and maintain more than 4,700 telephone exchanges around Australia.



Community Contact Service. A social enterprise of the Brother of St Laurence that provides concierge services.

We believe that there is enormous untapped potential in social procurement as an agent for social change in Australia, with current activity representing only a tiny fraction (much less than 1%) of the total quantum of corporate Australia's spending. We are also greatly encouraged by the rapid growth in corporate commitment to social procurement; in 2012, 12 of the 31 businesses surveyed for this report were socially procuring, but 30 of the 31 respondents predicted they would be socially procuring by 2014.

This report captures the overwhelmingly positive experience of companies in procuring from social enterprises and other social-benefit suppliers. Our research found that the benefits of social procurement go far beyond the goods and services purchased. Social procurement also plays a key role in improving staff engagement, building brand equity, enabling businesses to honour diversity commitments and allowing them to do something that is truly socially good without compromising financial return to shareholders.

Research participants were quite clear that social procurement is not 'business as usual' – it presents unique challenges and opportunities for corporate organisations and social enterprises. For social procurement to occur at greater levels there needs to be a more enabling environment: this includes the right tools and infrastructure to support it, establishment of effective supplier networks and increased community and government recognition of its importance.

Our research suggests that as social procurement becomes more common and familiar, the business case for it will be strengthened and current barriers to engagement will be lowered. This will result in more participants with an exponentially greater positive impact on marginalised Australians. We are confident this report will play a key role in facilitating the growth of social procurement in Australia.

David Brookes
Managing Director
Social Traders

Tania Seary
Founding Chairman
The Faculty

Executive summary

Summary findings

‘It’s very rare that you can do something (for the disadvantaged in the community) where we get value and they get value...It’s about doing what’s right.’

David Thodey, CEO, Telstra

Social procurement is the use of procurement to generate social benefits beyond the products and services required. As well as creating commercial efficiencies and new value streams – it also creates jobs and opportunities for people who may have struggled to find work, it reinvigorates depressed or marginalised communities and it can drive better business outcomes.

In unlocking government and corporate procurement budgets, social procurement has the potential to reduce disadvantage and increase workforce participation in Australia. These are big aspirations, that can only be achieved if there is a will amongst the biggest buyers to support social procurement.

Social Traders commissioned this research to better understand the way in which corporate Australia is participating in social procurement and what its aspirations are, with a specific focus on how goods and services are procured from social enterprises.

The key objectives of this research were to:

- » understand the extent of social procurement activity
- » identify partnership models, agreements and lessons learned from the market.
- » understand the impediments to social procurement
- » identify how social procurement can increase the demand and market for social enterprise products and services.

The research included a detailed literature review, followed by a survey of 31 businesses operating in Australia, with a market capitalisation of \$221 billion. The work then focused on five of the survey respondents to formulate more detailed case studies of best practice corporate social procurement. The report goes on to make recommendations on how social procurement can be supported to grow in scale and impact in Australia.



The Sorghum Sisters. A social enterprise of the Adult Multicultural Education Services that provides catering.

In brief, the key findings from the research are:

- » Social procurement has emerged in the wake of trends in business and government towards the creation of positive social and environmental externalities through the procurement process.
- » Social procurement has growing momentum in Australia, with over 67% of survey respondents reporting that they are currently undertaking, or intend to undertake social procurement in the near future.
- » In 2013, over \$905 million was directed to social procurement by 11 businesses. This figure is expected to rise quickly with another 18 respondents committed to commencing social procurement initiatives by 2014.
- » Tangible outcomes are being achieved in a range of social benefit areas including local economic development, employment and training for disadvantaged groups, and providing credible and diverse alternatives in the supply of goods and services.
- » There are four clear pathways for implementing social procurement but the most commonly used are contract clauses (35%) and supplier identification and development (29%). This reflects a strong preference for directly approaching social enterprises and other social benefit providers or encouraging sub-contracts with existing vendors.
- » The greatest challenges to the development and implementation of social procurement are capacity/time, identifying appropriate categories of spend and establishing clear organisational commitment.
- » For those businesses undertaking social procurement, success is typically measured by jobs created for targeted beneficiaries, volume and percentage of total money spent, and the value delivered to the organisation and the community.
- » In order to grow social procurement, there is a need for stronger supplier networks and increased promotion of social procurement and its benefits.

This research provides insights for expanding and deepening social procurement in Australia by looking at the experiences of businesses who are already socially procuring. These insights appear throughout the report as case studies. A number of specific recommendations based on these insights are included in Chapter 6 of this report.

Chapter one

The social procurement equation

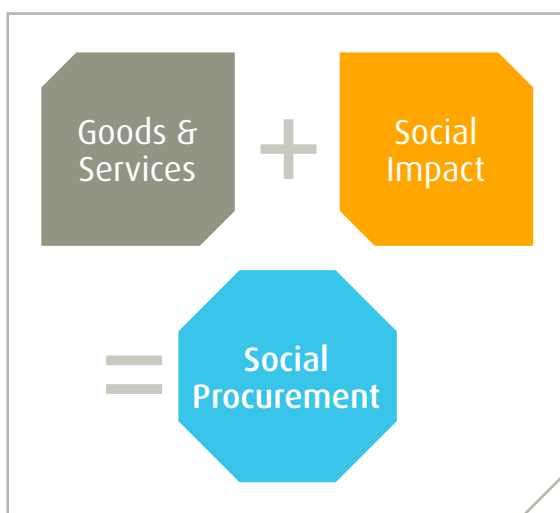
‘Just by doing business we are doing something extra that really sets us apart from our competitors.’

Colm Stanley, General Manager Western Region, Transfield Services

1.1 WHAT IS SOCIAL PROCUREMENT?

When buyers use their purchasing power to achieve social outcomes beyond the products and services they require, they are undertaking social procurement. Social procurement provides a framework for buyers to generate positive social impact through their existing procurement requirements.

Figure 1: Social procurement equation



The social and economic benefits of social procurement are many and varied. Key among them are:

- » bringing people into employment from a specific marginalised cohort such as the long term unemployed, public housing tenants, those with a disability, the Indigenous, refugees or migrants, those facing homelessness, youth and others

- » maximising economic stimulus in a needy community or region where work is being undertaken
- » promoting ethical employment and work practices, particularly in countries where exploitation is common
- » building a diverse supplier base for the market that engages minority groups and reflects the diversity of the community.

The social benefits of social procurement can be supplied by conventional private businesses or through social benefit providers. Social benefit providers include social enterprises, fair trade businesses, indigenous-owned businesses, women-owned businesses and other businesses where over 50% ownership resides with minority ethnic groups.

This research captures social procurement delivered by all social benefit providers identified above, but it has a particular emphasis on understanding how large businesses are procuring from social enterprise in Australia. For many people social enterprise is an unfamiliar term, yet the potential role of SE social procurement is significant because they already deliver the benefits that social procurement seeks to generate.



Ashoil. A social enterprise of the Ashburton Aboriginal Corporation producing biofuel.

1.2 WHAT IS SOCIAL ENTERPRISE?

Social enterprises are businesses which trade to deliver public and community benefit.

Social enterprises:

- » are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit
- » engage in trading activity to achieve their mission
- » derive a substantial portion of their income from trade
- » reinvest the majority of their profit/surplus in the fulfilment of their mission.¹

Social enterprises deliver social benefits in a range of ways, by:

- » employing people who are disadvantaged in the mainstream labour force
- » providing a community-benefit service that is not available or accessible due to market failure, e.g. community childcare
- » providing a profit stream through trade that is then used to fund social benefit programs, e.g. Oxfam stores, Thankyou Water.

Research undertaken by Social Traders and Queensland University of Technology estimates that there are over 20,000 social enterprises operating in Australia and they are responsible for over 3% of GDP.² Whilst most do not sell to corporate Australia, thousands do.

For example, Ashoil is a social enterprise working with corporate Australia. Ashoil converts used cooking oil from mining camps in the Pilbara region (WA) into environmentally friendly biodiesel. The production of biodiesel enables the organisation to achieve its social mission, to provide employment and training opportunities for the local Indigenous community. Ashoil supplies the bulk of its biodiesel to Rio Tinto for drill and blast operations.

Chapter One Notes:

1. J Barraket, N Collyer, M O'Connor and Heather Anderson, (2010) *Finding Australia's Social Enterprise Sector (FASES)*, Social Traders and Australian Centre for Philanthropy and Nonprofit Studies.
2. EBIT

Case Study: Transfield Services – Community Engagement Initiative

‘Engaging with social enterprises is an important part of the business as we are not only supporting a group of people with special needs but supporting the local economy and community business as well.’

Neil Birtchnell, General Manager Business Community Investment, Transfield Services

BACKGROUND

Transfield Services is a global operations, maintenance and construction services business. They currently service over 140 client-based contracts in Australia.

Transfield Services engages with social procurement through established subcontracts with social enterprises and Indigenous businesses across Australia. They enhance employment opportunities for marginalised job seekers through this engagement.

Transfield Services’ social mission is executed through its research-based Community Engagement Approach which focuses on building and maintaining relationships with local community stakeholders, developing and implementing community projects and initiatives and maximising local employment and procurement opportunities.

APPROACH

Transfield Services’ Community Engagement journey started in 2003, when clients sought to understand mounting pressure from community groups on how to improve access to commercial and employment opportunities. Transfield Services formed a partnership with the Corporate Citizenship Research Unit of Deakin University to create a knowledge base that enabled them to work more closely with the local community.

In 2008 Transfield started building the foundations for social procurement. A formal mapping exercise was conducted to identify suitable categories and identify social enterprises with the capacity and capability to meet the needs of the business and its clients.

Transfield Services Business Community Investment team took this analysis of the supply market to the Contract Managers who drive purchasing decisions. They identified suitable Social Enterprises and put out a call across the organisation for help to develop and promote the project.

IMPACT

Most opportunities for social procurement at Transfield Services sit within large infrastructure contracts, many in regional communities. Nationally, Transfield Services engages with over 15 social enterprises across their contracts. To name a few, their contractors include the Activ Foundation in Western Australia who provide grounds support, the Bedford Group in South Australia who provide grounds, hospitality and catering services and in New South Wales they work with Growing Care, the horticultural arm of The House with No Steps organisation. All of these organisations are driven by the desire to employ people marginalised in the labour market.

Engagement with social enterprises has had a positive impact for both Transfield Services and the enterprises.



Bedford Group. A catering social enterprise.

These social enterprises provide the appropriate support and work environment for the disadvantaged workforce. They facilitate Transfield Services' engagement with marginalised groups that would otherwise be very difficult. The business Transfield Services provides to the social enterprises has helped them to create scale. They are better able to compete in their local markets and they have access to opportunities within other contracts.

Transfield Services engagement with the Bedford Group is an example of the positive impact on both organisations. In South Australia, Transfield has partnered with the horticultural division of this local social enterprise, Adelaide Property and Garden (APG). The supply relationship has developed over time and is based on strong performance. APG has grown their contract and are now responsible for 50% of garden works done on site and have generated work for 8-12 employees with a range of disabilities and special needs.

This relationship enables Transfield Services to fulfil one of its contract requirements, which is to engage people with a disability. Transfield Services National Manager Defence, Dave Reynolds explains:

'For us it's brilliant because we are building new relationships with people in the community, getting a top notch product and their willingness to work with us is really encouraging. For them it's great because they feel empowered by working but are also learning new skills and a trade that will stay with them for life.'

The relationship was extended to catering and hospitality services, with a team of eight Bedford special needs employees providing sandwiches, lunches and light meals to a number of South Australian Defence sites on a regular basis.

This success in service delivery has also led to additional work for the Bedford Group on Transfield Services' Amcor contract. They are now exemplary sub-contractors on this contract with a strong focus on customer service and high levels of productivity.

Half yearly audits are conducted on all Transfield Services community engagement activity, social initiatives and Indigenous suppliers to ensure this success is captured that the positive impacts of social procurement are promoted internally and externally.

LOOKING FORWARD

'We will continue to support Social Enterprises by exploring more ways to expand the use of Social Enterprises across other areas of the business.'

Colm Stanley, General Manager Western Region, Transfield Services

Chapter two

Methodology

‘The private sector can and must redefine both its responsibilities and its own terms of success...Plan A – where companies have been driven by the profit motive alone – is no longer acceptable.’

Paul Polman, CEO Unilever

2.1 LITERATURE REVIEW

A review was conducted to find domestic and international examples of forces influencing and practical approaches to social procurement. Twenty five articles from both academic and non-academic sources were reviewed to contextualise and refine the data collected in the survey.

2.2 ORGANISATIONAL SURVEY

To reach a broad range of organisations, and understand the wider prevalence of social procurement, a survey tool was developed. It was distributed through the Corporate Social Procurement Board³, through Social Traders’ network of social enterprises and corporate partners, and through The Faculty’s networks reaching over 70 blue chip Australian businesses.

A total of 31 participants completed the survey over four months. A number of industry sectors were represented including Aviation, Banking and finance, Mining, Oil and gas, Professional services, Retail, Telecommunications, and Utilities. Just over half of survey respondents worked in the area of procurement and supply chain (59%), with the remaining 41% of participants coming from operations, community and strategy.

2.3 IN-DEPTH CASE STUDY INTERVIEWS

Five survey respondents – NAB, Telstra, Rio Tinto, Transfield Services and Thiess – were invited to be the subject of case studies as good practice leaders for this report. Each case study was drawn from qualitative interviews with key stakeholders at the participating organisation.

2.4 LIMITATIONS OF THE RESEARCH DESIGN

It is important to acknowledge that the survey respondents included a number of organisations with an expressed interest in social procurement. It is not a large enough sample to be representative of the proportion of businesses in Australia that are or are not engaged in social procurement. Also, it is likely that there are many other businesses in Australia who were not surveyed that are undertaking some form of social procurement.

Chapter Two Notes:

3. The Corporate Social Procurement Board was developed by Social Traders and The Faculty to bring together leading businesses to advance their social procurement practice.



Eaglehawk Recycle Shop. A waste management social enterprise.



Cleanforce. A social enterprise of WISE Employment that provides commercial cleaning services.



The Endeavour Foundation operates a range of social enterprises, including food packaging.

Case Study: Telstra – Supported Workforce Program

‘When we introduced this program the feedback we got from internal staff was impressive as they felt the exchanges looked better. Of course another benefit to this is that people with disability are mixing with our mainstream workforce, which is building a stronger, more inclusive community.’

Michael Marrett, National Contract Specialist, Telstra

BACKGROUND

Telstra’s engagement with social enterprises was initiated in 2010 by an internal champion with a personal connection to disability, who was in a position to explore the inclusion of disability motivated social enterprises (all were Australian Disability Enterprises at that time) into the supply chain. The experience was so overwhelmingly positive and commercially sustainable that it grew into policy and everyday practice for Telstra.

By the end of 2013 Telstra had contracted 14 social enterprises nationally who support people with a disability to clean and maintain over 700 exchanges and 4000 network sites, under an initiative entitled the Supported Workforce Program. As a direct result of the Telstra contracts, more than 300 people with a disability are being employed around Australia.

APPROACH

When Michael Marrett, Telstra’s National Contract Specialist, saw first-hand the positive impact of employment for people with a disability through his son’s employment at Minda, a social enterprise employing people with disability based in South Australia, it sparked an idea. Michael’s team was looking for suppliers for network site maintenance. They conducted a trial with Minda at two of Telstra’s exchanges, the trial was so successful they made more sites available to Minda and then they expanded the opportunity to other social enterprises that employ people with a disability, utilising a similar model of trialling and then growing the number of sites.

Currently, 70% of all Telstra Network sites and exchanges are maintained by these organisations. Telstra contracts directly with all 14 social enterprises. Some of these organisations act as an aggregator to take advantage of economies of scale. They make it possible for smaller organisations to be involved in the program by making the contracts easier to manage for Telstra. The pricing is market-based and Telstra has worked with suppliers to build their pricing models.

IMPACT

Impact measurement has been both qualitative and quantitative - 300 jobs have been created for people with disability and there is strong staff satisfaction in relation to the work undertaken. There has also been very strong organisational engagement with what is being achieved by the Supported Workforce Program.



Incito. A social enterprise of WISE Employment, providing maintenance services.

'I love my work so much... I whip, I blow, I mow... I'm pretty damn good at that.'

Luke – supported employee, Wesley Employment Services NSW

'My favourite jobs are doing the wiring room/equipment room – all these wires are connected to telephones. It's all tecological (sic) – I get confused myself.'

Roland - supported employee, Wesley Employment Services NSW

'I am so happy with the job and I don't want to leave.'

Roland - supported employee, Wesley Employment Services NSW

The social enterprises have benefited significantly from having Telstra as a client, beyond the increased work, they now have a nationally recognised client which adds enormously to their credibility when selling services to other buyers.

Telstra's Supported Workforce Program won the Excellence in Improving Employment Opportunities Award as part of the 2012 International Day of People with Disability celebrations. The Awards recognise individuals and organisations whose contributions improve the lives of people with disability.

LOOKING FORWARD

Telstra's recently released 6th Disability Action Plan stipulated one of its five key objectives was to utilise Telstra's supply chain to promote opportunities for people with disability. This will occur through explicit statements in procurement documentation, requiring suppliers to disclose the disability and inclusion policies when tendering for contracts and, including social enterprises that employ people with disability in preferred supplier lists.

For more information, see the Telstra Supported Workforce Program video on YouTube and Telstra's 6th Disability Action Plan.

Chapter three

The forces driving social procurement

‘The purchasers need to look at the whole outcomes of the work and assess what they are worth to their community. If we train 100 people and transition them into employment through this social enterprise, that’s 100 families that have tripled their income, they have independence, they’re off the streets – it impacts everywhere – local earn, local spend, happier communities. It’s much more than you first think.’

Social procurement supplier⁴

The rise of social procurement in the private sector is a relatively recent trend that coincides with the broader emergence of procurement as a strategic tool for the delivery of organisational objectives.⁵ Organisations engaging with social procurement are doing so for strategic purposes and are able to identify the creation of business value as a result of undertaking social procurement.

In this section we identify and discuss the forces and activities that have influenced the emergence of corporate social procurement in Australia.

3.1 SHARED VALUE

The growing interest in doing good through business activities has been picked up by leading business strategists Michael Porter and Mark Kramer who have developed the concept of ‘shared value’. Porter and Kramer’s concept of shared value expands the focus on procurement to create economic, environmental and social value in the medium term. Core to this concept is the mutual dependence between competitive companies and healthy communities: what’s good for society is good for business.⁶ Michael Porter reflects on the next generation of corporate social responsibility and neatly summarises the pragmatic focus and outcomes that social procurement has the potential to generate within business:

‘The next wave of CSR moves away from PR and branding, which was what a lot of early efforts were about, to asking “What can we do actually to make a difference?” It moves from supporting many social causes with a little bit of money to focusing on two or three areas where they can make a difference.’

Michael Porter, Harvard Business Review, Jan-Feb 2011, p4

Many companies are now discovering that doing ‘good’ in their procurement choices can actually solve business problems. For example, in 2003 Nestle responded to rising demand for their product and a lack of supplier capability, launching the AAA *Sustainable Quality Program* as a phased investment in developing cooperatives of coffee farmers in South America. The objective of the AAA program was to enhance access to capital, finance, technology and knowledge for suppliers and increase knowledge sharing between Nestle and suppliers.

As a result of this investment, the cooperatives enhanced the quality and surety of their coffee supply for Nespresso; the value-add as a result of working with the cooperatives in this way supported the development of the community and over 45,000 farmers by 2011. Nestle is publicly committed to growing the proportion of its coffee sourced through this program from 60% in 2011 to 80% in 2013.⁷

3.2 SUSTAINABLE PROCUREMENT

Social procurement has benefited from the progress made in relation to 'sustainable procurement' over the last decade. There has been a dramatic increase in the growth of procurement that reduces the environmental footprint. Increased awareness of the environment and the imminent impacts of climate change together with some evidence of marketing benefits and potential whole of life savings have driven this shift. The consequent creation of the Global Reporting Index (GRI)⁸, the Dow Jones Sustainability Index (DJSI) and accreditation frameworks such as ISO (which incorporates green procurement targets) have provided frameworks that recognise and reward exemplars, standardising this activity within procurement processes. These performance frameworks are increasingly moving into the areas of responsible environmental, social and economic sourcing.

3.3 FAIR TRADE AND MINORITY SUPPLIERS

The increased awareness amongst consumers of Fair Trade and minority suppliers (suppliers majority owned by minority ethnic groups) over the last decade has generated corporate interest in the creation of social value. Cadbury made a strategic decision in 2010 in relation to its Dairy Milk chocolate, shifting to Fair Trade certified cocoa at a cost of \$45 million over 10 years.⁹ Shortly thereafter it became the world's largest buyer of certified cocoa. The community outcomes of this shift include over 55,000 farmers participating in training, over 100 communities participating in mobile health checks, all the while selling their produce at a premium price in longer term contracts. Todd Stitzer, CEO of Cadbury, stated in an interview that:

'the greatest power consumers have is of their buying dollar...if consumers feel that they want products more ethically produced they should buy what they value.'

Cadbury has experienced increased sales as a result of going Fair Trade with their Dairy Milk product.¹⁰

In the United States, government and corporate commitment to suppliers from minority groups has supported the development of an infrastructure of supplier networks such as the National Minority Supplier Development Council¹¹ (NMSDC) which links suppliers owned by people from minority groups to businesses. Minority supplier networks have been successful in creating economic opportunities for groups that are under-represented in business and over-represented in indicators of disadvantage. In 2011, NMSDC member corporations' purchases exceeded \$100 billion from minority suppliers.

3.4 SOCIAL ENTERPRISE

The rise of social enterprise has increased awareness of the existence of suppliers that deliver strong social benefits. The Greyston Bakery in the United States is a well-known and well-established social enterprise that was founded in 1982. The bakery aims to hire the hard-to-employ and is known for its 'open hiring' practices, where anyone can sign up regardless of background. All profit from the company goes to the Greyston Foundation and is used to support low-income housing, community day care, a medical centre for those with HIV and other community endeavours. From 1990 the Greyston Bakery has been supplying brownies for Ben & Jerry's ice cream and is currently producing 20,000 pounds of ice cream mix-ins per day. The growing success of this commercial partnership, demonstrates the potential of social enterprises to support large companies and deliver tangible commercial and social benefits.

As a leading social procurer, Ben and Jerry's operates its business in a way that is profitable and is based on an exceptional product. The company recognises the central role that business plays in society by initiating innovative ways to improve the quality of life locally, nationally and internationally.¹²

3.5 GOVERNMENT SUPPORT

The role of government in leading social procurement through their own tendering processes, through their support for minority supplier networks and through their recognition of exemplars has been critical to the emergence of social procurement.

There are many examples in Australia and internationally of commercial businesses responding to social procurement clauses in government contracts. The Victorian Industry Participation Plan enables government to stipulate local content requirements in delivery.¹³ The NSW Aboriginal Participation in Construction Guidelines requires government agencies to identify construction projects that have the potential to deliver improved employment outcomes for Aboriginal people and enterprises.¹⁴ Both these frameworks ensure that suppliers deliver specific community benefits in the execution of the contract.

Martin Loosemore's book *Responsible Corporate Strategy in Construction and Engineering*¹⁵, proposes that socially responsible behaviour in this sector is being driven by a small number of passionate people; the large firms depend on major clients taking leadership, and it appears that many clients do not yet see the value of corporate social responsibility. For these reasons, Loosemore suggests that government regulation is needed to drive industry change.

The UK Government passed The Social Value Act (2012) in the period of financial austerity following the global financial crisis. The Act contains legislation that requires the consideration of social, environmental and economic value in all government procurement decisions.¹⁶ Whilst the legislation does not mandate social procurement, it legitimises the creation of positive externalities through the procurement process and the creation of value beyond the goods and services being purchased.

The UK Government's Open Public Services white paper published in 2012, acknowledges that:

'improving the accountability of policy and spending decisions in terms of the full social value they create will be increasingly important to improve the way in which public decisions are made.'

It also argues that 'councils should have the flexibility and freedom to consider overall value rather than only cost in their spending decisions', factoring in the economy, efficiency and effectiveness.¹⁷

The UK Government's actions represent a major milestone and benchmark for other governments. The Social Value Act has been initiated in the wake of major reductions in government spending, including funding for welfare programs with governments in Europe increasingly exploring innovative levers for the creation of social impact.

The US Government has adopted approaches to social procurement driven by targets and mandatory policies.

- » **Ability One** was established to support the implementation of the Javits-Wagner-O'Day Act of 1971. This requires federal government agencies to purchase selected products and services from non-profit agencies employing people who are blind or who have other severe disabilities. The Ability One Program is the largest source of employment for people who are blind or have severe disabilities in the US. It represents \$2.3 billion in products and services purchased by the federal government.¹⁸
- » **The Public Works Employment Act of 1977**, requires that at least 10% of federal construction contracts be awarded to businesses owned by minorities.
- » **The Public Law 95-507 of 1978** mandates that if a buyer's firm is awarded a federal contract that exceeds \$10,000, the buyer is required to make "maximum efforts" in awarding subcontracts to small minority businesses. If a federal contract exceeds \$500,000 (\$1,000,000 for construction projects), prior to its award the buyer's firm must submit an acceptable buying plan that includes percentage goals for the utilisation of minority businesses. The plan must also detail procedures for identifying and dealing with minority businesses.¹⁹

3.6 BEYOND WELFARE

As noted by the Centre for Social Impact (CSI)²⁰, Australia has not had the same focus on generating direct social impacts from procurement processes as the United States or Europe. The use of procurement to achieve equality agendas (e.g. the employment of marginalised groups) has also been more recent. However, this is undergoing change with a much more significant focus placed on addressing social inequities through procurement, not only in public spheres but also in the corporate and non-profit sectors.

In their 2010 report on social procurement, CSI attribute these developments to a growing recognition that social welfare mechanisms are insufficient to address persistent social problems. Strategies of economic democracy, whereby equal opportunities to access mainstream economic resources (such as procurement budgets) should also be increased. In other words, there has been recognition among some corporate organisations and governments that the market can and should be harnessed to ensure social outcomes for disadvantaged groups.

3.7 SUMMARY OF FORCES DRIVING SOCIAL PROCUREMENT

This research indicates growing impetus for social procurement in Australia and overseas. There are a range of forces in procurement practice and broader society that are driving this. These include:

- » the emergence of strategic procurement which supports consideration of factors beyond price.
- » public interest in the environment and fair trade, which has led to business integrating these outputs into their procurement processes.
- » growing interest in, and commitment to, purchasing from minority suppliers.
- » shared value as a new business paradigm to deliver social good to communities and financial good to owners/shareholders. Shared value provides a framework for the next step in the evolution of corporate social procurement.
- » government utilising social procurement and playing an enabling role.

Chapter Three Notes:

4. I. Burkett, (2010), *Social Procurement in Australia*, The Centre for Social Impact.
5. C Niezen & W Weller, (September 2006), 'Procurement as strategy', Harvard Business Review, <http://hbr.org/2006/09/procurement-as-strategy/ar/1>
6. M Porter & M Kramer, (January 2011), 'Creating shared value', Harvard Business Review, refer <http://hbr.org/2011/01/the-big-idea-creating-shared-value>
7. Nespresso, (June, 2013) refer http://www.nespresso.com/ecolaboration//medias_dyn/articles/2714/article/attachment-2.pdf
8. H Brown, M de Jong & T Lessidrenska, (May 2007) 'The rise of the global reporting initiative (GRI) as a case of international entrepreneurship', Corporate Social Responsibility Initiative, Working Paper No. 36, John F Kennedy School of Government, Harvard University refer http://www.hks.harvard.edu/m-rcbg/CSRI/publications/workingpaper_36_brown.pdf
9. Fairtrade Foundation (March 2009), refer http://www.fairtrade.org.uk/press_office/press_releases_and_statements/archive_2009/march_2009/cadbury_dairy_milk_commits_to_going_fairtrade.aspx
10. The Global Poverty Project refer <http://www.globalpovertyproject.com/blogs/view/223> viewed September 2013
11. National Minority Supplier Development Council, refer <http://www.nmsdc.org/>
12. Ben & Jerry's, refer <http://www.benjerry.com/activism/mission-statement>
13. Department of State Development, Business and Innovation, refer <http://www.dsdbi.vic.gov.au/projects-and-initiatives/victorian-industry-participation-policy>
14. <http://www.procurepoint.nsw.gov.au/before-you-buy/framework-construction/aboriginal-participation-construction>
15. Loosemore, M and Phua, F. (2010) *Responsible Corporate Strategy in Construction and Engineering: doing the right thing* Taylor & Francis, UK
16. Public Services (Social Value) Act, refer <http://www.legislation.gov.uk/ukpga/2012/3/contents/enacted>
17. Social Enterprise UK and Anthony Collins Solicitors (February 2012) *The Social Value Guide*, p7
18. US Department of the Interior, (2010) <http://www.doi.gov/pam/programs/acquisition/jwod.cfm>
19. R Handfield, (2003) *Minority-Owned Supplier Contracts: The Right Smart Thing to Do!*, NC State University, refer <http://scm.ncsu.edu/scm-articles/article/minority-owned-supplier-contracts-the-right-smart-thing-to-do>
20. Burkett, I and Kernot, C (2010) *Social Procurement in Australia*, UNSW

Case Study: Thiess Services – A Collaborative Supply Chain Model

‘The only difference between us and other businesses is that we employ a large number of people with a disability.’

Gary Washfold, General Manager, Marriott Services

BACKGROUND

Thiess is one of Australia’s leading construction, mining and services contractors. Marriott Enviro Services is a social enterprise, specialising in land care management, landscaping, mowing and garden maintenance services. Its primary social driver is to employ adults with an intellectual disability.

With little or no special concessions provided, Marriott and Thiess have established and are now growing their trading relationship. Thiess has helped develop Marriott’s capability and Marriott has helped Thiess to build their commitment to delivering social benefit through procurement.



Marriott Enviro Services is a grounds maintenance and landscaping social enterprise.

APPROACH

Marriott Enviro Services was first invited to work with Thiess based on the combination of its specialisation in landscape operations and social impact. The relationship began in 2003 and over 10 years the relationship has deepened with the range of services provided broadening from landscape operations to include general maintenance, grass and garden maintenance and painting.

From a procurement process perspective, Marriott Enviro Services was integrated into a vendor panel based on consistent performance and business prerogative. There have been no 'short cuts' or concessions granted as Marriott has competed equally with other suppliers. The social enterprise has spent time understanding Thiess' specific requirements, in particular its safety regulations and operational KPIs, and the relationship has flourished.

Marriott Enviro Services has consistently proved capable, always meeting and in some cases exceeding their KPIs. Their dependable staff and quality output has made them very cost competitive when compared to other larger players in the market, their safety performance is exemplary and their staff development has resulted in a number of Marriott staff being on-boarded to Thiess.

Thiess Operations and Marriott Enviro Services have now reached a collaborative working model. One example of this in action is a recent tender where the organisations worked together to develop the tender response, combining a view of capacity, opportunity and constraint down the supply chain. This is a significant positive change from the traditional subcontracting approach.

IMPACT

Since 2009 Thiess services have spent approximately \$1.3 million per annum with Marriott on grounds maintenance works alone. Within their Community and Stakeholder Management Policy (2012), Thiess has now developed a specific procurement policy, which provides a framework for building relationships around social procurement with the goal of expanding the practice. Thiess benefits from being able to demonstrate corporate citizenship using the Marriott Enviro Services example through its supply chain, particularly when completing government tenders.

This relationship is a great example of alignment of business needs with the capability of an individual social enterprise in a competitive market. Thiess is proud that engaging with Marriott Services provides a triple bottom line return to the community.



Marriott Enviro Services

Chapter four

A social procurement framework

‘Social procurement provides a mechanism for linking and integrating social and economic agendas, both in public policy terms and in the broader societal and commercial terms.’

Dr Ingrid Burkett, Centre for Social Impact, NSW

This section provides an overview of the social procurement framework developed by Dr. Ingrid Burkett (Social Design Fellow, Centre for Social Impact, NSW) as a tool for understanding existing social procurement practice. Dr Burkett’s pragmatic framework identifies four distinct methods that are currently being used to initiate social procurement within organisations. These methods were validated in our research both through the survey and interview process.

Figure 2: Social procurement approaches



Source: Burkett 2010

4.1 CONTRACT FOCUS

Social procurement can be enacted by incorporating social impact into tenders, new or existing contracts, or evaluation criteria. Several participants in this research provided examples where ‘social impact’ or ‘sustainability’ was included in tenders to support the competitive tender analysis done by their procurement group.

Government has been active in adopting this approach. In Victoria, the Department of Human Services has used the Public Tenant Employment Clause to create employment for unemployed public housing tenants by requiring contractors to employ them in the delivery of housing maintenance and security contracts. Between 2005 and 2010, over 800 employment opportunities for public housing tenants were created.²¹

4.2 SUPPLIER FOCUS

Engaging directly with suppliers who have a mission to deliver social value is one of the most common approaches to social procurement.

Social enterprises are becoming increasingly well understood by the corporate sector as specialist social benefit suppliers. Others include local businesses in regional communities, indigenous businesses, Australian Disability Enterprises and women or minority-owned businesses.

Supply Nation is a major government funded network of indigenous suppliers dedicated to enhancing opportunities and creating diversity in the supply chain.²² Supply Nation has facilitated \$37.3 million worth of business from 194 private businesses to indigenous suppliers to 2012. Modelled on the US National Minority Supplier Development Council, which has over 3,500 active corporate members, Supply Nation has had significant growth and success in the private sector with Coles, ExxonMobil, NAB, Qantas, and Rio Tinto all signatories to the program.

Social Traders through the Social Enterprise Finder²³, Social Firms Australia²⁴ and the National Disability Service through the Australian Disability Enterprise website²⁵ are creating processes to link different types of employment focused social enterprises, including Social Firms and Australian Disability Enterprises to government and corporate buyers with some success.

The research also identified that many social enterprises have independently integrated into corporate supply chains by winning tenders without specific consideration to social value. In fact some businesses may be unaware of the fact that they are procuring from a social enterprise.

4.3 POLICY FOCUS

Developing and implementing social procurement policy is a 'work in progress' for many commercial businesses. Policies can take many forms including:

- » internal requirements such as commitments to a percentage of spend for social impact
- » external (statutory or regulated) requirements such as Reconciliation Action Plans, Disability Action Plans, local procurement plans or code-of-practice
- » tender or purchasing decision making requirements (e.g. a percentage of specific categories must be with social enterprises)
- » local supplier and total spend commitments.

This research identified a major global resources organisation that utilises a policy approach and mandates that each of its mines must have a documented strategy for local procurement as part of its global compliance requirements. Each mine is developing a tailored approach to local engagement endorsed by the senior leadership team. This approach has led to innovation in policy application and continued policy relevance globally.

4.4 MARKET (SUPPLIER) DEVELOPMENT FOCUS

Where buyers face poorly established supplier market capability or capacity, they must innovate to meet business requirements. A handful of organisations have sought to develop both business requirements and their suppliers in parallel. This approach contains unique and potentially complex arrangements for social procurement that differ from business-as-usual supplier development.

For example, in planning the establishment of the Diavik Mine in Canada, Rio Tinto developed local suppliers capable of meeting their expected future business requirements through training, local employment initiatives and by stimulating contracts for these businesses. These dedicated local efforts at Diavik were grounded in a series of formal agreements signed in 2010 with Aboriginal leaders and Regional and Federal Government agencies.²⁶

Chapter Four Notes:

21. Department of Human Services presentation. David Speller
22. Supply Nation, refer www.supplynation.org.au for more information
23. www.SEFinder.com.au
24. Social firms are businesses that create accessible employment for people facing barriers to work as a result of mental illness or disability. They employ up to 50% of their workforce from this cohort.
25. Australian Disability Enterprises employ people with a disability who find it difficult to work or maintain employment in the open labour market. They often exclusively employ people with a disability. www.australiandisabilityenterprises.com.au
26. Rio Tinto, 'Our Journey with Local Economic Engagement Realizing the Art of the Possible Through Active Partnerships', refer www.icmm.com/document/736 for more information

Case Study: Rio Tinto – local business partnerships in Western Australia

‘Social procurement is everyone’s responsibility in the organisation.’

Bernadette Harris, Local Business Principle, Rio Tinto Procurement

BACKGROUND

Rio Tinto is a leading global mining company with over half of its assets located in Australia.

Bernadette Harris, the Local Business Principal is responsible for facilitating commercial engagement with both Indigenous and local businesses in Western Australia. The top three objectives of this role are:

1. To improve Indigenous and local business capabilities supporting the social license to operate and land use agreements.
2. To facilitate local participation in Rio Tinto’s procurement and tendering opportunities.
3. To fulfil the requirements for seven regional standards under relevant Land Use Agreements, including a goal of directing 13.5% of spend through Indigenous suppliers.
4. To meet spend and supplier development commitments as part of the current Reconciliation Action Plan.

APPROACH

Rio Tinto Procurement (RTP) has pursued a combination of developing local suppliers, as well as enabling further participation and access to opportunities.

The following initiatives have gone a long way to addressing challenges in the local supply base:

1. The top 20 – 50 non-indigenous suppliers currently working for Rio Tinto are strongly encouraged to have an Indigenous engagement strategy in place.
2. Three road shows are conducted per year, focusing on building awareness of RTP processes, systems and requirements. The road shows reduce prequalification issues and improve the understanding of upcoming business requirements.
3. From September 2012 local suppliers have been favourably weighted based on proximity to operational areas and whether or not they are an Indigenous business.
4. To address existing capacity issues and ramp up capacity to meet opportunities, RTP issue Indigenous and local businesses with advance notice of upcoming tenders to enable adequate resource allocation, capability and relevant capacity to perform contracted works.



Ashoil. A social enterprise of the Ashburton Aboriginal Corporation producing biofuel.

IMPACT

In 2012, Rio Tinto exceeded its target of spending 13.5% of total Pilbara joint venture spend directly or indirectly with local Indigenous business, achieving an impressive 58% (approximately \$900M). RTP started with eight Aboriginal businesses qualified to work directly with Rio Tinto; they now have over 100 businesses that are either working directly with or committed to a development process to work directly with Rio Tinto. Whilst this has in some instances led to increased costs in goods or services, RTP has remained focused on understanding and documenting the realised value of social procurement through its service and innovation outcomes.

A recent litmus test for social procurement was the consolidation of spend on industrial cleaning cloths in 2013. A Perth based social enterprise employing 43 mobility-impaired staff, Windsor Wiper Sales won the tender despite coming up against a cheaper international supplier.

RTP identified that the additional cost required per annum was offset by the associated benefits of expanding the volume provided to the business by this social enterprise. The budget owners agreed and so did senior management.

Annual volumes have now risen to approximately nine tonne per annum, creating significant employment for supported employees.

LOOKING FORWARD

Rio Tinto is currently focused on progressing sustainable local and Indigenous engagement by developing an auditing and monitoring program to help improve participation across the business. The long term aim is for local businesses to be included in all relevant projects by mining and associated operations.

Chapter five

Survey results

‘Social procurement challenges procurement officers to change the way they think about their work. They go from being ‘Procura-crats’ to ‘Agents for Social Change’.’

Peter Holbrook, CEO Social Enterprise UK

As part of this research, a survey was designed to illicit the social procurement knowledge, understanding and experience of Corporate Australia.

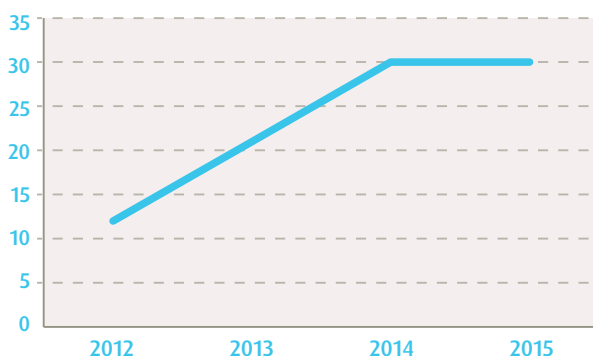
In the survey, data was collected in seven areas:

- i. Scale and social outcomes
- ii. Drivers and sponsors
- iii. Scope of current spend
- iv. Approach to social procurement
- v. Suppliers
- vi. Challenges faced by practitioners
- vii. Support required to grow social procurement

The survey captures a broad set of data on social procurement and a small amount of additional data specific to social enterprises, which is clearly labelled and presented in the section on suppliers.

5.1 SCALE AND SOCIAL OUTCOME

Figure 3: Rate of social procurement adoption amongst respondents (N=31 participants)



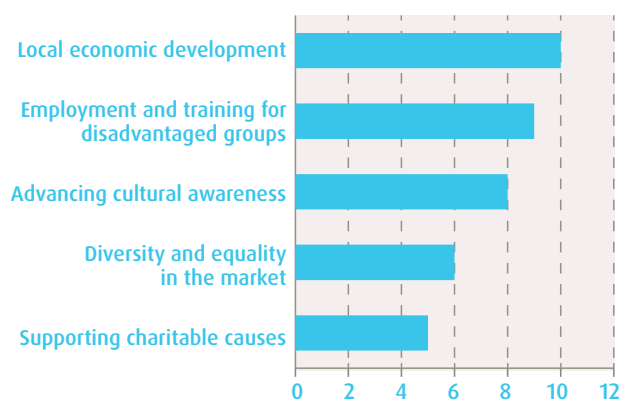
The majority (67%) of the respondents indicated they are currently (2013) attempting some form of social procurement, with 21% planning to undertake social procurement in the next 12 months.

Figure 3 reflects the expected growth in activity between 2012 and 2015. Based on statements across the 31 respondents, we are likely to see a 150% increase in the number of organisations undertaking social procurement.

The total social procurement spend across the sample of 31 for the 2012 calendar year was \$905 million. It is worth noting that Rio Tinto represents the vast majority of this; the average spend amongst others was \$0.4 million. Further, many organisations were in the process of quantifying how much was being spent and could not report a figure.

Those twenty one organisations that are socially procuring were required to rate their overall experience of social procurement. A third of respondents described the overall experience as ‘Excellent’, half had ‘some of their expectations met’, with 17% ‘not having their expectations met’. Interestingly, all of the respondents identified their desire to continue socially procuring. A clear opportunity exists to learn more from this sample about what works and what could be improved.

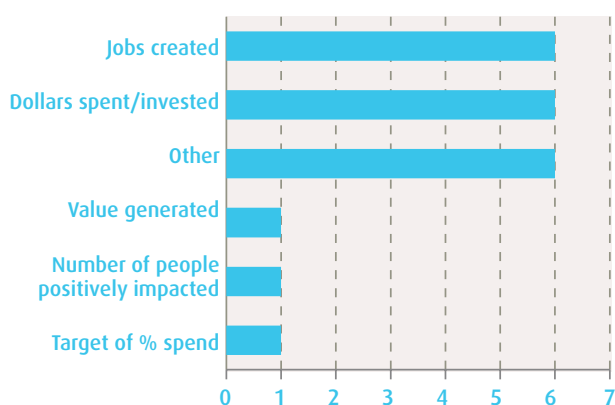
Figure 4: Key social benefits that have been realised through social procurement (N=12 participants)



Participants identified a broad spectrum of social benefits that they are seeking through social procurement activities (see Figure 4). These reflected business specific issues as well as the social and community context in which they operated.

Most respondents identified more than one social benefit from social procurement activity. Whilst local economic development emerged as the most common benefit across the sample and is particularly prominent in the mining sector in order to enhance their 'social licence to operate', there were many other well supported motivations. This suggests that social procurement is a flexible tool, able to deliver different and multiple social impacts in different settings.

Figure 5: Metrics used to measure social procurement outcomes (N=12 participants)



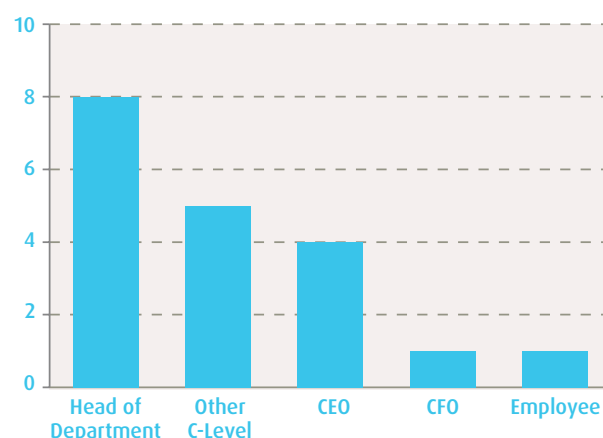
When asked about the measurement of social procurement outcomes many of the respondents answered that they used more than one measure. Figure 5 shows that most of the respondents use quite basic metrics for reporting on social procurement such as dollars spent/invested and jobs created. In the 'other' category, responses included 'none', 'in development' and 'quality (of the service delivered)'.

More advanced measures such as Social Return on Investment (SROI)²⁷ are still being reviewed or tested. Organisations were divided in the interviews between those that intended to implement measures to create some rigour around the measurement of value, and those that believed such measures were restrictive when it came to generating valuable social outcomes.

Importantly, measurement also provides the necessary data for global reporting requirements such as the Dow Jones Sustainability Index (DJSI) and the Global Reporting Index (GRI), which are increasing in scope and significance for businesses.

5.2 DRIVERS AND SPONSORS

Figure 6: Highest level of social procurement sponsor in organisation (N=20 participants)



The sponsorship of senior management was common with the CEO, CFO or other 'C level' committed in 53% of the responses (see Figure 6). Interviews reaffirmed that this sponsorship was a critical enabler of success for practitioners.

Figure 7: Key motivations for social procurement (N=20 participants)

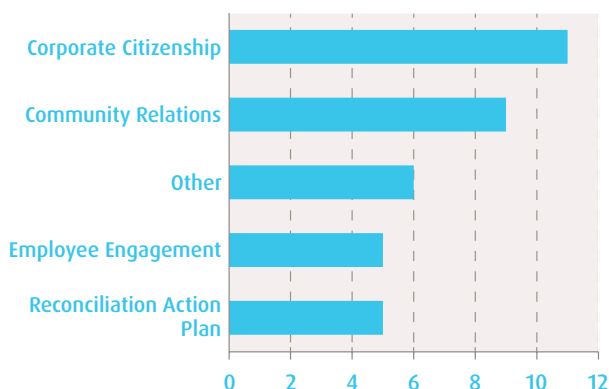


Figure 7 shows that the top four business drivers for social procurement were corporate citizenship, community relations, employee engagement and Reconciliation Action Plans (RAP).

In the corporate sector these are significant priorities for senior executives, closely linked with good governance and the management of a company's social licence to operate.

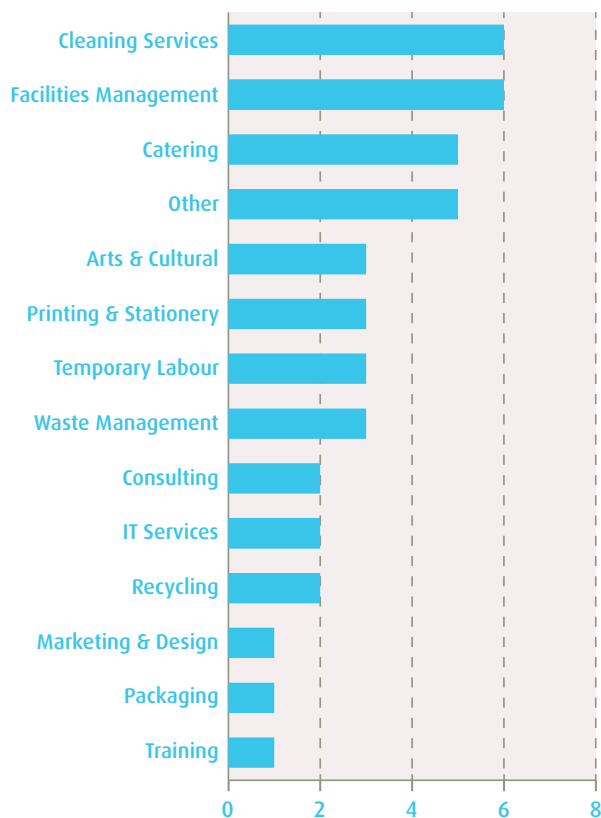
The prominence of the RAP or social action plan in the responses is noteworthy because these agreements create a self-imposed and externally monitored organisational commitment to progressing social procurement.

The prominence of the RAP or social action plan in the responses is noteworthy because these agreements create a self-imposed and externally monitored organisational commitment to progressing social procurement.

The relatively high level of recognition of the role of social procurement in employee engagement is a reflection that some companies are viewing social procurement as a strategy to retain and attract staff.

5.3 SCOPE OF CURRENT SPEND

Figure 8: Current spend categories where social procurement is occurring (N=12 participants)

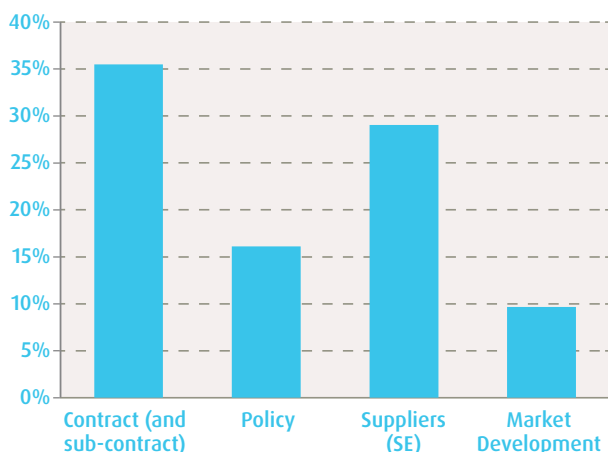


Categories where labour-intensive contracts are common are where most organisations are choosing to socially procure. These include catering, cleaning, facilities management and printing with a number of other smaller categories represented (see Figure 8).

Respondents cited two main reasons for this: (i) it was simpler to find suppliers in these categories; and (ii) these goods and services aligned to existing business requirements without the need for ongoing supplier development. Many social enterprises and other social benefit providers work in labour intensive fields because they provide more jobs for those disadvantaged in the labour market and for other minority groups.

5.4 APPROACH TO SOCIAL PROCUREMENT

Figure 9: Approaches to social procurement (% using each approach)



Explanatory Note: Over four questions participants were asked separately if they were using each of these approaches. This figure relates specifically to SEs.

Figure 9 shows that to initiate social procurement many respondents are focusing on either direct engagement with social enterprises (29%) or using existing major contracts and vendors to sub-contract (35%) to these suppliers.

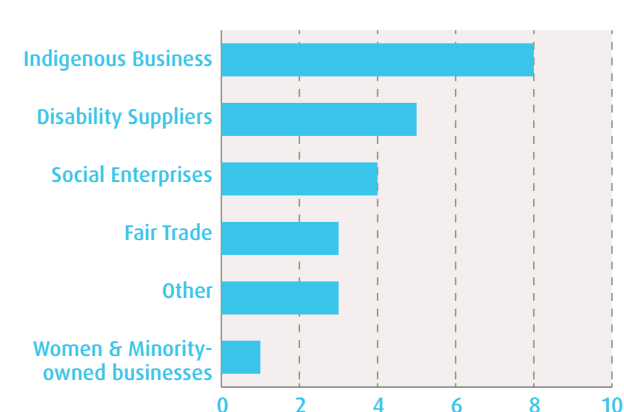
Leading examples include setting up panels of social enterprises for the business to use, and introducing social enterprises to incumbent major suppliers over the term of an existing agreement. In new or existing contracts, specific clauses that relate to social impact were used less frequently. By contrast, using key performance measures around social outcomes to drive uptake was an increasingly popular approach, in particular to encourage sub-contracting by master/primary contractors, e.g. Transfield Services.

It is notable that two of the participants identified that they had been involved in the development and start-up of a social enterprise supplier that is servicing their business. This suggests that corporate Australia doesn't have access to social enterprises in some industries, and some are prepared to develop them in order to meet organisational goals.

The focus at this stage in the social procurement cycle is on practice rather than policy. Further reinforcing this point, respondents indicated that only 23% were aware of the next planned activity for social procurement with 68% unclear on the next formal activity.

5.5 SUPPLIERS

Figure 10: Networks of suppliers being accessed (N=12 participants)

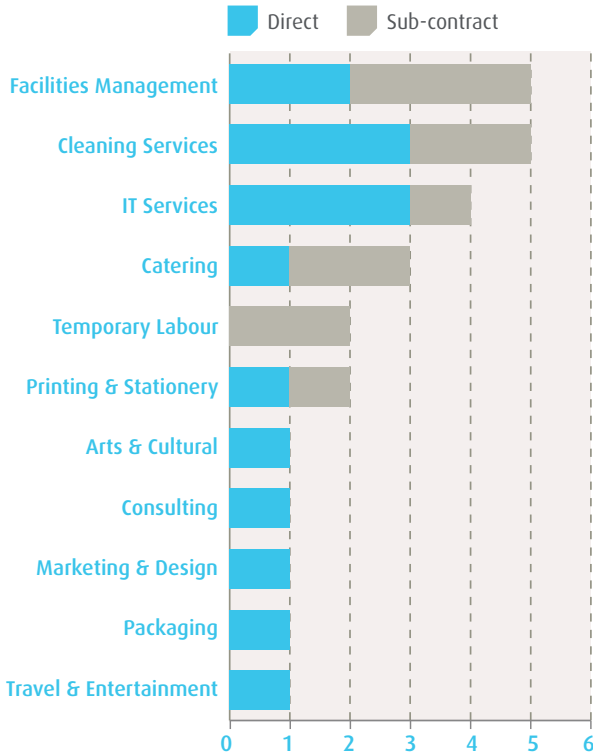


Supplier networks provide a popular mechanism to engage suppliers based on targeted social benefits. The types of networks are outlined in Figure 10. Businesses also identified that supplier networks made it easier to find suppliers and gave confidence that the suppliers were who they said they were. Supply Nation was referenced as a commonly used resource in interview discussions because it made supplier identification easy.

More generally, 75% of participants when asked, confirmed that accreditation or formal certification would assist with the implementation of social procurement, in particular buying from social enterprises. These findings suggest that there is a definite need to strengthen intermediaries and networks of social enterprises to improve awareness of and access to opportunities in the corporate sector.

Figures 11, 12 and 13 relate specifically to social enterprise suppliers in order to better understand the relationship between business and these organisations. The rest of the data presented relates more generally to social procurement and all social benefit suppliers.

Figure 11: Areas where social enterprises are contracting to, or sub-contracting through the head contractor (N=12 participants)



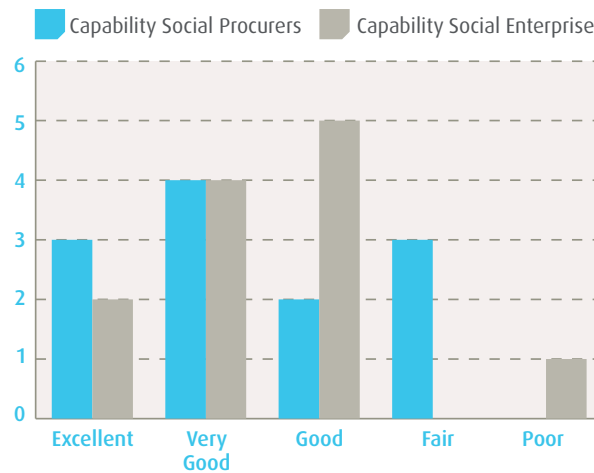
A clear distinction emerged in the research on the method of engaging social enterprises, depending on the balance of technical specialisation and supply market maturity.

Direct engagement was most common in areas such as graphic design, consulting and IT services. The Thiess case study emphasises the benefits of this approach over the long term as the buyer and supplier develop together. By contrast, indirect engagement was most common in mature supply markets (see Figure 11).

It is expected that this reflects the perceived difficulty of disaggregating large contracts and/or categories of spend for procurement. As outlined in our case study (see page 32), NAB has recently transitioned from directly engaging these suppliers, to collaborating with existing major suppliers.

Rio Tinto has used road shows and coaching and feedback sessions effectively to develop these working relationships. As these direct supply relationships expand, panel arrangements or approved supplier lists can support the disaggregation of work across a number of suppliers to grow additional social procurement outcomes.

Figure 12: Capability (skill and experience) of procurement teams and suppliers to implement successful social procurement (N=12 participants)



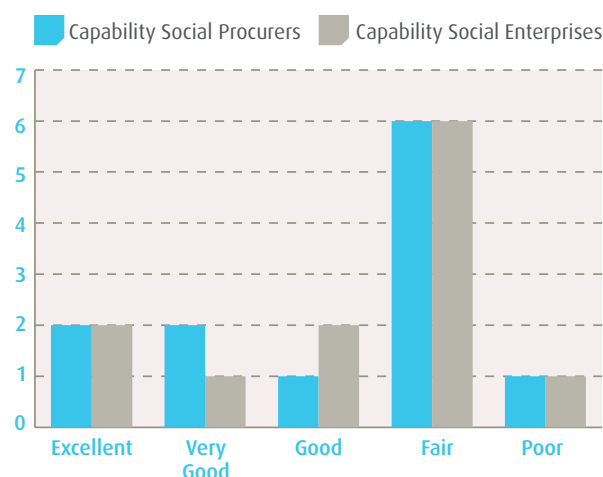
Engaging social enterprises, either directly or indirectly, emerged from the research as a popular method to kick-start social procurement practice.

Those businesses that are socially procuring have high regard for social enterprises, with 91% rating their capability from 'good' to 'excellent'. Social enterprises were present in 60% of the social procurement categories of spend in the survey.

Respondents were confident in their ability (such as skills and experience) to implement social procurement, with 75% of those currently socially procuring rating their abilities as 'good' or higher.

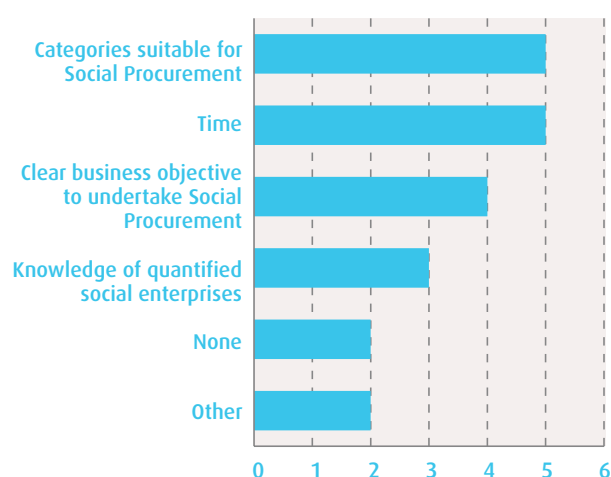
5.6 CHALLENGES FOR SOCIAL PROCUREMENT

Figure 13: Capacity (time and number of resources required) of procurement teams and suppliers to implement social procurement initiatives (N=12 participants)



It is notable in Figure 13 that both social enterprise and social procurers were identified as having limited capacity to pursue social procurement initiatives. Multiple competing strategic priorities for procurement are clearly impacting here. For social enterprises, the small/medium nature of most of these businesses imposes capacity limitations.

Figure 14: Barriers to implementing social procurement (N=31 participants)

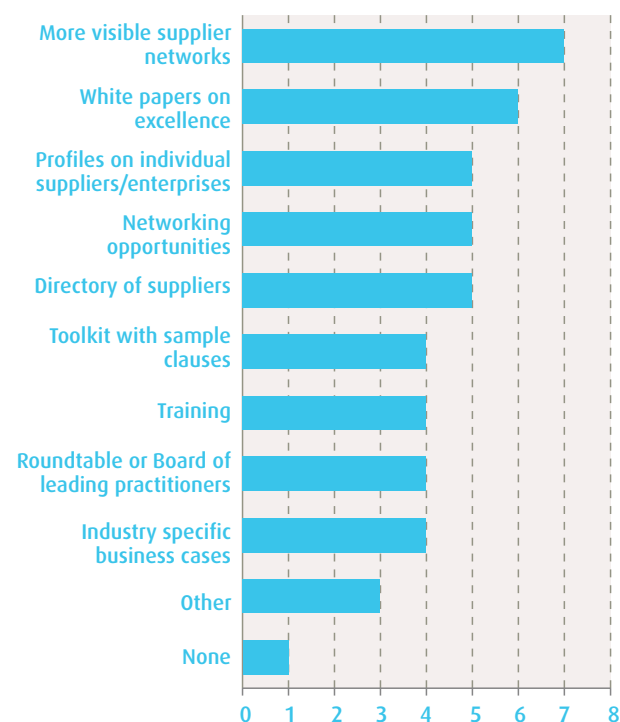


In Figure 14 participants identified a number of barriers to implementing social procurement. A lack of time was identified by 24% as a barrier.

In saying this, respondents may be indicating that social procurement is not perceived as a high enough priority for adequate time to be allocated to it. This may also be linked closely to 19% of respondents identifying that undertaking social procurement was not a business objective. A further 24% identified that a lack of knowledge about the categories that are suitable for social procurement was a further barrier.

5.7 SUPPORT REQUIRED TO GROW SOCIAL PROCUREMENT

Figure 15: Resources to enable the growth of social procurement from social enterprises (N=20 participants)



Corporate Australia's needs in relation to social procurement are centred on the importance of more visible supplier networks (15%) which is reflected in the desire for directories of suppliers (10%). Figure 15 shows that there is also a clear need for knowledge and resources to support social procurement with respondents seeking to understand the subject through white papers (13%), profiling (10%), case studies (8%) and networking (10%).

Figure 16: Areas of government support required to grow social procurement (N=21 participants)

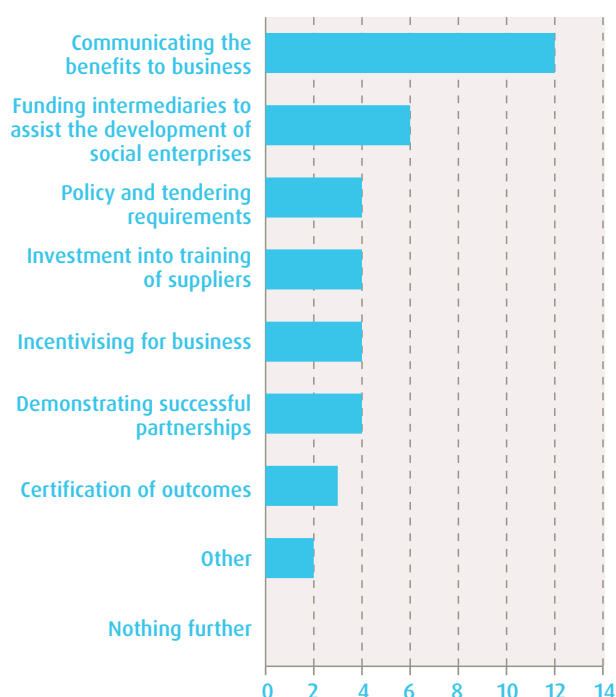


Figure 16 shows that when asked about the role of government in assisting social procurement organisations identified a need for government to communicate the benefits of social procurement to business' (12). They also want support to develop the supplier base (4) and the intermediaries that assist with supplier development (6). This suggests that government has a pivotal role to play, not just by doing but also by promoting and encouraging corporate Australia to engage in social procurement. Government is also crucial in helping those that want to socially procure to find suppliers. Supply Nation was repeatedly referred to as an exemplary supplier network, testimony to the eight year investment made by government to support this organisation.

5.8 INSIGHTS FROM THE CASE STUDIES

The Faculty conducted in depth interviews with representatives from Transfield Services, Rio Tinto, NAB Group and Thiess to develop five best practice case studies for social procurement. The themes identified in the case studies mirror many of those from the survey and are summarised below:

- » The experience of the organisations involved in procuring from social enterprises was overwhelmingly positive, with most seeking to expand their engagement with social enterprises.

- » The 'drivers' for social procurement varied. For some the prompt came through Reconciliation Action Plans, or organisations identifying a strategic intent to introduce more inclusive business practices for people with disabilities. For others it came through personal relationships, involvement with social enterprise or community pressure to reform business practices.
- » Support from the highest levels of management is critical to developing and sustaining social procurement.
- » Some businesses, for example Transfield Services and Thiess, identified that social procurement actually assisted their financial bottom line, an outcome that they were not expecting.

5.9 SUMMARY OF FINDINGS

The survey findings provide a valuable source of data on social procurement in Australia. Overwhelmingly, they paint a positive picture of the growth of social procurement:

- » The commitment and desire to socially procure is growing in corporate Australia.
- » Amongst those socially procuring there is a massive range in the quantum that they are socially procuring which is in part influenced by their geographies and industries.
- » There are compelling benefits for buyers as a result of social procurement.

The survey identified the key components of successful social procurement from the research.

- » High level buy-in is critical to the adoption of social procurement.
- » Most organisations are undertaking social procurement by piloting or undertaking work within discrete business areas, a minority have moved beyond this to develop policies.
- » Social procurement is being used as a strategic tool to achieve a range of organisational objectives.
- » Buyers are adopting different approaches with a mixture of direct contracting and sub-contracting to social benefit providers.

Looking forward, participants identified a number of measures that could address barriers to procuring from social enterprise.

- » Buyers are positive in relation to the capability of social enterprise, but identify limited capacity amongst suppliers. Many feel that government can play a role in supporting social enterprise to start up and grow.
- » Certification of social enterprise by an independent, third party is something businesses believe would provide assurance that they are purchasing from genuine social enterprises.
- » There is a need for more visible supplier networks so it is easier to find and buy from social enterprises.
- » It is widely believed that awareness of social procurement and its benefits, within corporate Australia and from government will encourage further engagement and adoption. Government again has a key role to play in recognising and publicising social procurement initiatives undertaken by corporate Australia.



Youthworx is a film production social enterprise.

Chapter Five Notes

27. The SROI Network International, refer www.thesroinetwork.org for more information

Case Study: National Australia Bank – Supplier Diversity Program

‘It would be good to have directories or registries to find other social and community suppliers who are accredited.’

NAB staff

BACKGROUND

National Australia Bank (NAB) Group procures over \$4.7 billion worth of goods and services from more than 24,000 businesses annually. NAB works hard to ensure its sourcing decisions have a positive impact on the environment and in the communities in which it works.

NAB's Group Supplier Sustainability Program (GSSP) monitors and manages sustainability risks and opportunities within its supply chain. The GSSP has developed sustainability principles and requirements for suppliers to NAB. One of these principles focuses on supplier diversity and was developed to encourage purchases with indigenous businesses, women-owned businesses, Australian Disability Enterprises (ADE's) and social enterprises by NAB supply chain partners.

APPROACH

An internal working group was established including representatives across Environment & Sustainability, Procurement and the Indigenous team to drive the program's implementation. Senior management commitment has been invaluable to the success of the program.

The objective of the program is to support sustainable enterprises and communities by purchasing products from accredited indigenous-owned, women-owned, Australian Disability Enterprises and other social enterprises. Direct procurement from these diverse suppliers has been a challenge as NAB procures nationally and many of the diverse suppliers are small to medium and rarely national. Since January 2012, NAB has shifted its focus to Tier 2 procurement, maintaining national partnerships with key suppliers and encouraging these large suppliers to include diverse businesses in their supply chains.

The first step in this journey has been to engage with Tier 1 suppliers on the benefits of supplier diversity. Tier 1 suppliers have been approached based on a number of criteria including the volume, spend and availability of diverse suppliers that are a good fit with the Tier 1 supplier's expertise. The next major step has been to include supplier diversity criteria into relevant tenders in 2012.

While NAB is facilitating relationships between its national suppliers and diverse suppliers, successful engagement is still at the discretion of the Tier 1 supplier. Decisions are still based on commercial considerations such as price, capacity and capability of delivery. Once the Tier 1 and Tier 2 suppliers establish a relationship, NAB's role can shift from relationship management to monitoring and reporting on progress.



Waverley Industries operates a range of social enterprises.

IMPACT

NAB has worked directly with a number of diverse suppliers with many successes, some of which are outlined below.

Print Junction is a family-owned, Supply Nation certified Indigenous business in Adelaide originally engaged to print NAB's first Reconciliation Action Plan in 2008. They have been on NAB's print panel since 2010 and today they have the opportunity to respond to all printing projects. As a result of their ongoing work with NAB and other purchasers, in 2012 Print Junction hired an Indigenous trainee to meet this growth.

Waverley Industries is an Australian Disability Enterprise that was recruited to manage the 40,000 internal envelopes that were stockpiling at NAB's courier company. Seeing an opportunity to reduce waste and engage a diverse supplier, Waverley Industries were invited to process the internal envelopes and return them to NAB for re-use. In total, four pallets of envelopes were processed and out of this collaboration project, Waverley Industries have won additional work managing the assembly of NAB's Out of the Box kits.

LOOKING FORWARD

NAB views accreditation as paramount when working with diverse suppliers. This is currently provided through Supply Nation and Australian Disability Enterprises. NAB hopes that social enterprises and women-owned businesses will develop certification bodies in Australia in the near future, effectively extending assurance across NAB's targeted diversity suppliers.

NAB's 2013 target for supplier diversity is to maintain and expand the number of diverse suppliers. As successes are achieved, NAB will continue to facilitate relevant introductions across different categories and locations.

Chapter six

Recommendations to grow social procurement in Australia

‘At first it was just part of my job – we had to do it and it seemed vaguely interesting, but it was just a job. Then over time it became a bit personal – it felt like we were doing something for the community; I felt like I was doing something good for once and that felt really good. So that was the first inspiration – and then we did things that worked and we started to get some runs on the board that was the really inspiring bit – we thought, wow, we’ve made a difference and so it grew from there, for all of us I think.’

Purchaser²⁷

Beyond the participants and findings of this research, the fact remains that most businesses are not currently socially procuring. Social procurement practice will need to develop quickly to keep up with growing expectations and rising pressure from corporate stakeholders. For many however the biggest challenge is where to start.

In response, the following recommendations build on the key insights from the research and are intended to facilitate the development of a social procurement program.

6.1 RECOMMENDATIONS FOR BUSINESS

Obtain and maintain senior sponsorship – engage champions at the executive level within the business. Beyond commitment, specific KPIs at this level will ensure ongoing delivery of results.

Identify, develop and communicate quick wins in defined categories – several common areas of spend are providing clear outcomes from direct social enterprise partnerships, including catering, maintenance, and facilities management. Engage with supplier networks to find social enterprises that could meet your needs. These quick wins facilitate momentum within and outside the organisation to move this from an initiative to business as usual activity.

Start small and target an existing or potential social enterprise(s) – understand current capacity gaps and develop them through active partnerships. Identify a potential or existing supplier to understand challenges (e.g. the procurement process) and expand opportunities (e.g. additional goods and services available), while providing a low risk scalable approach. Alternatively, work with your existing suppliers to bring social impact and social enterprises into their supply chain.

Engage passionate advocates in the business and equip procurement departments with the knowledge to support them – champions for social procurement and social benefit exist in many organisations. Whilst this is an emerging field, many are achieving positive results and are willing to share key learnings. By empowering procurement with the required tools and supply market knowledge, especially in a cost conscious environment, momentum will grow, often from the ground up.

Align core business requirements and supply market capacity to make the change stick – progressively working with individual business units to identify opportunities that exist for partnering with social enterprises and aligning these with the supplier market over the medium term will facilitate sustainable growth. This includes defining roles, responsibilities and KPIs that measure success.

6.2 RECOMMENDATIONS INDUSTRY AND PEAK BODIES

Share knowledge and good practice on social procurement through developing a community of practice – this could encourage knowledge sharing, case studies and other relevant information and be a resource for businesses who would like to socially procure but don't know where to start.

6.3 RECOMMENDATIONS FOR GOVERNMENT

Social procurement is an extremely cost effective and efficient way of addressing social problems and, in the long run has the potential to reduce government spending on employment and welfare programs. There are a range of actions that government could undertake to expand social procurement within Australia.

Consider the need for a broader social enterprise supplier network to capture and certify social enterprises and connect them to business – a model loosely based on Supply Nation could certify a broader range of social enterprises so that businesses wanting to socially procure would be assured that their suppliers were genuine social enterprises.

Consider further investments to support capacity building for social enterprise – the small scale of many of them was identified as a barrier for social procurement. Government could play a key role in supporting capacity building for social enterprises to 'scale up' and take advantage of the new opportunities provided by social procurement.

Recognise, encourage and promote business efforts at social procurement – an awards program, recognition and publicity could encourage more businesses to implement social procurement initiatives.



Our Shed is a social enterprise producing kindling for wood fires.

Chapter Six Notes:

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