



Minority Business Diaspora Interchange

Procurement Opportunities for Small Firms and Black and Minority Ethnic (BAME) Enterprises in Three English Regions

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1. Introduction

1.1 Aims in Context

The Small Business Research Centre (SBRC) at Kingston University is a partner in the 'Minority Business Diaspora Interchange' project, supported by the European Social Fund's EQUAL programme. The aims of the Diaspora Interchange project are firstly to open up opportunities for minority ethnic entrepreneurs to grow their businesses; and secondly, to establish a diaspora interchange to facilitate greater exchange of business ideas, finance, products and service across the diasporas in the UK, Europe and globally.

This research is specifically concerned with the opportunities and constraints faced by small firms, in general, and Black, Asian, and Minority Enterprises (BAMEs) in particular, in accessing procurement contracts. The focus of this study is on the experience and behaviour of public procurement officers and purchasing managers in the private sector, with respect to small firms and BAMEs, set in the context of procurement policy and practice. There is a need for systematically gathered evidence in this area in order to identify and disseminate good practice and contribute to improving performance in a field that potentially offers considerable market opportunities for small firms and BAMEs. Since policy makers and BAMEs have publicly recognised the potential for supplier diversity for a number of years, a key aim of the present study is to see to what extent this expressed policy interest is being translated into effective policy actions. The study was focused on three English regions: London, West Midlands and East of England, which were selected because they contained projects run by other partners in the wider Diaspora Interchange project.

More specifically, the research sought to:

- (i) Identify the enabling and constraining factors facing public and private sector purchasers, interested in diversifying their supply base to include more small firms and particularly BAMEs.
- (ii) Investigate the formal and informal methods used by purchasing organisations to make contact with potential suppliers.
- (iii) Review the experience with small firms and BAMEs of those responsible for purchasing in the public and private sectors.
- (iv) Make recommendations for policy-related actions designed to increase access of BAMEs to public and private sector contracts.
- (v) Identify examples of good practice for use as benchmarks to raise awareness of the competitive advantage of supplier diversity among a wider population of supply chain managers.

Early interest in supplier diversity in the UK led to comparisons with the USA, where public laws and federal government regulations place legal obligations on public and private sector organisations to monitor the ethnic ownership of suppliers and places affirmative action obligations on central and local government. By contrast public sector organisations in the UK are bound by EC law not to discriminate in favour of any supplier on the grounds of race, location, size of enterprise or other characteristics. However, the ethnic minority population in the UK is also much smaller than in the US and varies greatly from region to

region¹, which has implications for political sensitivity to diversity issues. The National Procurement Strategy and the Race Relations Amendment Act (2000), however, both contain elements that can assist organisations in making sure that the tendering process is fair, providing equality of opportunity for all, thereby enabling local authorities to take steps to increase procurement opportunities for small firms. In addition, the Race Relations Amendment Act (2000) is designed to eliminate unlawful discrimination and promote equality of opportunity and good relations between people of different racial groups (CRE, 2003). Therefore local authorities have a legal duty to ensure all potential suppliers have equal access to information about forthcoming contracts by using a range of different media.

The remainder of the introduction gives an overview of the methods used in the study. Section Two is a review of previous research, which is followed by an overview of procurement policy in section Three. Section Four describes two typologies used to summarise supplier diversity activity in the study. A classification of supplier diversity activity and a model of embeddedness, used in the analysis, are presented. Section five comprises the findings from the London study; section six contains the findings from the West Midlands and the findings from the East of England are presented in section seven. Each regional section includes sub-sections on the experiences of procurers with small firms and BAME businesses; and on the experience of private sector firms with the public sector tendering process. Examples of good practice in supplier diversity are highlighted throughout the regional sections. Section eight provides overall conclusions to the study, with recommendations to policy makers; local authorities; and private sector firms interested in pursuing supplier diversity policies and practices..

1.2 Data Sources and Methodology

The data on which the report is based is drawn from a combination of primary and secondary sources. Primary data collection involved semi-structured interviews with procurement officers in local authorities (mainly) and other public bodies, together with a number of selected informants involved in economic development/regeneration and equal opportunities, in some cases. The sample is purposive rather than representative and illustrates a range of procurement practices. Authorities where there was already some publicly available evidence of procurement practices targeted at small firms were selected, along with authorities where there was no publicly available evidence of their procurement opportunities. The percentage of local ethnic minority population was also an influencing factor for the recruitment of respondents. A total of 49 public bodies were approached in the three regions and 37 participated in the study - a responding rate of about 75%. The

¹ According to the 2000 U.S. Census, approximately 30 percent of the population belongs to a racial or ethnic minority group, whereas in the UK the figure was 7.9% according to the 2001 Census.

response rates for the three regions were: 82% for London (14 out of 17), 77% for West Midlands (10 out of 13), and 68% for East of England (13 out of 19).

The primary data collection was supplemented by a review of secondary data sources. Secondary data comprised public documents related to both procurement and economic development strategies. These documents were analysed for references to supplier diversity, local purchasing and BAME businesses and procurement. The findings were then cross referenced with the interview transcripts to explore the fit between policy statements and actual procurement practices.

Respondents in local authorities were asked to identify the main drivers of public procurement and how they impacted on practices at local level. Information and views were also sought on: current suppliers and supplier analysis; departmental responsibilities for procurement; supplier diversity policies; interpretations of national policies; procurement practices and the use of approved lists; as well as views and experiences concerning the barriers to increasing the amount of procurement sourced from BAME firms.

In addition, a sample of purchasing managers in large, medium firms and owner-managers in small firms were interviewed in each region. A total of 35 firms took part in the study: 13 in London, 11 in the West Midlands, and 11 in the East of England. Public sector respondents supplied details of local firms who had traded with the public sector, and these firms in turn were a source of further contacts. In this way a sample of large, medium and small businesses was built up to provide insight into the kinds of issues facing private firms trading with the public sector, as well as with each other in a supply chain context. Respondents in the private sector were asked about relationships with customers and suppliers. They were also asked about how they find suppliers; the criteria used for selection; purchasing policies; and their awareness and use of about supplier diversity.

1.3 Profile of BAME Businesses in England

BAME enterprises have a number of characteristics that may affect their ability to effectively access procurement opportunities. For example, the vast majority of BAME businesses are in service sectors (90.4%) compared with 69.9 per cent of non-BAME businesses (Whitehead et al, 2006). The proportion of businesses in services is highest among Chinese businesses (almost 100%) and other Asian businesses (97.9%). Black and Indian businesses are more likely to be in manufacturing (8.5% and 9.8% respectively) than other ethnic businesses (average for BAME businesses is 6.8%). BAME businesses are also likely to be very small. Of all BAME businesses in England, 56.8 per cent have no employees, 39.0 per cent have between 1-9 employees (micro businesses), 3.7 per cent have between 10-49 employees (small) and less than one per cent (0.5%) has between 50-250 employees (medium).

Over a third (36.6%) of BAME-businesses are based in London and 15.6 per cent based in the West Midlands, compared to 12.2 per cent and 7.6 per cent of non-BAME businesses respectively. There is a small BAME business presence in rural areas. With respect to all businesses, less than one in ten (9.0%) of BAME businesses in England were located, or had their main location, in a rural area (compared to 41.5% of non-BAME businesses).

2. Previous Research

Interest in supplier diversity has grown considerably in recent years, in recognition of its potential for increasing market opportunities for small firm suppliers. Supplier diversity may be defined in terms of the diversity of the types of enterprise acting as suppliers of goods and services to public and/or private organisations, although it is often used more narrowly to refer to minority owned enterprises, such as BAMEs, women owned enterprises and those owned by disabled persons. Supplier diversity is a potentially powerful economic development tool, because of the potential market opportunities it offers to the target group of enterprises. At the same time, the case for supplier diversity varies to some extent between public and private sector purchasers. Whilst public bodies have statutory responsibilities that may affect their actions, private sector businesses are only likely to engage in supplier diversity if there is a business case for doing so. The rest of this section considers previous research relating to firstly, public sector purchasing and secondly, the private sector.

The size of the public procurement budget means that even a small increase in the percentage of contract expenditure going to small firms can make a significant difference. For example, it has been previously suggested that alongside regeneration budget spending of £20-30m over a 5 year period, some local authorities will have spent in the region of £3-4bn over a similar period (Ram and Smallbone, 2003).

Attracted initially by the experience of supplier diversity programmes in the USA, the procurement issue has attracted policy attention in the UK in recent years, although the evidence base is limited and experience on the ground rather patchy. Progress with public sector procurement has included two national pilot schemes: one in the West Midlands; and the other in the London Borough of Haringey. This reflects recognition on the part of central government that public procurement is a potentially important policy lever for economic development. Increasing the diversity of supply to public bodies in the UK is also supported by a statutory responsibility given to local authorities, under the Local Government Act 2000, which established the principle that they have general powers and responsibility for local wellbeing, which includes social and economic development. As far as BAMEs are concerned, a further stimulus in this direction was provided by the Race Relations (Amendment) Act (2000), which gave public authorities a statutory duty to promote race equality. This means that public authorities are required to take race equality into account in relation to policy making, service delivery and other functions (www.cre.gov.uk). More recently, the public sector procurement agenda has been influenced by a variety of policy developments, which are summarised below. Some of these may help to increase opportunities for small firms, whilst others may work in the opposite direction.

Previous research has identified a variety of barriers to small firms and BAMEs accessing public procurement opportunities (e.g. Bates, 2001; Boston, 1999; Ram et al, 2002; Shah and Ram, 2003). Some of these barriers are related to the capability and capacity of small firms to supply, whilst others focus on policies, procedures and practices used by

purchasing organisations. In this regard, previous research has referred to the bureaucracy of the procurement process, which can act as a particular barrier for small and micro firms, where internal management resources are typically limited and management approaches informal (Ram and Smallbone, 2003). In local authorities, there are often a number of pre-qualification stages to navigate before firms are included in tender lists. These usually involve completing questionnaires, including financial data and information about policies on equal opportunities and health and safety, as well as the firm's relevant experience and references. Unlike larger enterprises, small firms are unlikely to be able to allocate dedicated staff resources to the tendering process, which means that the latter has to compete for the time of busy managers with other management functions. Moreover, being on a pre-qualification list does not guarantee that a firm receives an invitation to tender. If these lists are made up of a large number of potential suppliers, some sort of tender rotation system may be used to select potential suppliers for inclusion in the 'invitation to tender' list.

Previous research has also referred to the difficulties many small firms have experienced in obtaining information about supply opportunities and how to bid for contracts. Although the introduction of the Website, www.supply2gov.uk, is to be welcomed, as a means of reducing the bureaucracy and red tape involved in contracting, not all public bodies use the site to advertise their lower value contracts (usually <£100,000). The use of open days, supplier briefings and help desks has been welcomed as a positive development for SMEs (Smith and Hobbs, 2002), particularly when combined with a systematic attempt to monitor the changing pattern of supply.

Contract bundling is another feature of public sector procurement that has acted as a barrier to access for small firms. Financial pressures can mean that public bodies 'bundle' their contracts to make them as large as possible, thereby offering some economies of scale, which tends to favour larger organisations that are often on many Council lists. Other problems include turnover-related constraints, which refers to a limit being placed on the size of a contract awarded to a particular business that is related to its annual turnover. It has been suggested that such contract limits are often used, thereby operating against the interests of small firms (Smith and Hobbs, 2002), although often seen by purchasers as necessary safeguards for the efficient and effective delivery of services.

Previous research has also drawn attention to the constraints that public bodies seeking to diversify their supply base have to deal with (Smallbone and Ram, 2003). For example, the scope to give preference to targeted groups of potential suppliers by public bodies, such as local authorities and central government departments is limited by national and EU Competition Policy rules, which are based on the principles of non-discrimination, equality of opportunity, transparency and competition. As a consequence, the criteria for short-listing candidates are restricted to technical capacity, economic and financial standing and the ability to supply. Indeed, the Treaty of Rome and various other EC directives, make the use of place of residence and location of bidders illegal for use in awarding a contract. EC procurement rules apply to all public authorities. The rules set out detailed procedures for the award of contracts whose value equals or exceeds specific thresholds.

At the same time, previous authors have also drawn attention to a tendency for some public purchasers to hide behind EC rules, using them as an excuse for inactivity. Experience suggests that if the political will exists to assist small firms and BAME suppliers to access public sector contracts, there are ways of achieving this without infringing EU rules. Examples include downsizing contracts; and using a tender rotation system that includes local firms. In such systems, a firm's location is used to get on to a rotation list and bid for contracts, but not used as a criterion for awarding the contract. A parallel envelope system has also been developed by some local authorities where one envelope contains the bid price on which the contract will be awarded, and the other contains the method statement, including information on use of local labour and social clauses, such as the provision of training and inclusion of disabled groups. In the case of public sector infrastructure or regeneration projects, for example, this offers scope for local community benefits to be used to offset any potential negative impacts. An expectation of diversity of supply is also a message that can be actively promoted through face to face meetings between a purchasing organisation and key suppliers, organised as part of an attempt to deepen relationships with them.

For private sector purchasers, supplier diversity must be based either on a 'business case' (such as lower cost or increased innovation) and/or be viewed as part of corporate social responsibility. In some respects, recent trends in the corporate sector have tended to reduce the number of suppliers. An example is JIT purchasing, which includes the development of long term relationships with a limited number of suppliers. At the same time, this applies mainly to first tier suppliers and opportunities for greater diversity may exist further down the supply chain.

However, these trends co-exist with other developments, which appear to offer some opportunity to smaller suppliers. First, the tendency for large firms to outsource certain goods and services can provide potential niches for small businesses, although the extent to which this is the case in practice is likely to vary between sectors. A second development relates to the 'corporate social responsibility' agenda, which appears to be gathering some momentum.

In the UK, one of the leading private sector focused supplier diversity initiatives is 'Supplier Development East Midlands' (SDEM), launched by De Montfort University in 2002 and funded by EMDA. The project is based on the NMSDC model of intermediary broker between suppliers and large companies.² During a two years period SDEM supported over 250 BAME businesses and helped generate £2.5m of contracts by providing a network for both BAME suppliers and corporate procurers through a range of initiatives. These include EMBnet, which is an online resource for advertising procurement opportunities and a searchable database of minority businesses, with details of meet-the-buyer events. EMBnet hosted a transatlantic virtual trade show that showcased both suppliers and buyers. Corporate members engaged with SDEM by attending meet the buyer events and

² SDEM End of Project Report at www.creme-dmu.org.uk/UserFiles/File/SDEM-ENDOFPROJECTREPORT.pdf

analysing their supply chain to improve diversity. Corporate membership has grown from 8 to 20 and SDEM is being launched as an independent corporate controlled organisation 'Minority Supplier Development in the UK'.

Previous research has also identified a number of distinctive barriers faced by ethnic minority businesses that may affect their ability to supply (Fraser, 2007). For example, in terms of access to finance, BAMEs, on average, pay higher bank charges than white-owned businesses and different groups have different experiences with banks. Black African and Black-Caribbean-owned businesses are more likely than Indian, Pakistani and White-owned businesses to be turned down when seeking finance. Some of these differences are due to sector and size of business but the researchers also found a residual difference unexplainable by these factors alone, thus confirming the results of a previous largescale study commissioned by the British Bankers Association and partners (Ram et al, 2002; Smallbone et al 2003). Such is the concern to foster growth in BAME businesses a new task force for Ethnic Minority Businesses was set up in June 2007 by the then DTI.³ One of the aims of the task force is to investigate the reasons why ethnic minority businesses appear to face additional barriers when trying to access finance.

In this context, a key aim of this study was to assess to what extent the purchasing procedures and practices of public bodies and private sector purchasers in three contrasting English regions reflect the recommendations of previous studies to take active steps to diversity supply, identifying key drivers and good practice experience where it exists.

³ Government News Network 19 June 2007. www.gnn.gov.uk/environment

3. The National Policy Context

The procurement policies and practices of public organisations are regulated at both European and national levels. European procurement directives are designed to prevent discrimination in favour of any particular groups of bidders, particularly any attempts to favour local firms at the expense of those from other EU countries. These principles were enshrined in the Treaty of Rome, which made discrimination in favour of domestic businesses illegal.⁴

Respondents in participating public organisations were asked about the main national policy drivers, which were affecting their approach to procurement at the local level. Seven main policies and initiatives were identified, which collectively were reported to have some influence on supplier diversity. Although these policy drivers apply to all participating public bodies, to some extent, the interpretation and emphasis placed varied. The seven policy drivers are:

(i) **The Gershon Review**, which is essentially about efficiency and cost savings in local authorities. The Gershon Review was described by many respondents as having the most negative impact because of the need to make savings according to allocated budgets, which gives each authority set targets to achieve in savings. Co-operation, both internally and with other authorities was encouraged by Gershon, as a means of achieving (external) economies of scale. In response, the use of framework agreements of pre-approved suppliers, provided by the Office for Government Commerce (OGC) and the London Contracts and Suppliers Group (LCSG), amongst others, is increasing. Many respondents pointed out that since pre-approved suppliers tend to be large multinationals (although not always), this process tends to exclude small local firms, who lack the capacity to deliver large geographically dispersed contracts.

(ii) More positively, from a small business perspective, the **National Procurement Strategy** requires public bodies to draw on a diverse supplier base in order to increase competition, by opening up procurement opportunities to a wider business community than that used traditionally. A diverse supplier base, it is argued, can contribute to efficiency, cost savings and innovation by enabling public sectors bodies to access high-quality materials, components and other intermediate goods and services that would otherwise be unavailable or more expensive to acquire from other sources. This would appear to encourage the use of small firms, BAME owned, women owned and disabled owned businesses. Public procurement has also been recognised by central government as an innovation policy instrument and the potential role of government bodies as 'early users' to support and benefit from innovation by small firms (Georghiou 2007; DTI 2003). Sourcing innovative products and specifying contracts to open up opportunities for small firms, however, requires 'intelligent customers' with the necessary skills. However, it has been

⁴ <http://www.treatyofrome.com/treatyofrome.htm>

suggested that Government needs to focus on improving procurer skills if the benefits of innovative goods and services are to be realised (Georghiou 2007). As yet there is no required certification for front-line procurers, who carry out all the lower value contracts in local authorities.

(iii) **The National e-Procurement Project (NePP)** requires local authorities to migrate all procurement processes to electronic format. This includes tendering and monitoring of contracts and most local authorities interviewed in the study are embarked on this process. Local authorities are also being encouraged to sign up to the new government system IDeA: marketplace. The system, which is funded by the OGC, is a response to the Gershon review. It aims to improve purchasing efficiency by enabling central government departments and local authorities to make bulk purchases on a range of goods and services. The system will also supply analysis of expenditure for forecasting and budgeting. Suppliers accepted on to the system will have taken part in a pre-qualification exercise, which they will not have to repeat when tendering for each subsequent contract.

(iv) **Comprehensive Performance Assessments (CPA)**. Local authorities are benchmarked against a series of 'best value' performance indicators scrutinised during their CPAs. The Equality Standard for Local Government is one of the themes in the CPA, but it is a voluntary indicator, with authorities encouraged to work towards its five levels. The aim of the Equality Standard is to mainstream equality in every department of local authorities. There are six equality strands: age, disability, gender, race, religion/belief, and sexual orientation. The Common Standard for Equalities in Public Procurement aims to ensure that suppliers reflect the equalities standard of the public sector through workforce diversity and policies. However, these requirements may work against small firms, hoping to compete for business, as they are less likely to have formal diverse workforce or equality policies in place.

(v) **The Sustainable Task Force Action Plan**. Respondents also mentioned the influence of the 'sustainability' agenda, which has been informed by the business-led 'Sustainable Procurement Task Force's National Action Plan' (2006), and the recent government's response in two publications; 'UK Government Sustainable Procurement Action Plan' (2007) and 'Transforming Government Procurement' (2007). The Government's response to the Taskforce Action Plan, which stressed the three-fold nature of 'sustainability' (economic, social and environment), puts the prime focus on environmental considerations:

"Within the wider context of sustainable development, climate change mitigation and natural resource protection are the highest priorities." (Annex A: Initial Sustainable Procurement Policy Framework).

(vi) **The Small Business Friendly Concordat (2005)**. The Small Business Friendly Concordat (2005) is a voluntary; non-statutory agreement in which organisations demonstrate their commitment to making contracts accessible to SMEs (particularly small firms i.e. those with less than 50 employees). It commits an authority to aim for a diverse

and competitive supply market that includes small firms, social enterprises, ethnic minority businesses and voluntary and community sector suppliers.

(vii) **Supply2Gov Portal.** Previous research has found that one of the main barriers preventing small suppliers from trading more with local authorities is a lack of visibility of contracts caused by inadequate advertising (BRTF and SBC, 2003). Above the EU threshold of £150,000, contracts must be advertised in the Official Journal of the European Union (OJEU) in order to enable firms in all member countries to compete. More recent EU guidance (not obligatory) requires more transparency in advertising targeted at SMEs to give them equal access. In this regard, 'Supply2.gov.uk' is a national portal operated by the OGC, which aims to be the 'first portal of call' for public sector buyers advertising lower value contracts (under £100,000). The portal also aims to provide public sector buyers with a wider range of potential suppliers. Firms can register to receive contract notices for local opportunities free of charge, although a charge is made to access to detailed information about contracts outside the region. Supply2Gov is relatively recent and went live in 2006.

4. Typologies for Summarising Supplier Diversity in Public Organisations

Since one of the key aims of the study is to assess the extent to which supplier diversity is being implemented in practice, all participating public bodies in the three regions were classified into one of three activity groups, based on their supplier diversity practices at the time of the interviews. Whilst this typology is empirically derived, it is presented here to avoid repetition, as it is used as a basis for summarising the results in each of the three regions in subsequent chapters, as well as for comparison.

Variations in the level of supplier diversity activity were identified and participating organisations classified on the basis of three broad criteria:

- the volume of this type of activity;
- the breadth of application across the organisation;
- whether or not there is any attempt at systematic monitoring, on the basis that the existence of monitoring systems may be taken as an indication of a commitment to implementation rather than just declaration of intent.

On this basis, the participating organisations are divided into three groups (Figure 1):

- (i) **High activity**, where a series of supplier diversity activities are in place across the organisation, with procedures introduced to monitor the effects;
- (ii) **Medium activity**, where some supplier diversity measures have been introduced, often as part of specific initiatives, but these are still to be embedded in the organisation. Some monitoring may be undertaken, although this is less comprehensive than in the first group. Supply diversity has not been mainstreamed by organisations in this group.
- (iii) **Low activity**, where any supply diversity activity that is occurring is either ad hoc, or lacking in resource allocation and infrastructure, and/or is still at the planning stage.

At the same time, it became clear that the current level of supplier diversity activity partly reflected varying degrees of its development and embeddedness within organisations. Three levels of development were identified, which broadly corresponded to each level of activity. In high activity organisations, supplier diversity activities had typically been mainstreamed, or were in the process of being mainstreamed throughout the authority. In medium level activity organisations, some activities had been partially mainstreamed, often at a departmental level rather than throughout the authority. In low level activity

organisations, supplier diversity activities were not mainstreamed, sometimes because the emphasis in procurement was on other priorities, such as the environment.

This embeddedness is summarised in Figure 2, which shows that in High Activity authorities, where supplier diversity activities were mainstreamed, or in the process of being mainstreamed, a number of key characteristics could be identified. The first was a strategic commitment within the authority towards the aims of using supplier diversity as a vehicle for social outcomes, including the local economy and addressing social exclusion. This commitment was backed at Senior Board and Executive levels, enabling the allocation of resources for activities, such as supplier analysis (including local small, micro, and BAME firms). To enable, and legitimate, interdepartmental working in local authorities, there was typically a strategic link between the central procurement team and an economic development unit, and a formally recognised working relationship. Finally, there was typically a broad interpretation of national policy concepts such as 'sustainability', 'best-value' and 'whole-life costs' that included economic, social, and environmental assessments.

In Medium Activity organisations, some supplier diversity activities were typically mainstreamed (at least partially), often at a departmental level, such as around social care and food procurement. Local databases may have been developed, and community benefit clauses used. In addition, some splitting up of contracts into lots may be practised, but a lack of monitoring the impacts of these activities undermined their potential use. Generally, there was a lack of resources to monitor and develop activities more and a lack of power to push supplier diversity up the local authority agenda. Some of the authorities in this category had plans to broaden the scope of supplier diversity activities.

In the Low Activity group, there was no obvious evidence that supplier diversity activities were embedded or mainstreamed. In some cases competing strategic foci, for instance the environment, or general local economic development, left few resources for supplier diversity activities. The policy commitment towards small and BAME businesses tended to be carried out using passive modes (e.g. more advertising), rather than stimulating proactive engagement with these groups. Nevertheless, some authorities had plans to mainstream aspects of supplier diversity activities.

More detail of each authority's supplier diversity activities is provided in the chapters on specific regions.

Figure 1: A Typology of Supplier Diversity Activities

Level of Activity	Criteria	Examples of Specific Activities*
High	<p>High volume of activities.</p> <p>Broad scope of supply diversity activities across the organisation authority.</p> <p>Systematic monitoring of activities.</p>	<ul style="list-style-type: none"> • Database of local businesses. • Training on supplier diversity for all procurers. • Procurement training for local firms. • Split large contracts into lots (e.g. agency, social care, food, transport). • Prior consultation with local firms on specific contracts. • Relationship management with prime contractors/use of community benefit clauses. • Analysis of local spending (including small firms).
Medium	<p>Some activities and sporadic initiatives.</p> <p>Tend to be localised to specific sectors/parts of the organisation.</p> <p>Partial monitoring.</p>	<ul style="list-style-type: none"> • Ad hoc initiatives to help small firms. • Ad hoc local purchasing (sector specific e.g. social enterprise/BAME enterprises in social care). • Some supplier information.
Low	<p>Few activities.</p> <p>No mainstreaming or systematic monitoring.</p>	<ul style="list-style-type: none"> • General meet the buyer events. • Ad hoc procurement workshops for small firms.

* Authorities in each category carry out some but not necessarily all these activities.

Figure 2: Levels of Embeddedness of Supplier Diversity at Different Activity Levels

<i>Level of Activity</i>		
<i>High Activity</i>	<i>Medium Activity</i>	<i>Low Activity</i>
Activities mainstreamed.	Activities partially mainstreamed.	Activities not currently mainstreamed.
<ul style="list-style-type: none"> • Strategic commitment to supplier diversity in the organisation. • Senior board level and executive/non-executive level support. • Strategic link between central procurement team and economic development units.* • Broad interpretation of concepts such as 'whole-life costs' and 'sustainability' to include economic, social and environment aspects. 	<ul style="list-style-type: none"> • Localised activities in specific sectors and areas. • A few practices may be embedded such as local database or use of community benefit clauses, though there may be a lack of adequate monitoring. • Lack of resources to do more to encourage small firms to tender (both externally with small firms and internal training for procurers). • Lack of power to push supplier diversity up the agenda. • Some organisations have plans to broaden scope of supplier diversity. 	<ul style="list-style-type: none"> • Alternative strategic focus (e.g. environment, or local economy as a whole including large firms). • Policy commitment to supplier diversity passive rather than proactive. • Some organisations have plans to mainstream aspects of supplier diversity.

*Not applicable to TfL.

5. Research Results for London

It is important to place the research results for London in the context of London's business population, particularly with regard to its ethnic mix.

5.1. Profile of London's and the BAME Population

London is one of the most ethnically diverse cities in the world (Benton-Short et al. 2005). Black, Asian and minority ethnic (BAME) groups constitute 29 per cent of London's population, compared with 8 per cent of the UK population as a whole (HM Treasury 2006). In fact, Asian/Asian British and Black/Black British groups alone represented 23 per cent of London's population in 2003.

According to the London Annual Business Survey (2005) 66% of businesses are very small employing less than five people; and only 12% are part of organisations that employ 50 or more people. Small businesses are disproportionately represented in the construction, community services, and business and professional services sectors. Nearly one quarter (23.9%) of businesses in London are in the creative industries sector.

Recent research, which used a sample of 1677 to investigate characteristics of BAME owned businesses in England, found that over a third (36.6per cent) were based in London (Whitehead et al. 2006). Asian-owned businesses comprise 14% of the business population in London⁵. There are an estimated 39,000 Asian-owned businesses, excluding self-employed, with a combined turnover of £60 billion. Indian, Pakistani and Chinese people are more likely to be self-employed than the average Londoner. Asian-owned firms are most likely to be in the wholesale, retail and business services sectors, and are more likely to describe themselves as 'low-tech' than the average business.

There are an estimated 10,000 black-owned businesses, excluding self-employed with a combined turnover of £4.5 billion⁶, although in line with national trends, black owned businesses are under-represented compared with their share of the total population: 4% of the business stock compared with a 12% share of the total population. Black-owned businesses are most likely to be in the real estate, renting, business services, and wholesale and retail sectors. Businesses owned by African and Caribbean people are also more likely than the average business to introduce innovations in goods,

⁵ GLA Economics, (2005). *The Contribution of Asian-owned businesses to London's economy*. Greater London Authority, www.london.gov.uk.

⁶ GLA Economics, (2004). *Ready for Business: The Contribution of black businesses o London's economy*. Greater London Authority, www.london.gov.uk.

services or business processes, and to derive substantial benefits from doing so.

5.2 Participating Organisations

5.2.1 Local Authorities

Fourteen public sector bodies participated in the study in London, of which 11 were borough councils, one was an NHS Trust and two were part of the Greater London Authority group (Table 1). In addition, key informant interviews were carried out with representatives from the DTI Small Business Service; the Buying a Better London Project; and from the 'Sustain the Alliance for Better Food and Farming' initiative. The ethnic minority population in most of the boroughs typically comprised between one quarter and one third of the total population⁷, although there was a wide range from 60.6% to 4.8 % (Table 1).

Table 1: BAME Populations in Participating Authorities

Local Authority	Percentage of ethnic minorities in local population	Annual Spend (approx.)
City of London Corporation	15.4 %*	£200m
South London & Maudsley NHS Trust	32.5%*	Not available
London Borough of Haringey	34.4%	£350m
Transport for London	28.8% **	£1bn
London Development Agency	28.8% **	£450m
London Borough of Newham	60.6%	£300m
London Borough of Croydon	29.8%	£240m
London Borough of Lambeth	35.6%	£350m
London Borough of Havering	4.8%	£320m
London Borough of Hammersmith & Fulham	22.2%	£180m
London Borough of Brent	54.7%	£260m
London Borough of Camden	26.8%	£240m
Royal Borough of Kingston	15.5%	£120m
London Borough of Enfield	22.9%	£500m

*Area covered by Trust.

** Covers the whole of London.

In most organisations, the procurement function involves a small central team which oversees large contracts, providing advice to frontline procurers

⁷ The London average is 28.8per cent (Mackintosh 2005).

(between 200-500 individuals), who are responsible for day to day low value contracts. The amount of money spent on procuring goods and services annually varied considerably, with six local authorities spending less than £300m annually; seven spent between £300m and £500m; and one authority with a budget of approximately £1bn. A large proportion of all budgets was spent on capital items, large construction projects, and maintenance and repair, while ICT/IS projects represented the next largest spending area. Temporary staff, catering, street care, social care, and consultants represented other areas of spending.

5.2.2 Buying a Better London Project

In response to a report by the Better Regulation Task Force (BRTF) and the Small Business Council (SBC) (BRTF and SBC, 2003), the Small Business Service commissioned pilot SME procurement projects in Haringey and in the West Midlands. The 'Buying a Better London' (LCL, 2005) initiative, coordinated by the OGC with the London Borough of Haringey, grew out of the Haringey and West Midlands pilots, with the aim of developing and disseminating good practice and the economic and social implications of public sector supply chain management. A series of workshops was undertaken with public sector bodies, and research carried out on how large private sector companies and corporations manage their supply chains.

A total of 49 different public sector organisations were reported to have participated in the workshops and/or in one to one advice and training⁸. The workshops identified a number of demand and supply side issues. Demand side issues concerned policies and practices within local authorities and findings emphasised the need for top level commitment. Supply side issues focused on the need for training to enable small suppliers to become fit to supply.

However, the interviews with participating public organisations in London revealed that there was a lack of knowledge about the 'Buying a Better London' workshops for procurers and few respondents had actually attended. In some cases staff members who had attended had since left the local authority and this expertise was then lost. Many respondents also felt that there were too many competing bodies and initiatives and that they did not have the resources to participate in them all. There was also a tendency in some cases to work individually in 'silos' and be seen to be pioneering good practice, rather than engaging with existing initiatives:

"I find that we are doing what we need to be doing to meet our own targets." (Head of Procurement Policy RA13)

⁸ Buying a Better London, Workstream1 Summary 8th November 2006. www.rcoe.gov.uk

“We are busy ploughing our own furrow.” (Head of Procurement RA11)

“There are 25 different groups out there we can’t be members of them all.” (Head of Procurement RA10)

5.3 Respondents’ Views and Experiences of National Procurement Policies

Respondents in participating organisations were asked about the main national policy drivers affecting their procurement activity, as described in section three. The Gershon Review was typically described as having the most negative impact because of the need to make savings to allocated budgets. Co-operation, both internally and with other authorities was advocated by Gershon, as a means of achieving economies of scale.

Respondents reported that one effect of the **Gershon review** was pressure to aggregate contracts and rationalise the supplier base. Many authorities use consortia arrangements such as the Office for Government Commerce (OGC) Buying Solutions and the London Contracts and Suppliers Group (LCSG). It was argued that such arrangements saved money through (external) economies of scale, since goods and services could be obtained at lower prices. Furthermore, in such arrangements, suppliers are also normally pre-qualified saving further resources at local level.

Interpretation of national procurement policies, often varied across and within public bodies, and uncertainty and confusion were consistently reported. In many cases concepts such as ‘whole-life costs’ and ‘best-value’ were narrowly interpreted ‘de facto’, as cost savings, despite being broadly interpreted in policy statements. At the same time, there were a few cases where these concepts were being broadly interpreted to include economic and social impacts on local communities, as well as the environmental impact:

“We are very driven by the Gershon Review. Now that is very much based on best value but that is not just cost. It’s about social, economic and environmental impact. That is part of the overall whole-life costs.” (Director of Procurement LLA11)

“Relatively little of our procurement is done on the lowest price basis. It’s whole life cost. Officers have to use a matrix to score these things. They look at the whole life costings including environment and social considerations, equalities - everything” (Procurement Manager LLA3)

Though there were some cases where “best-value” was broadly interpreted more commonly, national procurement policy was narrowly interpreted as prioritising cost savings. This is possibly a reaction to uncertainty and confusion, resulting from the multiplicity of policies and regulations surrounding procurement. In the absence of clear leadership to the contrary, officers were likely to pursue a low risk strategy of cost savings, which helped to simplify the volume of policies and regulations:

“It tends to get driven by Gershon and that’s sort of bigger is best, efficiency and that gets translated as savings.” (Procurement & Risk Management Team LLA5)

Even when there was an appreciation in central procurement teams, of the wider interpretations of concepts such as ‘best value’, concern was expressed about the attitudes and behaviour of front-line procurers in the rest of the authority. These procurers were perceived to be more risk-averse than the central team and less well-informed about the subtlety of concepts like ‘best-value’ and ‘whole-life costs’, as these quotations illustrate:

“So price is the over-riding consideration for a lot of officers and I think that’s to do with a misunderstanding about what best-value actually means.” (LLA12 Corporate Procurement Officer)

“If you work better and work smarter, hopefully that lowers costs. But there is a misunderstanding for a lot of officers about what best value actually means. I think price is the over-riding driver for many. It’s an attitude. (Head of Procurement LLA6)

One of the most important subsidiary themes to emerge as a driver of procurement policy was **e-procurement**. Most local authorities in London were already embarked on the process of migrating their procurement processes to electronic format, at the time of the interviews. Some respondents pointed out that any benefits of electronic access and processes are dependent on them having the necessary ICT equipment, as well as the skills to use it. There was concern in some authorities that many small firms may be missing out on public sector opportunities through a lack of e-procurement capability:

“We’re finding that e-procurement is a barrier – only 40% of the small firms have got a computer, and how many of those can actually use it? That’s a big barrier – and that’s down to business agencies to address that.” (Economic Development Officer LLA7).

At the time of the interviews (September 2006-July 2007), eight of the participating authorities in London had signed up to the **Small Business Friendly Concordat**. In some cases, the decision to sign the Concordat provided the impetus for local purchasing initiatives, a commitment to carry out a supplier analysis and the development of plans for engaging with local suppliers and BAMEs.

“The SME Concordat laid the basis for the principles behind the local purchasing initiative.” (Procurement Manager LLA3)

Other local authorities were less positive about the impact of the Concordat on their progress in engaging with small suppliers. In addition, a small number of local authorities were unaware of the Small Business Concordat. Some felt that they were doing enough to engage with the local supplier base, without signing the concordat, and that it had the potential to become burdensome if enforced on local authorities:

“If it starts to get into an audit type activity I’m not sure if I’ve got the appetite. I’d rather carry on moving with our results. We are doing what we need to be doing to meet our own targets.” (Head of Procurement Policy LLA13)

Finally, local authorities are benchmarked against a series of best value performance indicators scrutinised during their **Comprehensive Performance Assessment (CPA)**. The Equality Standard for Local Government is one of the themes in the CPA. It is a voluntary indicator, though authorities are encouraged to work towards its five levels. This remark about the ability of small firms to meet public procurement requirements is typical of respondents’ experience with small firms:

“SME contractors by and large struggle to address the requirements for environment, quality management and equality.” (Procurement Manager LLA8)

Most participating public bodies were aware of the new national portal ‘Supply2Gov’ and some were making use of it. In some cases, it was used in an ‘ad hoc’ way by individual procurers within the authority, while others intended to systematically advertise all smaller value contracts on the portal. There were some criticisms made about the portal and the additional administrative burden involved:

“We’ve already adopted best practice by advertising lower value on our website and use of the Supply2Gov is an administrative burden to actually add all the details. We have got the London contracts register, the London Centre of Excellence register and our own website and Supply2Gov, and all these are not meshed

together. So we laboriously produce the same information three or four times.” (Procurement Officer LLA16)

“It’s come quite late onto the market. Many authorities have invested in their own websites now. So the timing is all wrong.” (Procurement Manager LLA5)

There were also criticisms about the limited information provided about suppliers:

“The firms on there aren’t pre-qualified. It would be better if there was a national accreditation for small businesses - a free one.” (Corporate Procurement Officer LLA12)

“We want more detailed information about suppliers. Are you a SME a BME? How many employees do you have? Do you have minority directors, disabled?” (Procurement Manager LLA8)

5.4 Procurement Policies

The procurement policies and economic development plans of participating bodies were identified initially from public documents related to both procurement and economic development policies. They were then discussed with respondents in the face to face interviews. In practice, all organisations interviewed had statements about diversity and equality included in their procurement strategies. These included:

“In keeping with the Mayor of London’s commitments to equality and diversity, and the strategic objective set out in the National Procurement Strategy of encouraging a diverse and competitive supply market, we will seek to open market opportunities for historically excluded groups of disadvantaged businesses, particularly those facing discrimination on the grounds of race, gender, disability, sexuality, age and faith.” (Extract from procurement strategy LLA 10)

“The Council recognises its responsibilities to local communities including promoting local economic development and social enterprises. Local business should be able to compete for work alongside contractors from outside the area and the Council will encourage them in doing this. The Council will as part of its target for the National Procurement Strategy set up a concordat for Small Medium, Black and Minority Enterprises to ensure that

the opportunities are available to them.” (Extract from procurement strategy LLA6)

Just two authorities in London had separate supplier diversity or local purchasing procurement policies. In some cases, respondents felt there was no need for a separate policy, as procurement practices to diversify the supply base were embedded throughout the authority:

“It’s endorsed at councillor level. It’s becoming an operational standard not just an afterthought. It’s embedded.” (Head of Procurement LLA6)

On the other hand, some respondents stressed that the reality of procurement practice was often far removed from the aspirational statements made in policy documents. Although eight authorities had signed up to the Small Business Friendly Concordat, at the time of the interviews, the gap between policy and practice was evident even in some of these:

“...we actually find it quite difficult to find even one case of a local SME that is procuring directly or has had an advantage out of having the Concordat being put in place...Although we have the theory in place we need to get the practice in place as well.” (Head of Procurement LLA7)

A few authorities explicitly recognised the strategic role of public procurement as a vehicle for regeneration. In these cases, economic development plans included references to the use of procurement to promote the development of local firms and BAME businesses, with a common emphasis on making businesses ‘fit to compete’. In practice, only in those public bodies where there was a high level of supplier diversity activity did central procurement teams and economic development units work closely together, using procurement to foster local regeneration:

“Economic Development is the custodians of the SME Concordat. We mapped out what we’re doing, and when we need to do it. So I see the EDU once a month and they say “why haven’t you done this yet?” and “when are you doing this? It’s got high level support from the board.” (Procurement Manager LLA3)

However, in other authorities respondents felt they were unable to work closely with colleagues in this way, because of the separation of the functions of procurement and economic development, with separate budgets.

This separation of functions stems from the structure of the Department of Communities and Local Government, which has separate divisions for regeneration and procurement. This was said to result in separate initiatives, which did little to encourage collaboration between departments within local authorities, even where goodwill and enthusiasm existed. The key to overcoming this barrier was leadership at a high level within the authority, which was typically reflected in a high level of activity of supplier diversity practices in authorities. Where there was a high level of activity, there was invariably a high level of support within the council for the practice of using procurement as a vehicle for local development and for social aims.

5.5 Procurement Practices

On the basis of the data extracted from the secondary source material and from the interviews with representatives of the 14 public bodies, organisations were categorised according to the level of activity shown towards supplier diversity, using the three fold typology described in section 4 (Figure 3). The level of embeddedness of supplier diversity in the participating public bodies also differed according to level of activity (Figure 4). Authorities with high levels of activity tended to have the most embedded practices. In medium and low level activity authorities, initiatives to diversify the supply base and increase local purchasing were typically localised in particular departments (e.g. social care or catering), being ad hoc in nature, as opposed to being mainstreamed throughout the authority.

5.5.1 High Activity Organisations

In London, high activity authorities had mainstreamed or taken steps to mainstream supplier diversity procurement practices throughout the organisation. In two examples, Transport for London and the City of London Corporation, there was a separate procurement policy in place. In the other two examples of authorities in this group, Haringey and Newham, supplier diversity procurement initiatives were mainstreamed throughout the authority. The key factors common to all these high activity authorities were:

- an analysis of spending including the impact on local small firms.
- in-house training of front-line procurers on the aims of supplier diversity and relevant practices.
- monitoring the impact of supplier diversity procurement practices.

These high activity authorities also have large local BAME populations; for instance Transport for London covers the whole of London, which has a BAME population of 28.8%. The City of London aims to help neighbouring

boroughs, such as Tower Hamlets, which has a BAME population of 48.8%. Haringey has a BAME population of 34.4% and Newham's is 60.6%. However, other boroughs like Brent, where there is also a high BAME population (54.7%) are in the early stages of exploring how procurement can aid regeneration through supplier diversity. What was clear from the study was that in addition to a large BAME population, senior level support was needed in high activity authorities to drive forward supplier diversity.

The Mayor of London is driving the Greater London Authority's sustainable procurement strategy agenda. Organisations that are members of the GLA group are bound by the GLA's Sustainable Procurement Strategy, which has seven themes, one of which is a diverse supplier base. The supplier diversity policy at Transport for London, which is part of the GLA group, was also championed by a Chief Executive with a background in the private sector in the United States, where supplier diversity has been used historically, as part of positive discrimination policy designed to address civil rights and combat civil unrest.

In the case of the City of London, a Local Procurement Project was championed by the Chairman of the Policy and Resources Committee, who is also a leading figure in the city. Internally, it was championed by Chief Officers and the Corporation's Procurement Boards, giving the strength of leadership needed to make both policy and practical changes and sufficient resources allocated. Haringey and Newham's various procurement initiatives have a history of senior level involvement. The procurement practices that these authorities were engaged in, range from workshops for small firms on public procurement requirements to initiatives to encourage prime contractors to diversify their supply chain by including local firms. All respondents stressed that their practices do not favour local firms or BAME businesses specifically, but rather aim to provide a level playing field, which means that BAMEs would be expected to benefit in areas where they represent a high percentage of the total business population.

The main aim of the City of London's Local Procurement Project, which began in 2003, is to use procurement to aid regeneration in the deprived boroughs that surround the Square Mile, by maximising contract opportunities for local firms. The Corporation's Local Purchasing Project is based on the principles set out in the voluntary Small Business Friendly Concordat. An analysis of the Corporation's trade spending has been carried out, including where this money was spent (22 per cent in target boroughs). To increase the level in deprived boroughs, internal policies and procedures were modified, and an integrated IT system accessible by all procurers was introduced. All tenders and service quotes above £500 and under the EU thresholds are logged using a specially developed matrix, in which records characteristics of the firms

contacted including location and ethnic background of owners and staff are recorded. In addition, procurers must invite at least one local firm to tender.

Procurement opportunities for small firms and BAMEs are created by developing the supply chain, through the engagement of prime contractors. Using voluntary community benefit clauses within the tender documents, prime contractors are encouraged to purchase a percentage of goods and services from suppliers in the target boroughs. At present, it was reported that five large contractors are working with the Corporation in this way.

Another objective is to influence multinational firms based in the City to consider developing their supply chains to enable more local firms to participate, as part of their Corporate Social Responsibility (CSR). Local authorities are looking for value added community benefits from their major suppliers, so firms that can demonstrate commitment to local procurement and supplier diversity will have a competitive advantage over firms that cannot.

Transport for London's Supplier Diversity Policy aims to proactively encourage diverse suppliers to participate in the procurement process, by providing a level playing field to ensure equality of opportunity for all businesses, including BAME, within the context of its obligations as a Best Value Authority and in compliance with EU and UK legislation. This policy had been put into practice in the East London Line construction project. Diversity requirements (including supplier diversity) were both central and integral to the contract specification and were made a pass/fail gate for potential suppliers at the bidding stage. Contractors had to specify how they would meet these in order to pass onto the next stage of the bidding process.

The tender documents for the East London Line contained four diversity standards: equality policy; diversity training plan; a supplier diversity training plan and a communications plan. The supplier diversity element requires the main contractor to make opportunities available to smaller suppliers in the supply chain, as well as giving details of activities to engage with local communities. The specifications contain detailed monitoring and audit requirements for all four diversity elements backed up by a termination clause. This means that if the contractor does not meet the audit requirements the contract can be terminated.

Figure 3: Activities by Public Bodies to Diversify their Supply Base in London

Level of Activity	Criteria	Activities*
<p>High</p> <p>Haringey City of London Corp. Newham Transport for London</p>	<p>High volume of supplier diversity activity.</p> <p>Broad scope of supply diversity activities across the organisation.</p> <p>Systematic monitoring of activities.</p>	<ul style="list-style-type: none"> • Database of local businesses. • Training on supplier diversity for all procurers. • Procurement training for local firms. • Split large contracts into lots (e.g. agency, social care, food, transport). • Prior consultation with local firms on specific contracts. • Relationship management with prime contractors/use of community benefit clauses. • Analysis of local spending (including small firms).
<p>Medium</p> <p>Hammersmith & Fulham Havering Lambeth Croydon London Development Agency South London and Maudsley NHS Trust</p>	<p>Some activities and sporadic initiatives.</p> <p>Tend to be localised to specific sectors/parts of the organisation.</p> <p>Partial monitoring.</p>	<ul style="list-style-type: none"> • Ad hoc initiatives to help small firms. • Ad hoc local purchasing (sector specific e.g. social enterprise/BAME enterprises in social care). • Some supplier information.
<p>Low</p> <p>Kingston Brent Camden Enfield</p>	<p>Few activities.</p> <p>No mainstreaming or systematic monitoring.</p>	<ul style="list-style-type: none"> • General meet the buyer events. • Ad hoc initiatives/procurement workshops for small firms.

Figure 4: Degrees of Level of Embeddedness of Supplier Diversity Activity in London Authorities

<i>Level of Activity</i>	<i>Authorities</i>	<i>Level of embeddedness</i>
High	Haringey City of London Corp. Newham Transport for London	<ul style="list-style-type: none"> • Mainstreamed local purchasing. • In the process of mainstreaming. • Mainstreamed supplier diversity. • In the process of mainstreaming.
Medium	Hammersmith & Fulham Havering Lambeth Croydon London Development Agency South London and Maudsley NHS Trust	<p>Ad hoc, localised initiatives:</p> <ul style="list-style-type: none"> • Some previous initiatives-current focus efficiency savings. • Small ethnic population but lots of small firms. • Pro-active engagement with local firms e.g. survey of concordat. • Proposals to mainstream concordat before board. • Procurement initiatives, but IT infrastructure currently being set up in procurement so no information available about impact. • Strategic focus on local purchasing (from the executive board. New catering manager to carry out practice).
Low	Camden Brent Kingston Enfield	<p>One-off initiatives: e.g.</p> <ul style="list-style-type: none"> • Current focus is on environmental sustainability. • Action plan for small business concordat being put before board. • Local area agreement lists procurement and local economy, but no resources allocated – as this is not a ‘reward’ area under LAA monitoring. • Recent joint initiative with Urban Futures targeting small contracting

The London Borough of Haringey has one of the most embedded procurement strategies targeted at small firms (Figures 3 and 4). A diverse supplier base and active support for local firms are integral elements in the corporate procurement strategy. Moreover, there is a high level of commitment to its implementation, which is communicated throughout the Council to front-line procurers. As part of the Buying a Better London project Haringey trained over 300 procurers to raise awareness of the competitive advantage of a diverse supplier base and use of approved lists and network of small firms.

Haringey has a network of 1,000 local businesses, including those owned by BAMEs, women and disabled people, trained through the Trade Local Haringey project. This network includes intermediaries, such as Business Link, BAME groups and Chambers and has an alerts service for local firms. Local firms participated in training and are also on Council approved lists, including catering with African Caribbean, Indian, and kosher suppliers, among others. There are a range of other approved lists, for instance a printers approved list. Small firms can access Toolkits for procurement via the council's website.

A recent Haringey contract for temporary staff was divided into three tiers and a local small firm won a prime vendor contract. In total, the Council was estimated to have saved £1.3m, as a result. Construction contracts are similarly tiered to allow scope for smaller firms to tender. A contract to supply social services care specified flexibility of hours and distance from patients and was eventually won on best value criteria by a local small firm.

Prior consultation with potential suppliers is also practised by Haringey Council in an attempt to ensure a level playing field for smaller firms. Consultation revealed that the specifications of a proposed transport contract had the potential to exclude small firms. By increasing the period of the contract from 3 to 4 years, small firms were better able to finance the investment in vehicles needed.

Newham has also embedded procurement practices to help local/BAME businesses. Supplier analysis carried out in Newham and neighbouring boroughs in 2005 forecast that many small firms (17%) would be excluded from public sector procurement because of the combined effect of aggregation and e-procurement.

Newham's Provider Developer Project provides procurement training to enable BAME businesses to tender for contracts from Health and Social

Services. To combat the potentially negative impacts of the National e-Procurement Project on small firms Newham and Bristol City Council ran a European funded Kick-start project to train small firms in e-procurement in 2004/2005.⁹ Firms were offered IT training and web design from @Ukplc, which designs ecommerce websites especially for small and medium sized firms for e-procurement. Now, Newham's Business Legacy programme comprises three linked initiatives for small firms on e-commerce, business development and access to finance.

High activity authorities engage in many different procurement practices that can benefit local small firms, including BAME businesses. Prior to embedding these practices throughout the authority, a baseline picture of spending in the local area and the impact on small firms is typically needed, to provide the 'market information' and rationale for such an approach. From this picture a case can be built and appropriate practices developed. In some areas creating opportunities through the supply chain was the best option given the nature of the contracts, such as in construction. In other cases the effect on the local economy of local firms failing to win contracts persuaded the authority to target training, advice and support at the local small business community.

5.5.2 Medium Activity Organisations

Public bodies in London placed in the 'medium activity' category often limited their supplier diversity activities to individual sectors, which tended to be ad hoc rather than mainstreamed throughout the organisation. However, some of these organisations have plans to mainstream these practices in the future, such as the LB of Croydon. In 2005, Croydon Council established a procurement governance structure, which includes a Procurement Board and procurement management teams. The Procurement Board will act as a clearing house for procurement decision making, which will allow early monitoring of Council-wide procurement. Early monitoring will enable the integration of both equality, and environmental impact assessment) in future tender specifications. A successful LEGL bid has given Croydon the resources for a campaign to engage with local businesses, business intermediaries and community groups including ethnic minority and faith groups.

In other cases, though policy statements in procurement and economic development documents refer to the link with small, local and BAME firms, in practice, other priorities tend to take precedence, particularly an emphasis on

⁹ Supplier Adoption and Economic Development Newham's Kick-Start Model for Supplier Adoption. www.localgov.org.uk/webfiles/presentations06.

cost savings. As a result, strategic resources have not been allocated for detailed supplier analysis or any authority-wide initiatives to engage local firms in the procurement process. Instead, ad hoc initiatives take place at a departmental level. In some sectors, such as social care and food, it is easier to create procurement opportunities for BAME firms, because of the existence of a supply base, since both of these sectors typically have a large proportion of BAME businesses. For example, the LB of Hammersmith & Fulham has set up a group for voluntary sector enterprises to identify procurement opportunities. Lambeth and Croydon both provide procurement workshops for BAME businesses in social care.

The South London & Maudsley NHS Trust sources authentic ethnic meals from a number of BAME businesses and has a strategy of local purchasing. The Trust is also participating in the NHS Mosaic Project, which aims to promote equality in and through procurement. Launched in 2004, by the OGC and the NHS Purchasing and Supply Agency, this project provides training workshops for procurement staff on the development of procurement and equality strategies. It also involves assembling baseline data through supplier surveys; mapping supply chains and equality; and monitoring equality clauses in contracts. Diversity training is provided for suppliers. Through this project, the South London and Maudsley Trust is carrying out a survey on race equality, diversity and procurement for major suppliers. It is developing a social enterprise, race equality and procurement strategy and has taken part in workshops for existing and potential suppliers.

Construction is another sector in which there are many small firms and some BAME businesses. Together with the LBs of Barking & Dagenham and Greenwich, Havering is a partner in 'Building East', based in East London, which has a large BAME population. This project aims to develop relationships between small and medium sized local construction firms and developers; and also between major construction firms and government procurement offices, to enable them to bid for and win contracts within the Thames Gateway development and also those related to the 2012 Olympic Games. This project emphasises networking and targets both small firms, which receive training in the tendering process, and large construction firms that are likely to become prime contractors.

The London Development Agency (LDA), as the regeneration arm of the Greater London Authority, is also included in the medium activity group. The LDA runs and supports many initiatives targeted at small firms, procurement training and BAME businesses. However, the central procurement unit has only recently been established and an information systems infrastructure is currently being developed. As a consequence, a detailed analysis of procurement spending has yet to be undertaken, together with data related to

the LDA's own supplier base and the impact of its initiatives on its own procurement practices.

5.5.3 Low Activity Organisations

Not only do low activity organisations engage in few supplier diversity activities than those in the other two groups, but they also lack any supplier diversity mainstreamed across the organisations. Although there was typically considerable goodwill towards supplier diversity at the officer level, a lack of resources prevented this being carried forward in practice, reflecting a lack of strategic commitment. Resources had not been allocated because there was no strategic focus at senior level within the Council to supplier diversity, or to using procurement as a vehicle for regeneration. Competing priorities, such as the environment, and the need to make savings were the main drivers behind procurement practices in these cases.

In the LB of Camden, for example, the main strategic focus in terms of procurement was on sustainability, with an emphasis on the environment, although in the past, Camden has been engaged in initiatives to help both small firms and the BAME population. Previously, Camden was involved in mainstreaming the Race Relations Amendment Act (2000) in tenders and contracts to ensure workforce equality in contractors, and, agency contracts were split into lots, to enable smaller contractors to tender. At the time of the interview, however, there were no specific initiatives targeted at opening procurement opportunities to BAME businesses.

In the RB of Kingston, the new Local Area Agreement aims to help the local economy through public procurement opportunities. However, whilst there is liaison between the central procurement team and the economic development team, there is a lack of resources to carry out supplier analysis, or set up supplier diversity initiatives.

Finally, in the LB of Brent the central procurement team have put forward an action plan to the Council, based on the Small Business Concordat and were awaiting ratification at the time of the interview. Reported plans include using procurement for regeneration; an analysis of local spending; the creation of a supplier database; and the monitoring of supplier characteristics.

At the time of the interview, the LB of Enfield was undergoing changes in the procurement unit and a new Head of Procurement had been in place for two weeks. The importance of supplier diversity for competitiveness and local economic development was recognised and initiatives were still in the development stage. One of these new projects aimed to engage with local small contractors to raise awareness of public procurement opportunities.

5.5.4 BAME-Related Procurement Practices

Since the focus of the project was on BAME enterprises, all respondents were asked about procurement policies and practices targeted specifically at BAME enterprises. In most cases, where supplier diversity practices were being practiced, respondents emphasised the aim was to increase engagement with small firms in general, rather than with any specific subset, such as BAMEs. Not surprisingly, however, in Boroughs with large ethnic minority populations, it was emphasised that BAME participation was part of increased engagement with local small firms. In order to assess the extent to which participating organisations were taking steps to involve BAMEs, procurement practices were analysed from this perspective. The results are summarised in Figure 5.

As Figure 5 shows, most of the bodies classified into the high activity group, were taking steps to monitor access by BAMEs, as well as by small firms more generally, with Haringey perhaps the most active in engaging with BAME networks. Haringey has a database of local businesses, which includes details of the ethnicity of owners and a range of approved lists of local businesses. Where BAME businesses provide a niche product, such as authentic ethnic food, they have a competitive advantage and benefit from being included in approved lists.

At the same time, BAME enterprises were benefiting indirectly from initiatives aimed at sectors such as food, construction, and social services. Procurement workshops aimed at local firms providing social care services, which are often in the voluntary sector, will also benefit the many BAME businesses in this sector. Some local authorities had regular links with intermediary community groups representing a range of ethnic communities, faith groups, and ethnic minority business groups. Much of this kind of contact, however, tended to be ad hoc, with little systematic follow-up on the impact it had on businesses, or on feedback from the businesses themselves.

All respondents were very aware of the need to comply with procurement legislation at European and national levels. This legislation prevents authorities from showing preference to any particular groups of potential suppliers, such as BAME businesses.

“As a best value authority, we would need to make sure that we demonstrate value for money at all times. We’ve also got to be compliant with the EU legislation to make sure that we are compliant with making sure the evaluation criteria is linked to the subject of the contract. Those are things we have to take into consideration... I would again say that if local firms applied and

they got the contract, fine, but again positive discrimination would be an issue we would have to tackle because to say “Award business to a local firm” is discriminatory against others.”
(Head of Procurement LLA13)

Authorities can take action to ensure there is a level playing field and that all businesses have equal access to public sector tender opportunities. However, a lack of knowledge about the ethnic composition of the current supply base means that often authorities cannot take informed actions. Collecting this information was not perceived as a priority in many authorities.

“No, we don’t have that information because we just don’t have that information. We’ve never captured it.” (Procurement Officer LLA 5)

5.6 Experiences with Small Firms

Representatives of public sector bodies were also asked about their experience in dealing with small business suppliers. Three key issues emerged: variations in the level of knowledge about the potential small business supply base; implications for small firms of the trend towards increased collaboration between purchasing authorities; and their experience of the barriers faced by small firms in seeking to supply.

5.6.1 Knowledge of the Supplier Base

The level of knowledge reported by public organisations about the composition of their supply base was typically limited, which was often blamed on a lack of resources. Local authorities have the option to buy in this information from credit rating companies, which can provide data on suppliers (or potential suppliers), such as their postcodes, turnover and employment demographics. Alternatively, such data may be gathered and analysed in-house. The latter is time-consuming, but potentially more accurate; but the former is expensive.

High activity authorities have typically spent time contacting local firms and BAME firms to build up their own internal database. One council used a European grant for this purpose; another is using LEGI funds. One local authority is using a database management firm to obtain details of local firms via postcodes. In all these cases, the need for this information has been recognised at a senior level and resources allocated accordingly. In most cases, but not all, where the commitment to collect these data has been made, the process is still in the early stages.

Figure 5: London Procurement Activities benefiting BAME Businesses

Authority	Current practices that benefit BAME businesses
Haringey BAME population = 34.4%	A survey of 465 suppliers found that 12% of spend was with BAME businesses, giving a baseline for initiatives. Database of local businesses includes ethnicity of owners and staff. Network of local businesses includes intermediaries: BAME groups, Business Links and Chambers of commerce. Catering approved list with African Caribbean, Indian, kosher etc. Trade Local project provided procurement training for local firms half of which were BAME businesses.
City of London Corporation BAME population = 15.4%. Adjoining boroughs e.g. Tower Hamlets= 48.8%	Local purchasing project (1.5 dedicated officers in EDU) with large contractors targeted at adjoining boroughs with large BAME populations like Tower Hamlets. Integrated IT system to log procurement practice (using a matrix for supplier characteristics including ethnicity). Lower value contracts – one quote must be local – opens up opportunities for BAME businesses.
Transport for London BAME population 28.8%	Supplier diversity policy in East London line contract requires main contractors to use a diverse supply base and monitor supplier characteristics, including ethnicity. Diversity requirements made a pass/fail gate. Monitoring & auditing requirements backed up by a termination clause.
Newham BAME population 60.6%	A survey found that 75% of businesses in Newham are SMEs of which 40% are BAME businesses. The voluntary sector in particular has many BAME agencies and the Provider Developer Project provides procurement training to enable BAME businesses to tender for contracts from Health and Social Services. Provides training for small firms in e-procurement, business development workshops and procurement workshops and networking events through the Ethnic Minority Business Association and the East London Asian Business Association.
South London & Maudsley NHS Trust BAME population 32.5%	Sources authentic African Caribbean meals from a local BAME enterprise it helped set up. Sources other authentic ethnic meals from BAME businesses on the NHS framework agreement.
Hammersmith & Fulham BAME population = 22.2%	Set up a group for voluntary sector enterprises to identify procurement opportunities in social services, where there are many BAME businesses. Collaborating on a database of suppliers, which will record ethnicity of businesses.
London Development Agency BAME population 28.8%	'Supply London', 'Value Chain' and 'Tender to win' provide training for small firms, including BAME businesses, on procurement process and working with large contractors. The Procurement Development Project has trained a large number of BAME businesses in the procurement process.
Lambeth BAME population 35.6%	'Selling to Lambeth' workshops for BAME business groups. Workshops on consortia bidding for social services contracts, appropriate for the many BAME enterprises providing social services.
Croydon BAME population 29.8%	Procurement workshops for small firms with support agencies (chambers/BAME/faith groups). LEGI plans for procurement initiatives.

In medium and low activity authorities, on the other hand, there was often a sense of frustration at their inability to collect these data to establish a baseline from which to evaluate the scope of local/BAME purchasing and the need for initiatives to promote it. As many respondents explained, how can they improve local purchasing if they don't know how much is currently being purchased from small local suppliers or BAMEs?

“We have no IT systems in place yet that can tell us that supplier information. It's time consuming but we'll get there. We've done an economic analysis so we have some understanding. We are currently trying to work out how we address this as a target. The construction sector has a very low diverse percentage, but catering is high. So we need to make sensible targets.” (Director of Procurement LLA11)

“We don't have sufficient analysis to understand what small firms are currently providing us with. We'd like to find out what BME suppliers we have – but there is a barrier and that's money.” (Procurement Manager LLA5)

“We want to increase our use of local firms and BAMEs but we ran up immediately against this problem of how on earth can we set new targets for improvement if we don't know what we're doing at the moment?” (Procurement Officer LLA16)

Several Councils reported experiencing problems in using data supplied by independent data management firms, although on examination, inaccuracies were revealed that make it unreliable.

“A lot of the suppliers had been mis-allocated in the data [supplied by data management firm] we received. It was way off beam. It went down quite badly with our Directors. We've specified our own systems now and we are going to code for BME, risk, volume etc. It will show us where the money is being spent.” (Head of Procurement LLA6)

“We don't have a full understanding of what small firms supply. Current data we received is totally unreliable.” (Corporate Procurement Officer LLA12)

5.6.2 The Impact of the Trend towards Greater Collaboration

Many of the participating authorities reported using framework agreements for procurement, either arranged internally, or those pre-arranged by the Office for Government Commerce (OGC) and/or the London Contract and Supply

Group (LCSG). Because these internal framework agreements are often long term, they may work against small suppliers:

“I find you are often giving bad news at meet the buyer events, because a lot of the small firms are in care provision or agencies or trainers and you know an awful lot of that is tied up in long-term arrangements. There was an IT consultant asking about contracts but that’s all tied up for the next 7 years, with one of the big players.” (Procurement officer LLA7)

“The PFI contracts are let for 30 years. Local firms have no chance.” (Head of Procurement LLA10)

It was reported that the role of the OGC is currently being scaled down as the Regional Centre of Excellence Procurement Programme (RCEPP) takes on a greater role¹⁰. The aim of the RCEPP is to develop a national service to deliver improved efficiency. The RCEPP will identify and deliver efficiency gains in key markets through collaboration, e-procurement and the opening up of Pro5 contracts to all local authorities.

Pro5¹¹ consists of the five principal professional local government buying organisations who will work together to encourage local authorities to migrate spending to their contracts and framework agreements¹². Markets to be targeted first are: telephony; postal services; self-drive vehicle hire; micro-technologies to support environmental sustainability; and energy. However, making these contracts available nationally has the potential to create obstacles for local authorities that want to make more use of local markets. This is an example of where the trend towards greater collaboration may create a barrier for small local firms, who have the capacity to deliver local, but not national, contracts. The potential of this national collaboration to work against small local suppliers was recognised by respondents:

“Regional centres of excellence could, if we’re not careful, put up barriers. There are discussions about aggregating requirements nationally, but that would ignore local needs and local markets. Cumbrian requirements or Leeds requirements are not the same as London Borough requirements.” (Head of Procurement LLA6)

“OGC - they are a barrier, though they are conscious of the SME agenda, all their contracts are let to the big multinationals.” (Head of Procurement LLA9)

¹⁰ Regional centres of excellence Procurement Programme at www.rcoe.gov.uk/core

¹¹ The Eastern Shires Purchasing Organisation; Yorkshire Purchasing Organisation; Central Buying Consortium; West Mercia Supplies; and North East Purchasing Organisation.

¹² RCOE press release 13 October 2006 at www.rcoe.gov.uk

5.6.3 Barriers faced by Small Firms

Previous research has identified a number of barriers preventing small firms from trading more with local authorities (BRTF and SBC, 2003), many of which were mentioned by respondents. As well as external barriers created by procurement policies and practices within local authorities, there are also barriers within small firms related to capacity and attitudes. One of the main barriers is associated with the procurement process itself and the paperwork needed to make a successful tender. Compliance with the regulations on health and safety, quality, equalities and the environment, for example, requires suppliers to have their own written policies in place, which can be an obstacle for small firms, where management practices are typically less formalised. Some Councils have tried to simplify the tendering requirements by adapting their paperwork, particularly the pre-qualification questionnaire (PQQ) and/or business questionnaire that potential suppliers are required to complete. Commonly, however, there is a need for training to enable small firms to understand and complete such questionnaires properly and comply with the regulations:

“If we’re spending £2,000 with a local supplier for flowers we’re not going to ask them to complete a business questionnaire for us. (Corporate Procurement Manager LLA3)

“Obviously we use the OGC PQQ and in some cases, depending on the contract we will ask for more information. They usually need help with their policies. After training they generally cope with this.” (Head of Procurement LLA6)

In high activity authorities, where there was a strategic link between procurement teams and economic development departments, procurement training was more likely to be targeted at local firms. Nevertheless, respondents from high, medium and low activity authorities mentioned the need for training in the procurement process, because of a lack of knowledge about how to complete tender documents correctly:

“...a lot of them were poorly filled out, done in pencil. They don’t follow instructions.”(Corporate Procurement Officer LLA12)

“Sometimes it’s a complete waste of time – ours and theirs. It just looks as though they haven’t bothered to read what is required.” (Head of Procurement LLA10)

Another reported barrier is the attitudes of owner-managers, some of whom may not readily view local authorities as potential customers. Procurement officers can find it difficult to engage directly with small local suppliers and BAMEs in particular. Some local authorities are working with intermediary organisations, such as community and faith groups. One issue is finding out

who/where local suppliers are; another is the wariness of owner-managers, as the following quotations illustrate:

“We advertised twice but we only got two local suppliers.” (Head of Procurement LLA10)

“A lot of local suppliers have their own networks and they don’t always look to the council as a primary source of contract. You have to engage with the intermediaries to break down the barriers.” (Head of Procurement LLA6)

“We have a number of support agencies for small businesses and we are looking at how we link with those and piggyback on those networks. (Corporate Procurement Officer LLA12)

5.7 Experiences of Businesses in London

5.7.1 Participating companies

A total of 13 companies based in London were interviewed, of which 6 are small companies, 3 are medium sized companies, and 4 are large companies. The sector distribution of the participating companies is 1 in construction, 1 manufacturing, and 11 in service. The purpose of the interviews was to identify the experiences of these businesses, firstly as suppliers themselves and secondly as purchasers. A key objective was to assess the potential for SMEs gaining business, below the first tier contractor level within a supply chain.

5.7.2 Awareness of Supplier Diversity

A majority of enterprises (8 of the 13 respondents) were aware of supplier diversity. Among the four large responding companies, supplier diversity is promoted either for business benefits, or as part of the corporate social responsibility agenda. Smaller firms named the sources of their first exposure to supplier diversity as voluntary organisations sponsored either by public authorities or large corporations, and local authorities such as Westminster Council. Voluntary and public organisations appear to be spreading the supplier diversity message.

However, those enterprises that reported not being aware of supplier diversity were all SMEs. One of them stated knowing about events like ‘meet the buyer’, but did not attend and had not associated it with supplier diversity. Respondents further pointed out that one of the reasons for not going to the event was the high cost. Below are examples of the responses:

“If I seem to be confused it’s because I’ve never heard of it before.” (Manager, LB5, small firm)

“No, I’m not familiar with that [supplier diversity] yet but I think ... it’s only a matter of time before that becomes more apparent.” (Client manager, LB12, medium firm)

“There is a seminar going every few months, meet the buyer, which is ... with 15 or 20 minute discussion and it costs £130 to £200 to go to a meeting basically”. (Managing director, LB10, small firm)

5.7.3 Procurement Policies

The vast majority (11 out of 13) of the responding companies do not have a formal supplier diversity policy, but claim to practice supplier diversity informally. The drivers for supplier diversity are both business benefits and part of the corporate social responsibility:

“I think the policy in a sense has formed itself because we’re driven by the fact that we want to work with people locally, that you’ve got to also have value with that and then you’ve got to get the delivery and the supplier when you need it because we’re obviously on a tight schedule with the client ... So I think that almost becomes the policy, if you know what I mean”. (Special project director, LB7, large firm)

“It’s in our interests to have diverse products anyway because that gives us a wider range of options in offering the client new products, new services and things. In terms of diversity ... we do try and assist small companies where we can, particularly if it’s a good product and we want to help them to grow.” (Managing director, LB13, medium firm)

Only two of the responding companies have formal documentation relating to supplier diversity, and both are large international corporations. The reasons for promoting supplier diversity are as stated above, i.e. business benefits and corporate social responsibility:

“We believe that doing business with diverse suppliers can help us reach more customers and contribute to innovation within our business.” (Extract from Supplier diversity, LB2, large firm).

“There is growing interest in supplier diversity in the UK and we frequently receive enquiries on our approach to this issue from potential public sector and corporate customers.” (Extract from Supplier diversity, LB2, large firm).

“... is committed to being a responsible company and has put significant focus across the four areas of corporate responsibility, ... we work closely with our suppliers to increase use of local, regional, assured, Fairtrade and organic produce.” (Extract from ‘Our Ethics’, LB1, large firm).

Significantly, a diversity policy for employment appeared to be more prevalent than supplier diversity policy. This applied to both large and small enterprises, although in the case of small firms this was typically implicit rather than explicit, as the quotation below indicates. Workforce diversity was more commonly asked for their clients, indicating that pressure from customer/clients is one of the potential drivers of diversity practices, particularly in the context of a supply chain:

“We have a very simple written one [diversity policy for workforce] and we always obviously practice it. I think small companies generally have the ethos in their minds but might not have page after page of the policy statement. Quite a few of our clients ask if we have a diversity policy and we did put one in place a few years ago, yeah.” (Managing director, LB8, small firm)

5.7.4 Perceived Benefits of Supplier Diversity

The interviewees from responding enterprises perceived two types of benefits of supplier diversity: bottom line business benefits and better company image through practice of corporate social responsibility. Several examples of business benefits were mentioned throughout the interviews. Firstly, companies will have access to better responsiveness to customer needs, typically of small or local firms:

“I think by and large where we can we go to smaller suppliers they tend to be more reactive. Sometimes the larger companies don’t deliver on time or they don’t deliver the right quality of product and it’s a problem getting it right, so we’re always looking to new suppliers who will provide quality and service as

well as come up with a reasonable price and the more local they can be then that's the best.” (Managing director, LB13, medium firm)

“A small company has higher flexibility, quicker decision making, can deliver highly specialised services, and better responsiveness ... you are usually talking to the decision maker and the fact that they're talking to the decision maker means that they know that we want to give a good service because it's our business. So when someone's talking to me you are talking to the Managing Director.” (Managing director, LB9, small firm)

Secondly, small companies may offer innovative ideas and solutions which are not available from big companies:

“They [small firms] often have at least one or two or three or more ideas and you actually think ‘Well, that's very good. We could incorporate that’ ... they haven't been used to working to a rigid framework they come up with innovations that perhaps other people haven't thought of. So it's always useful. Or they're growing products in a different way to other people which is quite useful.” (Managing director, LB13, medium firm)

Small and ethnic minority businesses may also have lower overheads and be able to offer a better price:

“I think the idea is – and I think it's probably true – that there is an untapped benefit and resource out there that can be simply because of their size and perhaps their cultures ... who don't generally do business outside their own cultures very much maybe ... there's probably a lot of interest in small and medium sized companies in doing business with them because not only might they have ideas and perhaps deliver better services and maybe they have lower overheads so ultimately they can come in on price as well as quality.” (Managing director, LB13, medium firm)

However, some respondents consider that diversity policy is merely part of company's, especially a large corporation's, corporate social responsibility programme. They doubt if there are any economic benefits:

“I think they [large corporations] have to be seen to be, you know, socially responsible ... Are there any economic benefits of having a good diversity policy? I’m not sure.” (Client Manager, LB6, medium firm)

Others hold the view that the practice of supplier diversity may potentially increase the customer base and contribute to building a good image of the company:

“They [large firms] may get a feel-good factor from that and there may be links into businesses or areas that they wouldn’t normally have gone into so that ultimately it could not only spread knowledge about the company, but also ultimately spread the customer base and just be known as a good guy, if you like, who’s willing to work with a number of people and who wants to sort of help smaller businesses.” (Managing director, LB13, medium firm)

With respect to BAME suppliers, it was felt by some that they may add to a wider range of services and intellectual input because of the different backgrounds and cultures:

“I think you probably get a wider range of service, a wider variety of ideas and intellectual input because of the different backgrounds and the different cultural ... on the design and delivery of the service. If you always get, you know, people from, say, university educated, white, middle-class Anglo-Saxon type of company, you’ll always get that sort of product or service. If you get somebody that, say, is from Asia or Afro-Caribbean influencing the business then you might get something different. It might not necessarily be better but it’d be different.” (Managing director, LB11, small firm)

5.7.5 Experience as Suppliers

Two small companies interviewed had attended supplier diversity event organised by MSDUK. Both companies judged this to have been fruitful and gained clients through attending the events:

“We’ve been fortunate to go in and we’ve seen probably about 6 or 7 companies through MSDUK. We’ve been fortunate to do business with one in particular and another one.” (Managing director, LB9, small firm)

“They hold meetings on a quarterly basis and what they do is they put small businesses in contact with large corporations. So at the very first meeting I met with Enterprise Rent a Car and we were able to close some business and they’re a client of ours now. The most recent meeting that he held was at [Lehman] Brothers in December of this year and at that meeting was BT and we went along and we met with BT and we gave a pitch and based on our presentation they said “Great, how about you work on this first piece of work?” So that’s how I found out about BT.” (Managing director, LB3, small firm)

The previous section included a description of the barriers faced by SME suppliers, as perceived by public sector procurement officers. In this section, the views and experiences of business managers on the same topic are reported. The main barriers identified by respondents focused on the bureaucracy of the process and the red tape involved.

- i. Increasingly stringent regulations exclude small and minority firms from the supplier base of large corporation and public sector

According to the respondent of LB6, there are many requirements to be met for getting on to the preferred supplier list of large corporation. A small firm may not meet all the requirements and therefore be excluded from its supplier base:

“The process of [a large corporation] is very long and convoluted to get to it and they have a lot of questionnaires and a structured process in terms of becoming a supplier on their PSL which is perhaps slightly different to other types of organisations. Smaller organisations tend to not have quite that many checks.” (Client manager, LB6, medium firm)

- ii. The implementation of red tape and new regulations may not be managed well and can work to exclude small and minority firms from bidding for the contracts, as illustrated by the respondent of LB9 on the requirement on health and safety:

“What they wanted was for you to be a member of institutions that I will not be a member of so, you know, there’s no point in me doing the application form ... I could not do the health and safety thing ... we’re going there to run training courses. That’s what we’re going for. People are not coming to my site; I’m going to theirs, so why do they need me to have health and

safety in place on my site when they're not coming to my site. And nor will they ever be coming to my site; I will always be going to theirs ... by the time you get to page 27 you just don't bother." (Managing director, LB9, small firm)

- iii. New regulations have increased bureaucracy which add costs and reduce profits with increased risk and as a result, small firm may lose interests in supplying to public sector as testified by the respondent of LB9 and 10:

"Public organisations are more difficult now than they were before because they have a lot more Pre Qualification Questionnaires that you have to go through and every time I get one it has more pages. It started off with 5 and now it's about 40 pages and it's just too time consuming. So I find that public sector used to be a sector that I felt comfortable in, but now I'm beginning to realise it's not a sector that I want to be in." (Managing director, LB9, small firm)

"[The tendering process is] very cumbersome. A lot of work, a lot of hard work in there and it doesn't guarantee the business really for you, so it means we're spending more and more money all the time getting things to a standard which won't guarantee in the end that the business will be there." (Managing director, LB10, small firm)

- iv. The possible effects of co-operation between public bodies in buying groups were referred to in the previous chapter. The respondent from LB10 described the negative impacts of this on small firms, as well as the difficulties of acting as second or third tier suppliers to a main contractor.

"The hospitals were more independent so you could [push direct] to the manager who decided from whom to buy from ... As time went by more and more contractors started coming in and contractors had their own systems and policies ... you'd work through the contractor and [you had to have the approval by them]. If they don't approve you then your scope is limited into the NHS. The other position was the creation of PASA buying group, so then you had to tender through to start supplying hospitals. Now you either supply the contractors or you can be approved to supply to the health sector. On the Social Services side it's a similar sort of thing basically. Very few Social Services contracts are independent. So you supply the contractor and they provide the service to the Council ... [it] adds costs which reduces profit in the end, but also in fact since

we're dealing with one or two or three big ones, you know, the prospect – if you're good you survive, if you don't they can dump you. So the risk is high. So it's the same sort of risk as supplying to [multiples] now basically.” (Managing director, LB10, small firm)

- v. Supplier diversity is a big hype at the moment. It gets to social responsibility or director level, but very often lacks arrangement for practical implementation, indicating limited real commitment

The respondent of LB9 had encountered organisations that had not fully thought through supplier diversity, which resulted in bad experiences for small firm suppliers. The experience reported by LB9 illustrates the difference between policy and practice and the need to embed supplier diversity within organisations, if they are to have an impact:

“It's a big hype at the moment. You know, when I first heard the term I said to myself 'Wow, this is good! At last people are going to become like a United Kingdom ... and you give minority ethnic, other people, and the opportunity'. But I just find sometimes people embrace the concept but they haven't really thought it through ... so you end up going to all these wonderful meetings and talking and whilst you do get some work, people haven't really thought it through. Some of the big corporates haven't really thought it through ... It's a starting point and you wonder 'Okay, do they really have anything to give to a small business?' I'm not talking now about being black or white; I'm talking 'Do they really have anything that they can offer a small business?' and if they have, fine, give us a chance. But if they're thinking about it, then don't waste our time to think about it because my time is important to me, so please don't waste my time to think about something that you feel that you've got a corporate social responsibility for ... call me in because you've got something that gives me chance to explain my business and the way we could work together ... but unfortunately I don't find that's happening. One company that I've worked with has actually been really fantastic, but others I see them as just wasting my time. They get me in for quotes, I do the quotes, I spend time putting the quotes together, calling my trainers in to talk, to discuss it and then we send the quote and they don't even reply back to us to say "Yeah, we're going to work with you ... oh, don't get me wrong ... we've been fortunate to do business with one in particular and another one, but we've also had to put a lot of proposals through to others that don't even

write back to you. You don't mind putting a proposal through, you don't mind making phone calls to people and you don't mind sending out emails. What you mind is that you have taken the time to write a proposal in detail, make it professional ... which has taken your time and those people in some big corporates do not take the time to reply to you ... and yet they want us to provide a good service to them and yet they do not have the decency to write back and say 'Sorry, your proposal wasn't good. It wasn't clear. It didn't have the relevant detail' ... you make phone calls, you leave messages and no one replies to you. You send emails – no one replies to you. So you ask yourself 'You want me to provide you with a good service? You've set high criteria for me to work for you yet a common thing like a reply is not done by your company?' (Managing director, LB9, small firm)

"I wrote to [a large corporation with supplier diversity initiatives]. [It] asked me to register. [It] liked what I was doing and said yes, they had a need for me. It got me excited, so I sent off my details to [them] and [they] send me an email by someone that does not know anything about supplier diversity. So the people that I spoke to at that supplier diversity, they knew, but the people they passed it onto had no idea ... that's what happens. The people at the top are all keen for supplier diversity, but they don't filter it to the people that ... they don't filter it at all. After it gets through the directors level that's it. They don't talk to each other." (Managing director, LB9, small firm)

The respondent from LB10 reported similar frustration with lack of communication and feedback from a public sector organisation:

"They will tell us whether we've won the contract or we've lost the contract. Some of them tell you why you lost the contract; some of them don't even tell you that actually ... I mean we went through a tendering process two months ago and they told us we lost the contract. So we asked them why, they said 'Well, you need to come to [us] personally to sit down and talk about it.' Now they wouldn't write to us why we lost the contract. Now to go to [them] from here and come back it'd spend a fortune to know why we lost the business, to spend ten minutes with him as to why you lost the business and come back ... there's no reason why they can't put it in writing as well. If there's something genuine there there's no reason not to put it in writing. If it's expensive just say we were expensive; if we could

not provide the service, say we couldn't provide the service; if the [product]wasn't good enough, well tell us so it's not good – nothing wrong there. Instead we don't know what we're doing wrong ... It's not like 'I'm going to take you to the court for losing the contract,' ... I just [want] to hear why I lost the contract.”
(Managing director, LB10, small firm)

A number of respondents identified additional barriers faced by BAME suppliers. Although in one case (of a white owned firm) discrimination was reported, the main reported barriers referred to exclusion from key networks. Business circles tend to be closed and it is difficult for new comer to penetrate into the supply chain. The respondent in LB10 points out that people tend to do business within their existing business circles, which it is difficult for new entrants to penetrate:

“It [why the percentage of ethnic minority is lower in the mainstream supply chain] is partly to do with lack of awareness among the contractors as to what is out there. They tend to go to the people they know. I mean, you know, I've explained how we contract and it tends to be we tend to go to who we know and you move in your own circles, so you're not always going to look in as wide or diverse a way as possible. So it could be the case that people like the LDA or others could enable would-be contractors to look further afield for potential suppliers – you know, brokering the supply chain.” (Managing director, LB11, small firm)

Ethnic minority businesses tend to have limited people and business circle as described by the managing director of LB3 who is of ethnic minority background:

“Certainly in my case I can tell you [a large corporate] is a client of mine now, but when I was 22 doing my PhD I had no idea who Goldman Sachs were and it's not because I was stupid but it's just I had no awareness and ... People weren't in my circle working in the investment banking industry. That wasn't in my family's make-up as well and that wasn't my world ... Now I feel it's a priority that other people like me know that there are other worlds out there rather than, you know, sort of traditional maybe be a doctor or be a dentist or be a lawyer.” (Managing director, LB3, small firm)

Business respondents were asked to identify the key success factors involved in securing supply contracts from public sector organisations and large

corporates. Their answers stressed the importance of establishing and maintaining relationships, as well as competitive pricing. All the respondents agreed that it is vitally important to keep good customer relationships. Three key factors are required to achieve good customer relationships: personal contact; price and product /service range and quality; and time:

“It [relationship] is maintained on three main factors. The first is relationships between buyers and us – so it’s people. The second is on price and range and the third is on service and our ability to deliver when we say we’re going to deliver, to give statistical information when they want it and to do all the other bits and pieces. So there are really three key elements to keeping a customer happy in the long term.”

To gain contracts with public bodies and large corporations, it is important to be able to provide specialised quality services at a low price:

“We actually quite like to play on the fact that we’re small. We will tell our clients that we’re a niche consultancy and that we are specialist in what we do.” “We are small but able to provide specialised services is strength of [us] as they can deliver quality services in a lower price.” (Managing director, LB3, small firm)

Many emphasised that personal contacts are often important for getting contracts, as one of the respondents explained:

“I worked for BT in my previous company and I had a few contacts there and then those contacts kind of stuck with me even when I started the company.” (Managing director, LB8, small firm)

Word of mouth is considered the most important way of gaining new project. For example in response to the question: “How do they (Hospitals and other people) get to know you?” The interviewee answered:

“Word of mouth basically. We have a sales team who supply [materials and articles]. Also since we’re approved by their buying arm, it let us get in touch with the buying people and say ‘Look, if you’re looking for a supplier...’ (Managing director, LB10, small firm)

The contact and relationship sides may come not as easy for minority businesses due to their limited social networks.

5.7.6 Experience as Buyers

Not surprisingly perhaps, all 13 respondents stressed that they do not take racial background into their supplier selection process, making their selection on the basis of standard criteria, such as price, quality, and services including delivery time, either formally or informally. The example below shows the typical attitude among the respondents:

“Yes. We have a man who – and he’s wonderful ... Well, I don’t look at him as an ethnic minority. He’s a West Indian man and he supplies us ... he’s a black man and I suppose if you want to call him ethnic minority then that’s what he is, yeah ... I’m really not worried about who’s selling it to me.” “If you’re a black man and you’re selling nice stuff I’ll buy it. If you’re a white man and it’s rubbish I’m not going to buy it.” (Manager, LB5, small firm)

Meeting ‘soft’ customer requirements, such as using local suppliers can also be a criterion, which may create opportunities to small local and ethnic minority firms. Small firms or purchasers of low value purchases among large and public organisations often contact people they know as illustrated by a respondent in answering the question ‘how do you find the suppliers?’:

“Largely through experience. You know, having worked with them once we then go back to them if they’ve been good.” (Managing director, LB11, small firm)

5.8 Conclusions for London

- (i) Analysis of the key national policy drivers influencing procurement policy at the local level in London revealed some mixed messages and potential conflicts between the aims of different national policies. However, the Gershon Review was typically described as potentially having the most negative impact because of the need to make savings to allocated budgets, which results in savings targets for each authority to achieve. Co-operation, both internally and with other authorities was advocated by Gershon, as a means of achieving economies of scale. Respondents felt that the effect of the Gershon review was pressure to aggregate contracts and rationalise the supplier base. Many of the participating authorities reported using framework agreements, either arranged internally, or those pre-arranged by the Office for Government Commerce (OGC) and/or the London Contract and Supply Group (LCSG).

Aggregation of contracts and the use of framework agreements are unlikely to be to the advantage of small firm suppliers, since they often lack the capacity to deliver geographically dispersed contracts. Moreover, where policies appear to conflict, there is a tendency for cost savings to take precedence, because efficiency savings are more tangible and measurable outcomes than social outcomes, such as developing local small firms. Voluntary initiatives, such as the Small Business Concordat, lack the power to oblige local authorities and other public bodies to make local purchasing practices mainstream, or to set targets, partly because of legal restrictions on local purchasing.

- (ii) Interpretation of national procurement policies, often varied within, as well as between, public bodies, and uncertainty and confusion were consistently reported. In many cases concepts such as 'whole-life costs' and 'best-value' were narrowly interpreted 'de facto', as cost savings despite being broadly defined in policy statements. At the same time, there were a few cases where these concepts were being broadly interpreted to include economic and social impacts on local communities, as well as environmental impacts. One of the current trends that may increase supply opportunities for small firms is the drive to buy local, particularly with regards to food and catering.
- (iii) Just two authorities in London had explicit separate supplier diversity or local purchasing procurement policies. In some cases, respondents felt there was no need for a separate policy as procurement practices to diversify the supply base were embedded throughout the authority:
- (iv) Even when there was an appreciation, in central procurement teams, of the wider interpretations of concepts such as 'best value', concern was expressed about the attitudes and behaviour of front-line procurers in the rest of the authority. These procurers were perceived to be more risk-averse than the central procurement team and less well-informed about the subtlety of concepts like 'best-value' and 'whole-life costs',
- (v) There are broadly two cases for opening up more public procurement opportunities for small firms and BAME businesses. The first is the business case that a mixed economy will create more competition and increase the likelihood of procuring innovative goods and

services. The second case is based on social inclusion by combating racism and unemployment, and promoting cohesive and financially sustainable communities. The urban context of London contributes to the social inclusion argument being more commonly referred to as a rationale for supplier diversity than in the predominantly rural or suburban authorities in the other two regions.

- (vi) Overall there was considerable goodwill expressed towards supplier diversity in public procurement across responding authorities in London. Some good practice principles can be identified, though many of the initiatives are still in the early stages of development. In many cases turning this goodwill into practice was hampered, however, by a number of factors:
- Lack of information about the supplier base, including where and how money was currently being spent;
 - Competing priorities such as the environment and cost savings;
 - Lack of training for frontline procurers on supplier diversity and regeneration objectives.
 - A lack of co-ordination between the procurement function and other functions e.g. regeneration.
- (vii) A few authorities explicitly recognised the strategic role of public procurement as a vehicle for regeneration. In these cases, economic development plans included references to the use of procurement to promote the development of local firms and BAME businesses, with a common emphasis on making businesses 'fit to compete'. In practice, only in those public bodies where there was a high level of supplier diversity activity did central procurement teams and economic development units work closely together, using procurement to foster local regeneration. However, in other authorities respondents felt they were unable to work closely with colleagues in this way, because of the separation of the functions of procurement and economic development, with separate budgets.
- (viii) Where supplier diversity strategies were being used to achieve social outcomes, this was typically backed by senior executives and Council members, thus conferring legitimacy on officers and a resultant allocation of sufficient resources. Respondents stressed the effort and resources needed to engage with small firms directly, even for

carrying out a comprehensive supplier analysis. If strategic resources are not allocated then officers hands are tied.

- (ix) Four of the responding public bodies were classified as high activity authorities in terms of supplier diversity. In these cases, supplier diversity was embedded across the organisations and a variety of procurement practices are engaged in that can benefit local small firms, including BAME businesses. Monitoring the effectiveness of supplier diversity practices was present in all high activity organisations. Prior to embedding supplier diversity practices throughout the authority, a baseline picture of spending in the local area and the impact on small firms is typically needed, to provide the 'market information' and rationale for such an approach. From this picture a case can be built and appropriate practices developed. In some areas creating opportunities for small firms and BAME enterprises through the supply chain was the best option given the nature of the contracts, such as in construction. In other cases the effect on the local economy of local firms failing to win contracts persuaded the authority to target training, advice and support at the local small business community.

- (x) The picture across London with respect to supplier diversity is evolving and some of those organisations placed in the medium and low activity categories currently have plans to increase their supplier diversity activity and even to mainstream it (e.g. LB of Croydon).

- (xi) Most local authorities were already embarked on the process of migrating their procurement processes to electronic format, at the time of the interviews. Some respondents pointed out that any benefits of electronic access and processes to small firms are dependent on them having the necessary ICT equipment, as well as the skills to use it. There was concern expressed in some authorities that many small firms may be missing out on public sector opportunities through a lack of e-procurement capability:

- (xii) Most participating public bodies were aware of the new national portal 'Supply2Gov' and some were making use of it. In some cases, it was used in an 'ad hoc' way by individual procurers within the authority while others intended to systematically advertise all smaller value

contracts on the portal. There were some criticisms made about the portal and the additional administrative burden involved. There were also criticisms about the limited information provided about suppliers.

- (xiii) In most cases, where supplier diversity practices were being practiced, respondents emphasised the aim of increasing engagement with small firms in general, rather than with any specific subset, such as BAMEs. Not surprisingly, in Boroughs with large ethnic minority populations, it was emphasised that BAME participation was part of increased engagement with local small firms. At the same time, BAME enterprises were also benefiting indirectly in some cases from initiatives aimed at sectors such as food, construction, and social services. Procurement workshops aimed at local firms providing social care services, which are often in the voluntary sector, are also likely to benefit the many BAME businesses in this sector. Some local authorities had regular links with intermediary community groups representing a range of ethnic communities, faith groups, and ethnic minority business groups. Much of this kind of contact, however, tended to be ad hoc, with little systematic follow-up on the impact this contact had on businesses, or on feedback from the businesses themselves.

- (xiv) Authorities can take action to ensure there is a level playing field and that all businesses have equal access to public sector tender opportunities. However, a lack of knowledge about the ethnic composition of the current supply base means that often authorities cannot take informed actions. Collecting this information was not perceived as a priority in many authorities. Moreover, the level of knowledge reported by public organisations about the composition of their current supply base was typically limited, which was often blamed on a lack of resources. LEGI funds were often seen as a possible source of money to address this deficiency.

- (xv) Many respondents emphasised the need for realistic expectations and targets for trading with small firms, whether there was a high, medium or low level of supplier diversity activity in the authority. There was a perception that small firms need to invest in skills in-house to equip them for engagement in the public procurement process: in completing tender documents to the required standard; in their e-procurement capability, and in having the correct policies in

place. It was also felt that some owner/managers of small firms require a change in attitude before they will consider trading with the public sector, especially where tight-knit community/business networks encourage intra-network trading at the expense of extra-network trading.

- (xvi) A majority of responding private enterprises were aware of supplier diversity. Among the four large responding companies, supplier diversity is promoted either for business benefits or as part of the corporate social responsibility agenda. Smaller firms named the sources of their first exposure to supplier diversity as voluntary organisations sponsored either by public authorities or large corporations, and individual local authorities like Westminster Council. Voluntary and public organisations are spreading the message. Those enterprises that reported not being aware of supplier diversity were all SMEs.

- (xvii) The vast majority of responding companies do not have a formal supplier diversity policy, but claim to practice supplier diversity informally. The drivers for supplier diversity are business benefits and the corporate social responsibility agenda. However, not all responding enterprises were convinced that supplier diversity was advantageous to their businesses. Smaller firms tend to have small local suppliers and the practice of supplier diversity may come easier to them compared to large corporations and the public sector.

- (xviii) Key success factors for SMEs in acting as suppliers are contacts and relationships. This may be to the disadvantage of BAMEs, due to their limited social networks and cross-cultural differences in how relationships are built and maintained.

5.9 Policy Recommendations for London

- (i) Policy makers at a national and regional level need to provide an unambiguous steer to senior level council executives and non-executive members with respect to the priority that should be placed

on increasing engagement with small firms and BAME enterprises in public procurement, compared with other policy priorities

- (ii) There is a need for a common minimum standard for 'small firm friendly' procurement practices in London's public bodies, based on maximising simplification and providing information about tenders through channels that small firms and BAMEs use
- (iii) Public procurement officers need senior level support to engage strategically with small local firms and BAME businesses, otherwise sporadic localized initiatives are likely to have little lasting impact.
- (iv) There is a need for frontline procurement officers in public bodies to receive training in how the organisations current procurement policy should be applied in practice, paying particular attention to acceptable interpretations of 'best value' and 'whole life costs'. Opportunities for encouraging small business bidders in sectors, such as food and catering, health care and IT should receive particular attention.
- (v) The current trend towards E procurement offers potential advantages for procurers and for potential suppliers. At the same time, there is a danger that once again this will favour larger enterprises. Increasing the E procurement capability of SMEs is a high priority for business support in London. Business support practitioners need to raise the profile of public procurement opportunities among small firms and BAME businesses that can meet the needs of local authorities. Training in the procurement process may be essential for many of these businesses and capacity building initiatives are needed to draw more BAMEs in as potential suppliers. Similarly training and IT support will enable more firms to engage in e-procurement, which is becoming more and more widespread in the public sector.
- (vi) It is recommended that firms registering for the Supply2Gov site are asked to include those data that will enable equal opportunities to be measured.
- (vii) Overall there is considerable goodwill towards supplier diversity among procurement staff in public bodies in London and interest in taking steps to widen opportunities for SMEs to supply. At the same time, there appears to be much less knowledge about how best to

achieve this. It is recommended that workshops to disseminate the good practice experience of 'high activity' authorities are run at two levels: for senior officers/elected members to demonstrate the importance of leadership; and at front line procurement officer level to demonstrate specific practices.

- (viii) A significant increase in supplier diversity activity will not be achieved purely by focusing on increasing the flow of information about tenders and simplifying procurement practices, because of the capacity, sectoral orientation and behavioural characteristics of small firms. Many small firms operate in sectors that are most major suppliers of goods and services to public bodies. Moreover, informal approaches to management and attitudes to certification that are common often conflict with the expectations of public bodies with respect to their suppliers. Active promotion of the requirements of a (simplified) tendering process should include those channels and media most frequented by small firms and BAMEs and also include demonstrator cases. In addition, there is a need for business support organisations in London to prioritise capacity building projects to increase the fitness of small businesses to supply.
- (ix) Whilst an emphasis on increasing engagement with small firm, in general, rather than narrowly focusing on particular minority groups has some justification, it is important to recognize the heterogeneity of the SME sector, which has implications for their supply potential and the strategies used to engage with them. Specifically, this means that procurement bodies need to work closely with those organisations and networks in which BAME enterprises participate.
- (x) Public bodies should be required to monitor and publish data on their current supply base that enables equal opportunities and other policy targets to be accurately reported.

6. Research Results for the West Midlands

It is important to place the research results for the West Midlands in the context of the region's business population, particularly with regard to its ethnic mix.

6.1 Profile of the West Midlands

The West Midlands region has a population of 5.3 million. Birmingham is its largest city with a population of almost one million¹³ The West Midlands is also the most culturally diverse region in the UK, outside London with an ethnic minority population of 11.3%, which rises to 29.6% in Birmingham. The Asian population is the largest ethnic minority group and includes Indian, Pakistani and Bangladeshi communities. The next largest group is the Black Caribbean and African communities.

The West Midlands contains the conurbations of Birmingham and Coventry, although 80% of the region is rural. Economic growth in the West Midlands, though slower than that in the South East, is similar to the East Midlands and Yorkshire and Humberside regions. The decline in traditional industrial sectors, such as engineering and metal working, motor vehicle production and ceramics and glass, has been accompanied by a rise in the service sector. The professional service sector is one the fastest growing in the UK. Nearly one quarter of the working population are employed in distribution, hotel and catering.

As recent research has shown, 15.6 per cent of BAME-businesses in the UK are based in the West Midlands (Whitehead et al, 2006), disproportionately concentrated in the region's urban areas. Fewer than one in ten (9.0per cent) BAME businesses are located, or have their main location, in a rural area (compared to 41.5per cent of non-BAME businesses). A recent report by the Overview and Scrutiny Committee of Birmingham City Council provided evidence about the main issues facing BAME businesses, which included language barriers; access to finance; and educational under-achievement (BCC, 2006).

Mainstream business support orientated towards English speaking clients is not always readily accessible to those whose first language is not English. Access to finance, particularly from banks, was identified as a significant issue for African-Caribbean owned small firms. The report also highlighted the educational under-achievement of Afro-Caribbean, Bangladeshi boys and Pakistani girls, which could potentially create future difficulties accessing mainstream business support. The report also highlights the transition of business support from a locally delivered service to a regional service through

¹³ Government Office for West Midlands www.go-wm.gov.uk/gowm/

the Regional Development Agency, 'Advantage West Midlands', stressing the need for the new service to be accessible to all, including BAME businesses.

Business support is currently undergoing transition from a locally delivered service to a regional service through the Regional Development Agency 'Advantage West Midlands. In 2005, Advantage West Midlands took over responsibility for economic development in the region including Business Link's information, diagnostic and brokerage services (IDB). The new Business Link West Midlands, launched on April 1 2007, offers a single access point for all business, skills and manufacturing advice. The Knowledge Bank is an online resource of factsheets, industry reports and grant schemes. The West Midlands Supplier Register contains details of business consultants in the West Midlands. The Manufacturing Advisory Service and the Learning and Skills Council's 'Train to Gain' programme, have been co-located at the same site to provide a one-stop shop for businesses. At present, there are no specific initiatives targeted at BAME businesses.

6.2 Profile of Participating Authorities

6.2.1 Local Authorities

A total of 10 West Midland local authorities participated in the research, including three county councils, and seven metropolitan borough councils (MBC), as well as a NHS Foundation Trust. Face to face interviews and telephone interviews were carried out with procurement officers and, in some cases regeneration officers during 2007.¹⁴ In order to contextualise the findings by providing a wider picture of public procurement issues in the West Midlands, several key informants were also consulted from Advantage West Midlands; the Regional Centre of Excellence; Government Office for the West Midlands; and Localise West Midlands, the alliance for better food and farming.

The ethnic mix of the local authority areas differs widely (Table 2). The largest ethnic minority populations are found in Birmingham (29.6%), Wolverhampton (22%), Sandwell (20.3%) and Walsall (13.6%), while the three county council areas have very small ethnic minority populations, representing less than 5% of their total populations (1.2%, 4.4%, 2.4% respectively).

The amount spent annually on procurement of works, goods and services also varies (Table 2), reflecting differences in the size of the authorities. Birmingham City Council had the largest spend of £900m, while the smallest

¹⁴ See appendices for interview schedule.

authorities spent the least (Sandwell £130m and Dudley £120m). The remaining authorities spent between £200m and £250m. There was no relationship between either the size of ethnic minority population or the amount spent on procurement annually, and the likelihood of supplier diversity or local purchasing initiatives.

Table 2 Profile of Participating Authorities

Local Authority	Percentage of ethnic minorities in local population	Annual procurement spending
Wolverhampton CC	22%	£233m
Walsall MBC	13.6%	£200m
Shropshire CC	1.2%	£200m
Sandwell MBC	20.3%	£130m
Dudley MBC	6.3%	£120m
Coventry CC	16%	£250m
Birmingham CC	29.6%	£900m
Warwickshire CC	4.4%	£250m
New Cross Hospital Wolverhampton	22%	Not available
Worcestershire CC	2.5%	£240m

6.2.2 The West Midlands Procurement Pilot Project

As mentioned in the previous chapter, in response to a report produced by the Better Regulation Task Force and the Small Business Council (BRTF and SBC, 2003), the Small Business Service commissioned pilot SME procurement projects in Haringey and in the West Midlands. The West Midlands pilot demonstrated that direct action with SMEs and procurers can increase activity levels (SBS, 2004). Over 500 small firms registered with the web portal advertising public procurement opportunities. By the end of the project, 33 contracts are reported to have been awarded through the portal, 58% to SMEs (21% to those on the pilot). A series of workshops was held, including one for ethnic minority businesses and community representatives. A Regional Supplier Forum was established to encourage communication between large contractors and SMEs and to promote different entry levels

within the supply chain. By the end of the project, 9 main contractors in the region were prepared to open up supply chain opportunities.

The West Midlands pilot made several recommendations. Both SME and procurer engagement are key to the success of such projects. Hence, it was recommended that the potential benefits of public procurement opportunities need to be promoted to SMEs and a national programme of SME training is required to support this. The simplified pre-qualification questionnaire was well received, though awareness raising and training were considered essential for its success. Awareness raising and training for procurers are also needed to improve engagement and the time needed to encourage and develop engagement should not be underestimated.

Despite the positive findings of the West Midlands pilot, changes in the structure of regional economic development and associated staff mobility have meant that few of the 'good practice' recommendations have been mainstreamed:

"I think there were a number of initiatives and training activities, but I get the impression that, rightly or wrongly that a lot of those have sort of just drifted away really. (Economic Development Manager WM9).

There was a general lack of knowledge about the pilot among participants in the current project or about the impact on the supply chains of large private sector firms involved. The main outcome reported by respondents was the West Midlands portal, which is shortly to be migrated to Supply2Gov. Through the portal, local authorities had access to information about local firms, and local firms had access to information about public sector contracts. The portal was also used for inter-trading between firms. There were some criticisms made by respondents on the technical and operational aspects of the portal. It was felt that the ICT infrastructure made the portal unfriendly to use, sometimes resulting in email alerts being misdirected. As a result, there was general perception that the portal was under-used by authorities:

"The portal, in its existing form, is unsustainable, mainly because of the costs of running it and because of the high level of disengagement from the procurement community at local authority level." (Economic Development Manager WM9).

Respondents also noted that the type of small businesses registered on the portal were not always those likely to be used by local authorities, as the goods and services they supply were typically not in demand by public bodies:

“There were 500 suppliers on the portal a majority of which local authorities don’t use; inappropriate suppliers as well – hairdressers and that kind of business.” (Procurement Manager WM4).

6.3 Respondents’ Views about and Experiences of National Procurement Policies.

‘Efficiency’ and Sustainability’ were identified as the main drivers of local public procurement policies and practices in the West Midlands, linked to the Gershon Review and the Action Plan of the Sustainable Task Force. The impact of the migration of public procurement to electronic format, which is backed by the National e-Procurement Project, was also mentioned as a driver by several respondents, as were the impact of community strategies.

Most respondents referred to the pressure to make savings in line with the Gershon Review, as a major driver of procurement policy at local level. Some had recently been notified of their budget settlements, at the time of the interviews, which were less than anticipated thus increasing the need to make savings.

“We have to deliver £1.1 million worth of savings next year so that is a major driver.” (Procurement Manager WM6)

“It’s quite horrendous in the savings that we have to make and it’s certainly going to be a struggle. Unfortunately that can sometimes take the focus of other important issues that we want to deliver. (Head of Procurement WM5).

In order to make savings, respondents felt there was pressure to aggregate contracts in nearly every area and at every level, and to rationalise the supplier base. Many authorities use consortia arrangements such as the Black County Purchasing Consortium and the Eastern Shires Purchasing Organisation, as well as OGC’s Buying Solutions. They suggested that such arrangements saved money through economies of scale and goods and services could be obtained at lower prices. Furthermore suppliers are usually pre-qualified, saving further resources at local level.

One of the major disadvantages of the trend towards greater collaboration, identified by some respondents, is the impact on small local suppliers, particularly in the construction sector, who were reported to be squeezed out of contracts, which they may have bid for previously.

“What we’ve tried to do is rationalise the supplier base. Now it’s sometimes a difficult balancing act, when you look at the EU procurement directives and the Gershon efficiency savings and economies of scale, where does that leave small firms? Cost savings take over.” (Procurement officer WM5)

Among those affected are painters/decorators, small builders, and electrical engineers. Another sector where small local suppliers were thought to be at risk was social care provision; in particular, small domiciliary care providers and carers.

Sustainability was mentioned by many respondents as a major drive behind existing and, more importantly, future procurement policies and practices. Many authorities had a Sustainable Procurement Strategy, a Sustainable Economic Action Plan and/or a Sustainable Community Strategy, or were in the process of developing one. Significantly, public procurement opportunities for small local firms was usually situated within an authority’s sustainability agenda.

“Procurement is about equalities and sustainable development. The aim is to have a mixed economy of service provision and a competitive range of suppliers. This includes small firms, social enterprises, minority businesses and voluntary and community sector groups - The lot”. (Head of Procurement WM7).

The rationale given for local purchasing by respondents varied. In some cases, economic development/regeneration of the local area was emphasised; in other cases, it was to maintain a ‘rural’ way of life; whilst in others, environmental considerations, such as ‘carbon footprint’ and food miles were the main rationale:

“It’s sustainability in the main, environmental and social as well as economic issues in procurement decisions that we make all the time. Local sourcing supports the economy and reduces transport costs – the carbon footprint. (Procurement Officer WM11)

Nevertheless, the specific reasons given for encouraging local purchasing typically stemmed from the need for sustainable procurement; whether it is economic, social and/or environmental. Local authorities are also required by the Local Government Act 2000 to have a community strategy for improving the ‘economic, social and environmental well-being of their area’. In the West Midlands, this requirement was often promoted as part of the sustainability agenda.

The E-procurement agenda was also mentioned by respondents as an influence on their procurement policies and practices. The National e-procurement Project (NEPP) requires local authorities to migrate all procurement processes to electronic format, including tendering and monitoring of contracts. All the authorities interviewed have a corporate commitment to migrating all procurement practices to electronic format in the near future. However, concern was expressed by some respondents concerning the potentially detrimental effect this process would have on supplier diversity:

“Not too long ago the drive was through electronic procurement. The government was focused on reducing the supplier base transactional costs and things like that. But reducing the supplier base actually would appear to conflict with breaking contracts down into lots and having supplier diversity so we never had a supplier diversity policy.” (Procurement Officer WM1).

The Small Business Friendly Concordat (2005) is a voluntary non-statutory agreement, with participating authorities agreeing to make contracts accessible to SMEs (particularly under 50 employees). It commits an authority to aim for a diverse and competitive supply market that includes small firms, social enterprises, ethnic minority businesses and voluntary and community sector suppliers. At the time of the interviews seven authorities had signed up to the concordat, although some respondents felt that the concordat was simply a reflection of current practices within the authority, rather than simply being an agent of change.

“We have signed up to it. It hasn’t changed anything. We had most of it in our strategy anyway, we just updated it.” (Procurement Officer WM 9)

6.4 Local Procurement Policies

The National Procurement Strategy requires all local authorities to have a corporate procurement strategy, which is explicitly linked to their Community Strategy. This must include details of how a diverse supplier base (or ‘mixed economy of service provision’) will be achieved. It must also show how equality of opportunity, as required under the Race Relations Act Amendment (2001), and the Disability Discrimination Act (2005), will be achieved.

The procurement policies of participating bodies were identified from public documents related to both procurement and economic development policies.

These were analysed for references to small firms, BAMEs, diversity and sustainability. In practice, most local authorities had statements about small firms in their procurement strategies though few specifically mentioned BAME businesses. Often the emphasis was on 'diversity', rather than on ethnic diversity per se:

“Procurement will be managed with regard to equalities and sustainable development. Operating a mixed economy of service provision, with ready access to a diverse, competitive range of suppliers providing quality services, including; small firms, social enterprises, minority businesses and voluntary and community sector groups.” (Corporate Procurement Strategy WM1).

“A diverse market means that we have a mixture of public; private and voluntary sector providers. These providers should include local, small and medium enterprises. To achieve such diversity we will seek to encourage a range of providers, including researching what may be seen as barriers within procurement procedures and processes.” (Corporate Procurement Strategy WM5).

Some made specific reference to the Small Business Friendly Concordat:

“The Council recognises the contribution that small businesses can make to the delivery of its services and the role that these businesses play in the local economy. The Council is committed to make the most of the benefits delivered by them and to demonstrate this has signed the Small Business Friendly Concordat.” (Corporate Procurement Policy WM10).

For other authorities, particularly those containing large rural areas, the emphasis was on sustainability:

“The Council’s Procurement Strategy commitment to promote sustainability including consideration of environmental and social alongside economic issues in procurement and investment decisions by seeking appropriate opportunities for local sourcing to support the local economy and reduce transport impacts.” (Corporate Procurement Policy WM12).

Sustainability was emphasised in economic development strategies and community strategies; in some cases, linked to procurement opportunities for small firms. However, concern was expressed by several respondents about

the constraints imposed by procurement legislation on their ability to target local firms:

“The Community Plan aims to promote sustainable communities. Although value for money obligations and procurement legislation does not permit preferential treatment of local businesses and SMEs the Council endeavours to provide as much opportunity and assistance it can.” (Community Plan WM1).

The transition to regionally managed business support is reported to be having an impact on the ability of local authorities to provide support to local businesses. Some respondents fear that this transition also has the potential to restrict the ability of economic development units to work with central procurement teams on joint local purchasing projects:

“Under the old economic development department they had a brief to develop the capacity of SMEs. Now that brief has been taken away and the difficulty we now have is while we might wish to refer to that department to develop local firms, they haven’t got the funding and it’s where do we go?” (Head of Procurement WM5).

“The work here has evolved quite a lot. Most of the DTI funding, it seems to me, dried up or otherwise has been redirected to the RDA and with that the work here has tended to cease.” (Procurement Manager WM3).

Another barrier to linking projects between the procurement and regeneration functions of a local authority is the separation of departmental responsibilities and budgets, which makes it difficult for them to work together, for structural reasons:

“The procurement budget compared with the regeneration budget is obviously much larger; if some of that could be redirected to helping small firms then you’re compensating the regeneration budget. But, what people have said is those two budgets are so separate they don’t have the flexibility to justify that because procurers have to show their balance sheet as well and it wouldn’t wash.” (Head of Procurement WM9).

One of the central arguments underpinning the use of public procurement for regeneration purposes is to increase social inclusion. Six local authorities in the West Midlands have collaborated in an initiative designed to promote

workforce equality and diversity in public sector suppliers. Known as the West Midlands Forum, this initiative includes Wolverhampton City Council, Birmingham City Council, Coventry City Council, Redditch Borough Council, Sandwell MBC, and Walsall MBC (Orton and Ratcliffe, 2003). The aim of the Forum is to develop a common standard for Equality in public procurement for council contractors.

The common standard is a pre-qualification tool to ensure service providers have and implement equal opportunities in employment policy, paying particular attention to the requirements of the Race Relations Act 1976 and the Race Relations (Amendment) Act 2000. Revisions to the Standard in June 2005 took into account gender and disability as part of equal opportunities. The Forum considers that using the Standard addresses many of the requirements of the efficiency agenda, by reducing duplication for both local authorities and suppliers. This is because an approval in one authority is accepted by the other five councils in the consortium. The Forum is sponsored by the West Midlands Centre of Excellence to develop an on-line database via a website.

The Standard requires contractors to monitor their workforce for diversity, to provide diversity training for staff, have mechanisms to deal with discrimination and harassment and to have open and inclusive recruitment practices. Different levels of the Standard apply to firms of different sizes with only large contractors being required to meet all ten conditions. Firms with less than five employees only have to provide assurance that they will meet the standard if the number of employees increases.

It was suggested that there is potential for the Common Standard to extend the use of contract compliance to drive supplier diversity in large contractors. The Standard could include requirements about supplier diversity to ensure that contractors consider local small firms and BAME businesses, using similar arguments to those used in favour of workforce diversity. Currently, however, the emphasis is more on workforce diversity.

6.5 Procurement Practices

It would appear, from the research undertaken, that the practice of using local purchasing or supplier diversity strategies, as a vehicle for local economic outcomes, is dependent on the level of support it receives within an authority, particularly, whether or not there was senior level support. As suggested in the previous section, a strategic link between procurement and regeneration requires high level backing. In such cases, appreciation of the issues at elected member level can be a key influence on whether or not procurement

is used strategically to generate sustainable and economic benefits. Tabling proposals in performance review and/or policy review committees was used as a way of bringing procurement issues to the attention of elected members and chief officers.

A view expressed by many respondents was that goodwill at officer level was essential to link regeneration and procurement but was insufficient if not backed by high level commitment:

“It’s not just a procurement problem. You need to get someone high up in the Authority who’s got some clout and get them to the table. You’ve got a void between the strategic view and what’s physically happening on the ground. Trying to influence the upper tier of the Authority is a major barrier.” (Head of Procurement WM 9)

In order to summarise procurement practices in the organisations studied across the regions, each responding body was categorised on the basis of the level of activity, with respect to practices to diversify their supply base. (Figure 6). The level of activity was also reflected in the extent to which supplier diversity was actually embedded within the authorities (Figure 7). None of the authorities in the West Midlands had a specific supplier diversity policy, though support for small business development and local purchasing were often stated objectives economic development policy.

6.5.1 High Activity Authorities

Authorities in the West Midlands engaged in a high level of activity to diversify their supply bases were typically focused on local purchasing (Figures 6, and 7). Examples included Sandwell, with its ‘Think Local’ initiative and Shropshire and Warwickshire, with their emphasis on sustainability. In the West Midlands, sustainability was a major driver behind existing and future procurement policies and practices. Public procurement opportunities for small local firms were situated within this sustainability agenda, particularly in Shropshire and Warwickshire. The rationale for local purchasing was a combination of, economic development and regeneration contribution; maintaining a ‘rural’ way of life; and environmental considerations, such as the ‘carbon footprint’ and food miles issues.

Shropshire County Council monitors itself against the commitments set out in the Small Business Friendly Concordat. As part of its sustainable procurement initiative, the Council runs workshops for local suppliers that encourage local businesses to tender for public sector contracts. Suppliers, particularly small firms are also briefed on the requirements with respect to

sustainability, as well as social and environmental policies. Shropshire is also involved in specific initiatives in food procurement.

One of the reported national policy drivers emerging from the interviews in the West Midlands is the Government's Strategy for Sustainable Farming and Food. The stated aim of this strategy is to deliver a world-class sustainable farming and food sector that contributes to a better environment and healthier and prosperous communities through, among other aims, more sustainable rural economies and more competitive small and medium sized suppliers. As part of this strategy, the Public Sector Food Procurement Initiative (PSFPI) was launched in 2003, in an attempt to use public sector buying power to help deliver the strategy. One of the PSFPI's five priority objectives is to increase the capacity of small and local suppliers to meet demand.

Figure 6: Activities to Diversify the Supply Base in West Midlands Authorities

Level of Activity	Criteria	Examples of Specific Activities*
<p>High</p> <p>Sandwell Shropshire Warwickshire</p>	<p>High volume of supplier diversity activity.</p> <p>Broad scope of supply diversity activities across the organisation.</p> <p>Systematic monitoring of activities.</p>	<ul style="list-style-type: none"> • Database of local businesses. • Training on supplier diversity for all procurers. • Procurement training for local firms. • Split large contracts into lots (e.g. agency, social care, food, transport). • Prior consultation with local firms on specific contracts. • Relationship management with prime contractors/use of community benefit clauses. <p>Analysis of local spending (including small firms).</p>
<p>Medium</p> <p>Birmingham Wolverhampton Coventry Walsall Worcestershire</p>	<p>Some activities and sporadic initiatives.</p> <p>Tend to be localised to specific sectors/parts of the organisation.</p> <p>Partial monitoring.</p>	<ul style="list-style-type: none"> • Ad hoc initiatives to help small firms. • Ad hoc local purchasing (sector specific e.g. social enterprise/BAME enterprises in social care). • Some supplier information.
<p>Low</p> <p>Dudley New Cross Hospital Wolverhampton</p>	<p>Few activities.</p> <p>No mainstreaming or systematic monitoring.</p>	<ul style="list-style-type: none"> • General meet the buyer events. • Ad hoc procurement workshops for small firms.

* Authorities in each category carry out some but not necessarily all these activities.

Figure 7: Level of Embeddedness of Supplier Diversity in West Midland Authorities

<i>Level of Activity</i>	<i>Authorities</i>	<i>Level of Embeddedness</i>
High	Sandwell Shropshire Warwickshire	Mainstreamed local purchasing. Local purchasing integral to rural economic development. Local purchasing embedded in sustainability agenda.
Medium	Birmingham Wolverhampton Coventry Walsall Worcestershire	Ad hoc, localised initiatives: Undergoing major restructuring. RDA taken over responsibility for small firm development. Localised initiatives in social care, construction, food. LEGI will release funds for supplier analysis and initiatives. Localised initiatives in Health & Social Care. Local purchasing part of the sustainability agenda
Low	Dudley New Cross Hospital Wolverhampton	One-off initiatives: e.g. Meet the Buyer events. Sourcing ethnic food localised at one hospital not strategic across Trust.

A number of local authorities, particularly those with substantial rural catchments, reported setting up initiatives designed to increase food procurement from local producers and suppliers. For example, Shropshire County Council's initiative aims to increase efficiency from grower to eater, meeting the County's sustainability objectives on the environment, social, economic and community benefits.

The procurement team at Shropshire County Council stressed that to engage with local suppliers and producers, advertising alone is not sufficient; proactive engagement is also needed. In this regard, they recommend early engagement with suppliers before the tendering process begins. After identifying potential suppliers, visits were reported to be made to check out processes and products and to raise awareness of public sector procurement opportunities. Information about the size of a contract was important, because of the capacity constraints facing many small firms. As a result, contracts are split into lots, based on locality, to enable small local firms to bid. Using a number of small local suppliers was said to be economically advantageous in some circumstances, in terms of reducing transport costs and food miles. The intention is to roll out these procedures as appropriate. The procurement team pointed out that the process involves a considerable amount of work and additional administration; although it can pay off in terms of 'best value' through increasing sustainability and value for money.

Warwickshire County Council highlighted the need to seek appropriate opportunities for local purchasing to support the local economy and reduce negative transport impacts. The Council has a stated aim to train its entire procurement staff in sustainable procurement and the use of a sustainable purchasing toolkit. The aim of the toolkit is to raise awareness among staff and suppliers of the County's commitment towards sustainable procurement.

The Procurement Unit in Warwickshire County Council is involved in a number of activities to support local firms. Analysis is being undertaken of current trading with local businesses, to provide a baseline for local purchasing. The Council is also involved in E-procurement workshops (with Coventry) to help local firms understand the technical skills needed and the procedures involved in trading with the Council. They also provide debriefing to all unsuccessful bidders, who compete for contracts, in order to help businesses become more competitive in the future. The Council also engages in collaborative procurement with other public bodies, such as the Primary Care Trust to increase trade with local businesses.

Sandwell Metropolitan Borough Council has a number of procurement initiatives targeted at local firms and there is an explicit link between procurement and regeneration. The Council has set up a website for local firms to access information on public procurement opportunities, including

supply chain opportunities. The site is free to Sandwell based organisations and was developed to link major investment in the Borough, planned through regeneration projects, with procurement activities that have potential to make a positive impact on the local economy.

The aim of the initiative is to raise the profile of the Borough's supply chain and generate more business opportunities for local companies. The site includes details of Council tenders and other local authority contract opportunities. If the capabilities of a company in the Directory matches those required they will be alerted by Email of the potential tender opportunity. Companies also have access to supply opportunities posted on the site by local private sector companies.

The website is also designed to encourage and foster inter-trading between Sandwell firms. It includes a portal where businesses can advertise employment vacancies and access a wide range of recruitment services provided by the Council's 'Think Local' initiative. The Website also provides information on the contribution that the procurement activity of Sandwell Council has made to the local economy.

6.5.2 Medium Activity Authorities

Medium activity authorities in the West Midlands include the three city councils: Birmingham, Wolverhampton and Coventry; Walsall Metropolitan Borough and Worcestershire County Council. Several of the medium activity authorities had specific practices tailored to encourage and help small local firms to tender for government contracts, but not necessarily a strategic link between procurement and regeneration. The transition to a regionally managed business support service away from a locally managed service is reported to be having a negative impact on the ability of councils to provide these services locally, and to also link business support explicitly to procurement activity and local purchasing initiatives. At the time of the interviews, a number of ad hoc initiatives were reported by medium activity councils.

Coventry City Council claimed to be actively supports local businesses to tender for local government contracts by providing a range of business advice and information. Comprehensive information on the tender process and contract requirements tailored to the needs of small businesses is available on the Council's website. Small businesses can access advice on regulatory compliance, as well as general business advice. Coventry City Council were recently awarded LEGI funding, part of which will be used to promote local procurement activities. This will include analysis of the supply base and establishment of a matchmaking service to help procurers find local suppliers that are 'fit to supply'.

In conjunction with Warwickshire County Council, Coventry has run a series of workshops for local businesses about local government e-procurement and the impact this will have on suppliers. Businesses are offered advice and training in electronic tendering to encourage more local firms to consider tendering for local government contracts. In relation to BAME businesses, Coventry has carried out an Equality Impact Assessment of business support. Though no identifiable difference was found between BAME and the small firms, objectives have been set to improve data collection and monitoring of BAME access in business support initiatives.

At the time of the interviews Birmingham City Council was undergoing a 'transformation', which will result in structural changes throughout the authority. In the meantime, the Council is engaging with local firms through a number of initiatives including supply chain management.

Relationships with large contractors have changed following the recommendations of the Egan (1998) and Latham (1994) reports on the negative effects of traditional adversarial relationships between contractors and clients in the construction sector. The Egan and Latham recommendations are now widely applied to client contractor relationships across many sectors. Respondents described how authorities now focus on (usually long-term) partnerships with suppliers to deliver services and community benefits. Helping local firms to enter the supply chain is viewed as part of this process.

Birmingham City Council's Construction Partnerships have been promoted by the OGC as exemplar projects in relationship management.¹⁵ One aspect of these partnerships is supply chain management and the use of local suppliers where possible. By using social responsibility clauses in contracts with main contractors, the city aims to encourage supply chain development to include small local firms. Bidders have been required to show how they would support training and the creation of local jobs, together with the development and integration of their supply chain to include local businesses, as part of their corporate social responsibilities. Birmingham is also currently developing guidelines for small firms on procurement processes to increase trading with local firms. All new contracts have 'costed flexibility' to allow consideration of factors other than costs.

The Birmingham Strategic Partnership is a partnership of 25 local organisations, including statutory bodies such as the City Council and organisations from the private, public, community, voluntary and faith sectors.

¹⁵ www.ogc.gov.uk/documents/Birmingham_Construction_Partnership_Case_Study_1.pdf

A report on sustainable procurement, commissioned by the partnership, provides a guide for partners on mainstreaming sustainable procurement practices throughout their organisations, in order to achieve environmental, social, local, and economic and community benefits. A model is presented, in the report, of a Sustainable Procurement Gateway (Figure 8) to aid decision making by procurers about when and how to include sustainability criteria.

Monitoring the uptake and experience of the Sustainable Gateway model by partners would enable the efficacy of this approach to be tested, in moving towards mainstreaming sustainable procurement.

A number of authorities were focusing on procurement in the social care sector, as a way of engaging with local small firms, particularly social enterprises in the voluntary and community sector. In some areas of high ethnic minority concentration, these businesses were often operated by members of the ethnic minority populations they were serving. The aim behind such a strategy is to assist social enterprises to move away from a reliance on public grants, towards a partnership-type arrangement with local authorities. As local authorities increasingly use framework agreements for such partnerships, social enterprises will need to form and manage consortia to enable them to bid for public sector contracts.

In Walsall the Council aims to assist local social enterprises to move away from relying on grants to operate, by forming consortia and entering into partnership agreements. One of the largest areas of its spending is social care and the Council has set up a series of special interest forums to proactively engage with local small firms and social enterprises. To overcome the perceived distrust of the Council by entrepreneurs in these firms an intermediary organisation, the Corporation Black Country Social Care Agency (BCSCA), is used. Procurement staff deliver workshops to relevant groups, providing information on the public sector procurement process. The BCSCA act as a facilitator, providing follow-up training and advice where necessary. The Council's strategy with such firms is to first co-operate, then collaborate and then finally when firms have reached sufficient capability, to work in partnership with consortia through framework agreements.

In Worcestershire, the emphasis is on the links between sustainability and local purchasing. For example, the County Council's Climate Change Pledge advises procurement staff to consider reducing CO2 emissions by searching for local suppliers and locally produced foods. Another initiative, funded by Defra, is focused on sourcing local food for schools with the twin aims of reducing food miles and developing capacity in local businesses. Five Worcestershire schools are part of a national pilot scheme aimed at linking local food suppliers with schools. The schools receive fruit, vegetables, meat, milk and bread products from locally based businesses. The initiative is also

being used by the English Farming and Food Partnership (EFTP), as a case study of farmers and food producers working together to supply primary and secondary foods to the public sector.

6.5.3 Low Activity Authorities

Participating authorities classified as 'low activity' are active in supplier diversity, but only with respect to 'one-off' initiatives, such as in the New Cross Hospital in Wolverhampton, which sources authentic ethnic meals for patients.

Dudley Metropolitan Borough Council reported working closely with local and regional partners, such as the Black Country Chamber of Commerce, Business Link West Midlands, and the Black Country Housing Trust, to provide business support to local firms. Through the Housing Trust, the Councils provide business support to local social enterprises, which includes a number of BAME enterprises.

The Council also works with Dudley Community Partnership, the Local Strategic Partnership (LSP) and the Dudley Economic Development and Regeneration Partnership, which aims to develop contacts with local companies. As part of the Black Country Purchasing Consortium (BCPC), which includes Walsall, Sandwell and Wolverhampton, Dudley has co-operated on a number of contracts to achieve savings through economies of scale. In response to feedback received via Business Link concerning perceived difficulties in contacting local government, the BCPC held a breakfast meeting in 2004 for BAME businesses, attended by over 150 people.

New Cross Hospital has a specific initiative to source authentic ethnic meals for patients. The demand for authentic ethnic meals has been recognised by the NHS at a national level, and a framework agreement put in place for African, Halal, Kosher and Caribbean meals, in August 2005. There are currently eight suppliers to the agreement¹⁶.

At New Cross Hospital, which is part of the Royal Wolverhampton NHS Trust, a project to source authentic meals for patients was launched in response to demand from patients for food that meets religious requirements. Concern over nourishment requirements for, particularly older, African –Caribbean patients led to a similar search for authentic ethnic meals. A special team of advisers from the Asian community and the Wolverhampton City Primary Care Trust's Patient and Public Involvement Forum was called in to help select suppliers.

¹⁶ An analysis of the impact of this agreement on BAMEs is outside the scope of this study.

To qualify to bid for NHS contracts, firms need to be registered with NHS Logistics, or have an NHS audited certificate to supply or be part of the framework agreement. No local firms met these requirements and so the contracts were let to businesses in the North East that were part of the NHS Framework Agreement. The experience of New Cross Hospital indicates that there is a training and accreditation gap for local ethnic minority firms, who have missed out on this public sector procurement opportunity because they lack the relevant certification.

The level of reported procurement activity was typically associated with the extent to which supplier diversity was embedded within a public body (Figure 7). For example, in high activity authorities there was typically recognition at senior level of the link between procurement practices and local economic development, which filtered down through the rest of the authority. This led to pro-active engagement with local firms to encourage them to tender and to help them overcome the barriers created by lack of capacity:

“This is about saving the rural economy, and our members want to know what we are doing to safeguard the local economy and that means small firms because most of them are just that. That means us thinking ahead with contracts. It means breaking them down into manageable lots, manageable for small producers” (Head of Procurement WM11).

In medium and low activity authorities, although there may be ad hoc initiatives to help small firms, there was no strategic link between procurement and regeneration activities led by senior council members. In these authorities, the focus on small firms and procurement tended to be one of passive rather than active engagement:

“I personally never thought it was a problem in actually winning public sector work providing that the service provider or the supplier is prepared to put in some work themselves and to understand how it works. They can look on the website, find out who to talk to...My door is always open...” (Procurement Manager WM4).

6.5.4 BAME-Related Procurement Practices

Respondents were also asked to provide details of any particular initiatives that either directly or indirectly benefited BAME businesses (Figure 8), which were more commonly reported in urban than in rural areas. This is a reflection of the varying concentration of BAME populations in urban and rural local authorities.

Sandwell, Wolverhampton, Birmingham and Coventry have all run procurement workshops for businesses in catering or social services which have included a number of BAME businesses. Along with other partners in the Black Country Purchasing Consortium, Dudley, which has a smaller BAME population than the other urban authorities, ran a breakfast meeting for local BAME businesses to raise awareness of procurement opportunities and the help and advice available through Business Link and other agencies.

Several respondents mentioned the role of Advantage West Midlands (AWM), which has taken over the provision of support to BAME businesses in the region. In future local authorities will depend on AWM to provide business support and advice to local firms. The AWM currently sponsors the West Midlands Ethnic Minority Forum, but there are no specific initiatives targeted at BAME firms in relation to procurement at present.

6.6 Experience of Working with Small Firms

Respondents were asked about their previous experience (if any) in working with small firms, in relation to two specific issues: firstly, the extent to which such experience existed; and secondly, their views about any difficulties of working with small firms.

In terms of the extent of their knowledge of the supplier base, most authorities had carried some kind of spending analysis, although this was usually related to departmental budgets rather than actual suppliers. Therefore knowledge of small business suppliers trading with local authorities was limited. However, high activity authorities typically either had a database of local businesses, or were developing one. In medium and low activity authorities knowledge of local suppliers is more ad hoc with knowledge of local suppliers being circulated by word of mouth:

“If it’s just a small job then I’ll ask around in the department or even contact someone in another council who I know. There aren’t that many local firms that have the capacity- are reliable you know. So I would rather get a recommendation from a colleague than go cold calling and take the risk.” (Procurement Officer WM6).

Anecdotal evidence suggests that small local firms are more likely to be trading with the public sector in certain sectors. For example, several councils use a number of local small builders, many of whom are known and used by several councils. Informal checks between colleagues are used to identify any on-going quality and reliability issues. Small suppliers also include one

Figure 8: West Midlands Procurement Activities benefiting BAME Businesses

Authority	Current practices that potentially benefit BAME businesses
Sandwell BAME population = 20.3%	Split some Health & Social Care contracts into lots opening up opportunities for BAME businesses. ‘Find it in Sandwell’ database of local firms. ‘Think local’ initiative.
Wolverhampton BAME population = 12.2%	Provides procurement briefings at its network for social enterprises, many of which are BAME businesses.
Walsall BAME population = 13.6%	BAME businesses providing social care benefit from training and help with contracts provided by the Council through a social care agency.
Dudley BAME population 6.3%	Breakfast morning through Black Country Purchasing Consortium with for BAME small firms.
Birmingham - undergoing major restructuring. BAME population = 29.6%	B’ham Strategic partnership Sustainable Procurement Strategy includes BAME businesses and local purchasing. Economic development brief now with Advantage West Midlands. Links between supplier diversity and regeneration are in the early stages. AWM sponsors the West Midlands Ethnic Minority Business Forum. AWM funding forthcoming initiatives at the Centre for Excellence in Procurement: Workshops for procurers. Supplier database to include ethnicity
Coventry BAME population = 16%	An Equality Impact Assessment of business support found that although there was no identifiable differential, objectives have been set around improved monitoring and data collection in business support initiatives, including procurement briefings.
Royal Wolverhampton NHS Trust New Cross Hospital BAME population =12.2%	Local to New Cross Hospital : Sources authentic ethnic foods for African Caribbean patients, also Halal and Kosher meals. Though contract not won by a local firm, which lacked appropriate certification.

off consultants in certain niche markets like child protection care or more generic managerial skills. There is a perception in many councils that most small organisations are in social care, including social enterprises and businesses run by people from ethnic minority groups serving co-ethnic groups.

Some councils have used commercial credit rating companies to carry out their spending analysis, which has given them a partial picture of their supplier base. In some cases councils were aware of how much they spent locally and one council had information on small suppliers in the construction sector. Another council is going to use LEGI funding to develop a database of local firms. A group of councils which failed to win LEGI funding had intended to use part of this funding for a joint supplier analysis and to develop initiatives around procurement and regeneration. These initiatives are now on hold due to a lack of funding.

In terms of respondents' views about the difficulties of working with small firms, avoiding risk in procurement practices is a high priority in local authorities, and there is a perception that there is potentially greater risk involved in awarding contracts to small firms than large multinationals:

"I think it's hard for new firms because they don't have a track record, three years' accounts or the insurance cover. It's about risk. Our managed IT service for instance, we just couldn't possibly take a risk with that, because the risk to the council would clearly outweigh the benefit of giving that to a local firm."
Procurement Manager WM8)

Not surprisingly, officers involved in procurement in local authorities prefer to work within their comfort zone, which involves following standing orders and legislation in procurement practices. Diversifying the supplier base, however, involves more than this. It needs resources and strategic leadership to enable procurers to have the confidence to be innovative and make changes in how they go about sourcing new suppliers.

6.7 Private Sector Experience of Supplier Diversity

6.7.1 Introduction

A sample of private sector firms was also included in the West Midlands study to investigate their experiences and views with respect to supplier diversity. This is complementary to the public sector research because it offers some insights into supply chain issues. Respondents in local authorities were asked to suggest firms in the private sector that might be willing to take part in the study, and these firms often provided further contacts. The final sample

included firms with experience of supplier diversity policies, as well as some firms with no such policies.

The sample of 11 firms in the West Midlands provides some insight into the impact of supplier diversity policies and wider equality and diversity policies, such as the West Midlands Common Standard for Equalities in Public Procurement. Construction is one of the largest public spending areas, along with social and health care. The sample included five firms from the construction sector, two from health care, two restaurants and two minicab services (Table 3). The construction sector included two large construction firms, which were subsidiaries of multinational PLCs, with over 1,000 employees; as well as three construction related businesses with fewer than 50 employees. In the health care sector, there was one care home for the elderly and one for disabled residents, which had 12 and 15 employees respectively. In addition, there was an Asian restaurant employing 30 staff; an African Caribbean restaurant with 15 staff; and two minicab providers: one large with 87 drivers and a smaller business with 30 drivers.

In addition to company details, respondents were asked to provide information about the ethnic origins of the owner managers, or directors of the companies. All the owners/directors in the construction sector were White British; the Asian restaurant was owned by a couple from Thailand; the African Caribbean restaurant by a woman from Jamaica; one of the mini-cab firms was owned by a family from Pakistan and the other by a White British man; the care home for the elderly was owned by a couple from the Philippines, while the care home for disabled residents was owned by a man from Jamaica.

Table 3 Profile of Participating Companies

	Sector	No. of employees	Turnover	Main services/products
1	Construction	25	£2.2m	Plumbing specialist
2	Construction	43	£3.3m	Plant hire and renovation
3	Construction	18	£2.6m	Building, renovation, refurbishment and roofing.
4	Construction	1,800	£3.5bn	Housing Development
5	Construction	1,120	£1.5bn	Housing Development
6	Other Services	30	£1.2m	Restaurant providing a range of Asian foods (e.g. from India, Thailand and Singapore).
7	Other Services	7	£350,000	Restaurant providing African-Caribbean food.
8	Other Services	6FT 87 SE	£0.5m	Private mini-cab service
9	Other Services	3 FT 30 SE	£250, 000	Private mini-cab service
10	Health Care	12	£275,000	Care home for elderly
11	Health Care	15	£350,000	Care home for disabled

The rest of this chapter looks at the experience of these businesses in public procurement and with respect to supplier diversity policies and practices. Section two focuses on awareness of supplier diversity. Analysis of procurement policies and procurement practices are outlined in the next two sections, followed by an examination of the experience of these businesses as suppliers to the public sector.

6.7.2 Awareness of Supplier Diversity

Although the sample was not representative, limiting the scope to generalise, there did appear to be correlation between size of business and the level of awareness of supplier diversity: the larger the business the greater the level of awareness. Among small firms, employing fewer than 50 people, there was little awareness of supplier diversity. In contrast, the two large firms with over 1,000 employees had equality and diversity policies in place. These were mainly focused on workplace diversity and driven by head office at multinational level, in response to the Common Standard for Equality in Public Procurement at local level.

The West Midlands Forum, described previously, includes six local authorities. The aim is to develop a Common Standard for Equalities in Public Procurement for Council Contractors. The Standard is a pre-qualification tool to ensure service providers have, and implement, equal opportunities in employment policy, which incorporates race, gender, and disability. All the firms in the construction sector were aware of the Common Standard; four of the five had met the requirements and were registered; and one firm reported it was working towards these requirements, at the time of the interview.

The impact of the Common Standard on workforce monitoring and recruitment practices was mentioned by all the construction firms. In large firms, there was recognition of the need for supplier diversity, as well workforce diversity. This was reported to reflect company policy, although the effect of the Common Standard was to influence how diversity data was reported and also the level of detail.

“The Common Standard is a requirement now for several of the councils here in the West Midlands – we have to comply or else we won’t get the business. So we monitor the workforce and have diversity training – most of that we do anyway – but we have to present it in the right format now...Supplier diversity that is something that is in our policies but it’s not a requirement of the Common Standard.” (WM4 Purchasing Manager 1,800 employees).

“We have always had an equal opportunities policy, but the [this Common Standard] is different. Our policy was rejected first time round. I was amazed. The directors were amazed. But this is much more detailed. We spoke to the council to see what they wanted and they explained about the CRE guidelines so now we monitor staff and recruitment according to CRE. But we don’t monitor our suppliers no. I suppose that will be the next thing. (WM5 Purchasing Manager 1,1200 employees).

In contrast, awareness of supplier diversity in the small and medium sized firms was low and perceived to be of little relevance to them. Instead purchasing decisions were reported to focus on quality and price, rather than other characteristics of suppliers, such as their diversity practices. However, there was recognition that new firms in the construction industry could be a useful source of innovation:

“We focus on quality and price – that is what we are looking for. Also the right materials in this age of environmental concerns that is becoming increasingly important. There are all kinds of new materials in construction – that is the kind of thing we are interested in. Some of these new young companies are very innovative. Their products are very new and I like that it helps us stay ahead. We can learn from them.” (WM2 Senior Partner, 43 employees).

6.7.3 Procurement Policies

Not surprisingly, larger firms were much more likely to have a formal procurement policy than the medium and small firms, reflecting the typical differences between large and small firms with respect to the degree of formality of their management practices. The two large firms in the construction sector had corporate social responsibility policies that included a commitment towards local communities and local businesses. The main drivers of these CSR policies, however, were reported to be sustainable development and environmental concerns, while community and local businesses were secondary:

“We have a corporate social responsibility policy that includes environmental considerations but the community benefits are very important as well. It refers to climate change and supporting a vibrant diverse and inclusive community. That is in our policy. Supporting local businesses as well.” (WM4, Purchasing Manager, 1,800 employees).

There was also awareness in large firms of the link between sustainable development and a commitment to the environment and local purchasing:

“Sustainable development is our main priority in corporate social responsibility. We buy local where possible to show we are aware of the carbon footprint effect. (WM5, Purchasing Manager, 1,120 employees).

The importance of environmental considerations in sustainable development is influencing the whole supply chain and sub-contractors are also increasingly being monitored on their environmental performance:

“Much more emphasis is put our suppliers now on environmental performance and sustainability. We monitor what they are doing.” (WM5, Purchasing Manager, 1,120 employees).

In one small firm, the Common Standard for Equality had led to a new equal opportunities policy for employment, but there was no written policy for procurement:

“We don’t have a written policy not for procurement. We have one now for equal opportunities. for employees and recruitment. We had to have one to pass the Common Standard for some work we did last year for the council. We paid a consultant to do that but it was worth it because now we are on the register for all six councils.” (WM 1, Owner Manager, 25 employees).

In contrast, for most small and medium sized firms, a formal policy for procurement was not a priority, because it was not a requirement for either their public sector or private sector clients. Instead procurement was reported to be informally driven, by ad hoc needs:

“My purchasing policy is in my head. The IT system was the biggest outlay so I shopped around for that. Now it’s mainly stationery and that’s mail order for convenience.” (WM8, Owner Manager 103 staff).

6.7.4 Procurement Practices

Procurement practices were also reported to vary between enterprises of different sizes. Large firms were characterised by more formal practices,

including the use of approved lists, while small and medium sized firms tended to rely on informal practices, such as word of mouth. The large construction firms had supply chain teams which disseminated policy throughout the organisations, via regular meetings, training courses, and intranet facilities. They also operated approved lists which included suppliers that were pre-qualified and meeting the requirements for health and safety, quality, insurance, and delivery times:

“We have an in-house database that’s more than a database it allows us to monitor the performance of our suppliers, and it’s transparent throughout the company so that is an incentive for suppliers to comply.” (WM4 Purchasing Manager, 1,800 employees).

“We use approved lists that are checked regularly and suppliers have to comply with quality, health and safety and environmental requirements.” (WM5 Purchasing Manager 1,120 employees).

Monitoring suppliers’ performance was reported to be continuous and rigorous. Site managers rate suppliers’ performance on each job against a structured list of criteria, which included quality, health and safety and on-time delivery. The percentage rating is then shared with suppliers and their subcontractors, so they know where they are ranked and in which specific areas improvement is required. The aim is to help suppliers to maintain standards.

One source of help for small firms on issues such as compliance is the Centre for Construction Excellence. The Centre also runs Regional Construction clubs, as foci for networking events. An owner of one of the small construction firms interviewed reported signposting a new firm to the Centre for help:

“I had a small business in here not long ago looking for work. They were a new company so I put them on to the Centre for Constructing Excellence for a helping hand. They needed some advice. They had good ideas on new technologies and renewable energy but basic marketing relations I felt they were a bit in ignorance. Construction can be a bit of a closed shop so I advised them to get out and get their face seen more.” (WM2 Senior Partner, 43 employees).

In some cases, sourcing suppliers locally provided the best option for obtaining the most competitive prices:

“We use local suppliers. It makes sense for us. We know who can supply what at what kind of price. We all know each other. It’s convenient and in the interests of our suppliers to keep us happy.” (WM1, Owner Manager, 25 employees).

In the case of the restaurants serving Asian foods and African Caribbean foods, and the residential home for (mainly African and Caribbean) disabled residents, co-ethnic suppliers were used as sources of authentic ingredients for meals. When asked about how potential suppliers were identified, these BAME respondents referred to the use of informal networks, which were forged over time within the ethnic communities, through which trust was built up:

“A lot of our residents like authentic African and Caribbean food so that’s what we provide. We use African and Caribbean wholesalers; there are plenty to choose from. They are well-known in the community, a good friend of mine owns one not far from here. A few years ago it was harder to get supplies but not anymore. We look at quality, cost as well. But we tend to use the same suppliers because we know from experience we can trust them.” (WM11 Owner Manager, 30 employees).

“We have a lot of specialist supplies so we tend to order that from the same company who have a quick turn around on delivery. Then there are local shops that supply the vegetables we need. (WM6, Owner Manager, 30 employees).

6.7.5 Experiences as Suppliers to the Public Sector

Large and small firms reported contrasting experiences as suppliers to public sector organisations. In large firms, the formal organisational resources and procedures for dealing with compliance for public sector contracts gave them an advantage over small suppliers. Small suppliers were more likely to complain about the paperwork involved in public sector contracts, though this was less likely to be an issue in more heavily regulated industries where dealing with paperwork was perceived to be the norm. Large firms can rely on specialised personnel, including lawyers, to deal with compliance in public sector contracts:

“If we want to do business with local councils, which are a very lucrative source of business for us, then compliance is the key. We know we can deliver that’s not the problem but we have to

stay ahead with compliance issues. We have a team of lawyers for that.” (WM4, Purchasing Manager, 1,800 employees).

Private cab hire and residential care are both heavily regulated sectors and owner managers in these cases were resigned to dealing with paperwork related to regulation, as part of their ‘modus operandi’. As firms in these sectors are already accredited by third party bodies, this can save some time when applying for public sector contracts:

“The industry is regulated by the Public Carriage Office and all our drivers have to be licensed by law now so that is what the local authorities are looking for, that you comply with those regulations and are properly registered. Several of the councils and public bodies have an account with us for pickups and deliveries. We also do disabled people and children ferrying them around to day centres and hospital appointments.” (WM8, Owner Manager, 103 staff).

However, the owner of one residential care home emphasised price competition rather than the volume of regulation as the main barrier to securing local authority contracts:

“This is a very heavily regulated industry and since care in the community it is more so: health and safety; insurance liability; malpractice; public liability; employer’s liability; and we even have investor’s in people. And we are inspected regularly and that is always a positive outcome for us. But that doesn’t guarantee us continued business from the local authorities. I think at the end of the day the local authorities make their choice based on price. And that is becoming more so. We have had to put our prices up and we lost two councils because of it.” (WM 10, Owner Manager, 12 employees).

Often though, the paperwork involved in tendering for public sector contracts posed a barrier to owner managers in small firms, who cannot find the time and do not have the skills needed to have the right policies in place. As one owner manager in the construction sector explained, a valuable employee was spending valuable time on courses to learn about compliance, instead of winning contracts:

“The paperwork is becoming harder. There is more of it and it is getting harder to understand. I’m sending my second in command on training courses all the time. The Centre for

Construction Excellence has a lot of these courses and then there is the Chartered Institute of Purchasing and Supply which has some useful information. But he should be out getting business not on training courses. But that is how the industry is changing. The Egan and Latham reports have changed the face of the industry for good. It's all about relationships now – I mean it always was, but now everything has to be monitored.” (WM3 Owner Manager, 18 employees).

Another owner manager of a restaurant, providing a range of Asian foods, has had experience of one-off contracts to supply food for public events. However despite these positive experiences he has decided not to apply to be included on the local authorities standing lists because of the paperwork involved:

“We have provided food for a couple of events in the past [for a local council] and that was very good for us and gave us a high public profile. I thought about going on their standard supplier list but when I saw all the paperwork and policies we needed to have in place I thought to myself it's not worth it.” (WM6, Owner Manager 30 employees).

This sample of businesses in the West Midlands also included a newly formed firm less than one year old, which was a restaurant offering African Caribbean food with 7 part time staff. The owner manager was a young woman, who was a second generation migrant in a family originally from Jamaica. She had recently signed up for a mentoring service with the Heart of England Fine Foods (HEFF), based in Shropshire. This is a regional food group for the West Midlands representing food producers and suppliers, which provides a wide range of services to help local firms. This includes a database of food contracts, including public sector contracts with details of categories and contact details. It also provides distribution and delivery services designed to combine several orders to achieve efficiency for both buyer and supplier.

The ethnic minority mentoring scheme for ethnic minority owned businesses in the region aims to help food and drink producers to develop their business and ultimately exploit the full potential of the UK's rapidly growing ethnic food and drink market. The mentors involved with the scheme aim to share their practical business experience[by supplying guidance in specific areas, for example sales and marketing, staff development, manufacturing, distribution, finance and information technology. The owner manager of the African Caribbean restaurant felt that there were many opportunities in the public

sector that were not being exploited by her competitors because of a lack of knowledge and also because of an insular attitude:

“I believe that there are many more opportunities out there, but many people from my culture do not want to look outside their communities. They are uncomfortable with that idea. But that creates a business opportunity for me. I think this [HEFF] will be a good source of networking for me – I go to all the events and I want to start sending my staff. ” (WM7, Owner Manager 7 employees).

It may be the case that the attitudes of some older first generation immigrant business owners are constrained by their focus on co-ethnic networks, which limit their business horizons. Younger second generation immigrant business owners may be more receptive, in some sectors, to widening their business network to include extra-co-ethnic bodies and public sector bodies.

6.8 Conclusions from the West Midlands

The purpose of this study was to investigate the opportunities and constraints faced by small firms, in general, and BAMEs in particular, in accessing procurement contracts. The emphasis is on public procurement, although since some of the supply opportunities for smaller firms may exist below the first tier contractor level, procurement by private sector companies was also investigated. In drawing conclusions from the evidence presented, particular attention is paid to the enabling and constraining factors affecting procurement in public bodies; the methods used to identify potential suppliers; and the views and experiences of public and private sector organisations in dealing with small firms and/or BAME suppliers.

The main conclusions emerging from the investigation in the West Midlands are:

(i) Multiple national policy agendas affecting procurement in local authorities and other public bodies have varying implications for increasing engagement with small business suppliers. For example, in some sectors, such as the health care sector, small firms report experiencing the negative impact of the need for local authorities to make savings in line with the Gershon Review. In the West Midlands region, efficiency and sustainability appeared to be the main drivers of public procurement policy and practice. One of the effects of the pressure to reduce costs is a trend to aggregate contracts, which is reported to be squeezing out some local firms from contracts (e.g. in

construction), which they may have bid for previously. Sustainability, on the other hand, can encourage the use of local suppliers, since reduced transport distances have implications for the carbon footprint and for food miles.

(ii) Unlike London, The West Midlands includes several authorities with substantial rural catchments and BAME populations that are below the national average. As a result, key national policy drivers identified showed some difference to those emphasised in London. More specifically, environmental sustainability and the needs of the rural economy were commonly mentioned, together with the implications of the Gershon review.

(iii) There was a general lack of awareness of the results of the West Midlands procurement pilot and its specific recommendations. The main exception appeared to be the creation of a regional portal, which is now part of the national Supply2Goc site. However, it was also reported that, for various reasons, the portal was underused, at least by participating bodies in this research.

(iv) Leadership in local authorities on the procurement issue is important, if procurement is to be used strategically. In participating local authorities in the region, the procurement and regeneration functions have separate budgets, managed by different departments. In this context, senior level leadership is essential to bring about strategic change with respect to the use of procurement for regeneration purposes. More generally, high levels of supplier diversity activity were typically associated with a high level of strategic commitment to it.

(v) Previous research has drawn attention to the need to take steps to build the capacity of small firms with respect to their 'fitness to supply', with implications for their business support needs. But in this regard, evidence from the West Midlands suggests that the transition to regionally managed business support and the rationalisation of the Information Diagnostic and Brokerage service offer, through the government's business simplification plan, is making it more difficult for public organisations to increase supplier diversity. It was suggested that rationalising business support services conflicts with needs identified in the region to provide specific support for ethnic minority groups, such as language support; and help and advice in raising finance, particularly for aspiring African –Caribbean business owners.

(vi) Increasing supplier diversity requires training and accreditation of potential suppliers, as well as a review of procurement practices and procedures. For example, qualification requirements for sub-contractors in the construction sector are high and some firms need targeted training, particularly where English is a second language. The Centre for Construction Excellence provides training and advice for small firms and there is the opportunity for

specific training targeted at BAME businesses on compliance issues, in areas of high BAME concentration. The Regional Clubs can also provide networking opportunities for new and BAME businesses. The example of the Heart of England Fine Foods mentoring scheme for ethnic minority businesses is one which potentially could be replicated in other sectors, such as construction.

(vii) Previous research has also drawn attention to the opportunities that can exist for small firm and BAME suppliers below the level of prime contractors. In this regard, the West Midlands Common Standard in Equality can potentially drive forward supplier diversity in the corporate sector. Currently focused on workforce diversity, the Common Standard could be extended to include a requirement for supplier diversity

(viii) One of the most basic and recurrently reported constraints on increasing supplier diversity in public organisations is a lack of data with respect to the characteristics of existing suppliers, including firm size and location. Without these data, local authorities' efforts to incorporate supplier diversity measures into procurement are hampered by a lack of knowledge of their supplier base.

(ix) In many local authorities, a lack of funding is reported to be the main barrier to mainstreaming supplier diversity, or even increasing it. In some cases, local authorities referred to plans to include such activity within funding bids, such as LEGL, or various EU funds. It was reported that the type of supplier analysis and training provision reported under (v) above can often only be carried out when an authority receives additional funding, which can be allocated towards supplier diversity measures such as one-off European or LEGL funding.

(x) Another potential lever encouraging supplier diversity is the need for main contractors to comply with sustainability and environmental requirements when tendering for public sector contracts. By specifying a reduction of carbon outputs, contractors could be encouraged to use local suppliers to cut down on their carbon miles.

(xi) Co-ethnic business networks in local communities are often used by BAME businesses when sourcing supplies, particularly for ingredients for authentic ethnic meals. This practice creates demand for such products, but may also act as a constraint on supplier diversity, as businesses tend to use the same suppliers. This study has highlighted some of the potential differences in marketing and the use of business networks, between first and second generation immigrant business owners. More research in this area is needed to establish how second generation business owners could benefit from public sector tendering opportunities, and the kind of advice and training they are responsive to.

6.9 Policy Recommendations

- (i) Policy makers at national and regional levels need to provide an unambiguous steer to senior level council executives and non-executive members with respect to the role of supplier diversity and increasing engagement with SMEs, compared with other policy objectives. The current emphasis on efficiency and sustainability as the main drivers of public procurement policy and practice in the region has conflicting implications for small business suppliers. The pressure to reduce costs is leading to the aggregation of contracts, which is reported to be squeezing out some local firms. Sustainability, on the other hand, can encourage the use of local suppliers, since reduced transport distances have implications for the carbon footprint and for food miles.
- (ii) There is a need for a common minimum standard for 'small firm friendly' procurement practices in the region's public bodies, based on maximising simplification and providing information about tenders through channels that small firms and BAMEs use.
- (iii) It is disappointing that the results of the West Midlands pilot initiative are not more widely appreciated by procurement officers in the region. This emphasises the importance of active dissemination of the good practice experience that exists within the region, particularly among those organisations classified as high activity authorities. It is recommended that workshops to disseminate the good practice experience of 'high activity' authorities are run at two levels: firstly, for senior officers/elected members to demonstrate the importance of leadership and the need for co-operation between the procurement and regeneration teams; and secondly, at front line procurement officer level to demonstrate specific procurement practices.
- (iv) Close liaison between the procurement teams in public organisations and Business Link is essential because of the need to increase the capacity of the regions' SMEs to supply. This co-operation should be particularly focused on the needs of small firms and BAMEs. The active promotion of the various networking organisations and business clubs.
- (v) It is recommended that the West Midlands Common Standard in Equality, which currently focuses mainly on workforce diversity, is extended to supplier diversity within the corporate sector.

- (vi) It is recommended that all public bodies in the region prioritise the collection and reporting of data showing the characteristics of existing suppliers, including firm size and location.
- (vii) A significant increase in supplier diversity activity will not be achieved purely by focusing on increasing the flow of information about tenders and simplifying procurement practices, because of the capacity, sectoral orientation and behavioural characteristics of small firms. Many small firms operate in sectors that are not major suppliers of goods and services to public bodies. Moreover, informal approaches to management and attitudes to certification that are common often conflict with the expectations of public bodies with respect to their suppliers. Active promotion of the requirements of a (simplified) tendering process should include those channels and media most frequented by small firms and BAMEs and also include demonstrator cases.
- (viii) Business support practitioners need to raise the profile of public procurement opportunities among BAME businesses in areas of high BAME concentration that can meet the needs of local authorities. Training in the procurement process may be essential for many of these businesses and capacity building initiatives needed to draw more BAMEs in as potential suppliers. Similarly, training and IT support will enable more firms to engage in e-procurement, which is becoming more and more widespread in the public sector.
- (ix) It is recommended that firms registering for the Supply2Gov site are asked to include those data that will enable equal opportunities to be measured.
- (x) Whilst an emphasis on increasing engagement with small firm, in general, rather than narrowly focusing on particular minority groups has some justification, it is important to recognize the heterogeneity of the SME sector, which has implications for their supply potential and the strategies used to engage with them. Specifically, this means that procurement bodies need to work closely with those organizations and networks in which BAMEs actively participate.

7. Research Results from the East of England

7.1 Profile of East of England's BAME Population

The Black, Asian and Minority Ethnic (BAME) population grew considerably in the ten years between the 1991 and 2001 Census, from 5.5% of the population of the UK to more than 13%.¹⁷ The Eastern Region has a slightly smaller proportion (8.6%) of all BME groups than are present in England overall. It has, however, the fifth largest population of non-White British residents in the UK, accounting for just over 7% of all BME residents in England. There is a wide variation in the proportion of BME groups present in the different parts of the region, varying from 35% to only 3.1% (Table 4)¹⁸. The highest proportions of the different ethnic groups are in the large urban areas, particularly Luton.

The percentage of BAME-businesses based in East of England is 6.4%, which is smaller than in the West Midlands (15.6%) and London (36.6%). The percentage of non-BAME businesses based in the region is 10.3%, slightly higher than BAME-businesses (Whitehead et al, 2006).

7.2 Participating Organisations

A total of 12 public bodies participated in the research in the East of England, including 11 local authorities and one NHS Foundation Trust. Face to face interviews were carried out with procurement officers/representatives and in some cases finance, economic development and equality officers during 2006/2007. The amount spent annually on procurement of works, goods and services also varied (Table 4), between £400m (LAE4) and £20m (LAE5).

Most of the responding organisations have a devolved procurement structure where a central team/person oversees large contracts, providing advice to frontline procurers who are responsible for low value contracts.

Most responding organisations did not have information on their supplier base that enabled them to identify the degree of involvement of ethnic minority owned businesses, small, or in some cases local, firms. Therefore, it is difficult to identify the mix of suppliers, with respect to BAME and small businesses. It means that assessing the extent to which these authorities are achieving 'equal opportunities in terms of supply are impossible to determine

¹⁷ If the ethnic categories White Irish and White Other are included.

¹⁸ Review of ethnicity in the East of England. Menter. www.mentor.org.uk

accurately. This contrasts with ‘best practice’ procurement in Luton and other parts of the country, where the supply-base is monitored to include dimensions of local, small and BAME–businesses.

At the same time, procurement practice is not always in line with procurement policy. There are cases where frontline procurers may not follow the specified procedures in procurement and hamper the implementation of procurement policies:

“I bang my head against the wall ... they just re-issue the same tender time and time again and they should be building all these other issues into the tender so that you can actually encourage the market place. We do try and develop market places, but it’s very difficult.” (Corporate Procurement Manager ELA6)

Table 4 Profile of Participating Authorities

Identifier	Percentage of ethnic minorities in local population	Annual procurement spending
Bedford	6.7	£226m
Cambridge	21.5	£38m
Fenland	3.1	£40m
Hertfordshire	11.2	£400m
Huntingdonshire	6.6	£20m
Luton	35	£125m
North Hertfordshire	10.6	£21m
Norwich	6.5	£50-60m
Peterborough	14.3	£90m
Thurrock	7.2	£154m
Watford	20.9	£25m
Luton and Dunstable NHS	Not available	£34m

It was reported that purchasers in service departments do not always ask for support for large procurement activities from the central procurement team and risk breaking the government legislation and EU directives as a result:

“If it’s above OJEU limits they ought to come to us and, you know, sometimes they do and sometimes they don’t.” (Head of Procurement and Client Manager, ELA1)

Some Councils have established a procurement steering group with senior level involvement, to help ease the problem reported above:

“They just do their own thing and we’ve just got to keep getting the message across that you shouldn’t do your own thing. One of the things that I think will really help us will be our procurement steering group because that’s going to comprise Assistant Directors from each of the Directorates and they’re going to meet with us on a monthly basis. So we’ll have the chance to keep talking about these things and talk about procurement issues and then if we find for instance a contract that is being let without our involvement and it’s a significant spend ... then we’ll just discuss it at steering group and we’ll say “Why did you not involve us?” you know, and they’ll be kind of exposed in public over these things.”
(Head of Procurement and Client Manager, ELA1)

7.3 Respondents’ Views and Experiences Concerning National Procurement Policies

The interviews probed respondents’ views on the main drivers of public procurement. Improving efficiency was the most emphasised driver, guided by the Gershon efficiency review, which set an annual efficiency target for local authorities. Some Councils reported being far away from their targets for efficiency savings:

“We haven’t been getting anywhere near our Gershon efficiency saving of 2.5%”. (Head of Procurement and Client Manager, ELA1)

To achieve targeted savings, many authorities use consortia arrangements, such as the Office for Government Commerce’s (OGC) Buying Solutions, the Central Buying Consortium (CBC) and Eastern Shires Purchasing Organisation (ESPO). It was suggested that such arrangements save money through economies of scale, which means that goods and services can be obtained at lower prices. Furthermore, suppliers are also normally pre-qualified saving further resources at local level.

However, the use of consortia arrangements and collaborative contracts were reported to suit large companies, with small and local firms losing out:

“The problem with these big collaborative contracts is they really only are suited to ... all the big companies. Because there are so many big players in the market place the smaller company’s not going to be able to compete. They’ve got big distribution networks like Tesco and Asda, whereas the little chap he’s probably interested in [local areas] and he can’t supply to

London. He can't because he just hasn't got that sort of logistical set-up." (Head of procurement and procurement manager ELA3)

Aggregation of contracts and pressures to make savings put strong pressure on local authorities to reduce their local supplier base, with smaller suppliers most affected, as testified by one respondent:

"We're under ... strong pressures to reduce our supplier base ... that's a big driver – to actually reduce the number ... we're looking to reduce that [number of suppliers] probably by half in the long-term ... They [smaller suppliers] will lose their position in that supplier base" (Corporate Procurement Manager ELA6)

Respondents reported tensions between different government policies, although improving efficiency is typically the dominant agenda, as the following respondent emphasised:

"I think there are tensions in government policy. Anything that comes from the Treasury tends to be talking about price really and anything that's come from previously the [ODPM] and now [DCLG] tends to be political. So there are those tensions there, but when push comes to shove then the bottom line is, you know, savings". (Head of Procurement and Client Manager, ELA1)

"Now sustainability and green and developing local communities are going up the agenda. It's becoming more and more relevant and important, but the bottom line is still the bottom line which is that we are being pressured to save money. So we'll sort of do this but all we're looking at is how much extra it's going to cost us. If it's going to cost us any extra, you know, you have to make a judgement." (Procurement manager ELA5)

Obtaining value for money was typically interpreted to be about achieving the "optimum combination of whole life costs and benefits while meeting the customer's requirement". In addition, Councils are obliged to consider social and environmental aspects, and broader strategic objectives:

"I don't know any procurement departments in any council that is just measured on how much money they've saved ... you've got a variety of things that might mean dealing with local businesses, it might be looking at environmental and sustainability factors, so

it would be a pretty naïve procurement department that just looked at making pound sign savings ... So I would say that most procurement departments are going to take a balanced view.”
(Head of procurement and diversity Manager ELA10)

In practice, to achieve value for money, a set of selection criteria are typically drawn up and used in the tendering process:

“We have selection criteria which are drawn up at the start of the tender process before we see any of the bids come in and that helps us to stay objective about things. It’s not just price; we look at other things as well”. (Head of Procurement and Client Manager ELA1)

One of the most important subsidiary themes to emerge as a driver of procurement policy in the region was E-procurement. Most local authorities were already embarked on the process of migrating their procurement processes to electronic format at the time of the interviews. Some respondents pointed out that the benefit of electronic access to small firms is dependent on them having the necessary ICT equipment and skills. There was concern in some authorities that many small firms may be missing out on public sector opportunities, through a lack of e-procurement capability and trainings and support are keys for successful transition for small suppliers:

“[One London Borough] have introduced an E-procurement system and that drove 11% of their turnover out of the borough because their small local suppliers were severely disadvantaged by the introduction of E-procurement ... what we’re doing is trying to work with the suppliers, with people like the Centres of Excellence, with Business Link, to actually put training on so that those local companies aren’t disadvantaged by the E-procurement.” (Corporate Procurement Manager ELA6)

Most of the local authorities interviewed in the East of England were aware of the new national portal, Supply2Gov: six out of the 12 use it; and the rest stated they would investigate using it. Most local authorities think that Supply2Gov is an excellent initiative, although some disadvantages were also identified:

“People have to pay - contractors have to pay to be on it which it may be a disadvantage and a disincentive.” (Procurement manager ELA2)

“We also go on the Supply to Gov web site. I don’t know how effective that is to be honest because I don’t think enough small

businesses know about it.” (Corporate Procurement Manager ELA6)

Respondents also points out that Supply2Gov, like other initiatives, does not provide demographic information on participating businesses, which would be helpful for monitoring purposes:

“You know, I can’t tell you the demographic that would look at Supply to Gov.” (Procurement manager ELA11)

Several respondents hold the view that small firms are more interested in regional portals (although in practice the site has a regional component:

“It seems to me that the emphasis is more regional than national and I think if you’re thinking about small firms they’re probably more interested in local business anyway ... Supply to Gov – you would think that that would feed off the regional ones anyway, wouldn’t you?” (Head of Procurement and Client Manager, ELA1)

Another national policy driver identified was the ‘Small Business Friendly Concordat’. At the time of the interviews (December 2006 - May 2007), seven out of the 12 responding public authorities in the region had signed up. In one case, the Concordat was being used strategically, as part of the procurement strategy, with the effectiveness of the Compact monitored and improvements made as appropriate. In another case, the Chief Executive signed the Concordat indicating high level support for small and local businesses. One of the reasons given for not signing the Concordat is because of its legality:

“I think the intention behind it [Concordat] is great. It’s just the drafting that we have a bit of a problem with. It’s something I have looked at on several occasions and I may come round to it if someone can convince me that we wouldn’t be breaking the law [on things]. Because some of the undertakings that you have to give are ... I think are difficult to comply with the law and do them.” (Procurement manager ELA2)

Finally, local authorities are benchmarked against a series of best value performance indicators scrutinised, during their Comprehensive Performance Assessment (CPA), which includes an Equality Standard. However, this is a voluntary indicator, although authorities are encouraged financially to work towards its five levels. Effective procurement is another important part of the

CPA and how well the local authorities deal with the local businesses will be audited:

*“The Audit Commission ... would look at the national procurement strategy which has something like about 50 different work streams in it and within that 50 work streams you’ve got a variety of things that might mean dealing with local businesses, it might be looking at environmental and sustainability factors.”
(Head of procurement and diversity Manager ELA10)*

At the time of interview, five responding local authorities were in the process of restructuring their procurement function and up-dating their procurement strategy, for which auditing is one of the major drivers. As part of the business improvement, these authorities aim to achieve next level of CPA status, for example level 3 or level 4. This often provides impetus to better address supplier diversity issues including the needs of local businesses, small businesses, and BAME businesses:

“[We introduced the diversity policy about 3 years ago]. It was part of the equalities unit and their trying to get the equalities standard. I think it’s level 4 on the equalities standard and it was part of that and it was also part of the procurement best value review, which I think was 3 years ago now. Maybe 4.” (Corporate Procurement Manager ELA6)

7.4 Local Procurement Policies

Data related to the procurement policies of participating bodies were mainly obtained from public documents referring to both procurement and economic development policies; and subsequently discussed with respondents in the face to face interviews. Analysis of the policies of responding authorities shows that all but one organisation interviewed had statements about diversity and equality included in their procurement strategies and/or guides for selling to the Council. Examples of such statements include:

“The Council will buy with equal opportunities in mind, and will take into account gender, age, faith, sexuality and disability. This will be achieved through: stimulating competition and the creation of markets ensuring the widest possible range of businesses and suppliers are involved in providing services to the Council; and promoting the local economy giving local business opportunities to tender for contracts.” (Extract from procurement strategy ELA 1)

“We will ensure equality of opportunity to bid for all suppliers – improving accessibility for small and medium sized enterprises (SMEs), social enterprises, ethnic minority businesses (EMBs), the voluntary and community sectors...We will ensure that the council’s policy on equality and diversity are reflected in our contracts and we will require our contractors to comply with this (Extract from procurement strategy ELA 4)

As can be seen from the above examples, the statements tend to emphasise non-discrimination and ‘equality for all’, rather than a positive targeting of black and ethnic minority businesses per se:

“We’re open to deal with anybody and we try and encourage them [under-represented groups] ... It’s that we don’t know who they are. That’s the problem. So we can encourage them, but we don’t know who they are.” (Head of procurement and procurement manager ELA3)

“All of our policies and contracts and the way that we advertise I believe is fair, but it doesn’t promote specifically to diverse groups or minority groups ... I mean I think we’re happy that everything sort of conforms to how it should be done, but whether we actually actively go out and seek a diverse market – we don’t.” (Procurement manager, ELA11)

“But a lot of people I know who run businesses in the ethnic minorities ... they don’t have email, they don’t use email, they don’t go to networking events and therefore they never quite get to hear [opportunities with the Council].” .” (Managing Director, EB9, small firm)

“I think your [council’s] spend should represent the community where you live ... we have a significant Indian and sort of Asian population. So are they represented in our supplier base? I don’t think they are, no. As ethnically owned companies that we deal with, no, that isn’t representative.” (Procurement manager ELA11)

None of the responding authorities in East of England had an explicit and separate supplier diversity or local purchasing policy. Supplier diversity is typically incorporated into other policies and into the tender process:

“We haven’t got a specific policy on this, so what we have got is a policy on equalities more generally. So we cater for that through our standard conditions of contract and through our tender process where as part of that we examine potential suppliers, you know, for their own equality policies”. (Head of Procurement and Client Manager, ELA1)

Other arguments that may work against an explicit and separate supplier diversity policy include:

“We can’t show favouritism [to small firms who are bidding for our tenders].” (Head of Procurement and Client Manager ELA1)

“We’re not giving the small business any extra points for being a small business. You know, we can’t do that.” (Purchasing Consultant ELA4)

Therefore, many respondents felt that future opportunities for SMEs (including BAME-businesses) may lie in reducing barriers for doing business with the local authorities. For example, one of the barriers to tendering for public sector contracts is that bidding is reported to be typically 10-50% more costly than for comparable projects in the private sector, mainly because of the level of detail required and the longer timescales involved. These additional costs can deter bidders, especially new contractors and small local companies, and may also result in higher bids. Some councils recognise these problems and are trying to do something about them:

“The Council will ensure that the costs of [tender for council business] are reduced ... the need to minimise costs for bidders and suppliers will be an important consideration in packaging our procurement requirements.” (Extract from procurement strategy ELA 6)

“I think there’s more of that sort of consideration in contracts – making sure that we’re making it easy for contractors who’ve got queries to ask the questions and trying to simplify the paper work and we’re trying to do that across the board because it’s a major [expense] for suppliers potentially and, for small suppliers it’s even harder.” (Purchasing Consultant ELA4)

All respondents felt that procurement is higher profile than it was in the past. It is now seen as an important vehicle for achieving the wider objectives of local authorities, including equal opportunities, environmental sustainability, and local economic regeneration/development among others. For example, one

of the procurement strategies makes reference to 'reducing deprivation' and 'economic regeneration', which are two of the Council's strategic objectives:

"The Council's commitment ... in its roles as a major local employer and facilitator of local employment ... will play a part in the process of reducing deprivation in [the area]." (Extract from procurement strategy ELA6)

"The Council's view is that local businesses/sub-contractors should be given every opportunity to win Council business in open competition and the Council will undertake a pro-active approach to providing information on contracts to local as well as national and international business in order to provide a significant amount of work to businesses in [the surrounding area] who can offer the Council value for money." (Extract from procurement strategy ELA6)

The implementation of wider objectives as referred to above often requires close cross-functional cooperation between those responsible for procurement and the regeneration team, as explained by the respondent of the above local authority:

"We work very closely with our regeneration team, who are on the floor below us, around targeting disadvantaged wards and wards of high unemployment within the borough. For instance we've got a contract for temporary staff, temporary agency staff, and as part of that we actually monitor which areas of the town or outside of the town that those temporary staff are coming into because what we try and do is convert temporary staff to permanent staff. So that is a way of getting people from those areas of high unemployment and deprivation into the workforce and into the work place". (Corporate Procurement Manager ELA6)

Overall, the results show that procurement is higher profile than in the past and often used as a vehicle to support the achievement of wider Council objectives. However, in practice, there are early starters in supplier diversity activity with well embedded procedures and cross-functional co-operation, alongside relative newcomers trying to install procedures and establish cross-functional co-operation to bring about change in the way that procurement is undertaken. Change is always difficult and this is made worse for procurers by the time and resource pressure they are under. The specific priorities for

procurement vary between authorities, with some attaching high importance to engaging with BAME businesses:

“Generally we don’t have a supplier diversity policy in procurement ... we have a sustainability policy ... the majority really we focus on is environment, but we’re just trying to switch focus for sort of local economic growth and ensuring that we achieve that.” (Procurement manager ELA11)

“Ensuring that BME businesses have access to Council contracts is an important priority for the Council.” (Extract from Race Equality Scheme ELA10)

Some councils recognise financial incentives to implement/improve their practices of equality and diversity:

“Yeah, there is a trigger [for current equality and diversity programme] and it’s the Equality Standard for Local Government ... I mean in line with achieving the levels of the Equality Standard for Local Government there’s funding involved and there’s grants given for the levels of attainment that you achieve so that the better that your council is operating, the more central government funds it will get. So that’s an incentive if you like. That’s the carrot.” (Head of procurement and diversity Manager ELA10)

“The Audit Commission come round and do their comprehensive performance assessment of the Council ... and procurement was highlighted as a weak area. So I think that’s one driver for it [current procurement programmes].” (Procurement manager ELA8)

Just three responding councils made specific references to BAME businesses, either in public documents related to procurement, equality and/or diversity, even though all of them have statement about equality and diversity in general. Some Councils seek tend to reach out to BAME businesses through social enterprises:

“Social enterprise and social enterprise people – I do quite a lot of work with them and a lot of those will be SMEs and BMEs.” (Procurement manager ELA2)

Finally, as in the other regions, there is evidence that policies may not always be fully implemented, resulting in gaps between local authority's policies and practices:

"If you read the strategy the words are there; the actions at the moment aren't quite with it. The E-Market place obviously is a clear initiative that we're using there and that's as far as it goes I think ... other than that at the moment ... we haven't got any major initiatives [in developing supply chain or supplier diversity]." (Head of Financial Services ELA7)

"We're all under huge pressures of time and budget ... We just haven't got the time and the resource to do it and very often the time scales are very contracted. I bang my head against the wall when I'm trying to develop procurement plans in departments in getting them to think in advance about what's coming up, what they are trying to achieve. And they don't; they just re-issue the same tender time and time again and they should be building all these other issues into the tender so that you can actually encourage the market place. We do try and develop market places, but it's very difficult." (Corporate Procurement Manager ELA6)

7.5 Procurement Practices

To combat the potentially negative impacts of the National E-Procurement Project on small firms, an electronic portal (the Hertfordshire and Luton Marketplace) was created to enable all authorities in Hertfordshire and Luton to interact with suppliers and share best value contracts. In addition it gives smaller and local suppliers the opportunity to interact with authorities electronically without major investment.

As in the other regions, responding organisations in the East of England were classified into three groups, based on the level of supplier diversity activity (Figure 9). The level of embeddedness of supplier diversity in the authorities is also classified into three groups in relation to the level of activity (Figure 10). An analysis on procurement practices that potentially benefit BAME businesses was also carried out (Figure 11).

7.5.1 High Activity Organisations

High Activity authorities had typically mainstreamed or taken steps to mainstream, supplier diversity procurement practices throughout the organisation. There is only one local authority in East of England, Luton, which was classified into the high activity group, according to the definition presented in section 4. As identified in the London, as a high activity authority, Luton has a large local BAME population of 35%.

The key factors that distinguished Luton from other authorities are:

- An analysis of spending including the impact on local small firms
- In-house training of front-line procurers on the aims of supplier diversity and relevant practices.
- Monitoring the impact of supplier diversity procurement practices.

The respondent from Luton estimated that 45% of the Council's supplier base is local. It is also the only responding authority that collects information about the size of the firm and the ethnicity of business owners in their pre-qualification questionnaire. Further procurement practices for supporting local and BAME businesses in Luton include:

- Putting local employment and training clauses in tenders so smaller firm get sub-contracting opportunities
- Making the supplier base more representative of the community it serve
- Working with the corporate equalities team to develop more robust procurement policies and practices around equality issues including ethnicity
- Running workshops to help local small business to sell to the Council
- Monitor suppliers by ethnicity
- Use of Supply2Gov
- Organising 'meet the buyer' events and training workshops to help local firms do business with the council.

7.5.2 Medium Activity Organisations

Medium activity authorities engaged in fewer supplier diversity activities than those in the high activity group. These were typically limited to specific sectors/initiatives, which tended to be ad hoc rather than mainstreamed throughout the organisation. They also tend to have a less comprehensive monitoring system than the high activity group. However, some of these authorities have plans in place to mainstream these practices in the future.

Most of the medium activity authorities are currently engaged in some form of small business orientated procurement initiative. Hertfordshire has a Small

Business Initiative; Fenland has Open for Business; Huntingdonshire has Huntingdonshire 4 Businesses, which finds funding opportunities for local firms and also Think Local, which promotes local craft and food producers. North Hertfordshire has a Town Centre Initiative; Norwich has Buy Local; and Thurrock has a Local Business Initiative.

Most of the medium activity authorities have, or are going to have, a section on their website on Selling to the Council. Other typical practices include:

- Organising events, such as 'meet the buyer' and workshops for small and medium sized enterprises to help them to do business with the public sectors
- Relevant staff attending courses on how to deal better with SMEs
- Tender opportunities being published on the Council's website

To help small and medium sized enterprises to do business with the public sector, Hertfordshire has designated staff to look after them. The Council also organised events, such as 'Get Ready for Public Service Contracts' for BAME enterprises in the county, organised in conjunction with the ethnic minority business network.

Four out of the six the medium activity authorities signed up to Small Business Friendly Concordat.

Four out of the six medium activity authorities analyse their spending and supply base, from which they can estimate local spending, but the other two did not have information to enable them to undertake the analysis, although there are plans in place to develop a process to monitor contracts. For example, Norwich has planned to monitor contracts in terms of supplier satisfaction, adherence to Councils policies, including equality and diversity.

Some responding Councils are in the process of developing policies and monitoring procedures to make sure that equality and diversity requirements are observed. For example, Thurrock is developing an equality plan with a strong monitoring process. With effective implementation of the newly designed policies, Thurrock is on track to mainstream supplier diversity. Thurrock was reported to have a long history of supporting local businesses, since a local business initiative was set up a decade ago. As a result of the adoption and implementation of this initiative, the value of work awarded to local business is reported to have increased from 9% up to 26%, together with substantial savings in the area of procurement.

For some respondents, the future for local small firms winning Council's contracts lies in co-operation between firms, in order to benefit from external

economies of scale. For example, Huntingdonshire encourages consortium tendering.

North Hertfordshire carries out an analysis of expenditure each year with an external consultant. Using post code and other functions of the consultant's software, the Council is able to present spending analysis including local spending, spending with local small firms among others. It estimated that 50% of their spending is with local firms.

Norwich City Council set up its procurement department only a few months before the interview. A comprehensive performance review highlighted procurement as a weak area and the need for more co-ordinated procurement was identified. Since then, the Council has developed a comprehensive procurement strategy, which can be seen as a plan to mainstream supplier diversity. Furthermore, there is also a Buy Local initiative in Norwich that was recently awarded LEGL funding. The objectives of Buy Local are:

- To help local, independent businesses to thrive by increasing their number of customers
- To inform businesses and the public about the economic, environmental and social benefits of buying from local, independent businesses
- To encourage the public to buy goods and services from local independent businesses.

7.5.3 Low Activity Authorities

Low Activity authorities engage in few supplier diversity activities, with no supplier diversity practices mainstreamed across their organisations. Supplier diversity activities tend to be either ad hoc, and/or lacking resource allocation and infrastructure and/or are still at the planning stage. At the same time, considerable goodwill was often expressed towards supplier diversity at the officer level, but a lack of resources and low priority given to supplier diversity prevented this being carried forward in practice. Resources were not allocated because there was no strategic focus at senior Council level on supplier diversity, and/or on using procurement as a vehicle for regeneration. Competing priorities such as the environment, and the need to make savings were the main drivers behind procurement practices in these cases.

Low activity authorities were:

Bedford, which had a strategic focus on sustainable procurement, with an emphasis on achieving the Council's efficiency objectives. To achieve these objectives, Bedford procurement function has been recently restructured. For

Figure 9: Levels of Supplier Diversity Activity in East of England Authorities

Level of Activity	Criteria	Examples of Activities*
<p>High</p> <p>Luton</p>	<p>High volume of supplier diversity activity.</p> <p>Broad scope of supply diversity activities across the organisation.</p> <p>Systematic monitoring of activities.</p>	<ul style="list-style-type: none"> • Database of local businesses. • Training on supplier diversity for all procurers. • Procurement training for local firms. • Split large contracts into lots (e.g. agency, social care, food, transport). • Prior consultation with local firms on specific contracts. • Relationship management with prime contractors/use of community benefit clauses. • Analysis of local spending (including small firms).
<p>Medium</p> <p>Fenland Hertfordshire Huntingdonshire North Hertfordshire Norwich Thurrock</p>	<p>Some activities and sporadic initiatives.</p> <p>Tend to be localised to specific sectors/parts of the organisation.</p> <p>Partial monitoring.</p>	<ul style="list-style-type: none"> • Ad hoc initiatives to help small firms. • Ad hoc local purchasing (sector specific e.g. social enterprise/BAME enterprises in social care). • Some supplier information.
<p>Low</p> <p>Bedford Cambridge Luton and Dunstable NHS Trust Peterborough Watford</p>	<p>Few activities.</p> <p>No mainstreaming or systematic monitoring.</p>	<ul style="list-style-type: none"> • General meet the buyer events. • Ad hoc procurement workshops for small firms.

Figure 10: Degrees of Embeddedness of Supplier Diversity in East of England Authorities

Level of Activity	Authorities	Level of Embeddedness
High	Luton	<ul style="list-style-type: none"> Mainstreamed local purchasing.
Medium	Fenland Hertfordshire Huntingdonshire North Hertfordshire Norwich Thurrock	<p>Ad hoc, localised initiatives:</p> <ul style="list-style-type: none"> Supporting local business is part of the sustainability agenda Dedicated staff for SME sector and high level support for local businesses Local business initiatives - promotes local craft and food producers Initiative to support market town Undergoing major restructuring, buy local initiative and strategy in place to support local businesses Local business initiatives – currently developing strategy to better support local purchasing
Low	Bedford Cambridge Luton and Dunstable NHS Trust Peterborough Watford	<p>One-off initiatives: e.g.</p> <ul style="list-style-type: none"> Meet the Buyer events – current focus is on efficiency savings. Attend Meet the Buyer event as buyer Initiative of sourcing ethnic food Current focus is on efficiency savings Lack of resource for a supplier registration system and have not signed up to small business friendly concordat

Figure 11: East of England Procurement Activities Benefiting BAME Businesses

<i>Local authority</i>	<i>Current practices that benefit BAME businesses</i>
Bedford BAME population = 6.7%	Financial support to organisations providing advice and consultancy to local ethnic minority firms and networks.
Cambridge BAME population = 21.5%	Work with social enterprise and social enterprise people – a lot of those will be BAME businesses.
Fenland BAME population = 3.1%	Supporting social enterprises, a lot of whom are ethnic minority firms.
Hertfordshire BAME population = 11.2%	Procurement training event for BAME businesses in conjunction with ethnic minority network.
Luton BAME population = 35%	Making the supplier base more representative of the community it serves. Monitor suppliers by ethnicity.
Norwich BAME population = 6.5%	Develop a process to monitor contracts, e.g. to include, supplier satisfaction, adherence to Council policies (equality and diversity), etc
Thurrock BAME population = 7.2%	Developing an evaluation matrix for selecting supplier that incorporates all the relevant factors, for example relating to equality and local economy.

the newly established procurement team, the current priority is to put essential infrastructure in place (e.g. implementing Supplier Relationship Management (SRM) system and a category review programme), before tackling supplier diversity:

“We’re quite an immature team in the sense that we’ve just got lots and lots of work to do and so we have to do things in the right kind of priority order and some of these things we can only put in place when we’ve put some of the underpinning, essential infrastructures and we haven’t really got that.” (Head of Procurement and Client Manager ELA1)

Due to a lack of infrastructure, the Council has little idea how much of their procurement is going to small suppliers. At the same time, Bedford Council does have several ad hoc initiatives for supplier diversity, including a ‘Guide for Suppliers’ on their website; events such as ‘Meet the Buyer’ for local firms; and sponsors a network of local and ethnic minority businesses.

Cambridge City Council declared that it supports and facilitates the local economy through the use of SME, including ethnic minority businesses, by, advertising tenders on websites, working with the economic development manager to facilitate (with legal constraints) direct or indirect participation of SMEs in Council procurement opportunities. The Council also attends ‘meet the buyer’ events to promote procurement opportunities to local firms; and has been monitoring its local spending. About 60% of its suppliers are reported to be small businesses. The Council has not signed up to the Small Business Friendly Concordat due to concern for the potential legal implications. At the time of the interview, there are no specific business initiatives taking place.

Luton and Dunstable NHS Trust does not have a supplier diversity policy nor has a relevant statement in their procurement strategy. At the time of the interview, there is no evidence of supplier diversity initiatives, although there was a report on sourcing and providing religious and cultural meals. This, however, is not viewed as a supplier diversity initiative.

Peterborough’s procurement strategy defines its key objectives according to its level of priority – high, medium and lower. It states that the level of priority is lower for building the capacity of smaller suppliers and voluntary and community organisations through economic development activity, including support to get online. At the time of the interview (April 2007), the procurement department of Peterborough was restructuring and was planning to put relevant infrastructure into places. Its priority is efficiency savings:

“The Council is committed to saving £7m of its annual budget. The role of procurement is contributing about £2m towards that overall

saving and there is political commitment to keep the Council tax down.” (Procurement project director ELA9)

Although the priority is lower for supplier diversity than some other objectives, the Council has several initiatives aiming to support local small businesses, including information on Council tenders and contracts on the website, a portal for tender opportunities. In addition, an ad hoc procurement day was organised to help local small firms to encourage local small businesses to become involved in the regeneration and growth of the city. They had also signed up to Small Business Friendly Concordat, but no monitoring of implementation was undertaken.

Watford has a strategic focus on sustainable procurement, and the emphasis has been on the environment, but the Council is just trying to switch for local economic growth. The Council does not know how much of their procurement is with local firms. It does, however, have several initiatives to support local small businesses, including information on Council tenders and contracts on the website, having small frameworks with local suppliers rather than a large one with large business. The Council has not yet signed up to the SME concordat because financial burdens:

“I felt that to do that we needed a supplier registration system and on cost of administration that would just be a huge burden ... We could probably sign up to 90% of it, but I felt it probably wouldn't be worth signing up to until we could do all of it.” (Procurement manager ELA11)

7.5.4 BAME-Related Procurement Practices

There is no evidence of separate supplier diversity practices specifically targeted at BAME businesses in the region, although. BAME business related procurement practices (Figure 11) were often part of increased engagement with local small firms in general. BAME business related procurement practices were often delivered through voluntary intermediate organisations like ethnic minority forums and faith groups. For example, Bedford, Cambridge, Fenland and Hertfordshire reported that they supported local ethnic minority firms through working with local ethnic minority networks and social enterprises. The most Common BAME business related procurement practice as public procurement training event for BAME businesses.

Several responding authorities have been monitoring the contracts or are in the process to introduce monitoring of contracts, to include an ethnic minority element. For example, Norwich would monitor supplier satisfaction, adherence to equality and diversity among others. Thurrock was developing an evaluation matrix for selecting supplier that incorporates all the relevant factors including equality and local economy.

Luton is the only authority with East of England monitoring its supplier base by ethnicity. According to the respondent, the Council is aiming to make the supplier base more representative of the community it serves. Luton has the highest ethnic minority population (35%) in East of England and is also the only authority classified into high activity group of supplier diversity.

7.6 Experience of Working with Small Firms

In practice, local authorities' knowledge about their supplier base was limited. In most cases, respondents reported that they have insufficient information about their supplier base, but that the Centre of Excellence East should be able to provide information on the size of the firm and the ethnic background of owners. This seems a misunderstanding, because the interviewer was told by the informant in the Centre of Excellence East that they do not have this kind of information either.

Local authorities have the option to buy in this information from credit rating companies, which can provide data on suppliers such as postcodes, turnover and employment demographics. Alternatively, they can undertake the analysis in-house. The latter is time-consuming, but potentially more accurate; the former is expensive.

High activity authority has spent time contacting local firms and BAME firms to build up their own internal database. In medium and low activity authorities, though, there was often a sense of frustration at their inability to collect this data to establish a base point from which to evaluate the need for local/BAME purchasing:

“We’ve got something called Spikes Cavell observatory... unfortunately it doesn’t include all our data because of various ramifications of the system.” (Procurement manager ELA2)

“We try to analyse local firms but the difficulty with local firms is that we know who we’re paying so we always make sure we know [where to pay them]. So we’ve got a postcode for that so we can

do analysis on where we're paying them and you can do some very big, easy stuff on the national firms because they're often fairly obvious who they are and you recognise them and their postcodes give them away because they're not local postcodes. The problem is you've got all the companies ... It's a national firm but we pay the local office, so when you do the analysis it looks like local spend and unless you actually recognise the name ... which is a fairly horrible way of doing it going through lists and lists of names saying "Yeah, that's national, yeah." It's not good and it's very, very hard to pick them out." (Procurement manager ELA5)

"I would not even know where to start on that one [the ethnic backgrounds of the owners] and short of asking and sending out questionnaires ... I mean we did sort of scratch our heads and think 'Well, should we write to everybody and ask them?' but we've done similar exercises in a lot of things and we're lucky to get a third of them to bother to even reply." (Procurement manager ELA5)

Many authorities use framework agreements arranged internally, or use those pre-arranged by the Office for Government Commerce (OGC) and Eastern Shires Purchasing Organisation (ESPO). However, because such agreements are often long-term, these framework agreements can work against small suppliers:

"It seems unlikely given the agenda for efficiency savings and aggregation. I actually foresee that our spend with local businesses will go down ... I just think it's the only way forward for us in terms of meeting our budget and meeting the target that the government and the treasury are setting for us because, you know, where do you find your 3%? You've got to pay less for what you're buying." (Procurement manager ELA5)

Previous research has identified a number of barriers preventing small firms from trading more with local authorities (BRTF and SBC, 2003) (BRTF and SBC, 2003), many of which were mentioned by respondents in the East of England. As well as external barriers created by procurement policies and practices within local authorities, there are barriers within small firms related to capacity and attitudes. Compliance with the regulations on health and safety, quality, equalities and the environment, requires suppliers to be able to demonstrate that they have their own policies in place, which can be an obstacle. Some Councils provide drop-in centres so that small firms can

come and ask questions. Very often the provision of sample documentation was reported to give small businesses a starting point:

“We’re working together with Business Link to provide some sample documentation so that when we’re looking for an equal opportunities policy ‘This is one that ... has all the things we’re looking for.’ ... Take that away and think about it and think about what you could develop for yourself,’ ... rather than starting with a blank sheet of paper.” (Purchasing consultant ELA4)

In other cases, times, an economic development department will provide help in filling in the questionnaire:

“A local company actually came in for us to help them fill the form in and there’s support within the regeneration team to actually go through the forms and fill them in and help them complete the forms. So we do that”. (Corporate Procurement Manager ELA6)

Another barrier is posed by the attitudes of owner-managers who may not easily view local authorities as potential customers. Procurement officers can find it difficult to engage directly with small local suppliers, and BAMEs in particular, for reasons discussed later (section experiences of enterprises). Some local authorities are working with intermediary organisations such as community and faith groups to improve communication and access.

It was also suggested that EU directives may work against favouring local and BAME-businesses in practices:

“The OJEC limits say that we ought to not discriminate against any European member countries or companies within those areas, so we have to give notice of contracts that we’re letting and let them have an opportunity to bid for it. We can’t just ... keep it all within [local areas] ... and help our black and Asian ethnic minority groups and so on”. (Head of Procurement and Client Manager, ELA1)

7.7 Experience of Supplier Diversity in Private Sector Companies

7.7.1 Participating companies

A total of 11 companies based in East of England were interviewed, of which 6 were small companies, 3 medium sized companies and 2 large companies.

The sector distribution of the participating companies is 1 in primary, 2 in construction, 1 in manufacturing, and 7 in services.

7.7.2 Awareness of Supplier Diversity

Three of the 11 respondents claimed that they were not aware of any supplier diversity initiative. All of these were small and medium sized companies employing less than 100 people and were experienced suppliers to local authorities, other public bodies, and large corporations. A typical answer was:

*“No, I have not heard about it [supplier diversity] before.”
(Managing Director, EB4, small firm)*

At the same time, 7 respondents reported being aware of supplier diversity initiatives. These included the two large companies, who had heard about supplier diversity, either from their customers, or as a result of their own commitment to social responsibility. Smaller firms attributed the sources of their first exposure to supplier diversity mostly to their own ability to network:

“Quite often the customer will say “What is your strategy for local regeneration? What will be the mix of using local people and your national people? How are you going to help grow and develop new businesses?” So we have to answer those in our tender submissions ... I would say in 70% of the work we do those questions are asked.” (Head of Partnering, EB5, large firm)

“It [using local firms] is very influenced by getting value for money, about having local people delivering local services and it’s also about their track record in that community and whether they are valued and whether they have a good reputation. I would say it’s about that.” (Head of Partnering, EB5, large firm)

“Our suppliers can only come from places the land is suitable for growing ... That happens to be local and most of our suppliers are local and ... You know, that’s why we’re here – to be local to the supplier.” (Director, EB7, large firm)

“I know about the activity [supplier diversity activity] purely because I sit on ... the Local Strategic Partnership Board. I also sit on a number of other Boards which are regional. For that reason I know. Had I been a business, an ethnic minority business, no I would not know.” (Managing Director, EB6, small firm)

“This [getting more ethnic minority involved] is what they’re trying to do. As I said to you, I actually had an email saying “If you want to know or bid for contracts with the ... Council, you know, go to this web site and the information is there.” ... they have my email

address because I use email and I'm versatile in English and I do a lot of networking and I've been in the area a long time so people know me. But a lot of people I know who run businesses in the ethnic minorities – you know, the corner shop, the barber shop or whatever it might be – they don't have email, they don't use email, they don't go to networking events and therefore they never quite get to hear. And when I tried to get Authorities to take business to them they haven't.” (Managing Director, EB9, small firm)

7.7.3 Procurement Policies

None of the 11 responding companies from East of England has a formal supplier diversity policy. One of the two large responding companies reported being uncertain about how supplier diversity can be applied in their particular industry, while the other admitted it has not embedded supplier diversity in its policies, to the extent that it could have:

“I'm not sure how we could apply that [supplier diversity] really to our particular industry.” (Director, EB7, large firm)

“I don't think it [supplier diversity] is embedded in our policies as well as it could be.” (Head of Partnering, EB5, large firm)

Most of the responding companies claim that they practice supplier diversity where they can, although this is typically informal, as shown by the examples below:

“In terms of [using] local [suppliers], we regularly ... invite ... local contractors to come and talk to us, to talk about what they're doing, what they can offer...” (Head of Partnering, EB5, large firm)

“Location is irrelevant to us ... also we don't say ‘What ethnic minority are you?’ to make our business decisions ... it's someone who can work with us and the customer and the customer's customer... it's more the commitment and the work and ability of the joint partnership.” (National Account Manager, EB11, medium firm)

“We buy in from local wholesalers for example, which we use wherever we can.” (Managing Director, EB10, small firm)

Reliance on informal practices of supplier diversity often means that responding companies claim not to deliberately exclude anyone from their supply chain, but rather to operate an equal opportunities policy. At the same time, networking can be important in identifying potential suppliers, because a potential supplier has to be visible to potential customers. Ethnic minority companies are typically less visible due to their limited social circles. In addition, all responded emphasised their preference for long term relationships with suppliers making it difficult for potential newcomers, as explained by one of the respondents:

“To change to another supplier costs time and money ... [also] I’m not taking the risk ... [we tend to use those we are very familiar with] because of less risk. For example ... he [one contractor] did a good job ... so we always, you know, use him.” (Director of Technical Operations & CTO, EB3, small firm)

Supplier diversity is often associated with diversity of employment. However, a diversity policy for employment was more commonly reported than for supplier diversity. This may be due to the fact that it was more commonly requested by clients, especially public sector clients, indicating how pressures from customer/clients are useful in helping with policy implementation:

“We had a big problem on our ethical policy and they [a local authority] said ‘We can’t approve you,’ ... because what they wanted us to do is they wanted us to have a policy on we asked and recognised what people’s racial or nationalities were ... so we produced a racial policy for them somewhere round about April last year.” (National Account Manager, EB11, medium firm)

In terms of perceived benefits of supplier diversity, respondents identified two aspects: firstly, business benefits; and secondly, better company image through practice of socially responsible behaviour. The practice of supplier diversity may contribute to building a good image of the company and potentially increase the customer base:

“Much of our work is very visible, then to actually win your business and to be able to be regarded as a rounded company, then you do need business strategies and business processes that do address some of those areas that you might describe as marginal ... you know, not absolutely critical, but are important and this is an area that’s regarded as being important ... because we do that our customers value that and they in turn continue to

*support us and give us more business. So it's good for business.”
(Head of Partnering, EB5, large firm).*

Several business benefits of supplier diversity were mentioned in the interviews. Firstly, small and local firms tend to be more responsive and reliable:

“The Council rang up and they'd had a problem with a tenant ... this woman said to [my people] ‘Can you do this?’ and we just said ‘Yes, we'll do it. We'll get somebody down now.’ And the reply came back ‘I knew I could rely on you,’ and that is another aspect of it, if you like, is reliability... A local supplier wants to keep its good name locally, doesn't it, whereas the multi-national doesn't really give a tuppenny damn? You know, they've really got no care at all. They'll say “Well, there it is. There's our price list. Take it or leave it,” and that's the end of it, but with a local supplier they always want to maintain their good name.” (Managing Director, EB10, small firm)

Secondly, small companies may offer bespoke solutions to customers, which are not available from big companies:

“We called different companies, we checked with them and basically they did not/could not do what we wanted to do, but this company (small firm) said ‘we can do it.’ (Owner, EB1, medium firm)

Thirdly, small and ethnic minority businesses may also have lower overheads and be able to offer a better price:

“An organisation which employs 20 people has a fairly low overhead and an organisation that employs 300 people who may have a headquarters and slightly larger overheads ... depend on the amount of budget ... we need to be able to do the evaluation ... whether a local supplier can ... do an even more exceptional job and they get rewarded for it. (Head of Partnering, EB5, large firm)

For some industries, the use of local firms is a necessary condition for the business, while for others use of local firms can be part of the requirements of the tender (see Awareness section).

With respect to ethnic minority suppliers, they tend to have better access to ethnic minority communities and businesses and may also be able to better meet the needs of customers from BAME communities:

“They (local Chamber/Business Link) had a little bit of an issue with regards to lack of engagement from ethnic minority businesses. We actually took a proposal to them saying that, you know, we would like to run a pilot mentoring project for the business sector ... we said our strength is working with the black and ethnic minority community ... we delivered ... not only did we deliver and met all our targets, but we exceeded all our targets. (Managing Director, EB6, small firm)

“I’ve worked for the two hospitals and there was a huge problem with food for the minorities. For example, the people from the Indian sub-continent, many of them have curried food and they are vegetarians. So the hospitals were not able to cater adequately for their dietary needs when they were in hospital ... when you go and speak to the patients in their beds they’re still not eating the food because it doesn’t meet their needs ... while [Hindu organisation down the road provides food that] is cooked in a vegetarian way.” (Managing Director, EB9, small firm)

7.7.4 Experiences as Suppliers to Public Sector Organisations

Respondents were asked about their experience in relation to supplying public sector organisations. Only one (medium sized) responding company in the East of England had attended a procurement workshop and also ‘Meet the Buyer’ events as a supplier. The respondent reported finding this kind of event useful in terms to gain extra knowledge or opportunities:

“I’ve done two Meet the Buyer and they’re free and I’ve done one in Newmarket which was very good, but I probably got 10% out of it ... as in extra knowledge or opportunities.” (National Account Manager, EB11, medium firm)

However, reported barriers facing SMEs as suppliers to public bodies included:

(i) Increasingly stringent regulations, which were reported to make it more difficult for small and minority firms to become approved suppliers to large corporations and also the public sector. There are many requirements to be

met for getting on the approved supplier list of companies and public bodies. The approval process was reported to be long and can also be costly for small firms as explained by the respondents of EB5 and EB4:

“They [interested suppliers] would have had to talk to our head of supply chain management to make sure that things are happening [in compliance.] ... They will be approved in terms of health and safety, in terms of quality, in terms of competence.” (Head of Partnering, EB5, large firm)

“One of the things that lots of Local Authorities are asking for now is companies like myself, our personal indemnity insurance ... if you’re going to get this contract your personal indemnity insurance has got to be £2m or £5m ... it’ll cost me £700 for a £2m personal indemnity insurance. If I went for the £5m which some ask for, it’s £1,500. How is a small business supposed to pay that kind of money for insurance? Why do they need it? I think sometimes they put too many barriers up for small firms. There’s too much that exists.” (Managing director, EB4, small firm)

The bureaucracy involved in public procurement was reported to add costs and increase risk. As a result, a small firm may lose interest in supplying the public sector, as testified by the respondents of EB 2 and EB4:

“It [a tender] can be sort of from 40 pages to 90 pages ... it’s taken me sometimes two and half weeks / three weeks ... and that’s a lot of time taken out of ... the business and delivery ... I wouldn’t say the success rate is very high at all ... I’ve written in the past about 6 bids and I would say only one of those was successful.” (Managing Director, EB6, small firm)

“My members find it extremely difficult and not worth the trouble to try to supply to Local Authorities.” (Managing director, EB2, small firm)

(ii) Small firms can also become frustrated with a lack of communication from public sector organisations:

“Some tenders can take me a week to compile. They want this information, that information ... you put it together and it ends up being a document like a telephone book, you know, realistically

and you send it to them and then – unless you ask for feedback – you never get feedback.” (Managing director, EB4, small firm).

Some additional barriers facing BAMEs were also identified. These included:

(i) Insufficient links between BAMEs and both mainstream businesses and the public sector. Ethnic minority businesses were reported to have limited access to mainstream business people and less chance to be referred to large companies and public bodies. This can make it difficult for them to become sub-contractors in a supply chain:

“Public sector organisations, a lot of them when it comes to working with ethnic minorities they don’t know where to start because they don’t have a network ... So if they don’t have a network of ethnic minorities, then how can they access ethnic minority trainers or consultants or small businesses ... majority of the time people will say to me ‘The reason why we don’t contact ethnic minority groups is because we don’t want to offend them,’ and I will say ‘You’re offending them by not contacting them in the first place’ ... And I think therefore organisations / businesses that are mainstream I think unless they have established links with ethnic minorities it’s very difficult for them to source in a sub-contractor that’s ethnic minority.” (Managing director, EB4, small firm)

Business circles tend to be closed and it is difficult for newcomers to penetrate into the supply chain. People tend to do business within their existing business circles, with business acquired mainly by referral, particularly in the case of small firms:

“We don’t do any advertising or anything like that. It’s all recommendation, word of mouth.” (Managing Director, EB10, small firm)

(ii) An inadequate understanding of equality by some procurement officers. According to one respondent, an inadequate understanding of equality and diversity by the procurement officer can work against smaller ethnic minority businesses:

“His understanding was very limited on how he should progress it and in regards of opening up the tender to other people ... I think his understanding of equalities – and full-stop – was very, very poor and I think that can be difficult when you’ve got somebody who’s in charge of procurement of a particular tender, especially of a particular tender, and if they’re not skilled up in equalities and diversity then who are they going to open up the tender to? How are they going to accept and understand differences within the tender? Sometimes ... We talk about best value and I think sometimes it’s a little bit of a red herring because to lots of people best value means the cheapest but that’s not what best value means. Best value means when you’re providing your customers with the choice that they want at a price that is reasonable as well. So it’s not necessarily the cheapest because I’m receiving that service but your service doesn’t cater for me, then where’s my best value?” (Managing director, EB4, small firm)

(iv) Ethnic minority women enterprises may suffer from stereotypical view

The respondent of EB6 believes that the talent and gifts of ethnic minority organisations are not well explored by local authority because of the stereotypical views of some officials:

“Their stereotypical view is, as an Asian woman obviously you should be at home, bringing up the children because that’s your ability, up to that point. So their stereotypical view is that, you wouldn’t have the intelligence to run a business, to deliver projects that are government funded or whatever, because they’ve got this image and understanding of individuals, okay, who fall into certain categories.” (Managing Director, EB6, small firm)

When asked to identify the key success factors involved in winning contracts from local authorities, respondents identified the following:

(i) Lowest price and good systems:

“Well, it’s just filling the form in with all the details they require and you do the quotation ... They [the council] looks for lowest or cheapest for obvious reasons, and they also look at quality, the people they’ll be dealing with, the company ... you can say that our successful rate of tendering 90% ... [because our price is good] and our systems are very good.” (Owner, EB1, medium firm)

(ii) Face-to-face meeting to communicate the advantages of the products

Very often the tender is down to price. If there is a product is more expensive that will not win the tender, it is important to have a face-to-face meeting to get the other competitive factors like quality and environmental friendly cross to the procurers as did the respondents of EB11:

“When you’ve got a tender in front of you which all it says is a document wallet and all you put in there is price per pack, that’s all you can get in ... You can’t give them, you can’t give them the advantages of why you’re more expensive ... What you really need is a face to face appointment with the buyer to say ‘Look, ... We can make you something like that because we’re manufacturers, but it ain’t the same as that.” (Account Manager, EB11, medium firm)

(iii) Word of mouth is considered the most important way of gaining new project. For example when asked if the respondents obtained her businesses mostly through networking, she answered:

“Networking, yes. Well actually a lot by word of mouth. One client will tell another who’ll tell another.” (Managing Director, EB9, small firm)

The contact and relationship sides may come not as easy for minority businesses due to qualitative differences in the composition of the networks within which BAMEs typically operate.

7.7.5 Experience as Buyers

Respondents were also asked about the criteria they take into account in selecting suppliers themselves. All 11 respondents emphasised that they do not take ethnicity of business owners into account in the selection process. Instead, they make their selection on the basis of standard criteria, either formally or informally. These criteria tend to be price, quality, and services including the time factor like delivery. The example below shows the typical attitude among the respondents:

“Quality is always first for our business. Then minimum price ... and deliver in time.” (Director of Technical Operations & CTO, EB3, small firm)

Reliability and being able to work together in a partnership are also important criteria in selecting suppliers:

“It would be reliability and able to work with us.” Account Manager, EB11, medium firm)

7.8 Conclusions from the East of England

The purpose of this study was to investigate the opportunities and constraints faced by small firms, in general, and BAMEs in particular, in accessing procurement contracts. The emphasis is on public procurement, although since some of the supply opportunities for smaller firms may exist below the first tier contractor level, procurement by private sector companies was also investigated. In drawing conclusions from the evidence presented, particular attention is paid to the enabling and constraining factors affecting procurement in public bodies, from a small business perspective; the methods used to identify potential suppliers; and the views and experiences of public and private sector organisations in dealing with small firms and/or BAME suppliers.

The main conclusions emerging from the investigation in the East of England are:

- (i) None of the responding authorities in East of England had an explicit and separate supplier diversity or local purchasing policy. Supplier diversity is typically incorporated into other policies and into the tender process
- (ii) Respondents reported tensions between different national government policies with respect to procurement. Increased supplier diversity and greater engagement with small firms can be hampered by other policy priorities, such as efficiency savings and environmental considerations. The East of England is a varied region in terms of the urban-rural mix between different local authority areas, which affects the procurement policy priorities at a local level.
- (iii) Most of the responding organisations have a devolved procurement structure, with a central team/person oversees large contracts and provides advice to frontline procurers, who are responsible for awarding low value contracts. This can contribute to procurement practice not always being in line with procurement policy. Frontline procurers tend to be risk averse, emphasising cost savings at the expense of other procurement criteria (such as ‘best value’ and the use of social clauses). Some Councils have established a

procurement steering group, with senior level involvement, to help ease this problem.

- (iv) All respondents from public organisations felt that procurement is higher profile than it was in the past. It is now seen by some as an important vehicle for achieving the wider objectives of local authorities, including equal opportunities, environmental sustainability, and local economic regeneration/development. At the same time, achieving these wider objectives requires close cross-functional cooperation between those responsible for procurement and the regeneration team.
- (v) Most responding authorities include some reference to diversity and equality in their procurement strategies. However, this is interpreted in practice as non-discrimination and 'equality for all', rather than a positive targeting of black and ethnic minority businesses.
- (vi) At the time of interviews, almost half the responding local authorities in the region were in the process of restructuring their procurement function and up-dating their procurement strategy, following an equalities standard audit. Responding organisations typically lacked information about their supplier base that enabled them to identify ethnic minority owned businesses, small, or in some cases local, firms. Therefore, it is difficult to assess the mix of suppliers, with respect to BAME and small businesses, in most responding public bodies in the region. It means that assessing the extent to which these authorities are achieving 'equal opportunities for businesses' are impossible to determine accurately. This contrasts with 'best practice' procurement in other parts of the country, where the supply-base is monitored to include dimensions of local, small and BAME-businesses, as it is in Luton.
- (vii) This research identified constraining and enabling factors facing public purchasers interested in diversifying their supply base to include more small firms and particularly BAMEs. A major constraining factor is the need for local authorities to make efficiency savings, in line with the recommendations of the Gershon review, particularly since some responding bodies reported being below target in this regard. All responding authorities hold the view that efficiency savings may work against small firms. To achieve targeted savings, many authorities use consortia arrangements and collaborative contracts, suggesting that such arrangements save money through economies of scale. Furthermore suppliers are also normally pre-qualified saving further resources at local level. The common view is that the use of consortia arrangements and

collaborative contracts are mainly suited to large companies and small and local firms may lose out.

- (viii) As well as external barriers created by procurement policies and practices within local authorities, there are barriers within small firms related to capacity and attitudes of owner managers. One of the main barriers is the procurement process itself and the paperwork needed to make a successful tender. Compliance with the regulations on health and safety, quality, equalities and the environment requires suppliers to have their own policies in place, which can be an obstacle, particularly since management policies and practices in small firms tend to be informal and implicit rather than formal and written. Another barrier is posed by the attitudes of owner-managers who may not easily view local authorities as potential customers. In addition, procurement officers can find it difficult to engage directly with small local suppliers and BAMEs, in particular, because of the nature of the networks in which they operate. This is important because small businesses and BAMEs often succeed in winning low value contracts through networking and word of mouth. Some local authorities are working with intermediary organisations such as community and faith groups. It was also suggested by public sector respondents that EU directives may work against favouring local and BAME-businesses in practice.
- (ix) Most local authorities were already embarked on the process of migrating their procurement processes to electronic format at the time of the interviews. Some respondents pointed out that the benefit of electronic access to small firms is dependent on them having the necessary ICT equipment and skills. Concern was expressed in some authorities that many small firms may be missing out on public sector opportunities through a lack of e-procurement capability. Training and business support are necessary for successful transition to E procurement for small suppliers. Similar doubts were expressed with regards to use of the supply2Gov website by small firms.
- (x) Some additional barriers facing BAMEs as potential suppliers included insufficient links between BAMEs and both mainstream businesses and public sector organisations. Ethnic minority businesses tend to have limited access to networks containing mainstream business people and may have less chance to be referred to large companies and public bodies. In addition, an inadequate understanding of equality on the part of some procurement officers was an additional reported barrier facing

BAMEs. Ethnic minority women enterprises may suffer from stereotypical view.

- (xi) Luton was the only responding local authority in the region that was classified into the high activity, supplier diversity group. The key factors that distinguished Luton from other authorities were its analysis of spending including the impact on local small firms; the use of in-house training of front-line procurers on the aims of supplier diversity and relevant practices; and monitoring the impact of supplier diversity procurement practices. Further procurement practices to support local and BAME businesses in Luton include: putting local employment and training clauses in tenders, so smaller firm get sub-contracting opportunities; take steps to make the supplier base more representative of the community it serve; working with the corporate equalities team to develop more robust procurement policies and practices around equality issues including ethnicity; running workshops to help local small business to sell to the Council; monitoring suppliers by ethnicity; use of Supply2Gov; organising 'meet the buyer' events and training workshops to help local firms do business with the Council. Significantly perhaps, Luton has a large local BAME population (35%).
- (xii) Local authorities have a legal duty to ensure all potential suppliers have equal access to information about forthcoming contracts by using a range of different media. Advertising, however, is mostly published in mainstream newspapers and the use of ethnic minority press and media for advertising is rare.
- (xiii) In private companies, supplier diversity is driven by some combination of the business case, the company's own social responsibility policy and major customers (particularly public sector). However, none of the responding companies in the region reported having a formal supplier diversity policy.

7.9 Policy Recommendations

- (i) Policy makers at national and regional levels need to provide an unambiguous steer to senior level council executives and non-executive members with respect to the role of supplier diversity and increasing engagement with SMEs, compared with other policy objectives. The current emphasis on efficiency and sustainability as the main drivers of public procurement policy and practice in the region has conflicting implications for small business suppliers. The pressure to reduce costs is leading to the aggregation of contracts, which is reported to be squeezing out some local firms. Sustainability, on the other hand, can encourage the use of local

suppliers, since reduced transport distances have implications for the carbon footprint and for food miles.

- (ii) There is a need for a common minimum standard for 'small firm friendly' procurement practices in the region's public bodies, based on maximising simplification and providing information about tenders through channels that small firms and BAMEs use.
- (iii) There is a gap between procurement policies and their implementation, especially with respect to supplier diversity. To reduce this gap, frontline procurers should be trained and enforcement for the implementation of supplier diversity should be required, paying particular attention to acceptable interpretations of 'best value' and 'whole life costs'. Opportunities for encouraging small business bidders in sectors, such as food and catering, health care and IT should receive particular attention.
- (iv) If procurement is to be used as a vehicle for achieving wider objectives of local authorities, such as environmental sustainability and local economic regeneration/development, close cross-functional cooperation between those responsible for procurement and the regeneration and/or environmental sustainability teams is essential. Experience shows it is helpful if a task force/steering groups is established to facilitate this, chaired by a senior Council official.
- (v) Steps should be taken to actively disseminate 'good practice' procurement experience related to supplier diversity within the region. Particular attention should be paid to reducing barriers for doing business with local authorities, by reducing the costs of bidding, providing easily accessible information about tenders (including drop-in centres where small firms can come to ask questions) and simplified qualification questionnaires. Drawing on Luton's experience, additional measures could include putting local employment and training clauses in tenders, so smaller firm get sub-contracting opportunities; running workshops to help local small business to sell to the Council; monitoring the composition of the supply base; organising 'meet the buyer' events and training workshops to help local firms do business with the Council.
- (vi) Responding local authorities did not have sufficiently detailed information about their suppliers to be able to effectively monitor and report their performance, with regards to small, BAME and local firms. Improving the availability of data on suppliers is a priority and

there is experience in the region (i.e. in Luton) that can be used to guide this.

- (vii) Since Supply2Gov does not provide demographic information on registered businesses, it is recommended that demographic information on companies is added.
- (viii) Supplier diversity is often associated with diversity of employment. Since most responding companies have employment diversity policies, which has typically been monitored better than supplier diversity, it is recommended that the implementation of supplier diversity could usefully learn lessons from diversity in employment.
- (ix) In cases where procurement officers find it difficult to engage directly with small local suppliers and BAMEs, it is recommended that the local authority works with intermediary organisations, such as business associations, community and faith groups.

8. Overall Conclusions and Policy Recommendations

8.1 Conclusions

Some of the conclusions to this study of public procurement policies and practices of public bodies apply mainly to specific regions, whilst others are more general. In this final section of the report, we emphasise firstly the similarities in the results from the three regional studies and secondly the differences.

- (i) Differences in the social and economic context of the catchment areas of individual authorities affects their policy priorities, including those driving procurement policy. The urban-rural mix is one element of this; variations in the size of the BAME population is another.
- (ii) Public procurement budgets are a potentially powerful tool for achieving wider strategic objectives of a public body, such as local economic development through increasing market opportunities for small firms, BAMEs or other groups, in the case of a local authority.
- (iii) Most public bodies participating in the study in all 3 regions showed awareness of the need to modify traditional procurement practices, to fit with new national policy agendas. At the same time, it is a common perception that central government is giving mixed messages with respect to supplier diversity and the importance of increasing the involvement of SMEs in public procurement contracts, because of the conflicting aims of some national policies and the implications for SMEs. Clearer guidance is required about how local authorities can use procurement strategically (such as for regeneration) yet still conform to the recommendations of the Gershon review.
- (iv) The strategic use of procurement by public bodies requires clear leadership at a senior level within a local authority or public body, to facilitate co-operation between the procurement and (for example) regeneration teams.
- (v) Even when there is an appreciation in central procurement teams of the wider interpretations of concepts, such as 'best value', concern was often expressed about the attitudes and behaviour of front-line procurers in the rest of the authority. These procurers were perceived to be more risk-averse than the central team and less well-informed about appropriate and acceptable interpretations of 'best-value' and 'whole-life costs'. The exception was the minority of

high activity authorities in each region where the principles and practice of supplier diversity appeared to be embedded across these organisations.

- (vi) There is typically more awareness of the need to increase supplier diversity among procurement officers in public bodies than there is knowledge how best to achieve it. Common barriers identified include:
- Lack of information about the supplier base, including where and how current procurement expenditure is distributed between size of firm, locality and BAMEs and other potentially disadvantaged groups.
 - Competing priorities such as the environment and cost savings;
 - Lack of training for frontline procurers on how to balance supplier diversity and regeneration objectives.

Lack of co-ordination of procurement and other local authority functions e.g. economic development.

- (vii) Where supplier diversity strategies were being used to achieve social outcomes, this was typically backed by senior executives and Council members, thus conferring legitimacy on officers and a resultant allocation of sufficient resources. Respondents stressed the effort and resources needed to engage with small firms directly, even for carrying out a comprehensive supplier analysis. If sufficient resources are not allocated then officers hands are tied.
- (viii) In those public bodies classified as high activity authorities, supplier diversity was embedded across the organisations and a variety of procurement practices are engaged in that can benefit local small firms, including BAME businesses. Monitoring the effectiveness of supplier diversity practices was present in the high activity organisation. Prior to embedding supplier diversity practices throughout an authority, a baseline picture of spending in the local area and the impact on small firms is required to provide the 'market information' and rationale for such an approach. From this picture a case can be built and appropriate practices developed.
- (ix) Most local authorities interviewed are embarked on the process of migrating their procurement processes to electronic format. However, concern was often expressed that many small firms are likely to miss out on public sector opportunities through a lack of e-procurement capability.

- (x) Most participating public bodies are aware of the new national portal 'Supply2Gov' and many are making use of it. In some cases, it is used in an 'ad hoc' way by individual procurers within an authority while others intend to systematically advertise all smaller value contracts. However, some criticisms were expressed about the portal and the additional administrative burden involved. There were also criticisms about the limited information provided about suppliers.
- (xi) There is very little evidence available to demonstrate the impact of supplier diversity practices on the ability of small firms to access public procurement contracts, which is a deficiency at a time when government claims commitment to 'evidence based' policy.
- (xii) Public authorities can take action to ensure that all businesses have equal access to public sector tender opportunities. However, a lack of knowledge about the firm size and BAME composition of their current supply base means that most authorities are unable to take informed actions. Moreover, collecting this information was not perceived as a priority in many authorities, which was often blamed on a lack of resources.
- (xiii) As previous research has shown, there is a need for realistic expectations and targets for public organisations trading with small firms, partly because many small firms are operating in sectors that are not major sources of supply for public bodies, partly because of a lack of 'fitness to supply' in some cases and partly because of a clash between the formal certification/accreditation culture of large organisations (including public bodies) and the informal approaches to management that is typical of small firms.
- (xiv) The vast majority of responding companies do not have a formal supplier diversity policy, but claim to practice supplier diversity informally. The drivers for supplier diversity are both business benefits and part of the corporate social responsibility, although not all responding enterprises were convinced it was advantageous to their business. Smaller firms tend to have small local suppliers and the practice of supplier diversity came easy to them compared to large corporations and the public sector.
- (xv) Where BAMEs are benefiting from increased supplier diversity, this is mainly a result of their concentration in particular localities rather than as a result of proactive targeting. As a result, more supplier diversity events and initiatives that involve BAMEs were found in London compared with the other regions. Within the West Midlands

and East of England, such initiatives were more common in cities and towns such as Birmingham and Luton, where BAME communities are disproportionately concentrated.

- (xvi) Based on our summary typologies, there is a higher level of supplier diversity activity among participating authorities in London and the West Midlands than in the East of England. There are also differences between the regions (as well as within regions between urban and rural areas) in what is being emphasised in procurement policy and practice, which to some extent reflects differences in catchments, as well as varying priority given to social inclusion issues.

8.2 Policy Recommendations

- (i) Policy makers at national and regional levels need to provide an unambiguous steer to senior level Council executives and non-executive members on the importance of supplier diversity in relation to other policy objectives, particularly cost savings.
- (ii) There is a need for a common national minimum standard for 'small firm friendly' procurement practices in the region's public bodies, based on maximising simplification and providing information about tenders through channels that small firms and BAMEs use
- (iii) The RDAs in all 3 regions should take steps to systematically disseminate good procurement practice, which is increasing access to SMEs in all 3 regions. It is recommended that, in each region, workshops are run to disseminate the good practice experience of 'high activity' authorities at two levels: firstly, for senior officers/elected members and central procurement teams to demonstrate the importance of leadership and strategic commitment, if procurement is to be used to achieve an authority's wider policy objectives; and secondly, at the front line procurement officer level to demonstrate specific supplier diversity practices.
- (iv) All public bodies should be required to monitor and publish data on their current suppliers (including firm size, location and BAME status) to enable equal opportunities and other policy targets to be accurately reported. In cases where small firm and/or BAMEs are under-represented, they should also be required to report what steps have been taken during the previous year to engage with these types of firm.

- (v) The leaders and senior officers in public bodies that are seeking to engage strategically with small firms and BAME businesses need to establish mechanisms within their organisations for supporting the procurement team and frontline procurement staff. Otherwise, any initiatives are likely to remain sporadic, with limited lasting impact.
- (vi) Business support practitioners need to raise the profile of public procurement opportunities among small firms, BAME businesses and social enterprises that can potentially meet the needs of local authorities and offer capacity building support to increase their 'fitness to supply'. Training in the procurement process may be essential for many of these businesses and capacity building initiatives need to draw more small firms, BAMEs and social enterprises in as potential suppliers. Similarly training and IT support will enable more firms to engage in E-procurement, which is becoming more and more widespread in the public sector.
- (vii) It is recommended that firms registering for the Supply2Gov site are asked to include those data that will enable equal opportunities to be measured.

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Appendices

Appendix 1: Topic guide for public sector

Thank you for agreeing to meet me.

The SBRC is undertaking a study as part of a European Equal 11 project with Business Link for London looking at the factors that influence the selection of suppliers by public sector organisations in London. The purpose of our visit is to collect information on the influences, practices and policies in relation to procurement. Your replies will, of course, be treated in the strictest confidence.

At the end of the study we will send you a summary of the research findings so you can compare your own experiences with those of other business owners.

Name/Position of respondent

This needs to be a procurement manager or person responsible for procurement.

Name of Local Authority

Address

Interviewer

Date of interview

Introduction

Q1 What do you think are the main drivers influencing procurers in local authorities at the moment?

Q2 What areas (goods/services) do you think that small local firms and SMEs might be able to supply the council?

Do you have framework agreements?

Probe: For which works/services? How long is the average contract?

Do you use collaborative agreements e.g. through OGC Buying Solutions?

Probe: For which works/services? How long is the average contract?

Q3 What is the total value of the LA's procurement spend? (Annually)

Probe: Do you know what percentage of this is spent locally?

Q4 Have you carried out a spend analysis to find out how much the council spends in each works/services area? If so are there any details of this?

Q5 Has the LA carried out a supplier analysis?

Probe: Have you done a full supplier analysis using Spikes Cavell, Exor or another provider?

Do you know, for example:

How many suppliers are used?

How many are micros/SMEs/ large?

What is the ethnic background of the owner and staff? (If known)

Q6 Can you describe the structure of procurement in the LA?

Probe: Is it a devolved model?

Which contracts go through the central procurement team?

Up to what cost threshold can individual departments carry out their own procurement? What procedure do they follow?

Q7 Which departments within the LA have responsibilities for the supplier base?

Probe: Procurement/Economic Development.

How do these departments work together?

Procurement/supply chain practices

I'd now like to move on to some questions about procurement practices.

Q8 How does the LA interpret 'Best Value' when selecting suppliers?

Probe: Ratio of price/quality/other?

Q9 How do officers go about finding suppliers for lower value contracts carried out in individual departments?

Probe: Word of mouth?

Approved supplier list?

Advertising? If so where?

Meet the buyer events?

Other?

Q10 Have you heard of/used the national portal for small firms Supply2Gov'?

If so, what are the advantages and disadvantages of this service?

Q11 Have you heard of/used the OGC's Pre-Qualification Questionnaire (PQQ) specially designed for small suppliers?

What do you think are the advantages and disadvantages of this questionnaire?

Q12 Do you use purchasing cards? If so, how are these used?

Probe: What is the rationale for using them (e.g. convenience/fast payments for small suppliers?)

Q13 What criteria are used to select suppliers for lower value contracts?

Probe: Price/quality/ geographic location/ supplier capacity/reliability

Which is/are the most important criteria?

Is the selection process formalised in any way (e.g. use of metrics)?

Do you supply feedback to small suppliers on improving tenders? If so how is this done (written feedback/face-to-face/phone?)

Q14 Does the LA have any procedures in place to encourage prime contractors to use small or local suppliers?

Probe: Including community benefit clauses in contracts.

Engaging early on with suppliers about using their supply chains to promote equality issues (e.g. by reference to the Race Relations Amendment Act).

- Q15 Do you operate approved supplier lists?
If yes go to Q16 If no go to Q20
- Q16 To which goods/services do the approved supplier lists apply?
Probe: What size firms are included? (Micro/SME/large)
- Q17 What criteria do potential suppliers have to meet to be eligible to be included on an approved list?
Probe: Health and Safety standards, equal opportunities, environmental standards, other?
- Q18 Are you aware what percentage of businesses on the approved lists are:
 (a) Micros
 (b) SME
 (c) BMEs *Probe: proportions for each ethnic minority group.*
 (d) local
If known or else ask respondent to estimate.
If unknown, what information do they collect?
- Q19 What prevents/encourages micro/BME businesses in applying to be included in these lists?
- Q20 What are the main barriers (from your point of view) to increasing the amount of council procurement sourced from (a) small firms, (b) local firms and (c) BMEs?
- Q21 Has anyone in the LA attended any training on efficiency and diversity in procurement? If so, please describe what this entailed?
Probe: OGC's workshops on engaging with small suppliers.
- Q22 Have you heard of / signed up to the Small Business Friendly Concordat?
 If yes, describe what impact this will have on procurement practice in the LA.
 If no, do you intend signing up? (why/why not?) Show checklist (at the end of the questionnaire)

Procurement/supply chain policies

I'd now like to move on to questions about procurement policy.

Q23 Does the LA have any policies aimed at supplier diversity or developing supply chains through large suppliers?

Q24 Are you aware of the Sustainable Procurement National Task Force Action Plan? ('Procuring the Future' DEFRA 2006)

Explain to respondent that it covers economic, social and environmental sustainability, with examples of how to engage with local small firms within the limits set by European and national procurement legislation.

We would also like to speak to medium sized firms where they are interested in widening their supply base to include BMEs. If you know of any such firms we would be grateful if you could put us in touch.

Any other comments?

Thank you and close interview.

Checklist

The following sets out a number of questions to consider when devising a procurement approach or letting a contract. This is only a guideline and assessments should always be proportional to the value of the contracts being let.

a) Procurement approach

1. What will be the likely effect of your procurement approach on Best Value and on the market?

b) Advertising opportunities

1. How easy is it for prospective suppliers to find out about your commercial requirements?

2. Can prospective suppliers find the right contact in your organisation?

3. How will you make sure that the best potential suppliers will know about your contract opportunity?

4. Do you know how to reach them?

5. Are you tapped into the national procurement portal?

c) Capability and financial assessment

1. Do assessments of capability and financial standing take into account the nature of the requirement and risks associated with each supplier?

d) The procurement process

1. Is the procurement timetable realistic?

2. Are requirements clear and output based?

3. Are tender and other documents concise and in plain language?

4. Is it clear how to respond to them?

5. Do suppliers know whom to contact to discuss their concerns and your requirements?

6. Are evaluations based on value for money, not lowest cost?

7. Is feedback always offered, and given where requested?

8. Are supplier lists refreshed regularly and visible?

Small Business Friendly Concordat: Good Practice Guidance

Appendix 2: Topic guide for private sector

1. Introduction

I'd like to begin by asking you a few background questions about the business.

- Q1 In what year did the business start trading?
- Q2 What products and services does the business provide to its customers?
- Q3 Who are your customers – other businesses (large/small), public sector organisations, personal consumers?

Probe: How many customers do you have?

Do you know your customer personally?

What kind of services do you provide directly or as sub-contractor?

How long have you been supplying to the different customers?

Size of your customers

Number (percentage) of BME suppliers (if known)

Do you have regular contacts with your customers?

How is the relationship with customer managed?

Any difficult in maintain the relationship for small firm/ethnic firm?

Percentage of public/large/small customers

How is the relationship developed?

- Q4a Including yourself and any other owners, how many people does the business employ?

Probe: Full/part-time split?

What kinds of jobs do people do?

- Q4b What is the revenue of the company?

Q5 What are the main types of products or services do you buy in to the business?

Q6 Please describe your current suppliers (local/small/large).

Probe: How many suppliers are used?

Do you know your suppliers personally?

What kind of services do your prime contractors sub-contract?

How long have they supplied the business?

Size of firm acting as suppliers

Number (percentage) of BME suppliers (if known)

Do you have regular contacts with your suppliers?

2. Partnering/joint bidding/tendering

Q7 What defines a partnership? Is the Company in partnership with its suppliers/Customers?

Q8 Do you bid/tender jointly for projects with your supplier/customer partners? Can you describe the processes please?

Q9 What are your experiences on tendering for public opportunities or opportunities to supply to plc in terms of time required to prepare the documents?

Q10 what are you experiences in terms of meeting the requirements to tender for public contracts or contracts with plc? Any differences between tendering for public contacts and large firm contracts?

Q11 How are the risks managed when bidding jointly with suppliers/customers?

Q12 How is the profit distributed? Does it relate to short term, long term risks?

3.Purchasing policies/organisation of purchasing/purchasing practices

I'd now like to move on to some questions about how you go about finding and selecting suppliers for the business.

Q13 How do you go about finding your current suppliers? Does this vary according to the type of supplies?

Probe: Word of mouth/ approved supplier list/ other?

Q14 What criteria do you use to select which supplier to use? Does this vary according to the type of supplies?

Probe: Price/quality/ geographic location/ supplier capacity/reliability

Which is/are the most important criteria?

Is the selection process formalised in any way (e.g. use of metrics)?

Quotations: How many quotations you ask for an item/contract?

Or do you have an agreed price?

How many suppliers do you keep for each item/products (single/several suppliers?)

Q15 Do you have a policy to guide purchasing? How is the purchasing department structured? What are the common practices of the purchasing?

Q16 How important do you think supply chain management is to the overall performance of the business?

Q17 What do you understand for 'supplier diversity'? Do you operate a supplier diversity policy or practice informally supplier diversity?

If no go to Q 21

Q18 Please describe the aims of this policy and how it operates in practice?

Probe: ask for details of outcomes, e.g. how many businesses are suppliers.

Q19 How has this policy benefited the business?

Q20 Have there been any disadvantages for the business to have a diversity policy?

Q21 Do you think the company will benefit from a 'supplier diversity' policy or practice?

Appendix 3: Interview codes for public sector in London

Code	Respondent
LLA3	Procurement Manager/Local Purchasing Project Manger
LLA4	Corporate Procurement Manager
LLA5	Procurement & Risk Management Manager/ Procurement Manager
LLA6	Head of Procurement
LLA7	Head of Procurement/Economic Programme Manager
LLA8	Strategic Procurement Manager
LLA9	Head of Procurement/Assistant Director Performance and Procurement
LLA10	Director Sustainable Procurement
LLA11	Head of Procurement
LLA12	Corporate Procurement Officer
LLA13	Head Of Policy, Strategy and Best Practice Unit
LLA14	NHS Foundation Trust Catering Manager
LLA 15	Local Economic Development officer/ Procurement Officer
LLA16	Economic Development and Regeneration Co-Ordinator, Procurement Officer

Appendix 4: Interview codes for private sector in London

	Code	Respondent
1	LB1	Procurement Manager, large firm
2	LB2	Manager Employment Philosophy, large firm
3	LB3	Managing director, small firm
4	LB4	Purchasing Manager, large firm
5	LB5	Manager, small firm
6	LB6	Client Manager, medium firm
7	LB7	Special project director, large firm
8	LB8	Managing director, small firm
9	LB9	Managing director, small firm
10	LB10	Managing director, small firm
11	LB11	Managing director, small firm
12	LB12	Client manager, medium firm
13	LB13	Managing director, medium firm

Appendix 5: Interview codes for public sector in West Midlands

	Code	Respondent
1	WM1	Finance and ICT (Procurement)
2	WM2	Regeneration Manager
3	WM3	Procurement Manager
4	WM4	Director of Finance/ Procurement Manager
5	WM5	Head of Procurement, Special projects advisor
6	WM6	Head of Procurement
7	WM7	Keith Blackwell Business Services Review Manager, Head of Procurement
8	WM8	Procurement Manager
9	WM9	Economic Development Manager, Head of Procurement
10	WM10	Regional Procurement Forum/ Head of Procurement
11	WM11	Procurement Manager/ procurement officer, Sustainability Assistant
12	WM12	Procurement officer

Appendix 6: Interview codes for private sector in West Midlands

	Code	Respondent
1	WM1	Owner Manager, small firm
2	WM2	Senior Partner, small firm
3	WM3	Owner Manager, small firm
4	WM4	Purchasing Manager, large firm
5	WM5	Purchasing Manager, larger firm
6	WM6	Owner Manager, small firm
7	WM7	Owner Manager, small firm
8	WM8	Owner Manager, small firm
9	WM9	Owner Manager, small firm
10	WM10	Owner Manager, small firm
11	WM11	Owner Manager , small firm

Appendix 7: Interview codes for public sector in East of England

	Code	Respondent
1	ELA1	Head of Procurement and Client Manager
2	ELA2	Procurement manager
3	ELA3	Head of procurement and procurement manager
4	ELA4	Purchasing Consultant
5	ELA5	Procurement manager
6	ELA6	Corporate Procurement Manager
7	ELA7	Head of Financial Services
8	ELA8	Procurement manager
9	ELA9	Procurement project director
10	ELA10	Head of procurement and Corporate diversity Manager
11	ELA11	Procurement manager
12	ELA 12	NHS Foundation Trust Catering Officer

Appendix 8: Interview codes for private sector in East of England

	Code	Respondent
1	EB1	Owner, medium firm
2	EB2	Managing director, small firm
3	EB3	Director of Technical Operations & CTO, small firm
4	EB4	Managing Director, small firm
5	EB5	Head of Partnering, large firm
6	EB6	Managing Director, small firm
7	EB7	Director, large firm
8	EB8	Managing Director, small firm
9	EB9	Managing Director, small firm
10	EB10	Managing Director, small firm
11	EB11	Account Manager, medium firm