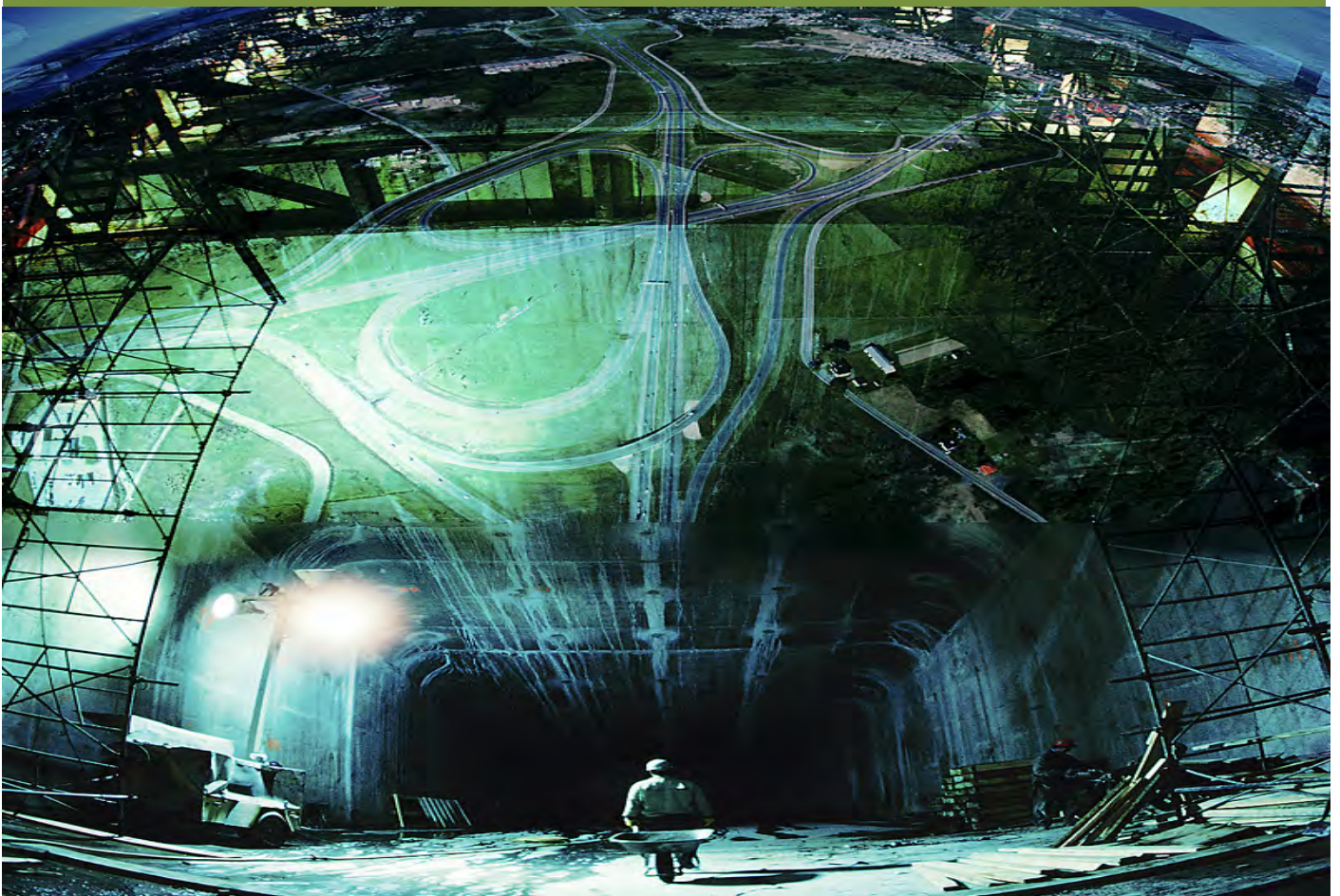


Adding social benefits to public, private and nonprofit sector purchasing and procurement

Social Procurement in Australia



This report was commissioned by **The Centre for Social Impact, University of NSW**

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Produced by Foresters Community Finance

This research project is a joint initiative of:



SOCIALTRADERS



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Disclaimer:

The materials presented in this report are for information purposes only. The information is provided solely on the basis that readers will be responsible for making their own assessments of the matters discussed and are advised to verify all relevant representations, statements and information and obtain independent advice before acting on any information contained in or in connection with this report. While every effort has been made to ensure that the information is accurate, the author and the project partners will not accept any liability for any loss or damage which may be incurred by any person acting in reliance upon the information.

Social Procurement in Australia

Social Procurement:

- Ensuring procurement processes and purchasing power generate social benefits and social impact across public, private and nonprofit sectors;
- Adding the 'social' dimension to sustainable procurement practices so that procurement can truly reflect 'triple-bottom line' thinking.

This report is part two of the Social Procurement project commissioned by the Centre for Social Impact and developed by Foresters Community Finance, in consultation with the project partners.

The first part of the project developed Social Procurement Guidelines for Victorian Local Governments. These guidelines were released by the Victorian Government in October, 2010 and can be found at:

<http://www.dpccd.vic.gov.au/localgovernment/councils-reforming-business/procurement>

The Victorian Guide is focused on practical guidelines at a local government level and includes some detailed legal advice from the Victorian Government Solicitors Office.

This national report, which is the second part of the project, is based on a national research project into social procurement, across government, corporate and not-for-profit sectors.

The national report is more comprehensive in building a context for social procurement, but less focused on providing detailed guidelines for a particular sector. A case study compendium detailing some key examples of social procurement in Australia is printed separately, but linked to this research report.

It may be helpful for readers to refer to both documents if they are planning to develop social procurement policies or procedures in their organisations.

Social Procurement Quick Guide

What is it?

Using procurement and purchasing to generate social benefits and social impacts;

Focussing on procurement of “goods services and works that do not ordinarily have such requirements as defined outcomes” (Anthony Collins, 2006;p5)

Adding the ‘social’ dimension to sustainability as part of ‘triple-bottom-line’ procurement.

See **pages 10-11** for more detail

Why engage with it?

- Leads to more effective linkages between economic and social policy and outcomes;
- Helps to address wicked and complex social issues;
- Leads to greater efficiencies – greater outcomes from limited resources;
- Helps to deliver on sustainability and corporate social responsibility agendas.

See **page 12** for more detail

What are social impacts?

Benefits are positive Improvements in people’s lives;

Impacts are measurable effects of an intervention.

A range of social benefits / impacts can be generated through social procurement:

- Social inclusion;
- Employment and training;
- Local sustainability;
- Diversity and equality;
- Fair trade;
- Service innovation.

See **pages 22-23 & page 47** for more detail

How can we do it?

Through any or all of the following key focus points:

- **Policy Focus:** Using policy tools to ensure contractual supplier delivery on social impact objectives;
- **Contract Focus:** Including social impacts in tenders and contracts through specifications, scope and weightings;
- **Supplier Focus:** Developing social benefit suppliers and/or building the social benefit capacity of all suppliers;
- **Market Development Focus:** Development of markets that can more effectively address complex social issues.

See **pages 24-33** for more detail

What are Policy Tools?

A range of policy tools can be used to support social procurement:

- **Universal Impact Targets:** Particular and measurable impacts for contracts above a certain size;
- **Targeted Procurement and Set Asides:** set target for a % of procurement spend focused on a particular target group;
- **Compliance Enforcement Provisions;**
- **Supplier Code of Practice.**

See **pages 24-26** for more detail

What are Contract Tools?

A range of contracting tools can be used to support social procurement:

- **Social Clauses:** requirements for the delivery of social benefits /impacts within the contract;
- **Unbundling Large Contracts:** smaller parts of contracts having social impact specifications;
- **Social Tendering:** work offered specifically for social impact or amongst social benefit suppliers;
- **Social Benefit Subcontracting**
- **Purchasing Agreements**

See **pages 26-27** for more detail

Who are Social Benefit Suppliers?

Suppliers who, through their organisational purpose or structure are social benefit aligned or social impact centred. They can include:

- Social enterprises;
- Social businesses;
- Social firms;
- Disability enterprises;
- Non-profit organisations;
- Indigenous businesses;
- Women and minority-owned microenterprises.

See **pages 30-33** for more detail

What is the Process?

Social Procurement is a process with distinct phases:

- **Preparing for Social Procurement:**
 - Developing policies and procedures;
 - Raising awareness and auditing opportunities;
 - Supplier and purchaser readiness;
- **Social Procurement Cycle**
 - Planning the procurement;
 - Effecting the procurement;
 - Managing and evaluating;
- **Learning from Social Procurement**
 - Tracking learning;
 - Refining the process;
 - Sharing the learning.

See **pages 35-57** for more detail

What Makes it Work?

Successful social procurement is built on:

- **Context & catalysts:** it is grounded in place and is driven by a clear rationale;
- **Culture & champions:** it is supported organisationally and is driven and built by internal champions;
- **Clarity & Communication:** it is built out of dialogue between all relevant stakeholders sharing clear and sustainable models.

See **pages 59-67** for more detail

Contents

	Page:
Quick Guide	5
Introduction: Context and overview of the research	7
Chapter One: Background and context	9
What is social procurement?	10
Why is social procurement important?	12
A short history of social procurement in Australia	13
The current context of social procurement	14
Specific social procurement agendas in Australia	18
Chapter Two: 'Social' impacts and benefits in the context of procurement	21
What the 'social' in social procurement means	22
How social benefits can be incorporated into procurement practices	24
Policy Focus	24
Contract Focus	26
Market Development Focus	27
Supplier Focus	29
Chapter Three: Social procurement process and practice	34
Preparing for social procurement	35
Incorporating social procurement into the procurement cycle	41
Learning from social procurement	49
Legalities and legal considerations for purchasing organisations	51
Chapter Four: What makes social procurement work	58
Contexts and catalysts	59
Culture and champions	63
Communication and clarity	65
Chapter Five: Challenges and Conclusions	68
Challenges for the Public Sector	69
Challenges for the Private Sector	72
Challenges for the Nonprofit Sector	74
Challenges for Social Benefit Suppliers	75
Challenges for Mainstream Suppliers	75
Challenges for Other Stakeholders	76
References	77

Introduction:

This report examines how governments, corporations and nonprofit sector organisations can use their purchasing power and procurement processes to generate positive social impacts in addition to acquiring quality goods, services and works.

How organisations spend their money, who they purchase from, and what they purchase, can have profound social impacts. Companies whose suppliers have poor labour standards, or organisations whose purchases result in social and environmental degradation (or even catastrophes) are now publicly questioned and criticised. Conversely there are increasing examples of purchase and procurement decisions resulting in large-scale positive impacts: companies who are promoting fair trade by procuring all their tea and coffee supplies from fair trade suppliers; public bodies who are generating higher levels of Indigenous employment by specifying this in their contracts for public works; and nonprofit sector organisations who are ensuring that their purchases are aligned with their values and also generate positive outcomes for their clients and constituents.

This report examines the concept and the practice of social procurement, the term now used to refer to the generation of social impacts from purchasing and tendering processes.

Essentially, social procurement is a dimension of sustainable and responsible purchasing and procurement practices. It adds the social facets of sustainability which have often been overshadowed by environmental and economic dimensions (Hutchins and Sutherland, 2008). While it is intended that strong links be drawn between social procurement and broader goals of sustainable procurement, this document will focus on 'social impacts' of the sustainability agenda are rather than unpacking and outlining the whole sustainable procurement arena. Adding the social dimensions to sustainability, means that the sustainable procurement agenda can more strongly reflect 'triple bottom line' thinking (as in figure 1).

Applying this thinking to organisations' purchasing and procurement agendas, means that sustainability now encompasses the **inputs** and **throughputs** of the organisation in addition to the **outputs** and the 'bottom line'. In other words, sustainability becomes key across whole organisations.

If sustainability is to be holistic and meaningful, it is important for social impact to be considered alongside environmental and economic considerations and that all these facets are integrated within the sustainable procurement framework.

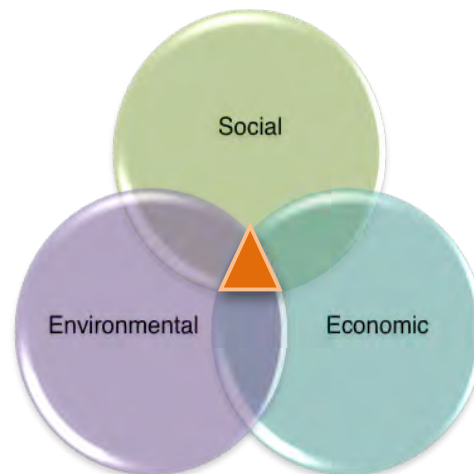


Figure 1: Elements of triple-bottom line sustainable procurement

This report outlines the current status of social procurement in Australia (across all sectors) and opens some pathways for how it could be further developed into the future. The report is the culmination of a 12 month research process that integrated the following:

- A literature review process that examined relevant academic, practice and policy literature concerning social procurement;
- In-depth interviews with a diversity of stakeholders across the sectors who have undertaken or benefited from social procurement;
- Consultations with relevant research, policy, regulatory and industry bodies who have oversight of procurement process and practice in Australia and internationally;
- Engagement with the project reference group over a period of 6 months to discuss key issues and approaches in the early stages of the research process;

Establishment of a framework for a Community of Practice to begin the dialogue and share resources about how to develop social procurement in Australia.

Given the scope of the research and the amount of data generated, this report represents a summary and integration of key findings rather than a comprehensive and academic analysis of the literature and data. Insights of interviewees are incorporated into the document, though neither the interviewees nor organisations that they represent are identified, as most asked for anonymity in the process. Procurement processes are often heavily scrutinized in both public and private spheres, and there are sometimes fears expressed, particularly by those who are not directly involved in procurement practice, about whether due process has been followed. The interviewees for this research spoke very openly about some of the challenges and tensions involved in social procurement and in respecting this honesty and openness, we have maintained anonymity for all involved. When interviewee quotes are included they are distinguished only as a 'supplier' or 'purchaser'. All quotes are included in shaded text boxes and are italicized.

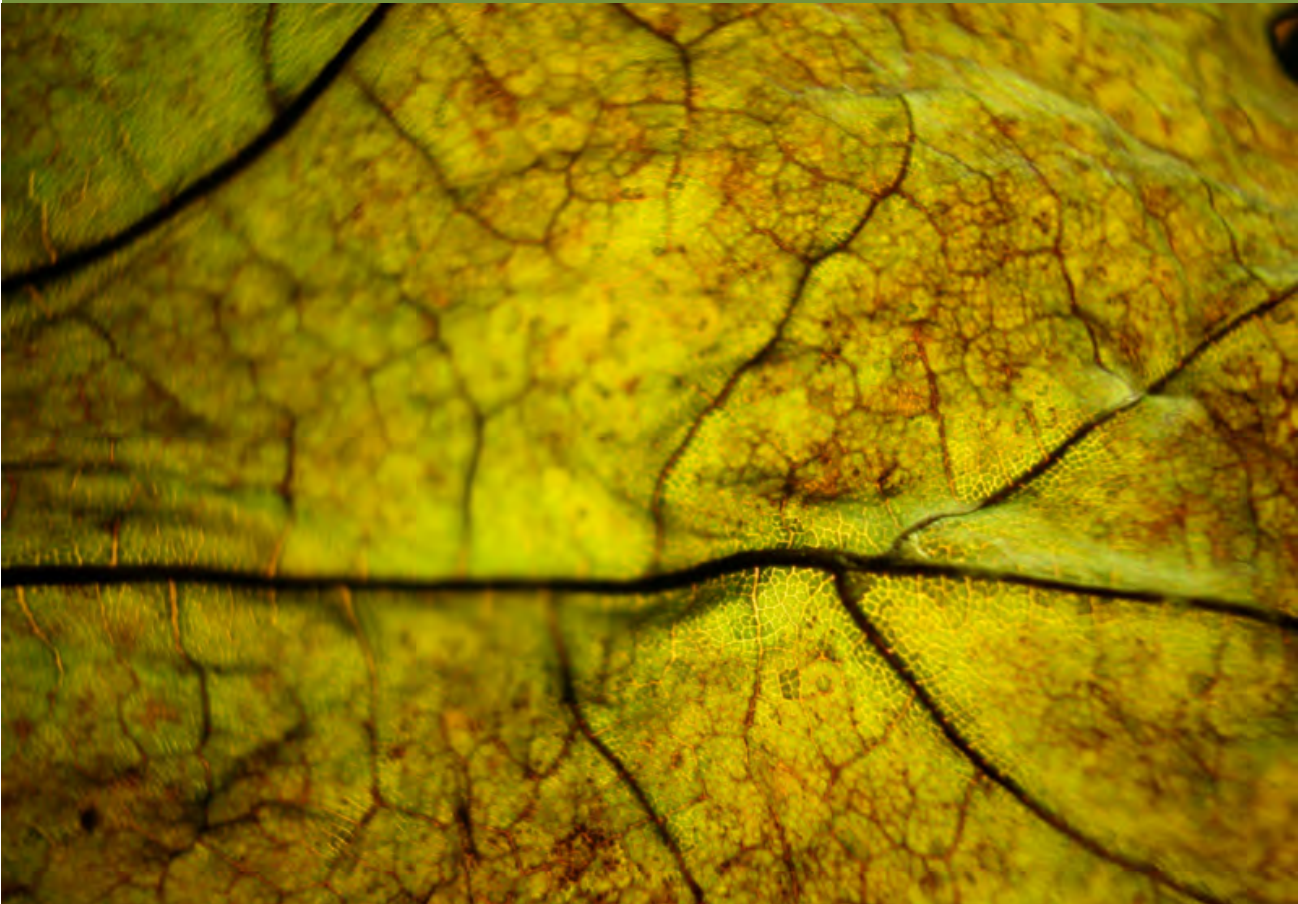
This report is published at a time when there is a great deal of momentum and excitement about the strategic power of procurement processes. In many ways this demonstrates the timeliness of the report but it could also put undue pressure on the report. This report is not intended to be **the** definitive report on social procurement and it also does not seek to answer **all** questions about social procurement. Rather, this report is intended to open the discussion and debate about social procurement, positioning it in both social policy and strategic procurement debates, and stimulating further discussion and research. If social procurement is to develop in Australia it will require much greater levels of dialogue amongst and between all sectors and across a range of stakeholders to develop ideas, document practice and stimulate broader action.

Though this report promotes the idea of social procurement, it recognises that these ideas are not universally applicable and nor is their application straight-forward in every circumstance or jurisdiction. The ideas contained in this report will necessarily require adaption and interpretation in different contexts and situations. Further, social procurement should not be seen as any kind of panacea for addressing social ills – it has a place amongst a range of responses rather than representing an answer in and of itself.

Finally, the report highlights a number of case studies both in the text and in the attached case study compendium. Over the course of the research a great many examples were uncovered – many more than could be referenced or included in this report. Those that are included therefore represent only a cross-section of examples to stimulate discussion about a variety of approaches and to highlight the range of opportunities. This points to the need for reports such as this to become 'living documents' – creating a foundation to build more and better examples over time, and incrementally developing the knowledge around social procurement.

Chapter One

Background and Context



What is Social Procurement?

'Procurement' refers to the full range of activities and processes related to the purchase of goods, services and works¹ in organisations – whether they be public, private or nonprofit sector organisations. The purchases could relate to very routine, small items such as office equipment or stationery, right up to highly strategic and costly purchases such as contracting out entire services. The processes of procurement include not only the actual purchase or contract, but also:

- How it is decided that goods/services are needed;
- How goods/services are to be purchased, including an appraisal of all options, and decisions about whether the purchases should be made externally or supplied 'in-house';
- How goods/services are approached over the course of their lifetime, including how their effectiveness and value is to be monitored and evaluated, and how any assets may be disposed of when they become redundant.

'Social Procurement' then, relates to how the purchase of goods, services and works by organisations can generate positive social impacts (see figure 2 below).

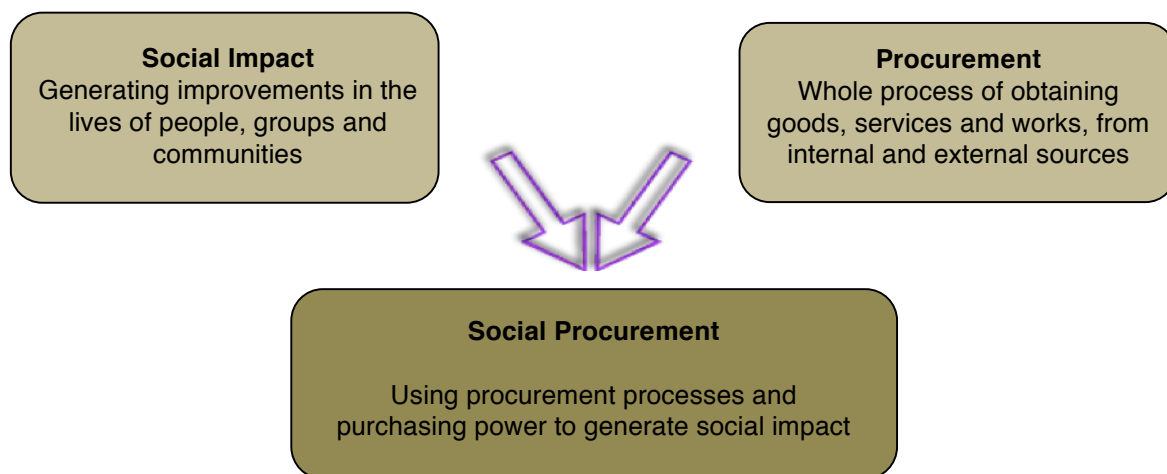


Figure 2: The Two Parts of 'Social Procurement'

Of course there are some organisations (particularly in the public sector) that **intentionally and directly** purchase social impact by procuring social services (such as health services, community services and welfare services). However, there is an increasing interest in how procurement processes more generally could consider and generate social impact. To date this has often focused on ensuring that supply chains 'do no harm'. Increasingly it is also recognised that organisations may consider how the purchase of goods, services and works can actually 'value-add' and generate positive social impacts such as local employment and training, diversity and equality outcomes, and social inclusion. There are generally three ways in which the term 'social procurement' is used in organisations:

- To indicate that an organisation has **screened their supply chains to ensure that they are socially responsible and ethical**, that is, that they do no harm in relation to social indicators such as labour conditions and human rights of workers;
- **To link the generation of social impact with the purchase** of goods, services and works, thereby value-adding to the purchase;
- To refer to the **procurement of social services** – the contracting of services related to social care, social service and social welfare.

These uses of 'social procurement' are outlined in figure 3 below.

¹ Works usually refers to construction related services that involve the creation or alteration of buildings or structures.

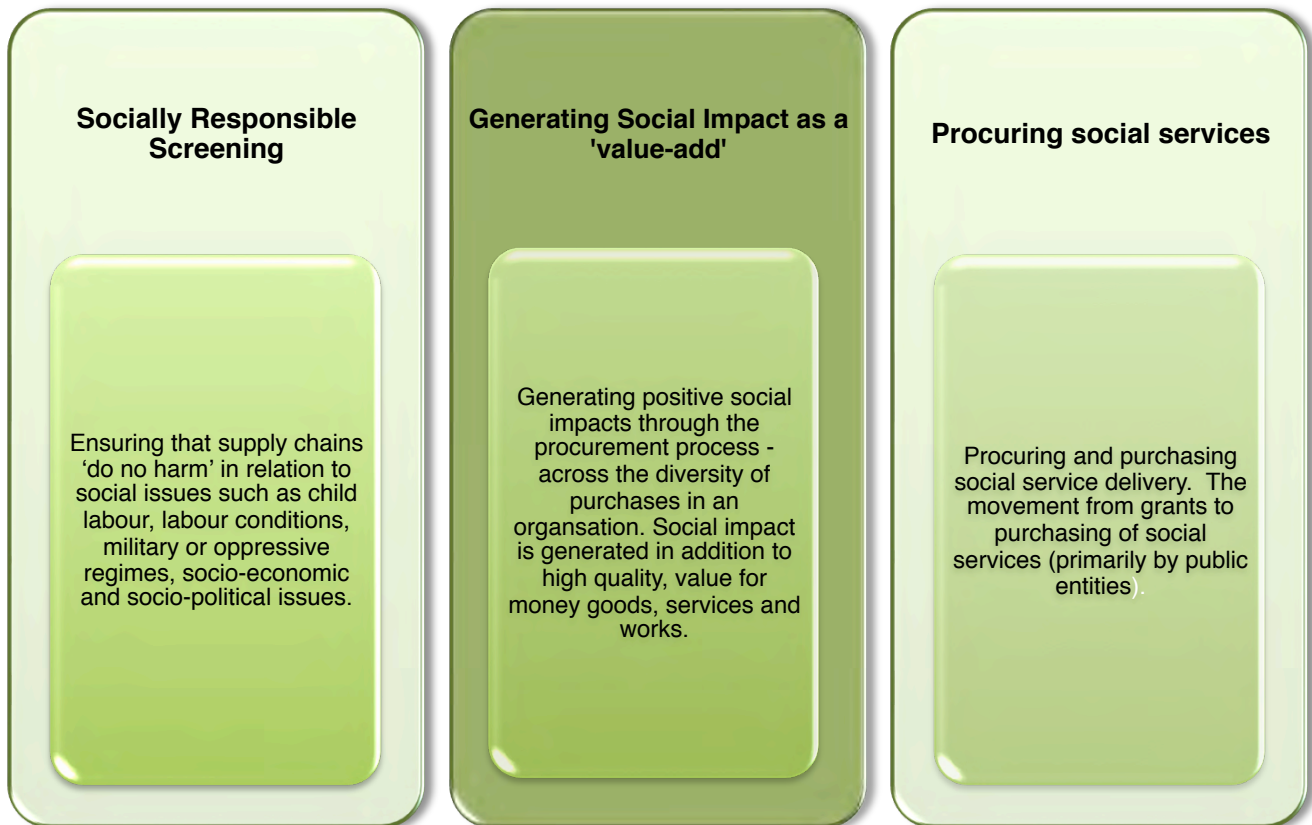


Figure 3: The Three Uses or Meanings of 'Social Procurement'

Though all these arenas may be touched on in this report, the core focus of the research is the middle arena – that is, how can we generate positive social impact in the purchase of goods, services and works (which are not social services).

In other words, social procurement in this context refers to the inclusion of social matters into the procurement and purchase of “goods, services and works that ordinarily do not have such requirements as defined or measured outcomes” (Anthony Collins, 2006;p5). So, for example:

- A large nonprofit organisation purchasing tea and coffee supplies that support fair trade;
- A public sector department procuring waste management services, seeks to value-add to these services by considering how the contractor could generate employment in the local community, particularly amongst the most disadvantaged groups.
- A company looking to tender out a construction project considers how they could encourage the contractor to subcontract work to local Indigenous businesses, or to social enterprises who are training and employing Indigenous young people.

In this way organisations are adding social value into their purchases of goods, services and works, aligning their procurement processes with their social objectives and maximizing the overall outputs of their contracts.

It should be noted that some interviewees in the current research used the term ‘social procurement’ to refer to *all* purchasing of goods and services that generates a social impact – including purchasing by individuals. In this report the term ‘social procurement’ is used only to refer to purchasing by organisations. Purchasing by individuals certainly warrants further exploration, particularly in light of the growth of the ethical consumer movement, however, it is beyond the scope of this research to examine the use of individuals’ purchasing power to generate social impact.

Why is Social Procurement Important?

Social procurement can play an important role in addressing social issues and generating a range of social impacts as indicated in the previous section. There are two major reasons for adding procurement into the range of ways in which public, private and nonprofit sector organisations can generate social impact

First, **social procurement provides a mechanism for linking and integrating social and economic agendas**, both in public policy terms and in broader societal and commercial terms. This effectively means that 'social outcomes' are not relegated to 'social policy agendas', to 'welfare departments', or to CSR sections within organisations. Rather, social outcomes become part of the 'business' of organisations and are considered directly within business decisions (McCrudden, 2007). In this way social outcomes are brought to the centre or mainstream and are considered alongside other core business agendas. The artificial separations of social policy from economic policy and commercial agendas are broken down, and social outcomes can then be considered across the whole organisation. They become everyone's business, not just the business of social policy specialists, the CSR team or social workers.

Second, it is clear that **in order to address complex social issues** (including poverty and long-term unemployment), **new strategies and approaches are needed**. These can involve:

- New external combinations of stakeholders (eg. partnerships between nonprofit, private and public bodies);
- New combinations of functions within organisations; and/or
- More complex analyses of how to link welfare approaches with structural changes to ensure that people have optimum opportunities and capabilities to move out of disadvantaged circumstances.

Social procurement is one way in which public bodies, corporations and nonprofit organisations can ensure that they are opening direct pathways for economic and social inclusion in addition to ensuring that the worst impacts of exclusion are ameliorated. Social procurement sits alongside other asset based approaches to social exclusion, building on peoples capacities, harnessing people's potentials and redistributing wealth directly back into communities. In this way resources flow into communities rather than around them and this has a multiplier effect, building both wealth and well-being (see for example, Sacks, 2005) as depicted in figure 4.



Figure 4: Connecting asset-based responses and welfare responses for innovation and impact

Though current drivers of social procurement can be identified, it is important to understand that it is not an entirely new approach. Indeed in some countries the use of procurement to effect social impact and promote equality has a history as long as that of the welfare state (McCrudden, 2004). The current interest in social procurement may actually reflect older and more established linkages between charitable and market-based responses in order to generate and promote social policy goals.

A Short History of Social Procurement in Australia

The use of procurement, particularly in the public sector, for achieving social impacts is not new either within Australia or overseas (see McCrudden, 2004, 2007; Barraket and Weismann, 2009). Throughout the nineteenth and twentieth centuries in the UK, Europe and the US there were numerous examples of linkages between public procurement and developing social policy concerns about unemployment, disability, civil rights and anti-discrimination (McCrudden, 2004). According to McCrudden (2007;p116-117) these linkages have usually taken one of the following forms:

- **Excluding suppliers** who have had negative social impacts or have failed to comply with certain social standards;
- Embedding certain **social requirements into all contracts** and/or tenders;
- Taking social outcomes and impacts into account when **awarding** a contract; or
- Including social impacts in the **contract specifications** and deliverables.

In Australia too there are examples of how public procurement processes at all levels of government have sought to address social policy concerns including:

- Employment and training (particularly in relation to Indigenous Australians and people with disabilities);
- Equality and anti-discrimination (particularly in relation to women's employment and the employment of Indigenous Australians);
- International human rights activism against oppressive regimes and companies (such as particular public bodies excluding oppressive suppliers and oppressive regimes from their supply chains);
- Local economic development and sustainability (such as programs to ensure that local businesses become preferred suppliers when contracts are related to particular regions).

Australia has not had the same degree of focus on generating **direct** social impacts from procurement processes as in the United States or Europe. Until relatively recently, little use has been made of public procurement for direct promotion of particular groups of suppliers or types of enterprises as a means of promoting and enacting affirmative action (where, for example, targets are set to ensure that a certain percentage of spend is sourced from particular disadvantaged suppliers such as minority or women owned businesses). In Australia those public procurement policies that have structured in social policy goals have focused more on the desired outcome (eg. generating Indigenous employment) rather than specifying or targeting particular suppliers. While this has had some impact for addressing certain social issues, this impact has not been as direct as developing suppliers in disadvantaged communities. This indirect focus may stem from different socio-economic histories and priorities than in those countries that have developed more direct supplier targets. The nature of the welfare state that has arisen in Australia, has historically sought to offer greater levels of income protection rather than promoting entrepreneurial mechanisms for addressing unemployment and poverty. This has focused attention in Australia on welfare-based approaches to social policy rather than enterprise support policies that are the focus of targeted procurement strategies (as has been the focus in less welfare oriented countries such as the US).

The use of procurement to promote particular equality agendas in Australia has also tended to be more recent than in the United States or Europe. For example, the Federal Government instituted the Equal Opportunity for Women in the Workplace Contract Compliance Policy in 1993. This mandates that all organisations failing to comply with the Affirmative Action (Equal Employment Opportunity for Women) Act 1986, (now the Equal Opportunity for Women in the Workplace Act 1999), are deemed ineligible for government contracts (see www.eowa.gov.au).

There has, however, been a long standing focus in Australia on promoting small business within public procurement frameworks and often this is coupled with a specific geographical focus – that is, State based or regional based policies that promote small businesses in the procurement process and assist them to build the capacity to compete for contracts. This could be seen as having important and inter-related social and economic consequences for local communities and regions.

In recent times there has been a much more significant focus placed on addressing social inequities through procurement, not only in public spheres, but also in corporate and nonprofit sectors. It is likely that the current interest in procurement-based policies is beginning to reflect a broader shift towards a more entrepreneurial and sustainable approach to addressing inequities and building pathways out of poverty and unemployment.

The Current Context of Social Procurement in Australia

Currently there are a number of examples of social procurement in the Australian context and some quite discrete threads that could, if drawn together, represent the formation of a relatively enabling environment for future developments. These threads relate to shifts and changes in all three sectors (public, private and nonprofit sector), and to the procurement profession itself. These are summarised in the box below and are then briefly examined.

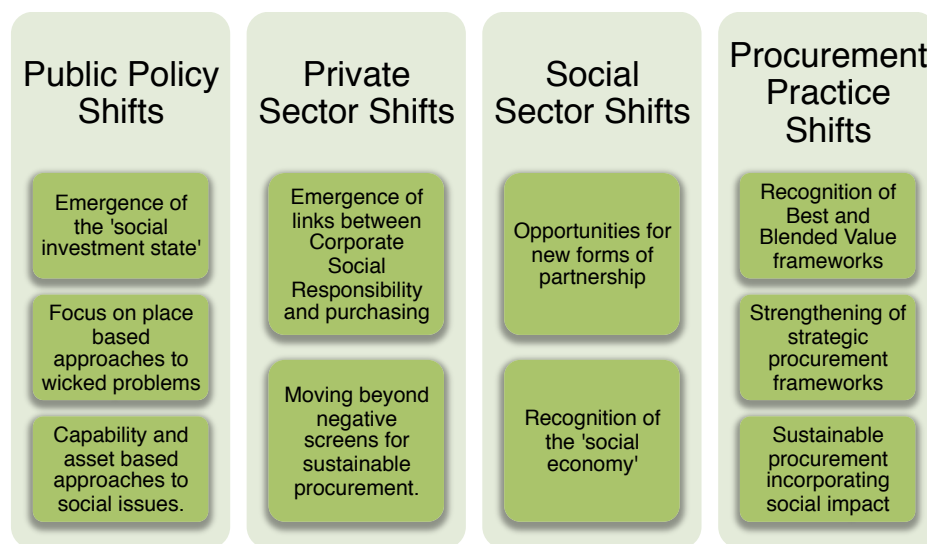


Figure 5: Shifts across the sectors that underpin the development of social procurement

Shifts in public policy

The first shift in public policy centres on a key change at federal government level. The election of a Labor federal government in Australia in 2007 saw the development of a social policy agenda formed around '**social inclusion**'. This is an agenda which emphasises:

“the multidimensional nature of social exclusion... (and) a wholesale reconsideration of the ways in which our labour market and social services either enhance or constrain the life chances of Australians” (Smyth, 2010;07).

This in turn has led to a realignment of social and economic policy, and a shift away from traditional welfare state paradigms towards a “**social investment state**” which focuses on building substantive opportunities and removing barriers so that citizens and communities can realize their capabilities (Smyth, 2010,p23). Interestingly, this has reignited discussion around structural barriers that have perpetuated the disadvantage of some of Australia’s most disenfranchised people. While employment has long been both a social and economic policy focus in Australia, in recent years there has been a renewed emphasis on focusing more substantively beyond ‘welfare’ approaches to stimulate greater opportunities for a diversity of employment options. What this has opened up, is a conversation about what governments and nonprofit sector could do to stimulate social and economic justice beyond ‘grants’ and individualized welfare programs.

Procurement is one of the key areas that has come into focus in this conversation. Interestingly in relation to the nonprofit sector much of the attention has been on the impact and need for revisiting procurement processes for the delivery of social services. However there are other strands to this conversation in relation to how a realignment of procurement policies and social policy objectives could open new opportunities and possibilities for enterprises, businesses and nonprofit organisations working with some of the most disadvantaged groups in Australia (particularly in relation to Indigenous Australians, people with a disability, and people who are long-term unemployed). Though it cannot be denied that the procurement processes structuring social service delivery are in need of attention and reform, it is this latter strand of the conversation at federal government level that represents a clear and important link to the current report, and which opens opportunities for *policy through procurement* approaches, as have been seen in the UK over recent years².

The second public policy shift of relevance to social procurement centres on the re-emergence of **place and place-based approaches to addressing 'wicked' problems**³. Occurring particularly at state and local government levels, this shift supports a perspective that place is a key lens through which to direct change efforts in relation to addressing poverty and disadvantage. The link to social procurement is that place can offer both a focus for procurement activities (eg. Neighbourhood Renewal (NR) in Victoria has developed particular social procurement approaches for the specific localities that are targeted through the NR program – see the DHS case study in the Case Study Compendium); and it can shape the nature of contracts and works needed (eg. The NSW Department of Housing and Victorian Department of Human Services have developed particular types of 'joint venture' approaches to addressing some of the longstanding problems on certain housing estates by engaging with social enterprise and social procurement initiatives – see the DHS case study in the compendium and the Spotless Case Study in Chapter five). Place-based approaches have led to several successes in social procurement initiatives in Australia (see Case Study Compendium for more details).

Finally, an important shift, (at least at a paradigm level) is around how poverty is defined in Australia and how it therefore needs to be addressed. This is represented both by Amartya Sen's work on **capability approaches** and by a shift towards **rights and asset based frameworks** for addressing disadvantage (see Smyth, 2010; Sen, 2001; Gamble and Prabhakar, 2005). For Sen, inclusion:

"is characterised by a society's widely shared social experience and active participation, by a broad equality of opportunities and life chances for individuals and by the achievement of a basic level of wellbeing for all citizens" (2001;p..).

Perhaps the most recognised proponent of a capabilities approach in the Australian context is Noel Pearson, but others (such as, for example, Brotherhood of St Laurence and Anglicare) have cited its crucial link to developing frameworks of social policy. Rights-based and asset frameworks also emphasise the importance of ensuring that there are pathways out of poverty which provide opportunities and improve life chances, rather than purely focusing attention on poverty amelioration or relief approaches. Asset approaches focus both on physical assets but also on opportunity assets and intangible assets, and argue that:

"A wider distribution of assets means greater opportunity, choice, diversity, and self-fulfillment for citizens" (Gamble and Prabhakar, 2005;p1).

Together, these frameworks and approaches focus on the need not just to provide safety nets for people in poverty or disadvantaged communities, but to actively open opportunities and remove barriers to people's participation. This essentially is what social procurement is focused on – that is, providing pathways whereby entities whose objectives are to address poverty and create social impacts in communities can fairly and equally access the full spectrum of economic resources of government, corporation and nonprofit sector organisations including those outside 'grant' or 'philanthropy' frameworks. Social procurement recognises that changing persistent social problems will require not just improvements in social welfare mechanisms, but strategies of economic

² The previous UK Government released an action plan focused on 'Policy through Procurement' which is available in web archives: [webarchive.nationalarchives.gov.uk/20100503135839/http://www.ogc.gov.uk/index.asp](http://www.webarchive.nationalarchives.gov.uk/20100503135839/http://www.ogc.gov.uk/index.asp)

³ 'Wicked' problems are complex, multi-causal problems that "go beyond the capacity of any one organisation to understand and respond to, and there is often disagreement about the causes of the problems and the best way to tackle them" (APSC, 2007, p. 1). Examples include crime, obesity, Indigenous disadvantage, climate change.

democracy, whereby equal opportunities to access *mainstream* economic resources (such as purchasing budgets) are opened up.

Shifts in the private sector

While some companies have examined how they can generate social impact through their procurement strategies for many years (for example, resource companies who have particular needs to engage local businesses and generate local employment), it would be fair to say that in Australia most corporations have not linked their **Corporate Social Responsibility** (CSR) agendas with their procurement strategies to any great extent. In some corporate circles this is, however, starting to change, and CSR is beginning to move from being a peripheral activity into the core business of corporations – including their purchasing decisions. This shift has occurred largely as a result of negative publicity that has been levelled at larger, transnational corporations whose suppliers have been found to be in breach of labour or environmental standards, or whose impact on local communities has been found to be detrimental. This has led to a growing emphasis on CSR “up and down the supply chain” (Strandberg, 2002) and a social screening of corporate procurement processes. While much of this has focused on screening **out** suppliers that have a negative social impact (poor labour conditions, human rights abuses, or negative community relations), there is an increasing interest in how supply chains within corporations can help to generate positive social impacts in the communities where they operate. Interestingly, however, even negative screens can have major positive impacts across supply chains, often inciting responses even in smaller businesses and companies where CSR may not yet be a priority. CSR agendas have also started to influence public sector organisations – particularly local government, who increasingly recognise CSR as a key driver of social procurement agendas (source: interview data).

Shifts in nonprofit sector thinking

The development of ‘social enterprise’ and enterprising approaches to addressing poverty and disadvantage has led to challenges from within the nonprofit sector to find other mechanisms for resourcing social development than those traditionally provided by government grants and corporate philanthropy. Further, it has led to rethinking the relationship between the sectors, and opened up opportunities for **new forms of partnership** (as articulated, for example, in the National Compact) (see also Burkett and Ruhunda, 2010) and **joint venture thinking**, particularly in relation to addressing ‘wicked’ problems. Overseas, and to a growing extent in Australia, there is a recognition of what is termed the ‘**social economy**’ – that is, the social and economic power of grass-roots, community based enterprises and nonprofits, and the often under recognised ‘care’ systems - families, households, neighbourhoods. This has led to questions about how to resource the social economy and how the social economy intersects with the market economy, both of which highlight the need for closer scrutiny of purchasing power and the role of procurement in addressing social issues.

Shifts in procurement practices

The activities of procurement and the importance of purchasing functions in public and private organisations have received much attention in recent times. There is a realisation of the power that is inherent in *where* and *how* organisations and corporations spend their money – particularly when large sums of money are involved. Procurement has, over the past century, moved from a functional, clerical and dispersed activity within organisations, to a strategic and integral position through which whole ‘supply chains’ have to be managed (Callender and Matthews, 2005). Over the past decade, as procurement has emerged out of the confines of neoliberal agendas, its strategic potential has also begun to be realized more fully across sectors⁴. While much procurement is still focused rather narrowly on cost interpretations of ‘Value for Money’, there is also a growing recognition of ‘**Best Value**’ where this refers to a wholistic accounting of value over the lifetime of a product or service. Organisations are also seeking **Blended Value**, which links triple-bottom line reporting frames back into the assessment of organisational inputs so that value reflects an organisation’s economic, environmental and social agendas. This in turn is linked to the development of both **Strategic**

⁴ While the links between procurement processes and social objectives, particularly in public procurement, have been present at least since the nineteenth century, under neoliberal policies procurement became focused less on how purchasing could align with public objectives and more on how it could help generate savings and efficiencies.

Procurement approaches, and **Sustainable Procurement** agendas, both of which are briefly examined below.

Strategic Procurement is built on a realisation that procurement is not just a transactional function within an organisation, but rather is a process of great strategic value in assisting the organisation to achieve its goals effectively and efficiently. The goal of strategic procurement is to align the process and the outcomes of procuring goods, services and works more effectively with the goals and objectives of the organisation as a whole. This means that strategic procurement seeks best practice means for ensuring that suppliers contribute to helping an organisation to meet its objectives. This in turn may mean that procurement processes are seen as much more integrally aligned with organisations social objectives. If, for example, an organisational goal is to have an impact on local employment, this would be reflected in their procurement practices and in the demands they make of their suppliers. Strategic procurement involves a proactive approach not just to the process of purchasing, but also of how the supply chain and the supply market can be most effectively engaged with and managed so as to meet an organisation's overall objectives – including their social objectives. This may mean that an organisation looks not just at ensuring that its procurement processes reflect best practice, but also that it can make strategic use of

- How it defines the nature of its purchases – so looking more broadly at the outcomes it is seeking to achieve from suppliers; and
- How it can ensure that the supply market from which it draws its suppliers remains healthy and diverse into the future.

Sustainable Procurement has, to date, focused mainly on 'green procurement' strategies, and environmental sustainability in purchasing. However there is a growing recognition within the procurement profession of the social aspects of sustainability (see Hutchin and Sutherland, 2008). This has come about from three directions (which are summarized in figure 6). First, from within the sustainability agenda – influenced strongly by international calls for sustainable development and a call for procurement professionals to consider social aspects of sustainability such as localized supply chains and the upholding of human rights. Second, sustainable procurement practices have been influenced by CSR agendas, and this has resulted in calls for 'socially responsible procurement' that considers the overall social impacts and ethics of an organisation's supply chain (see section on CSR above). Finally, the evolution of social procurement outside the sustainability agenda has added greater depth to what the social dimensions of sustainability may mean beyond negative screens (see for example, Berglund, 2008). Sustainable procurement potentially offers an umbrella for social procurement activities that could assist in its development and growth beyond traditional social policy goals and help organisations address 'triple bottom line' principles of sustainability in their procurement practices – economic, environmental and social sustainability.

Despite these developments, for many procurement professionals, the use of procurement processes to generate social impacts still represents an uncomfortable union of divergent goals.

In summary, then, social procurement is an emerging agenda across all sectors in Australia and within the procurement profession. It is not totally new, and has had different origins and incarnations in the different sectors. These different origins are important to recognise and link to if social procurement is to take its place as a legitimate and important part of the procurement profession and of procurement practices across different sectors.

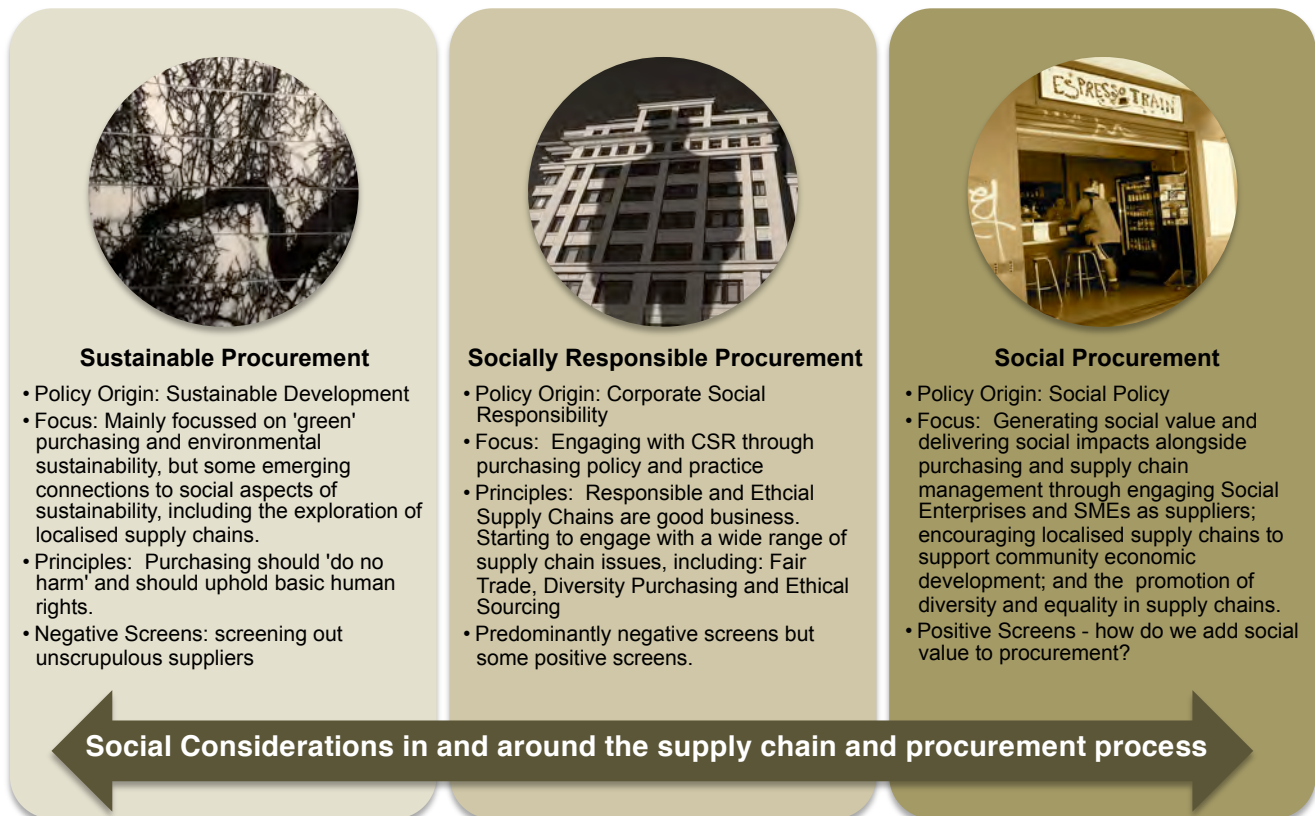


Figure 6: Social Dimensions in Procurement – Different Approaches

Specific social procurement agendas in Australia

There are a diversity of social procurement examples and processes underway in Australia, stretching across all levels of government, into the corporate sector and increasingly the nonprofit sector. However three specific initiatives and agendas straddle these diverse examples and deserve particular mention in relation to social procurement. They are briefly explored below.

Procurement and addressing Indigenous disadvantage

In February 2010, an enhanced Indigenous Opportunities Policy (IOP) was announced by the Federal Government. This is intended to maximise indigenous employment, training and supplier opportunities by revising procurement and grant policies. It applies to Australian Government agencies undertaking projects in regions where there are significant Indigenous populations and which are valued at \$5 million or more (\$6 million or more for construction). When projects occur under these conditions then the lead agencies will be required to:

- Consult with the Department of Education, Employment and Workplace Relations (DEEWR), the Commonwealth Indigenous Coordination Centres or equivalent Commonwealth Office, and relevant community council or groups, in the planning stages of those projects; and
- Through the procurement process require each tenderer to submit as part of their tender a plan for providing training and employment opportunities to local Indigenous communities and for the use of local Indigenous suppliers that are small and medium enterprises.

The Council of Australian Governments (COAG) has also developed a National Partnership Agreement on Indigenous Economic Participation (signed in December, 2008), through which the Commonwealth and all States and Territories have committed to strengthening their procurement policies to maximize Indigenous employment.

The aim of the agreement is to maximize Indigenous employment particularly in contracts related to large construction projects, maintenance, cleaning and infrastructure projects agreed through COAG. These contracts include clauses that mandate suppliers to deliver Indigenous training, employment and supplier strategies, with the aim being to build jobs, training opportunities and support for Indigenous businesses through the procurement process. In addition, the federal government has initiated a three-year pilot funding program to support the Australian Minority Supplier Council (AIMSC – see www.aimsc.org.au/) which is focused on supporting majority Indigenous owned, controlled and managed businesses to contract directly with both corporate and government purchasers.

Examples of how this policy agreement has resulted in procurement practices include the following:

The **Queensland Government** has introduced a “20% Indigenous Employment Policy” that “promotes, encourages and creates skills development, employment and business opportunities for Aboriginal people and Torres Strait Islanders in relation to (government) building and civil construction projects in specified Aboriginal and Torres Strait Island communities” (www.employment.qld.gov.au/programs/sqw/indigenous/policy/index.htm).

The **Northern Territory Government** has initiated the Strategic Indigenous Housing Infrastructure Project (SIHIP) which has a 20% target of Indigenous employment and also supports subcontracting to local Indigenous companies (www.housing.nt.gov.au/remotehousing/sihip).

The **National Inquiry into Developing Indigenous Enterprises** (2008) also recommended that:

- “the Australian Government establish a series of target levels of government procurement from Indigenous businesses, and require all Australian Government agencies and authorities to nominate a target level”
- “all Australian Government agencies and authorities be required to report in their annual report the procurement level from Indigenous businesses”
- “future consideration should be given to introducing an escalating series of mandated procurement levels over the next decade”.

While the Agreement outlined above is not as strong as this recommendation argues for, it certainly creates a starting point for exploring greater use of procurement policies for addressing Indigenous disadvantage.

A number of large businesses in Australia have also started to explore procurement from Indigenous businesses (through AIMSC particularly) and have begun to outline further procurement initiatives through programs such as Reconciliation Action Plans (RAPs) (see Reconciliation Australia, www.reconciliation.org.au). Although the number of Indigenous businesses accredited by AIMSC is still relatively small, there is growing recognition of the importance and power of business-to-business relationships as a catalyst for addressing Indigenous disadvantage.

Government Procurement and Disability Enterprises

In 2008 the federal government released revised Commonwealth Procurement Guidelines which included an exemption clause related to Disability Enterprises. This enables government departments purchasing under the Guidelines to purchase from Australian Disability Enterprises (ADEs) (ie. Businesses existing to provide employment to people with a disability – NOT businesses that provide a service to people with a disability) without first going to public tender when:

- the purchase involves a simple procurement process (low risk, low complexity, readily available goods/services);
- where the goods / services to be purchased represent value for money;
- where normal procurement principles and procedures are still followed (eg. Probity issues still apply).

There are over 600 Disability Enterprises across Australia and these enterprises provide employment for around 20,000 people.

A number of state governments have also announced or created exemptions for ADEs, including NSW, Victoria, Tasmania and Western Australia.

The **Tasmanian Government** recognises the valuable role played by ADEs and has created a provision so that:

“At the discretion of the Head of Agency, agencies may directly procure building and construction and roads and bridges from businesses that “predominantly exist to provide the services of persons with a disability” without the need to undertake a full quotation or tender process”.

Interestingly, there is also provision made for ‘social tendering’ (see chapter three) if there is more than one ADE that could provide the goods/services, whereby agencies must seek quotes from the range of enterprises to ensure value for money. The enterprises must be approved ADEs, and the procurement process includes a pre-qualification for ADEs wishing to be considered for these contracts. They only apply to contracts involving building and construction, and roads and bridges (see: www.tenders.tas.gov.au/ Treasurers Instruction no. 1231).

Social Enterprise and Procurement

There has been a growing interest in creating pathways for social enterprise in relation to public procurement, some exploration of purchasing from social enterprise in the nonprofit sector and a growing recognition in the corporate sector that this may represent another option for CSR initiatives.

The **ACT government** has recently announced a revision of its procurement policies so that it will be mandatory for ACT Government Departments and agencies to “consider the social benefits of awarding contracts to organisations (who employ people with disabilities and long-term unemployed people) alongside some of the more competitive requirements.” (Jon Stanhope, MLA Media Release, June 10, 2010).

Housing NSW has pioneered some important joint ventures with social enterprises to address disadvantage on housing estates – see for example, Fair Repairs in Campbelltown (www.fairrepairs.org.au/)

The **Victorian government**, though it does not have a specific or state-wide policy about procurement from social enterprise has undertaken some important and innovative work exploring this arena – particularly in relation to Neighbourhood Renewal and Housing Services and urban land development (through VicUrban) (see Case Study Compendium). The Victorian Government has also recently released some guidelines for Social Procurement specifically designed for use by Local Governments, these guidelines refer to numbers of examples of social procurement that engages social enterprise (see www.dpcd.vic.gov.au).

Social Procurement that focuses on social enterprise has also received academic attention (see particularly Barraket and Weismann, 2009), and has become a key focus of social enterprise intermediaries such as Social Traders (www.socialtraders.com.au) (who are looking to develop an e-portal for social enterprise procurement) and Social Ventures Australia (www.socialventures.com.au) who have had an interest through their social enterprise hubs.

Numbers of **local governments** have explored social procurement using social enterprise as suppliers (see case studies of Brisbane City Council , Parramatta City Council and Yarra City Council in the compendium).

This chapter has explored what social procurement is, where it has come from, why it is important and what is currently happening in relation to the Australian context. This has provided some important foundations for the next section, which examines the sorts of social impacts and benefits that can or could be delivered through procurement and purchasing.

Chapter Two

'Social' impacts and benefits in the context of procurement



What the ‘social’ in social procurement means

The ‘social’ part of social procurement refers to the nature of the social impacts and benefits an organisation is seeking to generate through and alongside its purchases of goods, services or works.

In social procurement literature the terms ‘social benefit’ or ‘community benefit’ are used to describe the improvement that is sought by organisations adding social and sustainability values into procurement processes⁵. The term ‘social impact’ is added here because it is increasingly recognised that there is a need for tracking and measuring the improvements or benefits that are sought, and there is a growing literature around social impact measures (see Zappala and Lyons, 2009; Tuan, 2008). Though the terms are often used interchangeably in this report, it is important to highlight and honour the intent of both concepts – that is, what is sought from social procurement is both:

- **Benefit:** positive improvement; and
- **Impact:** effect and influence that is in some ways measurable.

There are many social impacts that could be included under the banner of social procurement. An important question to ask of any organisation seeking to explore social procurement is, ‘what kinds of positive changes can and should be generated through an intervention in the procurement process of this organisation?’ Is it about generating equality, or employment outcomes for particularly disadvantaged groups or communities? Is it about ensuring supplier diversity and a level playing field in the procurement process so that entities such as social enterprises or Indigenous businesses could compete fairly in the process? Is it about promoting fair trade or fair labour standards in a supply chain?

Sometimes broad terms such as ‘social benefit’ or ‘social impact’ need to be further unpacked to illustrate the diversity of outcomes and foci that can be included under such terms. Figure 7 and table 1 below outline the sorts of social benefits and impacts that can be generated through social procurement.



Figure 7: Range of Social Impacts that can be generated through Social Procurement

One of the obstacles to engaging many procurement professionals in discussion about social procurement is the perception that the language of social impact is ‘fuzzy’ or imprecise. Certainly terms such as ‘social inclusion’ and others included in figure 7 can mean different things depending on the contexts in which they are used – table 1 below explores some of the core meanings of the

⁵ Some authors also refer to the concept of ‘social value’ (see for example Barraket and Weissman, 2009), and this term is gaining popularity particularly in the UK (see the Public services (Social Enterprise and Social Value) Bill, 2010; Wood and Leighton, 2010; Edmonds et al, 2010). Social Value is a broader umbrella concept that incorporates both benefits and impacts but focuses its assessment more on the financial measurement or the value of what constitutes these benefits and impacts. This term is recognized here but not used in the report as benefits and impacts are considered more practical and are better understood in the Australian context at the present time.

concepts included in figure 7. Those readers interested in what indicators of these impacts have been developed for contracts, may like to refer also to chapter three, page 47 for further details.

IMPACT/ BENEFIT	EXPLANATION
Social Inclusion	<ul style="list-style-type: none"> ○ Ensuring that particularly vulnerable groups are included and have opportunities to participate in the local community and economy. ○ Building social capital in the community or amongst particular social groups.
Employment and Training	<ul style="list-style-type: none"> ○ Building employment opportunities through clauses and specifications in contracts – particularly in relation to localities or groups who have been excluded from employment. ○ Building training and work opportunities for excluded people or groups into contracts, thereby building the capacity of people to obtain employment over time.
Diversity and Equality in Supplier Market	<ul style="list-style-type: none"> ○ Ensuring that organisations' suppliers reflect the diversity of our societies and communities. Of particular interest in diversity and equality benefits is ensuring that suppliers from diverse backgrounds have equal opportunities in the procurement process – taking into account disability, race and gender diversity in particular. ○ Ensuring that the supply market around essential and key services is kept diverse and vibrant and that local suppliers continue to have equal access to contracts (there is an increasing risk that local suppliers are lost as contracts aggregate and large, national or multinational companies become the only suppliers able to compete – over time, this risks decreasing competition in the supplier market which may be detrimental to communities and service quality). This impact is about ensuring that SMEs, social enterprises, Indigenous businesses, and diverse businesses have the opportunity to compete for contracts.
Service Innovation	<ul style="list-style-type: none"> ○ Opening up new social economy markets or addressing service problems in a particular locality by engaging in joint venture initiatives with, for example, not-for-profit organisations and/or other stakeholders, to pilot or test solutions that can then be opened for competitive tendering processes. ○ Addressing complex, intractable or 'wicked' problems (such as intergenerational employment, crime, vandalism, economic decay) in local communities or amongst certain groups.
Fair Trade and Labour Standard	<ul style="list-style-type: none"> ○ Ensuring that purchases are ethical and support fair trade. ○ Ensuring that supply chains do no harm in terms of local, national or international labour standards.
Local Sustainability	<ul style="list-style-type: none"> ○ Strengthening the local economy and ensuring its sustainability into the future (with clear links to environmental sustainability).

Table 1: Defining the impacts/benefits generated through social procurement

Interestingly, many of the case studies in this report and many of the examples of social procurement currently in Australia focus on the 'employment and training' impact. However, as the following interviewee points out, this can be just the entry point to many more benefits and impacts rather than being the only benefit.

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

Thus, it is important to recognise in the case studies presented in this report, how employment impacts link to other benefits such as social inclusion, service innovation and local sustainability.

How social benefits can be incorporated into procurement practices

The most obvious place to insert social benefits into procurement practice is in the tender documents and contracts – so that contractors will be obligated to deliver social impacts and/or comply with certain social standards. There are, however, a number of ways in which social benefits can be linked to procurement practice, and not all of them are directly related to tendering or contracts. Figure 8 below outlines the key focus points that can link social benefits and procurement practices.

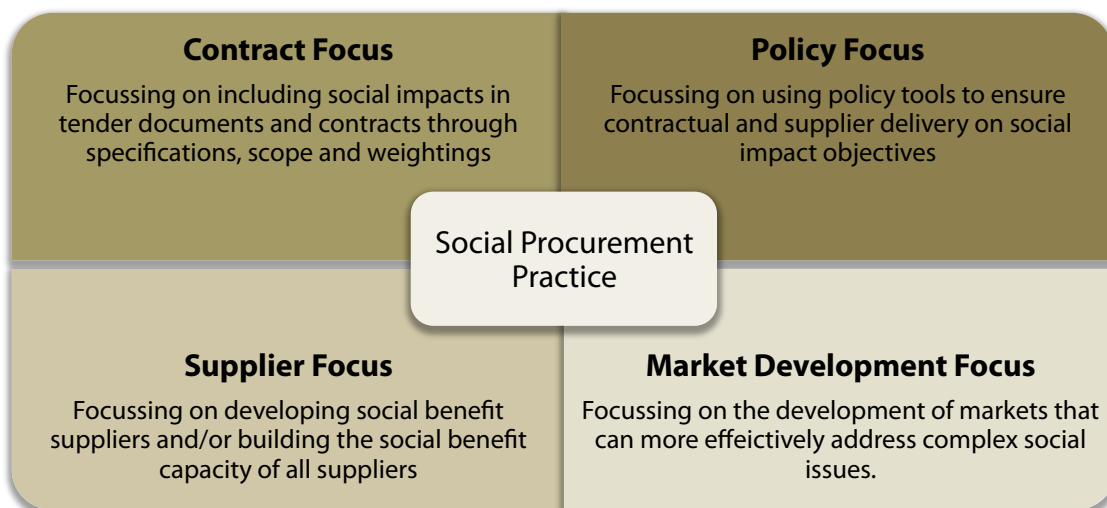


Figure 8: Key focus points linking social benefits to procurement practices

As the figure suggests there are various ways in which social impact can be generated through procurement practice and the focus or foci that any particular organisation or public body takes depends on the nature of the impacts they are seeking to effect, and on their contexts. Each of the foci in the matrix is briefly explored below.

Policy Focus

A policy focus offers the broadest brush for incorporating social impacts into procurement. It is used in public and private sector procurement to ensure basic adherence to social norms and standards (such as human rights and international labour standards) but also to support affirmative action and equal opportunity policies. Procurement potentially offers an effective mechanism for addressing these broad social policy goals as it ties compliance to minimum standards and economic benefits (see McCrudden, 2007).

Table 2 below builds on some of the practices outlined in chapter one to illustrate how procurement policy tools have been used to deliver social impacts in Australia.

There is relatively little research about the effectiveness of a policy focus for social procurement actions. However in a submission to the Federal Government's Inquiry into Pay Equity, the Work and Family Policy Roundtable (2008) suggested that unless policies promote demonstrable impacts their effectiveness will be limited. In relation to the above-mentioned 'Equal Opportunity for Women in the Workplace Contract Compliance Policy' the authors suggested that:

"given 'non-compliance' with the EOWW A is based on failure to provide a report rather than failure to develop an adequate program, the effect of this policy on equality outcomes in organisations reporting to the EOWWA has been very limited" (p.22).

This submission also referred to the UK Equalities Review where research evidence demonstrated that "requiring suppliers to follow sound equality principles could have a profound impact" (2008;p22).

Policy Tools ⁶	Examples
<p>Universal Impact Targets: Particular and measurable impacts for contracts above a certain size</p>	<p>The Indigenous Employment Policy for Queensland Government Building and Civil Construction Projects (IEP 20% Policy) – all government-funded civil construction contracts with no minimum threshold and building construction projects exceeding \$250,000 in value require a 20 per cent minimum benchmark of total labour hours to be recruited from local Indigenous communities, with half of the deemed labour hours required to involve accredited training. See www.employment.qld.gov.au/programs/sqw/indigenous/policy/</p>
<p>Targeted Procurement and Set Asides: Set target for % of procurement spend that is set aside for particular target group or particular social benefit suppliers</p>	<p>This has been a favoured policy of the United States in relation to Minority Owned Businesses and Women Owned Businesses. The US has ‘set aside’ large percentages of public procurement spends for these enterprises, with the goals being to stimulate the economic development of these target populations⁷. Australia does not have this tradition, though in the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs report, “Open for Business: Developing Indigenous enterprises in Australia”, a key recommendation was to initiate such targeted procurement:</p> <p>“Recommendation 9: The Committee recommends that the Australian Government establish a series of target levels of government procurement from Indigenous businesses, and require all Australian Government agencies and authorities to nominate a target level. The Committee also recommends that all Australian Government agencies and authorities be required to report in their annual report the procurement level from Indigenous businesses. Future consideration should be given to introducing an escalating series of mandated procurement levels over the next decade”</p> <p>(www.aph.gov.au/house/committee/atsia/indigenousexperiences/report/front.pdf)</p>
<p>Compliance Enforcement Provisions: Preventing non-compliant organisations from the award of further contracts.</p>	<p>Federal Government’s Equal Opportunity for Women in the Workplace Contract Compliance Policy. All organisations failing to comply with the Equal Employment Opportunity for Women in the Workplace Act (1999) can be named in Parliament and are ineligible for government contracts. See: www.eowa.gov.au</p>
<p>Supplier Codes of Practice: Minimum social standards that are mandatory (ie. Compliance is monitored) and that are included in all tender documents and contracts.</p>	<p>Use of supplier codes of practice related to triple-bottom line sustainability and corporate responsibility are increasingly used in corporate procurement. They set out key minimum standards that all suppliers must comply with – and in many cases the compliance is a contractual obligation and is monitored and enforced. An example is Westpac’s “Sustainable Supply Chain Management (SSCM) Code of Conduct”. See: http://www.westpac.com.au/about-westpac/sustainability-and-community/governance/suppliers/sscm_policy/</p>

Table 2: An overview of key policy tools of social procurement

⁶ See McCrudden (2007) for a detailed analysis of each of these terms.

⁷ Interestingly, the United States ensured that these ‘set asides’ were not challenged under the Australia-US Free Trade Agreement (see chapter 15 of the agreement, at: http://www.dfat.gov.au/trade/negotiations/us_fta/final-text/chapter_15.html).

Research examining two Western Australian policies focussed on the mandating of “minimum investments on training by contractors engaged in public works” (p43) also found that:

“...in the absence of strong industry commitment to policy objectives, policy interventions are likely to result in high levels of avoidance activity and generate very few benefits. Thus for policy action on, for example, training to be successful, compliance issues must be adequately addressed” (Austen and Seymour, 2009;p50)

Research internationally about the effectiveness of ‘set-aside’ and other policy level initiatives has yielded mixed results concerning impact, with much seeming to rest on the context in which the policies are applied. It should be recognised that internationally there is a “dearth of empirical information available on which to judge the effect of (such policies)” (McCrudden, 2007;pp594-617), and this should be remedied in the Australian context by researchers and others interested in developing social procurement through policy initiatives. Currently the conclusion that could be drawn from a review of the effectiveness of a policy focus to social procurement is that it may not be enough on its own, and may require more concrete and contextual action if it is to be effective.

Contract Focus

A focus on the contractual part of procurement practices entails adding to or altering the tender documents and contracts so that they reflect social impact requirements. This places the social impact objectives into the heart of the tendering and contracting processes. Such a focus involves:

- Developing specific kinds of contracts for particular purchasing agreements;
- Adding clauses to a contract;
- Removing or unbundling parts of contracts;
- Specifying who can compete for a given contract; and/or,
- Encouraging certain behaviours within the contractual relationship.

Of course any alterations to contracts need to be done in full knowledge and with full compliance of any legislative or regulatory frameworks. For this reason not all the contractual tools outlined in table 3 below are appropriate or legal for all organisations or sectors across Australia⁸. The tools that are outlined, however, have been used or explored in various situations both in Australia and internationally. Where examples of these tools appear in the case studies in this report or others that can be identified, these are listed.

Contracting Tools	Examples
<p>Social Clauses: requirements that are clearly articulated in both tender documents and contracts that “allow the contract to provide added social value through fulfilling a particular aim” (UK Cabinet Office, 2007). It should also be added that these ‘social requirements’, “provide a method of including social and economic matters into contracts for the supply of goods, services or works that do not conventionally have these requirements as defined or measured outcomes” (Anthony Collins, 2006).</p> <p>In a tender document and contract, social clauses can be linked to any or all of the following:</p> <ol style="list-style-type: none"> 1. Specifications 2. Award Weightings 3. Contractual Obligations 4. Methods 	<p>Vic Urban Case Study –VicUrban has introduced community benefit clauses into some of its tenders to encourage potential contractors to ensure that their work benefits the communities in which they are working in ways that go beyond the provision of infrastructure (see Vic Urban Case Study).</p> <p>DHS Case Study - The Department of Human Services in Victoria has included a social clause in its housing focussed contracts that mandates the employment of public housing tenants.</p> <p>Other examples not explored in detail in this report include:</p> <ul style="list-style-type: none"> • ACT government, Housing Services (see chapter 5) • Marrickville Council, who have explored social clauses; • Housing NSW who have incorporated employment and training related social clauses in their contracts linked to housing estates.
<p>Unbundling Large Contracts: removing or unbundling parts of larger contracts in order to maximize the social impact value of the overall work.</p>	<p>Brisbane City Council case study – BCC has explored unbundling some of its contracts as part of a program to build the capacity of local social enterprises to compete effectively for tenders.</p>

⁸ Chapter three outlines some legal considerations in relation to these tools. However, it is best to seek legal advice from your own organisation or sector prior to exploring any of these contracting tools to ascertain any particular constraints.

The unbundled part of the work could then be: tendered out with clear social impact specifications; could be the subject of a joint venture with a social benefit supplier; or could be the subject of a social tender.	DHS Case Study – as part of the Neighbourhood Renewal program, DHS has identified certain contracts that can be offered to one or more social enterprise operating in and employing people from communities in which NR is operating.
Social Tendering: identifying particular pieces of work that are suitable for social benefit suppliers and can either be offered for open competition but with clearly mandated social impacts in the scope and specifications of the tender, or can be offered for tender specifically amongst social benefit providers.	Brisbane City Council Case Study – BCC has explored offering specific tenders only for tender amongst social enterprises. The Tasmanian Government's Disability Enterprises exemption also mandates social tendering in certain circumstances (see chapter 1).
Social Benefit Subcontracting: Engaging with mainstream suppliers or potential suppliers to encourage and/or reward subcontracting parts of the work to social benefit suppliers.	VicUrban Case Study – in VicUrban's community benefit clauses, one way contractors can demonstrate community benefit is to engage local social enterprises as subcontractors.
Purchasing Agreements: Using MOUs or other legal purchasing agreements to purchase goods and services from social benefit suppliers. Usually these fall below the thresholds for competitive tendering, but can, with appropriate approvals also exceed the thresholds in special circumstances.	Yarra City Council case study – Yarra City Council undertook a joint venture with a non-profit organisation that was structured using an MOU. NAB case study – NAB has purchased small amounts of goods and services from some of its community partners, who are social enterprises, using purchasing agreements. Parramatta City Council has used purchasing agreements to purchase a variety of goods and services from social benefit suppliers.

Table 3: Examining the range of contract tools for social procurement

The contract focus is the most oft cited approach to social procurement. It is also the approach that evokes the greatest fears about legalities. Certainly this approach has the potential to yield the most direct and measurable impacts, particularly if the contractual tools are carefully planned and designed.

The details of some of the above contract tools and the approach more generally will be further explored in the next chapter, in which the process and practice of social procurement is examined.

Market Development Focus

Some communities in Australia are struggling to address complex and multifaceted social issues and it can be difficult to directly see how social procurement could contribute to an integrated approach to addressing these issues. The market development focus, then, is a much more exploratory approach to social procurement that examines innovative ways to approach complex social issues, in effect developing 'new markets' that can then become the subject of further procurement processes in the future. This focus links social procurement and social innovation. A short example may help to clarify this focus (see box below).

In many ways market development approaches in social procurement draw on joint venture or partnership models – where different parties bring their skills and knowledge to addressing complex social issues and develop models of working that have a demonstrated impact that can then form the basis of 'new markets', that is, they can become the subject of new tenders and contracts. Very often the purpose of these approaches is to develop innovative services or innovative responses to social exclusion.

An example of a Market Development Focus: Department of Human Services, Victoria and Brotherhood of St Laurence, Victoria.

In a number of the high-rise housing estates in inner city Melbourne some years ago, the safety and security issues were becoming increasingly difficult to manage. The state government department responsible for housing (Department of Human Services, Victoria) had large contracts in place for security services on the estates, but these services were unable to cope with growing rates of violence and crime on the estates – which was due to complex and interconnected social and economic issues. When residents were consulted the issues that they identified as highest priority in order to address the issues were: safety and security; the physical environment of the estate; and the high unemployment levels facing residents. It was clear to all involved that ‘business as usual’ or merely altering the security contracts that were already in place could not address these concerns of the residents.

However, it was also clear that the way forward needed an approach that would engage residents, develop some new approaches to tackling the issues and be able to link all the concerns and issues of the residents together. This was not merely a job that could be put out to tender immediately – it required all the various organisations and departments involved to join together with the residents to address the issues. In effect what was needed was a ‘joint venture’ that could test new ways of working with these issues so that approaches and methodologies could be developed and tested. And this is exactly what happened. The state government department joined with a non-profit organization (Brotherhood of St. Laurence) and they engaged residents in a ‘community contact service’, which was effectively a concierge service in the building that employed and trained residents (thereby addressing issues of unemployment). The contact service was the key point of contact for residents to report any building maintenance or property issues, and ensuring that these were acted on (thereby addressing physical environment concerns). It also offered a sense of safety and security to residents because the service was located in the lobby of the buildings and could provide a link to the contracted security services and the police (helping to address the safety and security issues along with the mainstream security services that were still in place). The model was tried and tested and it was so successful that it was also initiated on and with other estates. After this new ‘market’ (ie. the market for contact/concierge services, training, and employing housing estate residents) was developed it was able to become the basis for a competitive tender process. The nature of the market had been defined through the joint venture and the nature of the service that was required could be specified and therefore it could become the subject of a broader procurement process.

(see also the case study in chapter 5 that provides an overview of the Housing NSW, Spotless and Fair Business Joint Venture, Fair Repairs).

Social procurement joint ventures share some similarities with a common mainstream procurement practice, that of ‘public-private partnership’ (PPP), where public sector organisations partner with private sector corporations to deliver complex infrastructure projects. PPPs are focussed mainly on largescale infrastructure, where the focus is often the sharing of finance and risk in the project. The benefits of PPPs are centred on financial returns, shared expertise, shared risks and greater value for money over the lifetime of the infrastructure assets. PPPs also often extend over longer time periods than those covered by most tendered contracts.

Social procurement joint ventures are focussed on delivering results in relation to complex social problems, so the shared risks are focussed on impacts and social returns – however the benefits can also centre on shared expertise, shared learning, possibilities for increased impact and potentially better value for money in relation to impact-investment considerations (see McDonald et al, 2007). Addressing such issues can also involve longer timeframes than traditional service agreements or tendered contracts cover, so this approach could result in deeper and longer-lasting impacts.

Another way in which this could be approached is for the joint venture process to be formalised in an actual legal structure – so that the parties who are in partnership around addressing the particular issue jointly form an independent legal entity in the form of a social enterprise or social business. They can then develop this business over time and it may independently tender for work either with the joint venture partners (potentially competitively) or it may tender for work with other organisations or corporations. An innovation in Australia that uses such a joint venture model is Community Chef in

Victoria (see box below). In this model the purchasing arrangements are built into the joint venture returns to partner organisations, and the model has obtained appropriate approvals for this contractual arrangement.

Community Chef: Joint Venture Social Enterprise

Community Chef is a social enterprise that has been created as a joint venture by 19 Victorian Councils in collaboration with both State and Federal Governments. This initiative began in response to the concerns of a number of Councils about the supply, quality and price of meals for the Home and Community Care program (HACC), almost 90% of which are supplied by local governments in Victoria. Councils have previously contracted the supply of the meals out through tenders, often to commercial providers. In 2004 a number of Councils came together to find ways in which to ensure a guaranteed supply of quality, nutritious meals, at affordable prices for an increasing number of frail and older people and people with a disability living in the community. They were also concerned that such meal programs catered to a diverse population with various religious, ethnic and dietary requirements and tastes.

The result is one of the most innovative current initiatives in Australian local government. Nineteen of the Councils are now involved in the initiative and have become joint venture partners and shareholders in one or both of the community-owned not-for-profit companies that have been formed to address the concerns: **Community Chef**, which will produce and provide the meals; and **The Regional Kitchen**, which has purchased land and will develop and manage the production facilities. Community Chef will provide meals for residents in all the areas in which there are Council shareholders, with a shareholding entitling Councils to a 10 year contract for the provision of meals (which can be reviewed by Councils every three years). A Ministerial Exemption from the provisions of tendering requirements over the threshold in the Local Government Act (1989) is in place for all Council shareholders in Community Chef.

Community Chef will provide high quality, fresh and culturally appropriate meals with a wide range of choice for residents; in addition to creating employment in both companies, and using state-of-the-art production methods to ensure energy efficiency and waste minimisation. Some profits from the enterprise will be used to undertake research and contribute to policy development around food, health and the well-being of older people and people with disabilities in our communities. Participating Councils will also receive a shareholder dividend which will help to offset the overall costs of providing the meals.

Market development approaches utilise procurement as a mechanism through which to leverage resources for the development of social innovation. This is an area of social procurement that could be further developed in the Australian context. It involves high degrees of innovation and approaches to social issues that go beyond traditional welfare responses and that seek cross-sector engagement. The resultant projects can be complex and challenging but the impacts and benefits achieved are potentially great – particularly if new markets are eventually established.

Supplier Focus

This focus starts with the question, “if we include social impacts in procurement practice, then will this alter our supplier market”? This in turn leads to two further questions – “will there be cost or capacity implications for current suppliers”? And “will there be opportunities for new or different suppliers”?

Essentially, in order for social procurement to be effective, there can really only be two supplier options, that is:

- All suppliers could deliver the social impacts designed into the procurement process;
- Particular suppliers who have a focus on social benefit could deliver the social impacts.

Who could deliver these social impacts?

All suppliers

Social Benefit Suppliers

In the first option, the key task centres on ensuring that **all suppliers** understand the social impacts that are included and that they are supported in whatever ways are appropriate in order to maximize their capacity to deliver the added social impacts (in addition, of course, to the goods, services or works that are the core of the contract). One of the biggest concerns raised by procurement professionals in this research was that social procurement could result in specifications that are too onerous or where costs become too high for suppliers, potentially deterring them from competing for contracts. Though research suggests that the inclusion of social impact deliverables in tenders does not necessarily deter contractors (see for example, Austen and Seymour, 2009), it is the case that often this becomes a key perceptual barrier for implementing social procurement practices, particularly in the public sector.

Sometimes, the skills or capacities required to deliver on particular social impacts are specialized and require a certain type of supplier. This opens up opportunities for suppliers who, through their organisational purpose or by the nature of their structure, are social benefit aligned or even social impact centred. These suppliers could be termed '**social benefit suppliers**'. They include organisations and businesses whose mission is centred on a social purpose (eg. Social enterprises) and those who are owned by groups or people who are considered disadvantaged and who therefore, by virtue of their ownership structures channel economic and social resources into marginalized communities (such as Indigenous businesses, minority owned businesses or women owned businesses). A range of Social Benefit Suppliers are outlined in figure 9 below.



Figure 9: The range of social benefit suppliers

The nature of the social impact that is sought in the procurement process will, to a large extent, determine *which* suppliers *could* best deliver the social benefit.

If the impact sought is to generate employment and training opportunities for marginalised groups, then social enterprises focused on creating employment may constitute the supplier market.

If the impact is about building Indigenous economic participation the supplier market may be focused on Indigenous businesses, or social enterprises focused on Indigenous employment.

If the impact sought is about the regeneration of a depressed rural community, then the social value supplier market may even include micro and small businesses that are privately owned by local people.

In many ways it is not only the nature of the supplier that determines whether they deliver social benefits, but: the nature of the impacts sought; the nature of the context in which the procurement is taking place; and the stage of lifecycle development at which the supplier is.

Social benefit suppliers have a capacity to deliver social impacts and this capacity can be reflected in their purpose, their ownership, and/or what they do with their profits. Each purchaser needs to decide which kinds of social benefit suppliers (if any) they wish to engage with and how they wish to engage with them (either directly or as part of their supplier market), in order to achieve the social impacts they are seeking. It should, however be noted that the emergence of social benefit suppliers in the Australian context represents a very important opportunity in the procurement field generally as more diverse supplier markets can lead to increased innovations and can challenge all suppliers to improve quality of service. Increasing the diversity of social benefit suppliers in Australia and ensuring that they are able to compete for contracts in all sectors could actually serve to strengthen the social responsibility of **all** suppliers over time, particularly as social impacts are included in the deliverables of more and more contracts.

Part of the task of engaging these entities as suppliers is to develop an understanding of how they deliver social impact. Just as the quality of the goods/services/works needs to be assessed in a contract, so does the quality of the social impact that is to be generated. Therefore, it is important to have some articulated understanding of what a 'social enterprise' is, or what makes a business an 'Indigenous business'. In the interviews and consultations that were conducted as part of this research, this was a key issue that was raised by procurement professionals, usually in the form of a question – "how do we know this is a social enterprise" or "if we want to impact the local economy, then how do we really know a supplier is 'local' – does it mean that they are located in the local community, that their business is owned locally or that they have a local office"? A number of interviewees commented on the importance both of having definitions and of some system of certification of social benefit suppliers.

"How will we decide it is actually a social enterprise – and not just Microsoft in a balaclava? We need clear definitions that everyone from top to bottom (of the organisation) can understand."
Purchaser

"There needs to be some kind of certification of suppliers – especially as this sort of thing grows because people will catch on – they will realize that they will look more attractive as suppliers to certain customers if they have a 'social' look and then it will become harder to tell who is a real one and who is not unless there's someone checking it out, looking behind the façade and certifying the business. Certification gives us comfort and it reduces the risk for us"
Purchaser

Currently in Australia the only social benefit suppliers that have certification programs are Indigenous businesses (through AIMSC) and Disability Enterprises (through Australian Disability Enterprises). A number of the interviewees argued very strongly for entities such as social enterprises and social businesses to develop certification programs and standards – particularly as the definition of social enterprise is often still very broad and inclusive.

Below are some of the definitions that have been or could be used to determine what constitutes different types of social benefit suppliers.

Name	Definition	References and further information
Social Enterprise	<p>A social enterprise has three defining features:</p> <ul style="list-style-type: none"> - A social (environmental or cultural) purpose that is core to its focus, business and structure; - An orientation towards enterprise as a key activity and income source, with a significant proportion of income coming from enterprising and business activities (as opposed to grants or philanthropy) (some definitions say at least 50% of income should be from trading); - A profit distribution that aligns with and/or supports the impacts that are driven out of the social purpose – whether it is structured as a non-profit or for-profit entity it must be for the benefit of something beyond private wealth creation. 	<p>See Social Traders: www.socialtraders.com.au</p> <p>Also, see the UK site exploring a social enterprise mark, an identifier of certified social enterprises: www.socialenterprisemark.org.uk</p>
Social Business	<p>Like a social enterprise, a social business has social objectives at its core. A social business is focussed on commercial activities, so all its income is derived from commercial undertakings rather than from grants or gifts. The focus is building a proven, sustainable business model. It may, however, undertake activities that are non-commercial in nature (or approach issues from a 'more-than-commercial frame of reference) or conduct itself as a hybrid between the commercial and social spheres. What distinguishes a social business from a social enterprise is often the emphasis on commercial activity and the intent to generate social value from this commercial activity.</p> <p>Social businesses can be for profit however what distinguishes a social business from a socially responsible business is is the generation of social value – whether that be to serve members, generate community benefit or trade more ethically. Therefore even in a for-profit social business, the profits maximise impact by being used, for example, to fund innovation, are reinvested in the business or subsidize less profitable aspects which may deliver strong social returns.</p>	<p>See Social Business Australia: www.socialbusiness.coop</p>
Social Firm	<p>“A social firm is a not-for-profit enterprise with a supportive work environment that:</p> <ol style="list-style-type: none"> 1. Ideally employs between 25% and 50% of employees with a disability (not less than 25%) 2. Pays all workers at award/ productivity-based rates 3. Provides the same work opportunities, rights and obligations to all employees 4. Generates the majority of its income through the commercial activity of the business <p>The purpose of a social firm is to create employment for people who are facing barriers to work as a result of their disability or disadvantage. Modifications required for employees in need of particular supports are built into the design and operation of the workplace”.</p>	<p>See Social Firms Australia: www.socialfirms.org.au</p>
Disability Enterprise	<p>Australian Disability Enterprises are commercial businesses that provide employment opportunities for people with disability. Previously called Business Services, the new name brings together all Australian Disability Enterprises under a unified national brand.</p>	<p>See Australian Disability Enterprises website: www.Australiandisabilityenterprises.com.au</p>
Women or Minority Owned micro-enterprise	<p>Though not yet well recognised in Australia, these are for-profit microenterprises that are owned (at least 51%), operated and controlled by minority group members and/or women. The ownership interest must be real, substantial and continuing. The ownership interest must have and exercise the authority to independently control the business decisions of the enterprise.</p>	<p>See the Minority and Women Business Home Page in the United States: http://www.mwbe.com/</p>
Indigenous Business	<p>The Australian Indigenous Minority Supplier Council (AIMSC) certifies Indigenous Businesses using certain criteria. To be eligible for AIMSC certification, applicant suppliers must meet the following six criteria:</p>	<p>See the AIMSC website: www.aimsc.org.au</p>

	<ul style="list-style-type: none"> - ownership – at least 51 per cent ownership of the company by an Indigenous Australian(s) - management – the company is led / managed by a Principal Executive Officer who is an Indigenous Australian - control – the key business decisions regarding the company’s finances, operations, personnel and strategy are made by an Indigenous Australian(s) - for profit – the company is able to distribute its equity to members or others - trading as a business – that is, the company has goods, services and / or products to sell - business is located in Australia 	
<p>Local Small Business</p>	<p>This is a difficult definition and will depend on the context – in regional areas it may be easier to demarcate what is ‘local’ than in densely populated areas where boundaries are not so clearly defined. This is a definition from the US adapted to the Australian context: The business is privately owned rather than publicly traded. The owners of the business live in the local region and own at least 51% of the business. The business is registered in Australia, but does not answer to a corporate or national headquarters – in other words, it is an independent business rather than a branch or a franchise of a national or international brand. It therefore pays all its own expenses without assistance from a corporate headquarters. The business can make independent decisions about the name and look of the business as well as undertaking the business management, such as purchasing and distribution.</p>	<p>See the Business Alliance for Local Living Economies (BALLE): www.livingeconomies.org</p>

Table 4: Defining social benefit suppliers

Overseas there are various certification programs that define, register, certify and/or audit social benefit suppliers. For example, in the US, there are various categories included under the ‘diversity supplier’ umbrella who can access assistance, who are able to identify themselves, and who can benefit from various private and public initiatives to increase diversity supply. Not all of these require external certification and some are ‘self-certifying’. Interestingly the categories are almost all focussed on ‘for profit’ enterprises owned and operated by people qualifying as ‘diverse’ according to various categories. These categories include:

- MBE: Minority-owned Business Enterprise
- WBE: Women-owned Business Enterprise
- VOB: Veteran-owned Business
- SDVOB: Service-Disabled Veteran-owned Business
- PCO: Physically Challenged Organisation

- SEDBC: Socially and Economically Disadvantaged Business
- SDB: Small Disadvantaged Business
- HUBZone Small Business
- LGBTBE: Lesbian, Gay, Bisexual and Transgender Business Enterprise

In the UK, the Social Enterprise Coalition and RISE (the regional social enterprise for the south-west of the UK) formed a joint venture Community Interest Company to develop the ‘Social Enterprise Mark’ (SEM), a registered certification mark that identifies social enterprises. This makes it easier for purchasers to recognise social enterprises. The SEM has not yet developed widespread support across the UK, however they have plans to develop the mark for global use.

This chapter has explored the concepts of ‘social benefit’ and ‘social impact’ and has examined four different ways in which these concepts can be incorporated into the procurement process. The next chapter looks more closely at the practice of social procurement, examining the stages involved in a procurement process and how social impacts and benefits can be incorporated into each stage of the process.

Chapter Three

Social procurement Process and Practice



Procurement is a process. It involves a lifecycle, in which there are some definite though not fixed tasks, activities and negotiations. In addition, there are certain stages in the cycle where key principles must guide the process, and these principles define what can and cannot occur in the process (this is particularly important in public procurement). An initiative involving social procurement must take account of the processes and principles of procurement practice.

Firstly, to turn social procurement from a concept into a practical reality it is necessary to understand the overall phases involved in procurement. Very simply put, these phases are: **Preparation** (what needs to be in place before the actual procurement cycle); the actual **Procurement Cycle**; and **Learning** (what learning can be gleaned after the procurement cycle in order to ensure the success of further social procurement initiatives). These phases are outlined in figure 10 and further explored below.

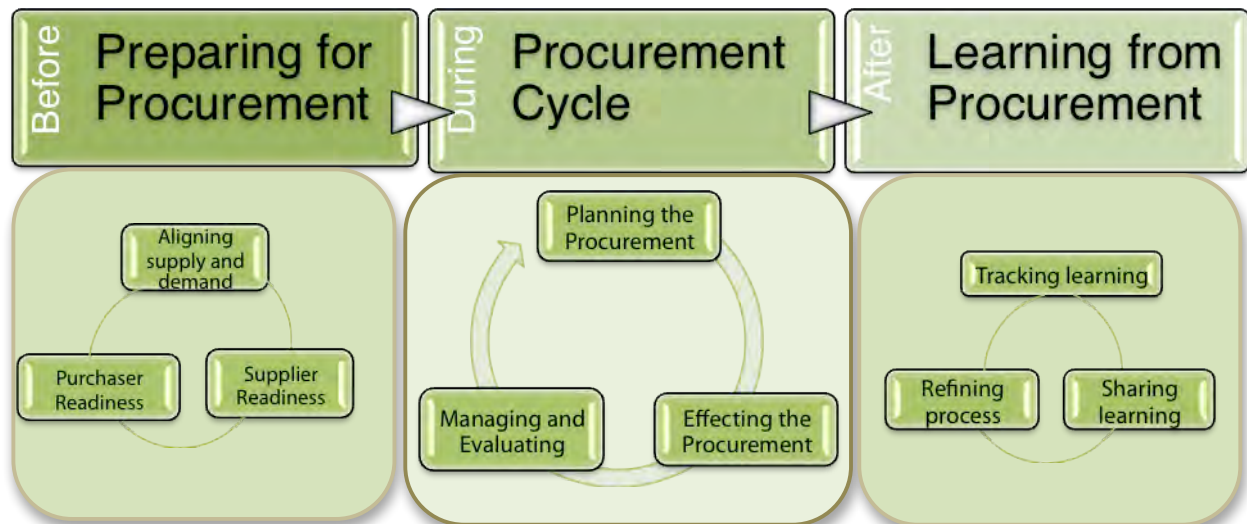


Figure 10: Phases and Cycles in the Procurement Process

Preparing for Social Procurement

Preparation for social procurement primarily involves aligning demand and supply in relation to social benefit. In other words, does the purchasing organisation have the knowledge, policies, and awareness in place to start social procurement initiatives? And (on the supply side) are there sufficiently well developed suppliers in place to deliver the social impacts that the purchaser is seeking?

“It’s a constant balancing act – we’d love to have more suppliers who are social enterprises or Indigenous businesses – but where are they? Are they really out there? And if they are, are they capable of delivering what we need?” Purchaser

“I’m very aware of the chicken and egg nature of this – yes I can create a demand for social enterprise suppliers in here – there’s plenty of work. But are they going to be ready for all that work when the doors open up? That’s the issue, and so we tread carefully. It’s case by case for the time being” Purchaser

In many ways the preparatory work in social procurement centres on readiness – of both purchasers and suppliers. On the demand side (purchasers) it is about the organisational readiness in terms of policy, process and culture for engaging with social procurement. On the supply side, it is about whether suppliers (mainstream commercial suppliers and social benefit suppliers) currently have the capacity to respond to social procurement. These are outlined in figure 11 below.

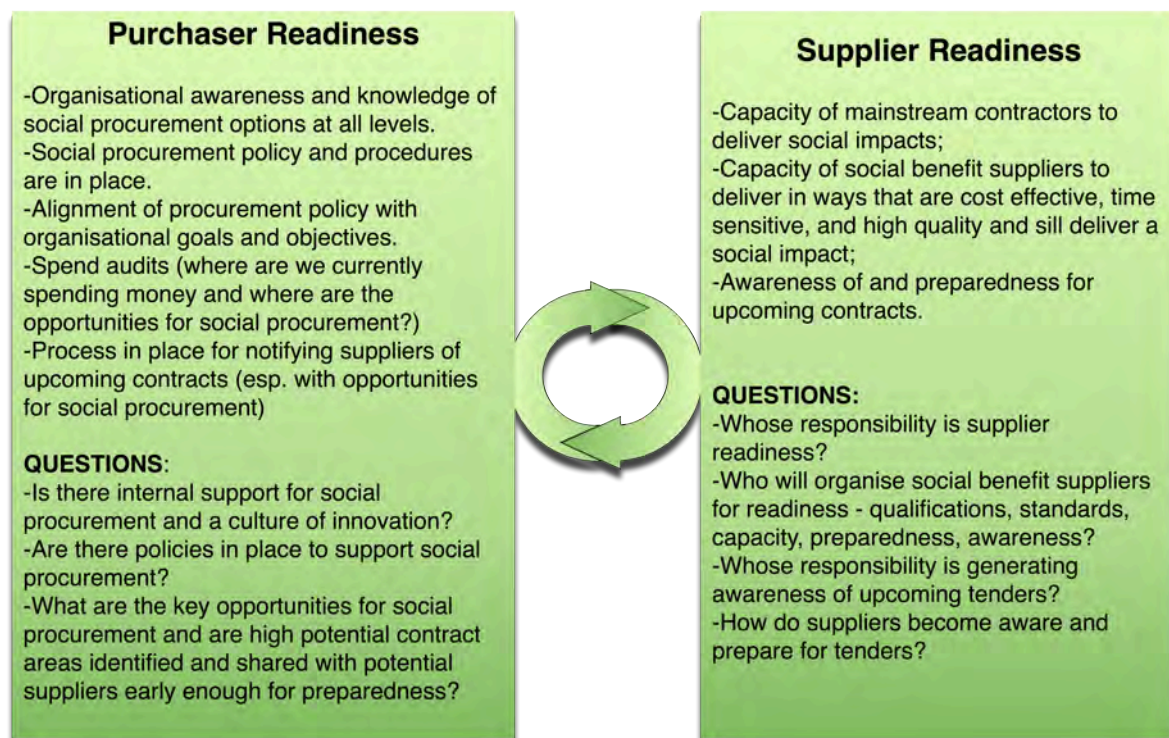


Figure 11: The Supplier and Purchaser Readiness Challenges and Questions

Purchaser Readiness

Purchaser readiness and commitment is essential to the long-term success of social procurement initiatives.

There are two aspects to ensuring purchaser readiness.

The first centres on the **inclusion of social procurement processes into the broader procurement policies and procedures of organisations**. This is particularly important in public procurement, as very often regulatory and legislative frameworks require public sector organisations to develop their own procurement policies. Further it is often the case in these organisations that any procurement practices undertaken must align with these procurement policies. In some jurisdictions organisations can actually be legally challenged if their procurement practices do not align with their formally approved procurement policies.

It is also important that the purchasing and procurement policies of organisations reflect the organisations' values and social objectives. For instance, in examining the purchasing policies of a number of large nonprofit organisations for this research, it was interesting to note that, while social impact was clearly their core business, this was not necessarily reflected in their purchasing policies, which were often very commercially oriented. Alignment between an organisation's objectives and its purchasing and procurement policies and practices can also be important in developing a business case for social procurement (see for example, the NAB case study in the compendium).

"In some ways, to do social procurement well requires a pretty sophisticated view of procurement, because it requires you as an organisation to understand your (purchasing) need really, really well. At the moment a lot of organisations are just at the stage of working within the constraints they have and just adding a few little things in rather than seeing it as a strategic opportunity" Purchaser

The second dimension of purchaser readiness is related to the **internal awareness of social procurement, the ability to identify opportunities for enacting such practices and the capacity to make these opportunities public in a timely way so that social benefit suppliers and others can prepare and respond**. The awareness of social procurement in a purchasing organisation needs to extend from the leadership right down to any person in the organisation who has responsibility for purchasing goods, services or works. Spend and opportunity audits (see box below) could assist in the identification of opportunities for social procurement.

Spend and Opportunity Audits:

These audits examine purchase categories and help organisations to identify opportunities for social procurement and purchasing. These opportunities could include:

- Purchases that fall below the tender threshold
- Purchases where the current supplier market is small or decreasing
- Contract unbundling opportunities – from larger contracts, eg. Smaller parks, jobs that are difficult for mainstream contractors to undertake with equipment designed for larger areas.

Categories that may be of particular interest for social procurement:

Maintenance

- Buildings
- Grounds
- Vehicles

Supplies

- Office supplies and delivery

Energy and Transport

Design / Media / Art

Waste Management and Recycling

Storage

Parks, Gardening and Landscaping

Food / Catering

- Daily (Morning teas, Lunches, Afternoon teas)
- Special Occasions catering for smaller numbers of guests

Leisure/ Recreation /Entertainment

Professional Services

Cleaning

- Regular office cleaning

Environmental Services

Supplier Readiness

Supplier readiness focuses on both mainstream suppliers and social benefit suppliers. The key dimensions of readiness for both is explored in the sections below.

Mainstream Contractor and Supplier Readiness

For mainstream contractors, the addition of social benefit requirements into tenders can be challenging on a number of fronts. These contractors may, for example have:

- Little experience in or knowledge of delivering social impacts;
- Some cultural resistance to engagement (ie. “we are builders, not social workers”), or some misunderstanding of what might be involved (see quote below);
- Few networks or connections to organisations who could assist them in delivering social impacts;
- No experience of costing social impacts or calculating social costs (eg. increased costs of supervision).

Some of these challenges are reflected in the following quote from a recent contractors newsletter:

“A uniquely governmental perception of ‘value’ is in the realm of corporate social responsibility (CSR) criteria. Here, government requests for tender extend beyond the core goods and services for the project, and ask tenders to demonstrate best practice in terms of the environment and society. “This includes issues such as backyard ‘sweatshops’, overseas suppliers using child labour and potential abuse of fair employment conditions,” says LGP’s Phill Scott. “For a local council, it could be simply about what the tenderer does in the local community.” Scott acknowledges that some in the marketplace have raised their eyebrows over CSR requirements, but that it is not as arduous as it seems. “CSR can be scaled to the situation; in smaller communities it might be as simple as sponsoring the local footy team!” he says” (Allan Alderson, writing for Facility Management electronic news, www.fmmagazine.com.au/working-with-government-the-ruling-factors/).

What is clear from this commentary is that there is still a cultural shift necessary in many parts of the procurement profession so that social impact is seen as an integral part of procurement practice rather than a distraction, or a competing agenda.

It may be the case that purchasing organisations need to develop information and guidelines for suppliers about what is expected of them in relation to social procurement. It is also imperative that

the social benefit requirements are clearly articulated in the tender documents. Key ways to ensure that potential contractors and suppliers engage with social procurement include:

1. **Articulating social impact obligations clearly, understandably and as tangible and measurable** – they should be concrete rather than aspirational, they should be clearly articulated without jargon or specialist terminology, reporting and monitoring requirements should be outlined and there should be opportunities for clarification and questions if they are complex (eg. through open tender information sessions);
2. **Considering and clearly articulating any additional Costs to be incurred by the contractors or suppliers** in the tender documents, in addition to any support or cost sharing options offered by the procuring entity (eg. access to subsidized training providers);
3. **Clearly articulating any specific capacities, qualifications, infrastructure or experience required by the contractors** in the tender and contract, and any opportunities for support or capacity building from the purchasing entity are also outlined.

Sometimes it is necessary for a purchasing organisation to provide ongoing support to suppliers to assist them in delivering the social benefit requirements or to offset costs. For example, it may be necessary to link contractors to recruitment, training or job service support organisations. For example, the Department of Human Services in Victoria provides government funded recruitment services to contractors where contracts include the social clause mandating public housing tenant employment (see DHS case study in the compendium).

“In order to support the clause in the contract we needed to set up the program to be able to respond to the recruitment needs of the contractors. Once we started working on putting clauses in contracts we set ourselves up as a recruitment agency and we now provide all recruitment services free of charge to the contractors when they want to employ someone so if they want an apprentice we will source them and put them through a pre-apprenticeship course, pay for their police check if they need it - so we've got a pool that we're constantly turning over of applicants who are ready to move into jobs and it seems to be working quite well and it's a lot cheaper to do it internally as well”. Purchaser

Social Benefit Supplier Readiness

For social benefit suppliers the readiness issues are less likely to centre on the delivery of social impacts but are more likely to centre on the commercial skills involved in tendering, procurement and delivery. As has been outlined in the previous section, there is a need, in certain circumstances, for purchasing organisations to work with social benefit suppliers to build their capacity in order to that they are able to compete effectively in procurement processes. Australia has long been cognizant of the benefits derived from ensuring that public procurement is inclusive of SME suppliers (see for example the National Action on Small to Medium Enterprises in Government Procurement, 1997). Similarly, internationally it is well recognised that for many social benefit suppliers the competitive playing field in procurement processes is not level (see for example, DTI, 2003; Munoz and Tinsley, 2008; Kanter, 2008; Glover Report, 2008; the Obama Administration's memorandum on establishing an interagency task force on Federal contracting opportunities for small businesses, which includes contracting to minority owned and non-profit businesses). It is important to ensure that the competitive playing field for procurement, (particularly in the public sector), is as even as possible and this may mean that purchasers either need to engage in capacity building efforts themselves, or that there needs to be intermediary and/or accreditation organisations who can ensure that social benefit suppliers are 'procurement ready'.

Of course it is not the case that all social benefit suppliers will need capacity building support in order to be able to compete with mainstream contractors. This will depend on their life stage, their turnover, the capacities of their staff and directors, and their levels of experience in contractual environments. Capacity building is not permanent nor constant – rather, it is developmental (see figure 12). Some social benefit suppliers will need no assistance and may not even identify themselves as such. Others may need significant assistance at first, but may eventually be able to compete fairly with other suppliers (see Case Study, Brisbane City Council, who have developed a pathway process as one option for engaging social enterprises in Council procurement processes). Others may just need to be

notified of a specific opportunity early enough to mount a strategic response to it and develop the capability of their organisation themselves.

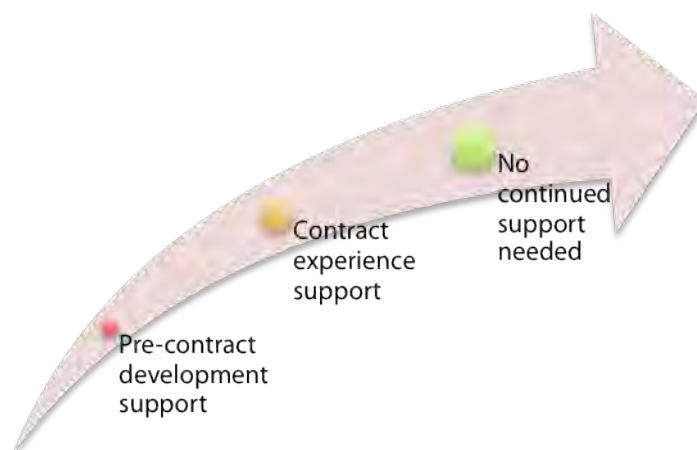


Figure 12: Capacity Building Support is Developmental rather than Constant

If purchasing organisations wish to engage with the capacity building of social benefit suppliers, it is crucial that they have clearly defined goals and well articulated parameters as to how much of a developmental role they will play. This is particularly necessary because one of the challenges in relation to building the capacity of social benefit suppliers and ensuring that they are 'procurement ready', is that it can be difficult to articulate exactly what capacity building is or what it may involve. As one interviewee highlighted:

"Capacity building is a slippery term. Capacity building is a nothing statement in many ways – it can mean a hundred different things. For example, if you built my capacity to write tenders that may win me tenders, but then does that mean I have the capacity to deliver on that tender? Where do you stop? Sure, we can train everyone to write tenders – but will it improve the situation, probably not!" Supplier

To illustrate the diversity of what is needed in relation to capacity building, some of the capacity issues that were highlighted by social benefit suppliers in interviews are included in table 5 below.

A number of purchasing organisations have raised the question of how they could be confident that social benefit suppliers have the capacity to deliver both the goods and services that are the subject of contracts and the social impact requirements included in the tenders⁹. This again highlights the possible need for some kind of support for social benefit suppliers to build their capacity and some form of accreditation to indicate their readiness to potential purchasers. This is something that should be considered both by current intermediaries and by Government departments interested in furthering the development of social benefit suppliers such as social enterprises. The Australian Indigenous Minority Supplier Council (AIMSC) is an example of an intermediary such as this that assists with capacity building, accredits qualifying Indigenous businesses and advocates for engagement with purchasing organisations including government and corporations. Other sectors of social benefit suppliers may benefit from similar intermediary bodies.

Finally, another issue that was raised by a number of purchasing organisations in relation to social benefit suppliers was the question of how they can be found. It is increasingly urgent that directories of social benefit suppliers (both local and national) be developed so that prospective purchasing organisations can find and connect with social benefit suppliers. The FASES research work undertaken by QUT and Social Traders (Finding Australia's Social Enterprise Sector – Barraket et al, 2010) represents an important beginning for undertaking such a task.

⁹ It should be noted, however, that the same issues can arise with mainstream suppliers and that this can be managed through reporting and monitoring of contracts.

<p>Awareness of procurement opportunities</p>	<ul style="list-style-type: none"> • <i>“From a social enterprise perspective it's about knowing what's out there to contract for – having an awareness of what contracts are coming up for tender. And then also that they know that we exist – that the procurers know that we are there, we have the capacity and that they can engage with us”.</i>
<p>Awareness of and capacity to comply with all the standards, certifications and qualifications that are needed in order to tender for a contract.</p>	<ul style="list-style-type: none"> • <i>“In order to tender for a contract all our people had to have ‘white cards’, police checks, qualifications in asbestos removal and they had to complete an online and face-to-face induction. Given that all these people had either never been employed or had been long-term unemployed, getting all this done was a huge hurdle”</i>
<p>Awareness of the procurement and tendering rules, and any particular policies and procedures of the procuring body that need to be complied with.</p>	<ul style="list-style-type: none"> • <i>“When we were first approached about our interest in putting in a quote we weren't aware of the rules around this. We even rang other enterprises to ask what they would be quoting. We now know that this is an absolute no-no, but we just didn't know then. It was a learning experience for us”</i>
<p>Knowledge about how to respond to a Request for Tender, or how to put in an Expression of Interest, and the confidence to do this.</p>	<ul style="list-style-type: none"> • <i>“We had never done one (a RfT) and had no idea where to start. We didn't know anyone who could help us. We just muddled through and hoped for the best. It took us a long time to build confidence to put in a tender for a job”</i>
<p>Ability to price and quote – to ensure that this covers all the costs and generates a surplus for the enterprise/business.</p>	<ul style="list-style-type: none"> • <i>“We learnt the hard way in terms of pricing a contract – a short term 3 month contract –it's a massive learning curve to know how to price that. How many hours, fair hourly rates to charge out at. We didn't really have a good knowledge of the industry – even now we know that there are still groups out there charging double for what we do. Our first quote – it cost us more than double what we charged. It was a hard way to learn but we did learn from it!”</i>
<p>Knowledge of all the technical capabilities needed to deliver the goods, services or works specified in the contract – and all the capacities, equipment and infrastructure needed to deliver.</p>	<ul style="list-style-type: none"> • <i>“... the manufacturing industries have very high standards and the competition is fierce. When you're employing people who have been out of the workforce for a long time then it's a constant juggle. You've got to be prepared – it takes nine months to get accredited (under some of the health and safety standards), then you've got to maintain the internal standards, and build your delivery capacity, and you've got to be quick and nimble just to stay competitive. There's so many hurdles to jump.”</i>

Table 5: Examples of capacity building social benefit suppliers identified as needing

Incorporating Social Procurement into the Procurement Cycle

The second phase of procurement is the actual procurement cycle (see figure 13), where decisions are made as to how goods and services are to be purchased, what is to be included in the tender documents and contracts, and how the process is to be managed over the lifetime of the contract. Incorporating social procurement into the procurement cycle involves aligning the social impacts that are to be achieved with each part of the cycle. These parts of the cycle are further explored below, along with key questions and decisions associated with each part.

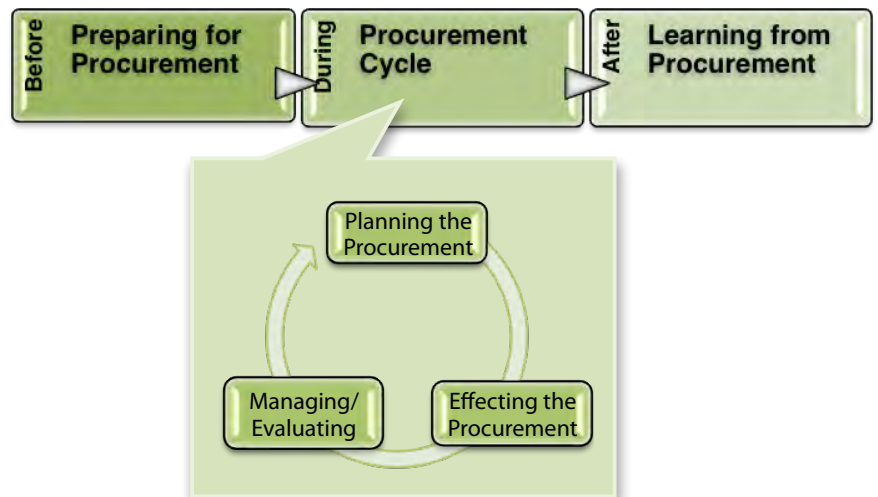


Figure13: The Procurement Cycle

Planning: Getting the Plan Right

This is the part of the procurement cycle where it is crucial to outline the justification for social procurement and the elements of how it is to be implemented, reported on, monitored and measured (see figure 14). At this stage it is also crucial to ensure that the social impacts can be clearly articulated, and are deliverable and measurable. Key questions for the planning stage of the cycle include:

- What is the social objective you are trying to achieve?
- Will social procurement be an effective way to achieve this objective?
- What is the business case for including a social impact objective in the procurement process?
- At what stage of the procurement process are social impacts to be included? (prequalification, specification, evaluation, negotiation, contract management?)
- How social impact performance is to be measured, when and by whom?



Figure 14: Important dimensions of the planning stage of the cycle

Though all these dimensions are important, perhaps the key task of the planning stage is to determine at what stage of the procurement process the social objectives are to be included. The most common option is the inclusion of social impact objectives in the specifications, through a ‘social clause’, which mandates the inclusion of certain social impacts in the deliverables of the contract. However there are other options for including social impact in the procurement process. The key options are outlined in table 6 below.

Pre Qualification	Only suppliers who have demonstrated that they have specific capacities to deliver specific goods and services and social impacts are invited to tender for a contract. This means that a process needs to be developed that assesses a suppliers' ability to deliver quality outcomes. When social impacts are added to pre-qualification assessments purchasers should ask for evidence and examples of how social impact has been delivered by the supplier in the past. This is of course not a good option when the social benefit supplier market is new or underdeveloped as they will not necessarily have the history of delivery to draw on.
Specification – inclusion of a 'social clause'	The specifications of a tender set out the mandatory requirements that a supplier must meet in order to be considered in the tender evaluations. Specifying social impacts can be challenging (see box below on social impact specification). It is often best not to specify <i>how</i> a contractor should deliver social impacts, but rather, focus on the outcomes that should be delivered – and ensure that these are clearly articulated, measurable and that reporting processes are outlined. This is examined further in the next section.
Evaluation – award weightings	Suppliers are asked to respond to the social impact requirements outlined in the tender documents and these are then assessed according to scoring systems (which are outlined in the tender documents) as part of the evaluation process. Generally, weighting creates incentives for suppliers to prepare their approaches carefully. Careful consideration needs to be given in the planning stage as to what will be weighted in relation to social impacts, and how responses to social clauses will be weighted and assessed.
Negotiations	Particular social impacts may be negotiated with the contractor once the tender process has been finalised and the contract has been awarded. However, unless the tender specified social objectives in the deliverables, negotiating them at this stage is likely to incur additional costs to the purchaser and is highly unlikely to yield successful results and indeed could cause tensions with the contractor (particularly if extra costs are involved). Negotiation should really only be focussed on refining the detail of social impact objectives (eg. Increasing the number of local employees over the life of the contract rather than expecting the number to be optimal from the beginning).
Contract Management	Contracts can specify particular performance targets that need to be reported on and monitored over the life of the contract. In relation to social impacts, this needs management over the course of the contract. In addition, however, some interviewees spoke of more cooperative arrangements with contractors whereby the social impacts were gradually increased over the course of the contract as the relationships developed and the understanding of the contractors about social impacts deepened. This will of course depend on the nature of the relationship and the willingness of both contractor and purchaser to manage the process cooperatively over time.

Table 6: Options for incorporating social impacts into contracting processes

As social clauses are the most common way in which social impact objectives are incorporated into procurement processes, they will be explored further in the next section.

Effecting the Procurement: Getting the Contracting Right

Effecting the procurement involves putting the plans into action. If the process has come this far then often the focus of this stage is the development of tender documents, evaluation of tender responses and the awarding of the contract. Some of the key tasks at this stage are outlined in figure 15 below.

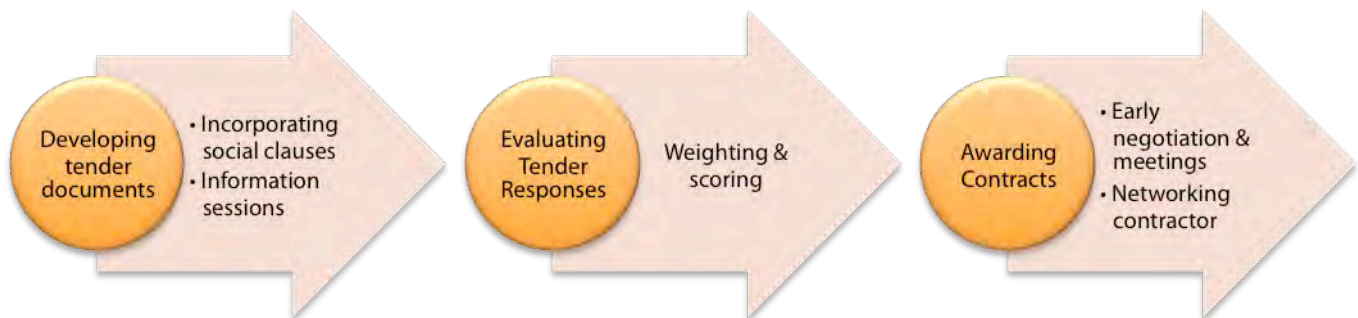


Figure 15: Key tasks in effecting social procurement

A key part of this stage is ensuring that the tender documents will deliver what is sought. In many ways this is centred on how 'social clauses' are incorporated into tender processes (if this is indeed how the social objectives are to be reached).

Social Clauses

Social clauses detail in an open, clear and achievable way, what the social impact deliverables are and mandate these in the contract, so that the potential suppliers are clear and can respond in the tender bid as to their capacity to deliver these impacts.

There are no 'standard' social clauses or templates that can be dropped in to a contract. Rather, what is outlined in the social clauses will depend on what is sought in each contract, and how it will be weighted or evaluated in relation to the overall deliverables of the contract. Social clauses need to be appropriate to the purchasing objective of the contract, and they need to be deliverable – they are not aspirational goals, they are measurable deliverables just like the provision goods, services or works that are core to the contract. Social clauses should include:

- Reference to measurable performance indicators or social impact measures;
- Information about how the impacts should be reported on by the supplier/contractor;
- How the impacts will be monitored by the contracting organisation;
- What review processes are in place to evaluate the contractors performance in relation to the impacts.

It is also common to include a 'method statement' in tender documents containing social clauses – a section in the tender that the potential supplier completes which outlines what social impacts will be achieved and how they will be achieved (see the VicUrban case study in the compendium for an example of a method statement). Sometimes it may also be necessary to host information sessions for potential tender respondents to ensure that they understand the place of the social impact deliverables in relation to other deliverables. This is especially important if the social impact deliverables are complex. If the service area is new or there is a need to explore and develop new markets, then it may also be necessary to consider collaborative approaches to the development of specifications and clauses.

Generally, there are two key ways in which social impacts can be incorporated into contracts:

- The **contract specifies the impact targets directly** – for example, a certain number or percentage of tenants is to be employed (see DHS case study and Spotless story in chapter 5);
- The **tender document asks contractors to outline and set the targets themselves**, leaving *them* to determine the level of social impact they are prepared to deliver as part of the contract.

There are of course benefits and risks associated with both these approaches. The first has the benefit of clarity and a measurable indicator of success built into the contractual agreements.

However it may present some challenges for certain potential suppliers and may limit the types or numbers of bids received. The second has the benefit of encouraging potential suppliers to aim high in their determination of what social impacts they can deliver. However it is likely to be the case that tenders will contain very conservative estimates of impacts to ensure that they are within cost estimates and that any impacts declared are easily deliverable. Such conservative estimates may not match the impact expectations that the purchaser originally intended for the contracts. Unfortunately it is a common experience amongst purchasers who have attempted the latter approach, that contractors (particularly in commercial tenders) tend to aim for the easiest targets rather than aiming for aspirational social impacts (source: interviews; see also Austen and Seymour, 2009).

Social Clauses: Be Careful What You Ask For

One of the learnings that numbers of interviewees discussed about social clauses is that care should be taken not to be too specific when it comes to **how** impacts are to be delivered. While it is fine to be specific about the nature or kind of impacts that should be achieved (eg. Employment creation, inclusion of certain demographic or locality based groups), it is often not helpful to be too specific about 'how' these impacts should be achieved or who should be delivering them.

For example, one interviewee referred to a contract in which the procurers specified that a certain number of people had to be employed, in addition to each employee needing to undertake a 12 month traineeship. Yet the work involved in the contract did not run for 12 months, and the levels of training that employees needed to complete the work did not warrant enrollment in a 12 month traineeship.

Effectively, in practice, this meant that only certain suppliers could fulfill the conditions of the contract that therefore could tender for the contract. Suppliers had to be able to link employees to traineeship programs that ran for a minimum of 12 months, in addition to being able to stay engaged with the employee/trainees for a period that exceeded the work to be undertaken for the contract. So, in this case, for example, many social enterprises would not be able to tender for the contracts under these conditions – despite the fact that they may actually be able to provide greater impacts in the long-term. That is, they may be able to offer a larger number of people from the target demographic employment, on-the-job training and some longer term employment opportunities, but they may not be able to offer '12month traineeships'.

Being too specific about the nature and scale of the impact, the method that suppliers need to undertake in order to deliver an impact or the type of supplier it is assumed could deliver a social impact can:

- Limit the supplier market, and exclude potential contractors, thereby reducing the potential pool of suppliers;
- Reduce the social impact rather than maximizing it;
- Reduce the kinds or levels of social innovation that are possible in delivering the social impact.

The lesson in this story is that, when it comes to specifying social impacts, be careful what you ask for! A more effective way of engaging the potential suppliers around social impacts may be to ask them to complete a 'method statement', that is, a statement that outlines how they will go about generating the social impact that is mandated as a deliverable in the contract (see the VicUrban case study in the compendium for an example of a method statement).

Weighting and Scoring

The method statement that was outlined above, along with the answers to questions asked in the tender document becomes the basis for evaluating the tenders. As a recent publication on social procurement from Northern Ireland outlines, the way in which tenders will be evaluated needs to be made clear in the documentation itself:

"You will need to provide bidders with an outline of how you will approach the evaluation and scoring in the tender documentation. The criteria should include a scoring framework which contains a list of the expected social benefits, probably grouped by subject. Each benefit

should be allocated a weighting and then a scoring scale agreed which identifies the marks against which responses to tender questions will be assessed. Asking good quality questions and providing a method statement at tender stage makes the evaluation process a lot more straight-forward. You will then be in a position to evaluate each bid's social benefits against the agreed criteria and allocate a score. The scores for the social benefit requirements should be combined with scores for other quality criteria to produce a total quality score for each tender" (ISNI, 2010;p31).

There are a number of key decisions pertaining to the evaluation of tenders. There are outlined in figure 16 below. In broad terms the first decisions concern the questions that are asked of the potential suppliers (obviously in relation to timing this needs to happen as part of the planning stage of the cycle, but for flow reasons it is examined here). There then needs to be some decisions about how important each of the questions are in relation to each other (that is, what weighting they have in relation to each of the other social impact deliverables). In addition, there should be decisions about how the tender responses should be scored in relation to other responses. Finally, given that the social impact deliverables are likely only to be a part of the overall deliverables, some assessments need to be made in relation to how important the social benefits are in relation to the other deliverables (that is, an overall weighting of deliverables).

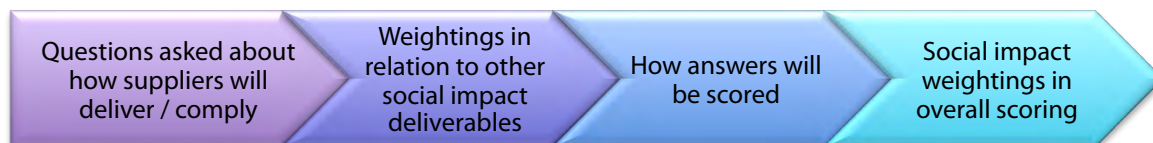


Figure16: Evaluation decisions in the social procurement process

Valuing Social Impact: Understanding Social Impact in the Context of Value for Money, Best Value, and Blended Value

Though it is clearly articulated in most procurement publications that value for money does not equate to purchase price alone, it is still the case that 'value' is often conflated with monetary price, and that efficiency is about minimizing costs and maximizing savings. One of the key challenges in promoting social procurement is to unpack and understand the importance of 'value for money' (VfM) propositions, and to examine how social impacts could be valued in the context of these propositions. It may be helpful to outline some very basic definitions at this point

Purchase Price: the amount that is to be expended in producing or purchasing a product or service

Value: the worth of a good or service as determined by its overall benefits and quality

Without getting too philosophical, what these definitions help to articulate is that, while a cost or price can be determined at a given moment in time (such as when a contract is assessed), the value of a product or service can only be assessed in relation to its lifecycle. That is, value is determined by the benefits of a product or service in satisfying a purchaser's needs over a period of time. The standard assessment of 'value for money' is centred on 'whole of life' accounting – taking into account all relevant costs and benefits over the lifecycle of both the procurement process and the product's / service's lifetime.

This means considering not just economic dimensions (eg. overall quality of products and services in relation to a consideration of whole of life costs, such as servicing costs), but also potential **benefits** arising out of procurement decisions. However, in many procurement processes it is only costs that are considered in relation to social and environmental dimensions (eg. the costs that could be incurred if there was a negative impact or the additional delivery costs that be incurred through adding social

clauses) when value for money could also relate to the benefits that could be accrued by including social outcomes in purchasing decisions over the procurement lifecycle.

Unfortunately Value for Money is still, in most cases, articulated in purely economic terms. For example, the Australian Government Procurement Statement (July, 2009;p.4) suggests that Value for Money includes consideration of the following factors:

- “Fitness for purpose;
- The performance history of each prospective supplier;
- Risk management;
- The flexibility to adapt to possible change over the lifecycle of the property or service;
- Financial consideration including all relevant direct and indirect benefits and costs over the whole procurement cycle; and
- The evaluation of contract options”.

This frames Value for Money in very functional and instrumental terms. Strategically, however, Value for Money could also be framed in terms of how well procurement decisions benefit the government’s objectives (or any purchasing organisation’s objectives); to what extent value can be multiplied from particular purchasing decisions; and/or what kind of ‘blended value’ can be generated from procurement processes. A strategic interpretation of ‘value for money’ focuses not just on narrow pricing and cost saving assessments (though these will remain part of the process), but also on sustainability, quality and, in the case of government procurement, public benefit.

Blended value is a term developed particularly by Jed Emerson that places ‘triple-bottom line’ thinking into a value proposition framework. Emerson argues that:

“all organisations, whether for-profit or not, create value that consists of economic, social and environmental value components—and that investors (whether market-rate, charitable or some mix of the two) simultaneously generate all three forms of value through providing capital to organisations. The outcome of all this activity is value creation and that value is itself non-divisible and, therefore, a blend of these three elements” (Emerson and Bonini, 2004).

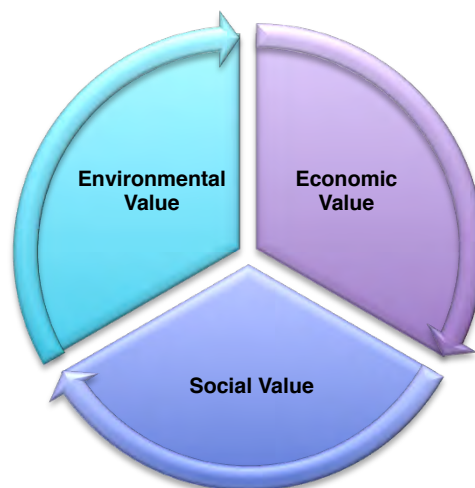


Figure 17: A Blended Value Framework

Applying this to procurement and purchasing, a blended value framework for interpreting ‘Value for Money’ incorporates social and environmental impact and benefit generation into assessments and purchasing decisions (see figure 17).

The real challenge of introducing blended value frameworks into ‘value for money’ assessments centres on how to determine ‘social value’. A great deal of work is currently being undertaken so that social impact and social value can be better articulated and measured (see for example, Nicholls, 2009; Wood and Leighton, 2010).

“we are still really grappling with how to define the social parts of sustainability – particularly, what are the indicators? Because, unlike environmental sustainability where there’s been a lot of research and detailed indicators around energy, toxic substances, ecosystems, habitat – there are those big groupings of issues under which there are indicators. Under social, we’ve looked for issues – is it labour conditions, pay, employment? But there’s not the research, at the moment social impact is a bit of a catch-all phrase”. Supplier

Over time it will no doubt be possible to articulate social value in a much more sophisticated manner. However, in relation to procurement processes, even basic value measurements can assist in making assessments in relation to the social value for money or the blended value for money that a supplier can deliver. Table 7 below outlines some key value indicators that have been used to demonstrate each of the social impacts outlined earlier. These can be useful in developing appropriate questions and scoring processes in the procurement process.

Impact	Key Value Indicators
Employment and Training Impacts	<ul style="list-style-type: none"> - Number of jobs / training opportunities created - Retention rates of employment over time - % of jobs for particular groups / localities - Types of jobs / training opportunities created - % of people moving into mainstream employment (from transitional employment opportunities) - % of people employed who are long-term unemployed or come from particular target demographics
Social Inclusion Impacts	<ul style="list-style-type: none"> - % of spend with non-profits, social enterprises or other entities who have social objectives - % of spend with businesses that are majority owned by particular target groups (eg. Indigenous businesses) - Qualitative reports of inclusion impacts from participants / constituents
Diversity and Equality impacts	<ul style="list-style-type: none"> - % and number of contracts held by diverse suppliers – for example social enterprises, Indigenous businesses, disability enterprise or social firms, enterprises owned by women. - Nature of contracts held by diverse suppliers – eg. How many social enterprises are suppliers of waste related services/products?
Service innovation impacts	<ul style="list-style-type: none"> - % shift in key indicators around focus issues (eg. Drop in crime rates) in target locality - Comparative impact data - \$ spend in relation to benefit between innovation approach vs. traditional approach
Local Sustainability impacts	<ul style="list-style-type: none"> - Number or % of contracts awarded to local businesses - \$ spent in local economy - Number of local jobs or training opportunities generated - Multiplier effect calculation of local spend.
Fair Trade impacts	<ul style="list-style-type: none"> - \$ spend on fair trade products - \$ impact in producer communities compared with non-fair trade purchasing - \$ spend in organisations that support fair labour standards

Table 7: Some value indicators used to demonstrate social impact

“We put (the social impact) in words that people will understand. People don’t understand things that are complex and then they won’t spend the time doing it. (If you want us to do social procurement), give us measures that we can use that people will understand. People won’t assess it if they don’t understand the measure. It’s very hard to get engineers to focus on measuring something they haven’t been doing for 1000 years. They’ve got to see meaning in it, and they’ve got to see value in it”. Purchaser

Awarding the contract

When the tenders are evaluated and a decision is made about which contractor is to be awarded the contract, there is the opportunity to negotiate the actual contract conditions. This means that, based on the method statements that a supplier submits with the tender application, the timeframes, performance indicators and reporting requirements can be documented. It is also important at this stage to identify and agree:

- Who in the supplier's organisation will be responsible for reporting;
- How often and in what format the reporting and performance reviews are to occur;
- How to network the contractor with appropriate support organisations and if they are a mainstream contractor, network them with social benefit suppliers who can be subcontracted or partnered with over the course of the contract.

It is at this point too that the nature of the contractual obligations around delivering, monitoring and reporting on social impacts should be emphasised and reviewed with contractors. A number of the interviewees highlighted the importance of this with mainstream, commercial contractors who may not see the social impacts as core to the business of the contract. It is important when the contract is awarded to review the agreed targets, the methods and the obligations of the contractor in terms of social impacts (see also ISNI, 2010).

Monitoring and Evaluating: Getting the Impact Right

The contracting stage of social procurement may be the most controversial and contested part of the process, however it is the management of the contract once it is awarded, and in particular how it is monitored and evaluated that defines whether or not social procurement is worth all the effort.

According to Austen and Seymour (2009) resourcing this part of the process is crucial if the planned and contracted impacts are to be actually realised in practice.

Monitoring and evaluating the procurement requires the contractor to report the evidence that they are actually delivering the social impacts and benefits that they agreed to provide. Of course the better the planning, and the more specific the deliverables are in the contracts, the easier monitoring the progress of these deliverables is. This is particularly important for organisations where contract management is not well developed even in mainstream contracting situations.

“Contract management isn't really in place even for mainstream contracts. I don't know who's managing them or even if they are. We don't usually hear about management of contracts until something goes really wrong. There's no resourcing of the process – no resources for managing people. We wait till it goes wrong. I spend a lot of my time fire fighting”. Purchaser

Ensuring that the reporting requirements are manageable, and appropriate to the value of the contract, is important. In developing monitoring and evaluation criteria, key questions could include:

- How will monitoring of progress on the social impacts be undertaken, and who in the purchasing organisation be responsible for monitoring?
- How can the 'burden' of reporting be reduced or shared so that it is both effective and efficient?
- How will the progress and monitoring data be used and how can reporting be streamlined to only collecting useful information?
- What is the process if progress on the impact targets are not being achieved?
- Is there a differential monitoring and reporting regime for small contractors or social benefit suppliers compared with large commercial suppliers?
- Is there a need for the reported social impact data to be verified in any way?
- How is the purchasing organisation's commitment to the social impacts demonstrated in the way they monitor and evaluate these factors of the contract?

This last point can be particularly important as, for example, McFarlane and Cook (2007;p19) argue:

“Contractors and suppliers will respond to the priority that their client gives to different elements of the contract”.

Learning from Social Procurement

The final phase of the procurement process is more pertinent for social and sustainable procurement than it is for mainstream procurement, particularly as these methodologies of procurement are still in their infancy in Australia. It involves learning from social procurement initiatives within organisations, across organisations and across sectors (see figure 18).

As social procurement develops and evolves in Australia, it is important that some of the key examples, learnings and reflections are documented and shared to encourage greater innovation and to ensure that the field progressively evolves across the sectors. This is considered particularly important as, over the course of this research it became clear that many purchasers, particularly in the public and non-profit sectors were fearful of ‘exposing’ their involvement in social procurement.

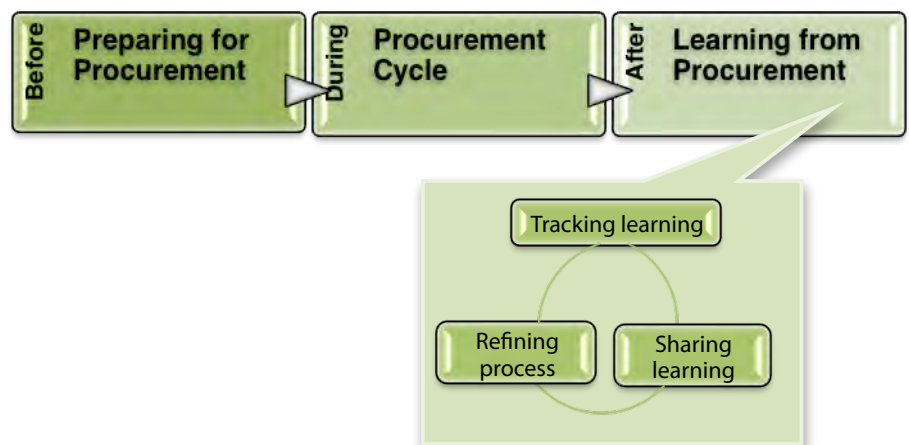


Figure 18: The last phase of procurement: learning

There was much discussion about whether engagement in social procurement was ‘under the radar’ and in some cases there was fear expressed about whether social procurement was legal.

“Because there’s been lots of issues, particularly in local government, about probity, there’s lots of fear around social procurement. It’s a heady mix of conservatism, cause that’s part of local government, and fear. But in reality it’s about unpicking what’s just the mentality that grows out of that mix, and the culture it promotes, and what really legislative barrier. Sometimes legislation is used as an excuse not to do something”. Purchaser

A number of interviewees who had tried to initiate social procurement in their organisations also spoke of the value of having ‘precedent’ examples of where else it had worked. Such examples can help build a case for organisational sceptics of the value of exploring innovative initiatives such as social procurement.

Finally, a few organisations spoke of social procurement in experimental terms – and emphasised the importance of learning from mistakes or failures and feeding these learnings back into revised social procurement initiatives. Interestingly, however, some interviewees believed that failure was not an option for social procurement, particularly in contexts that did not foster innovation. A number of interviewees spoke of situations where they had managed to purchase certain goods/services from a social benefit supplier and the ripple effect when this supplier could not deliver a quality product. According to these interviewees, if a supplier didn’t deliver a quality product or service, then it didn’t matter how good the social impact was that they generated, it would be very unlikely that the organisation would purchase from them again.

In addition, (and this is crucial), it meant that future purchases from like-entities would also be suspected of not having the capacity to deliver quality products. As one of the interviewees said:

“It is absolutely essential that we have good, positive, capable enterprises lead the way in social tendering. If we put up enterprises who can’t deliver first up then they’ll (the purchasers) think they’re all like that and social tendering gets shafted.” Supplier

Success was also recognised by purchasers as a key motivator for growing social procurement in and across organisations:

“When things work people can see it – it’s no longer an uncharted territory that people get fearful about, it’s normal and it can be done and we can see examples of how its been done” Purchaser

Another interviewee also commented on the power of failure, but from the perspective of the employees, in this case, the ‘beneficiaries’ of the social benefit supplier:

“When things work then people on the housing estates get encouraged and the energy builds. People here are used to failing...they expect to fail and they expect the initiatives on the estates to fail. So when things work then they want to be part of it...the energy builds more energy. Key people are noticing that social enterprise works – it’s not that far off but we need to keep showing them its working”. Supplier

There are a number of overseas initiatives overseas that have promoted learning in social procurement and which could and should inspire similar initiatives in Australia as social procurement evolves. Two of these are outlined in the box below.

Sustainable Procurement Cupboard, UK

Developed as a response to requests from procurement professionals for materials to assist in implementing sustainable procurement practices in their organisations. It is a platform that is akin to a sustainable procurement Community of Practice, with materials being shared by registered users, of which there are around 600, mostly procurement professionals.

www.procurementcupboard.org

SPIN (Sustainable Procurement Information Network), UK

Designed for local authorities, this website houses a myriad of resources on social and sustainable procurement that are relevant beyond local government.

<http://www.s-p-i-n.co.uk/doclibrary.asp>

Enterprising Non-Profits (ENP), Canada

The Social Enterprise Purchasing Toolkit is an evolving electronic toolkit designed to help both purchasing organisations and social enterprises access resources. It promotes purchasing and procurement from social enterprises, and offers perhaps one of the best maintained international resource lists about social and sustainable procurement currently available. It also points to helpful practical tools and guides for both purchasers and suppliers.

<http://www.enterprisingnonprofits.ca/se-purchasing-toolkit>

Legalities and legal considerations for purchasing organisations

In Australia procurement practices are subject to various regulatory frameworks depending on which sector an organisation is part of. The strictest regulations, of course, apply to public procurement. A detailed exploration of the legal context of social procurement in Australia is beyond the scope of this report, however some issues that were raised consistently in the interviews need to be flagged and explored because they are often interpreted as barriers to the further development of social procurement.

Table 8 below provides a broad overview of how procurement in each of the sectors is governed. The remainder of the section then will focus on key legal considerations in public procurement.

Sector	Overview of how procurement is governed
Public Sector	Public procurement is very tightly regulated in Australia. Each jurisdiction is not only subject to Federal laws such as the Trade Practices Act (1974) but may also be subject to other legislation and policy governing purchasing and procurement related specifically to that jurisdiction.
Local Government	Local Government procurement in Australia is primarily regulated through state governments, and usually under the provisions of each state's particular Local Government Act. This is usually the key legislative instrument determining whether a full spectrum of social procurement initiatives can legally be undertaken. Some Local Government Acts are more flexible about procurement process than others, and some give more power to local governments to develop their own policies and procedures to govern purchasing and procurement. In these cases social procurement is often easier to implement – however even if this is not the case, there are often ways in which social procurement can be undertaken, though specific legal advice may be needed (see the Victorian Guidelines for a summary of legal guidance provided by the Victorian Government Solicitor's Office regarding social procurement in Victorian local governments). It would be very helpful for the development of social procurement in Australia if each jurisdiction could develop legal guidelines such as those developed in Victoria and make them publicly accessible to reduce the uncertainty about the legality of social procurement.
State Government	State government procurement is regulated under both federal law, and specific state-based legislation and policy directives. Each state in Australia has developed either structures or policy frameworks (or both) that govern procurement across all state-based agencies and organisations. These agencies are also subject to federal law (such as the Trade Practices Act) and international obligations. State governments often have more scope to engage in social procurement than local governments, however the potential for this has not been fully realised by state governments (except in certain areas, such as housing, and in the ACT where the procurement framework has taken account of social procurement across the territory).
Federal Government	The federal government's purchasing and procurement framework is governed by federal legislation, policies and international obligations. There is also a financial management framework that governs proposals to spend public money, in all government agencies. The Commonwealth has developed procurement guidelines for all procurement of property and services, and often each department or agency will have well developed operational policies, procedures and guidelines that set out how purchasing and procedures are to be planned, initiated and reviewed. The federal government has a number of key initiatives focused on social procurement that are outlined elsewhere in this report.

Private Sector	Private sector organisations are subject to purchasing and procurement provisions of the Trade Practice Act and Corporations law. Generally these are reflected in purchasing and procurement policies of corporations, which set out their processes and procedures. Corporations have much more flexibility in terms of including provisions for social procurement in their policies than public sector organisations. However corporate laws relating to shareholder obligations and requirements to ensure shareholder value also influence their engagement in social procurement. Codes of practice that corporations often voluntarily sign are starting to guide their purchasing and procurement practices more often. Finally, there are also legislative requirements for private sector organisations as suppliers, particularly to government, which mandate certain behaviours, practices and initiatives in relation to social policy objectives (eg. Indigenous employment, equal opportunities for women).
Nonprofit sector	Nonprofit sector organisations are equally subject to broad purchasing and procurement laws as set out in legislation such as the Trade Practices Act and Corporations law, and they may also be subject to certain clauses in service agreements that they have with funding bodies. Depending on how they are incorporated there may also be particular rules governing certain purchasing set out under the legislation that governs particular forms of incorporation (either state or federal). Nonprofit sector organisations should have purchasing policy and procedures which provide the core guidelines for any purchasing or procurement practices.

Table 8: A broad overview of how procurement is governed in each sector

The biggest obstacle to increasing and broadening the use of social procurement processes in Australia is the misperception that such approaches exist ‘under the radar’ or somehow contravene procurement legislation or policies. As with any kind of innovative approach there is a degree of testing and discussion that inevitably surrounds social procurement, but it is not an approach that involves excessive risk or operating outside legislative structures.

Social Procurement does not have to occur ‘under the radar’. Although it is often referred to as operating outside standard procurement procedures, this DOES NOT mean that social procurement is untested or that it operates outside regulatory frameworks. Currently social procurement occurs most frequently around purchases that do not exceed thresholds over which public sector organisations must either apply for approval or undertake a competitive procurement process. However there are a growing number of examples and case studies of social procurement and approaches that are well scrutinized and subjected to formal legal review. It is a normal part of innovation to think that approaches such as social procurement cannot be done legally – however all the case studies and stories contained in this guide are testament to the fact that social procurement is both possible and legal. Sharing more stories and case studies of how social procurement has been approached will help to grow the legitimacy of social procurement practices.

Procurement Principles

Public procurement processes in Australia are all based on common basic principles, which are outlined in table 9 below. Social procurement initiatives are *not* about countering or challenging *any* of these procurement principles. Though some fears have been expressed across the public sector, it should be stressed that social procurement does not threaten principles of probity or open and fair competition, or adherence to the value for money principle.

Value for Money	• Weighing up all the benefits of the purchase against all the costs, to get the optimum outcome for the local community.
Open and fair competition	• All suppliers are treated fairly, in an open and transparent manner and have access to the same information so they are able to submit their tenders on the same basis.
Accountability	• Consistency in the approach to procurement across the whole organisation through coherent frameworks, policies and procedures.
Risk Management	• Strategies for managing risks associated with all procurement processes.
Probity and Transparency	• Public procurement processes must be conducted in fair, honest and open manner, with the highest levels of integrity and in the public interest.

Table 9: Key principles underlying all public procurement in Australia

Below some of the common misperceptions about social procurement processes in relation to these basic principles are addressed.

The ‘Value for Money’ principle is not about obtaining the cheapest quote, it is about achieving the best overall result for the money spent. Social Procurement can, on face value, sometimes appear to be a more expensive option because it is about generating social impacts in addition to quality goods and services. It is important to assess this in the context of the meaning of ‘value for money’ because the overall benefits can outweigh the costs if both benefits and costs are assessed in more than monetary terms. The optimum outcome for the local community should be considered and social procurement can result in excellent value for money options.

Social Procurement does not mean creating special preferences for social benefit suppliers. It should be noted that providing social benefit suppliers with the opportunity to participate in an open and fair process is *not* the same as giving preference to social benefit suppliers.

Social Procurement does not necessarily mean social impact is only delivered through social benefit suppliers. Advocates of social procurement see social benefit suppliers as part of developing a broad, diverse and flexible supplier market. They also recognise, however, that the playing field in competitive tender processes is currently not even, and that social benefit suppliers are not well represented amongst public, private or nonprofit sector suppliers. Developing the supply market of each of these sectors to ensure a greater diversity of suppliers can bid for contracts is not anti-competitive; it is, in reality, pro-competitive, ensuring that the supply market remains dynamic, diverse and therefore more competitive in the long term. Further, generating social impact is not the purview only of social benefit suppliers. There is nothing stopping commercial suppliers from including the generation of social impacts in their tender bids or competing against social benefit suppliers to deliver such impacts. For many social procurement advocates this scenario may indeed represent the best possible outcome!

Social Procurement is not about changing *all* procurement arrangements, nor about putting social clauses in *every* contract that purchasers put out to market, and it is certainly not about

undermining the commercial principles or values that underpin procurement processes. Social procurement is about ensuring that when and where it is appropriate, contracts include social impact objectives that are relevant to the content of the contract, the context of the work and the overall objectives of the purchasing organisation seeking these particular services or works. Social procurement is all about achieving Best Value.

Not all public sector organisations will be able to engage in all social procurement approaches. For example, sole sourcing from social enterprises, or social tendering (where certain tender processes are restricted to social benefit suppliers or particular kinds of social benefit suppliers) may not always be possible for all public sector agencies and each organisation should thus explore the sorts of social procurement initiatives that are possible within the regulatory structures under which their purchasing processes are governed. Private sector and third sector organisations may also need to check their current purchasing guidelines and policies to ensure that any social procurement initiatives they undertake are consistent with these frameworks. The sections and tables below outline some of the key issues and legal considerations that should be noted and checked in relation to particular approaches to social procurement.

Policy Focus

A policy focus in social procurement looks to frame all the procurement of an organisation or even a sector (see chapter two). Some of the key legal issues and questions that were raised in the interviews related to a policy focus are outlined in table 10 below.

Policies frame all procurement activities. Does the organisations/ sectors' procurement policy enable or provide for social procurement opportunities?	Are there compliance requirements for social benefits built into the policy and consequences if these are not followed?
Are those responsible for procurement in the organisation/ sector aware of and implementing the policy?	Do the social procurement policies of purchasing organisations comply with all relevant legislative frameworks?

Table 10: Some key legal considerations for a policy focus in social procurement

A policy focus can be effective in achieving broad social policy impacts – such as ensuring that companies are compliant with equal opportunity frameworks, or ensuring that infrastructure projects in Indigenous communities employ Indigenous people from those communities. They can also provide the necessary legal framework for undertaking social procurement (for example, in some local government jurisdictions, social procurement is only legally possible if it is provided for and enabled in that Council's procurement policy). The challenges arise where the policy only ensures that the social impacts be delivered 'on paper' (for example, all that is required is some documentation to indicate that a social benefit has been delivered) and when there are no mandated obligations in place that ensure that the policies are indeed having the intended social impacts *in practice* (see Austen and Seymour, 2009). Further, a number of interviewees highlighted the need for monitoring of social procurement policies to ensure that reported impacts are actually real. Finally, policies seem to be most effective if they are reviewed on a regular basis to ensure that they are actually supporting social procurement and that the intended impacts are being realised.

Contract Focus:

The contract focus for social procurement probably attracts the most attention in relation to legal issues and questions, because the contractual process is highly legalised and has the potential to attract legal challenges. Some of the key legal issues and questions that were raised by interviewees in relation to the contract focus of social procurement are outlined in table 11 below.

<p>Are the processes and decisions of social procurement initiatives adequately documented? In particular: what the social benefits to be achieved are and why they are important? What procurement process was followed? How were decisions about inclusions of social benefits reached and justified? And were any authorisations or exemptions sought and approved?</p>		
<p>Are the social benefits clearly defined and articulated in tenders and contracts (including any key deliverables, monitoring requirements, weightings and contractual obligations)?</p>	<p>Are the social clauses framed as measurable deliverables rather than aspirational goals?</p>	
<p>Have social clauses been assessed and approved by legal advisors prior to inclusion?</p>	<p>Are award assessment processes, weighting and scoring methods clearly and transparently articulated?</p>	<p>Are pre-tender briefings necessary to explain social clauses if they are complex or sensitive?</p>

Table 11: Some key legal considerations in a contractual focus on social procurement

Care must be taken to ensure that the legal frameworks that apply to mainstream procurement processes are equally applied in social procurement processes. It may be helpful to examine how other innovative approaches to procurement have addressed legal and administrative concerns (see for example the many case studies and examples of sustainable procurement and green procurement that are beginning to be discussed openly in the public sector). Further, there is a need in the Australian context for legal advice about the inclusion of social clauses (and other mechanisms for including social benefits in procurement processes) within different jurisdictions. This needs to be in a form that can be shared. In addition, model clauses should be developed, tested and made available for others to use. This will, over time, help to reduce the anxiety around the inclusion of social clauses.

Market Development focus:

A market development approach in social procurement requires design focussed around the particularities of issues and contexts. The legal issues involved are therefore complex and often unique to particular circumstances, and therefore discussions of general legal considerations are not possible.

Market development approaches are possibly the most innovation focussed of the social procurement approaches, as they seek to examine, explore and act on social issues, generate social impact and then develop new 'markets' that can then relate back to procurement processes into the future. They are sometimes structured as joint ventures (in the legal as well as vernacular sense) (see short case study about Spotless in chapter 5) but at other times can build on fairly simple legal agreements between parties such as Memorandums of Understanding (see for example the Yarra City Council case study in the compendium).

Supplier focus:

A supplier focus in social procurement looks to develop the diversity of the supplier base of particular sectors or organisations. Some of the key legal issues and questions raised by interviewees in relation to the supplier focus are outlined in table 12 below.

<p>What kind of capacity building is required to build a diverse supplier base and/or include social benefit suppliers into procurement processes? And what direct and indirect implications are there for procurement processes (eg. if it involves social tendering as a capacity building tool this would have direct implications for procurement processes)?</p>		
<p>If pathways for social benefit suppliers are developed (so that they are able to build their capacity to engage in tendering), then are each of the stages on the pathway documented, approved and compliant with policy and legislation?</p>	<p>Are capacity building approaches separated from particular contracts, avoiding conflict with probity and anti-competitive principles?</p>	
<p>Are capacity building approaches conducted in an open and fair manner and are the public benefits of a diverse supplier market clearly articulated?</p>	<p>Do supplier market development and capacity building approaches align with internal procurement policies?</p>	<p>Are there connections that could be made with social benefit supplier intermediaries for capacity building activities?</p>

Table 12: Some key legal considerations in a contractual focus on social procurement

There is a key tension in this focus. On the one hand, capacity building, particularly in relation to some social benefit suppliers is a key part of enabling them to compete and thereby developing and maintaining a diverse supplier market. However, on the other hand, this needs to be done carefully so as to avoid any potential misperceptions of giving certain suppliers an unfair advantage. To address this tension it may be prudent for organisations to develop arm's length partnerships with intermediaries who can undertake capacity building work with social benefit suppliers.

Though there are currently few publicly available resources providing legal guidance for social procurement in Australia, the following box contains some important local and international material that could assist and should inspire similar Australian based resources.

Further references regarding legal questions:

Every organisation and sector interested in applying social procurement should seek their own legal advice and direction. However, there are a number of key Australian and international guidelines that contain interesting and informative information and that could assist organisations in seeking and applying legal advice.

The **Victorian Government's Local Government Social Procurement Guidelines** contain legal guidance from the Victorian Government Solicitor's Office relevant specifically to local governments in Victoria, but with relevance also to other local governments interested in social procurement.

This guide is available from:

<http://www.dpcd.vic.gov.au/localgovernment/councils-reforming-business/procurement>

The **UK law firm Anthony Collins** has undertaken extensive work examining the legalities of social procurement in various sectors across the UK and has made all this work publicly available. It would be an extraordinary contribution to the growth of this field in Australia were there to be similar public interest legal actions undertaken here in various sectors and jurisdictions. The work undertaken by Anthony Collins has been led by Mark Cook and consultant Richard McFarlane. The key publications are available at the following locations:

Achieving Community Benefits through Contracts: Law, Policy and Practice, written by Richard McFarlane and Mark Cook, for the Joseph Rowntree Foundation, 2002

<http://www.jrf.org.uk/publications/achieving-community-benefits-through-contracts-law-policy-and-practice>

The Scope for Using Social Clauses in UK Public Procurement to Benefit the UK Manufacturing Sector, 2006

www.bis.gov.uk/files/file34322.pdf

Community Benefits in Public Procurement (for the Scottish Government), 2008

www.scotland.gov.uk/Resource/Doc/212427/0056513.pdf

Targeted Recruitment and Training Toolkit (Construction), Tyne and Wear Collaborative Efficiency Programme, 2002

available at: www.northeastiep.gov.uk/North%20East%20Councils/Targeted%20Recruitment%20and%20TrainingToolkit.pdf

This chapter has provided an overview of the 'nuts and bolts' of the social procurement process.

The next chapter examines the factors underpinning successful implementation of social procurement, focussing particularly on current examples of social procurement in Australia and insights gleaned from the experiences of interviewees.

Chapter Four

What makes social procurement work?



This section examines some of the cross-cutting themes from interviews and case studies that point to the factors that have helped to build existing examples of social procurement in the Australian context and that could provide a foundation for further development.

At the core of social procurement is social impact and social benefit – positive improvement, effect and influence that is in some way measurable, in relation to some of our most perplexing and complex social issues. If procurement is to contribute to generating social impact then certain conditions, factors and influences need to be in place. Three groups of cross-cutting themes were identified in the interviews, as playing a role in the initiation and development of social procurement in organisations (see figure 19). These are discussed further below:

- **Context and Catalysts:** the importance of place in the development of social procurement, and the role that having a catalyst, a spark, a reason or an insight plays in driving social procurement initiatives;
- **Culture and Champions:** the importance of the organisational culture in the purchasing organisation in providing fertile ground on which social procurement can develop, and the role that champions and intrapreneurs in the organisation play in driving social procurement initiatives;
- **Communication and Collaboration:** the importance of communication and dialogue within purchasing organisations, within supplier organisations, and between the two. The role that collaboration between sectors can play, particularly if this collaboration is supported by a willingness to engage in innovative and challenging processes that attempt to address complex issues.

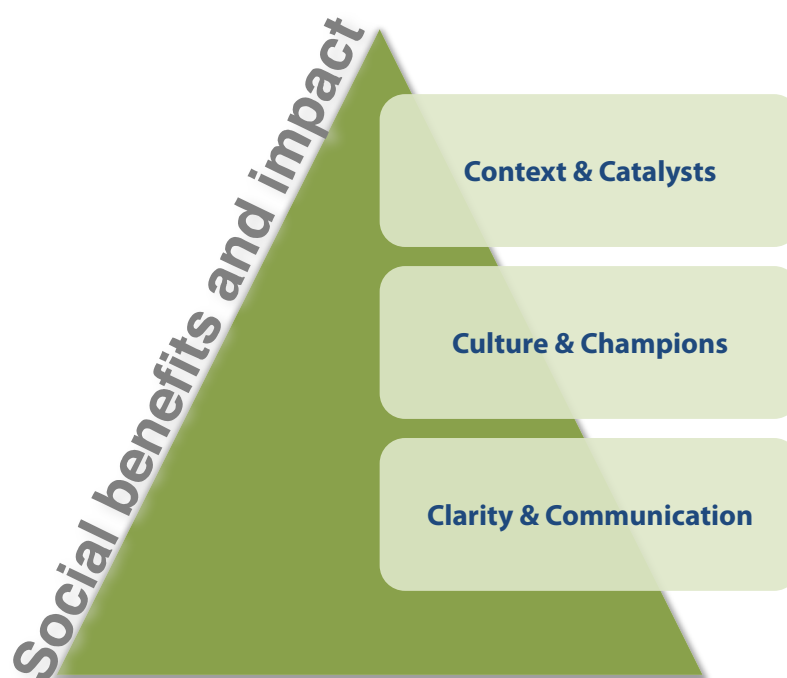


Figure 19: Cross-cutting themes in building successful social procurement initiatives

Contexts and Catalysts

Those social procurement initiatives that were clearly centred on a place or an identifiable contextual focus (such as engaging with social enterprises, or generating Indigenous employment or employing public housing tenants) were developing more strongly than those that had general intentions or broad, aspirational social goals. Further, when the focus of social procurement could be directly linked to key objectives of an organisation, there was greater motivation to develop the initiatives and generate structures that could support more such initiatives. For example, in both Victoria and NSW the State Government housing departments have developed some innovative and successful social procurement initiatives that are focussed on particular housing estates, renewal regions or communities (see case study compendium).

The particular context and situation of a purchasing organisation and the communities it works in – economically, socially, culturally and politically - has an influence on both the determination to engage with social procurement and the approach that is chosen. Particular contexts and conditions inspire particular approaches, and it is often the context that motivates organisations towards greater innovation in their procurement practices.

A place focus not only allows for very targeted and contextually relevant initiatives, but also provides a focus for designing procurement processes that are clearly focussed on achieving particular social impacts, making it easier to clearly articulate objectives and obtain any exemptions that may be needed.

“For us it’s about place based work. It’s about making a difference here on this estate, with these people, and with the work we have to do here”. Purchaser

Focussing on a place, a community or an identifiable demographic context can also make it easier to articulate the need for social procurement and to measure its impacts.

“Local government has a built in notion of benefiting community in the way it does its work. Our role is pretty fundamental – we are local, we define our community physically – there’s nobody else better placed to generate social procurement – we’ve got massive spend, and budgets and if anyone’s going to break down the barriers, it’s probably going to be local government”. Purchaser

“For housing, social procurement is about employment of tenants, particularly on the estates around here. Housing has an incentive to participate in things like this – they have a direct connection between the people they are trying to help and the opportunities that tendering presents – whereas other government departments may not have that”. Purchaser

Often the decision to engage with social procurement involves a catalyst – an event, a recurring issue with contractors or a realisation that addressing a particularly complex local problem requires different and new ways of thinking and responding. The catalyst or catalysing process that motivates purchasing organisations to explore social procurement can shape what and how the engagement evolves.

Many of the most successful social procurement initiatives developed in Australia to date have been born out of a moment of desperation, insight or both. A number of interviewees described realising that something different needed to be done, and that only a systemic review of how resources were being spent on addressing the issues could change what was happening.

“One of the profound things for us has been the realization that many of the current systems were failing these communities – and this is particularly in the context of very disadvantaged communities That’s what’s led us to consider how we ourselves spend our money in these communities and that we could do that differently” Purchaser

Some interviewees spoke of a catalyst (an event or insight) that pushed thinking in organisations towards innovative approaches such as social procurement. Others spoke of a growing personal commitment to the idea as catalysing energy to undertake more work on social procurement.

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

It is not, however, always a catalytic moment just for people in purchasing organisations. In the interviews some suppliers spoke of the catalyst being a question from a social benefit supplier about how they could begin to engage with purchasing organisations.

“I think it’s interesting how much awareness can be raised (about social procurement) through a dialogue with social enterprises– like, (the purchaser) wouldn’t have engaged if there wasn’t a social enterprise dialogue occurring, so it happens because they are exposed to social enterprises or they’ve had a good experience of working with one social enterprise and it grows from there – whether it’s through a social enterprise or just including social objectives”. Supplier

“It was clear to us that if we managed to get some ongoing contracts, that that would provide more opportunities for (the enterprise), so we approached the council to talk about whether we could get the contracts for local parks. (It took some years to work through it but we finally found a particular person in council) who made it happen. He made it happen – he found three parks where there were disputes with neighbours, the neighbours to the park had complained about the (multinational) contractor, and we started there. If (he) hadn’t made it happen it wouldn’t have happened”. Supplier

Dialogue initiated by suppliers was also cited by purchasers as representing an important step in initiating social procurement.

“I had a phonecall from (a large not-for-profit organisation) looking to possibilities for contracts for social enterprises. So I said, well let’s just open up a dialogue. I don’t know where it goes, but for me it could provide an avenue, one avenue for possibly demonstrating social procurement. For me it isn’t always a one way street, it could come in any shape or form but there has to be a beginning, an opening to take it further” Purchaser

Other social benefit suppliers recognised that while they did not have the capacity to tender for contracts alone, they could harness social benefit opportunities in a tender by partnering with other suppliers. Some strategically partnered with larger suppliers so that they could challenge other suppliers and purchasers to deliver social impacts as part of a contract, but also to be able to participate in tenders that they are not large enough to deliver or tender for themselves.

“All we can do is to tender for work on the basis that we’re offering a social benefit – but we’re not really at a stage where we’re scalable, or cost efficient or of sufficient quality really to deliver large contracts in our own right. So the question for us is not whether we can apply for tenders in our own right, but who is it best for us to strategically partner with so that we can do what we do best, employ people who have been long-term unemployed, whilst at the same time getting work that is manageable, where we are part of the work, but we have much larger partners because we’re not big enough to compete for the large tenders” Supplier.

Finally, there are some very innovative examples of social procurement that have not been purchaser initiated at all – with the Larrakia clause (outlined in the box below) being perhaps one of the most innovative and inspiring example from the Australian context.

The Larrakia Clause: An Innovative Supplier Driven Social Clause

The Larrakia Development Corporation (LDC) has developed a clause and negotiated its inclusion in corporate and government contracts carried out in the Darwin area (in and around the region where Larrakia people are traditional custodians). The clause aims to open up opportunities for business and collaborations for the LDC and its subsidiary companies, who are concerned with the employment and economic development of Indigenous people, particularly, Larrakia. The clause means that companies need to inform the LDC of upcoming contracts, and then mandate that the successful contractor for each contract contacts the LDC to ascertain if any of the subcontracting work aligns with and can be undertaken by LDC companies or their subsidiaries. This not only raises awareness of the LDC in the corporations offering the contracts, but also within the entire supply chain of that corporation who are undertaking work in the Darwin area. The clause does not give any tendering preference to the LDC, and if the LDC wishes to tender for any of the contracts or subcontracts it still needs to undergo the same competitive processes for tendering as any other potential supplier. The clause merely puts the Larrakia on the supplier map, and provides a mechanism for opening communication with LDC companies. The company who originally included the Larrakia clause in its contracts is also included in a feedback loop which is part of the clause, and which makes the company aware of any subcontracts awarded to LDC that have resulted from the original contract. Interestingly corporations have been much more open to adopting the Larrakia clause than government departments. Numbers of national and transnational corporations have voluntarily included the clause in their tender documents.

See the Federal Government's Inquiry into Indigenous Enterprise Development, 2008, particularly chapter four.

www.aph.gov.au/house/committee/atsia/indigenousterprises/report/chapter4.pdf

Larrakia Development Corporation: www.larrakia.com.au

This example of a supplier driven social clause could inspire other place-based or contextual approaches and innovations that could raise the profile of particular social benefit suppliers without giving them preference in any procurement processes. In addition, such initiatives could encourage greater levels of purchasing from mainstream contractors in the form of subcontracts to social benefit suppliers.

Key insights for suppliers

- If a supplier's social impact is place based, there may be a case for engaging local purchasers in initiatives that promote the use of place-centred social procurement;
- Developing dialogues with a range of purchasers in a locality and being able to articulate actual and potential place-based social benefits that could develop out of engagement with social procurement initiatives may help to catalyse action;
- Developing a profile as a local supplier and demonstrating local benefits could contribute to the broader development of place-based social procurement.

Key insights for Purchasers

- Place-based social procurement can be highly effective, both from the perspective of social impact and procurement process;
- Understanding the context in which a social impact is sought is key to developing social procurement initiatives – generalized social benefits are not likely to be effective from an impact perspective, and are much more difficult to include in a procurement process. The more specific a social procurement initiative can be the more effective it is likely to be;
- Linking an analysis of resource allocation and spend into discussions of how to address complex local issues can provide a catalyst for exploring social procurement.

Culture and Champions

Social procurement is often linked to social innovation. Enacting social procurement requires certain organisational cultures: high levels of engagement across different teams in the organisation; leadership that is enabling and supportive of innovation; and, a 'can-do' attitude across teams and the organisation as a whole. While cultural factors are often downplayed or discounted, they have a profound influence on whether organisations pursue innovative agendas such as social procurement and, then, how those agendas are developed over time.

Interviewees identified the importance of cross-organisational dialogue in initiating social procurement.

"The relationship between the procurement section and the community services sector was key to making it happen. I knew nothing about social enterprises – so the sharing of information was key. It was an exchange of knowledge – we were applying our different knowledge to the same issues. And this grew as the relationship grew". Purchaser

Often the initiative for engaging procurement processes to address social issues did not stem from procurement professionals in the organisations – but rather, came from those parts of the organisation directly connected to the social or community issues (such as community development or engagement staff). However, it was identified that involving the procurement professionals was a crucial part of developing the social procurement agenda.

"One of the things that we are not doing enough of yet is getting procurement officers in a room and asking them 'what would make this easier for you and what do you see as the barriers?' So we can start tackling them and pulling it apart. It's the practical processes that we need to make it a reality. You need the hooks." Purchaser

This was considered particularly important in public sector organisations where the culture that has developed around procurement is dominated by fear and risk management.

"There's strong feelings, one might even say, paranoia about transparency and fairness hovering behind all procurement in public organisations". Purchaser

"For most procurement professionals, it's all about risk. Opportunity for improvement and doing good through procurement is still not valued – it's not a performance measure. At the moment the sort of performance measures we have as procurement professionals are that we don't want to hit the newspaper for bad stuff, and we want to spend within our budget. There currently isn't a real driver for us to seek opportunities – though this is changing, and this is what we need to aim for and to push for" Purchaser

Often social procurement processes are initiated by particular people or teams who have a vision about how social benefits could be incorporated into purchasing practices. In all the case studies, and indeed in most examples of social procurement around the world, a common theme is the role that individuals within organisations play – the intrapreneurs who initiate change, and the champions who provide the drive to make the change.

"There's got to be someone driving it – pushing it along over all the hurdles, getting through all the hoops, getting it through middle management" Purchaser

Sometimes the champions and intrapreneurs driving and creating the process were not leaders in the organisation, but rather had positions of brokerage between the management or executive levels of the organisation and the communities with which the organisation worked.

“I choose to work from this level. If you’re up higher in the tree – you need to tow the party line – you have to be at a particular level to make change like this happen. I choose to stay here and not advance – otherwise its really hard to be innovative”. Purchaser

Other times the champion was identified as a leader in the organisation, often in top executive positions where they could influence others and ensure that action was taken.

“Our CEO has been passionate about the social process and she’s had a big impact on the culture of the organsiation. She has brought in and cultivated the soft infrastructure, not just the hard infrastructure. For something like social procurement to work you’ve got to get the mandate – you can’t do anything without a mandate. You need someone with ‘chief’ in their title – who says ‘we are now doing this’...that’s how you attract the good people to the working groups that make things happen. It’s got to be more than a working document that someone at middle management signed off on. You need the CPO or the divisional manager, and the CEO, and then you need some budget, then that drives momentum”. Purchaser

In some organisations it is imperative that there is direction from senior staff in order to push the idea and awareness of social procurement further.

“To be honest, we need to get some drivers from senior level, and we need to shift the mindsets at that level for it to really take off. We need to force reporting on social impacts and environmental sustainability to the senior levels not just reporting on cost savings.” Purchaser

The role of champions (particularly those in leadership positions) in shaping the approach to social procurement cannot be underestimated. The intrapreneurs and champions were often identified as very resilient, passionate and determined. They spoke of some the considerable obstacles and barriers that existed in organisations and that the development of social procurement required personal stamina, vision and drive.

“I suppose it was just dogged determination to see some different outcomes for our clients that kept me going through all the blockages” Purchaser

“In bureaucracies there are people who block things and processes that block you. If you want to be innovative you’ve got to be able to join the dots – and not take no for an answer. There’s heaps of personal and bureaucratic hurdles that you need to get over to make things (like social procurement) happen. Bureaucracy is like a being in itself – its like a thing with arms, legs, mind, body – it’s a living thing and its got its own way of doing things. And if you’ve never been in one then its hard to understand. The bureaucracy can’t stop you doing things, but individuals in the bureaucracy can.” Purchaser

The importance of champions in organisations was also identified by social benefit suppliers who spoke of how certain people had helped to open opportunities for them. However, there was also an acknowledgement of how important it was that these champions were able to create structural changes that persisted beyond their individual passion and drive to see innovations such as social procurement succeed over time.

“I think there’s a lot to be said for relationships – but also it needs to go beyond relationship cause we’ve had a couple of times when a champion has moved on, and the next person just doesn’t get it and we don’t get much work then”. Supplier

Key insights for suppliers:

- Never underestimate the power of champions and intrapreneurs within organisations to raise awareness and generate action around innovative activities such as social procurement;
- Exposing leaders and key people in organisations to the social impacts that can be delivered by social benefit suppliers can play a catalytic role in creating organisational champions and in stimulating intrapreneurs. The best way to expose people to this is to find ways to show and demonstrate the impacts – introducing them to people who have experienced and can speak to the impacts generated.

Key insights for purchasers:

- Developing processes of cross-organisational communication and innovation can help to facilitate or lay the foundation for development of social procurement and other innovative programs;
- While the role of champions and intrapreneurs in fostering social procurement cannot be underestimated, it is important that such initiatives become structural and broadly accepted rather than remaining the passion and vision of individuals or small teams.

Communication and Clarity:

Communication, both within organisations (purchasing **and** supplying organisations) and across organisations and sectors is crucial to initiating and developing social procurement.

One of the poignant and probably most disturbing themes identified in the interviews was the different understandings between purchasers and social benefit suppliers of what is involved in procurement and purchasing processes (particularly in the public sector). At times it seemed that there was a gulf in between their understandings – as is illustrated in the following two quotes.

“To me social procurement is where a contracting entity gives a contract to a community enterprise who employs people who are disadvantaged in the labour market, but gives that contract to them under favourable terms that allow that enterprise to employ people who are disadvantaged and allows them to part of the labour market. But the favourable terms has got to be a part of that. And that could be a number of different things. The favourable terms might be that a certain percentage of contracts are given to community enterprise without them having to go through tendering processes. Or it might be that the contracting body isn’t seeking the lowest, cheapest price, but actually sees this as making a contribution to the community”. Supplier

“Social procurement can’t be something that becomes too comfortable – social enterprises have got to be on a path to some competitiveness. (Our) contracts cannot involve arrangements that start to be seen as some kind of right or gift. Social procurement is a mechanism to build capability to be able to compete...if it gets to be seen a some kind of right than it will blow up – we are not talking about a hand out. It’s not a right –it’s a pathway, and it needs to be valued as being in the public interest to use this pathway”. Purchaser

Some public sector staff spoke of the difficulties involved in explaining the complexities of public procurement processes to suppliers who were unfamiliar with contracting or tendering environments and who assumed that it was possible for public bodies to allocate certain contracts to social benefit suppliers. This points to one of the key challenges for social benefit suppliers in developing social procurement (further explored in chapter 5), that is, to gain some understanding of what the principles of procurement are (particularly in the public sector), and what is and is not possible for procurement professionals seeking to engage social benefit suppliers. Some purchasers became quite animated in discussing these difficulties.

“We can’t ‘give’ people contracts. There are a lot of people out there who out there saying ‘government should do this and do that’ with their contracts. They often haven’t taken the time to understand what Government can do and they have very little understanding about cycles, processes, decision-making processes and laws. In many ways it’s arrogance and laziness. This is a market. You need to research it, what it wants and needs, and what it can and can’t do. They haven’t taken the time to research their market”. Purchaser

At the same time, suppliers spoke about purchasers lack of understanding about how disadvantaged many social benefit suppliers are in terms of competing for tenders (particularly those suppliers who are employing people who have been excluded from the labour market for long periods of time).

“There’s still a real gap between the on the ground social enterprise reality and the amazing opportunity that exists out there for corporations purchasing from us. We’re limited by so many things – the fact that we’re working with and employing people who no one else would employ, by the size of their normal purchases, what we’re making for whom and why, our business models, the industry we’re in and our business planning processes. In reality I wonder if we’d ever be in tendering position. In reality what we need is partnerships – people who buy from us because they believe in what we’re doing. I’m not sure I believe in social procurement as an option for us if it’s just about contracts”. Supplier

“There’s a misperception that our operating costs are less because we’re employing people who are disadvantaged, that somehow its subsidized. While there are some subsidies available, it is not the case that we’re a subsidized business. In fact it costs more to employ people who haven’t worked for a long time. It’s an outrageous misperception that people think because we’re a social enterprise we’ve got lower overheads. It’s just not true. So, a competitive environment squeezes the social out of a social enterprise – the more competitive the environment, the less social you can be and that’s the crux of social procurement for me. If you want to deliver social outcomes then you have to tilt the playing field to offset some of the costs”. Supplier

Clearly the gap between suppliers and purchasers in relation to social procurement requires much deeper dialogue than is currently occurring. What this gap highlights is that social procurement is a part of a spectrum of ways in which people can engage with social benefit suppliers. In many ways it is at the far end of purchasing behaviours, when the supplier is able to supply large quantities, at reasonable prices and with a quality that remains constant from order to order. To get to the contracting end of the spectrum can be a long journey and in many ways the benefits of large contracts have to be weighed up with how they will sustain the supplier to continue to deliver a social impact, which is often the core purpose for many social benefit suppliers.

It was not the case, however, that all social benefit suppliers saw social procurement uniformly – indeed some were quite vehemently opposed to the idea of ‘social’ procurement, suggesting that it was another way in which non-profit businesses who were delivering a social impact would be seen through charitable lenses rather than as a business delivering quality services.

“In some ways what you’re saying when you talk about ‘social’ procurement is ‘don’t look at me in the same way as you look at other organisations because there are other things that you have to bear in mind like that I’m helping disadvantaged individuals’. Now we don’t tend to approach our procurement work that way, especially when we’re offering services to commercial entities. It’s built primarily on the basis of our ability to deliver the service, the quality of our service and competitiveness of our pricing. We have to deliver the service and when we tender for that work we don’t say, give us some leeway because we’re a not for profit, it’s not going to work that way. It’s usually an addendum if it’s there. ‘And by the way, we also do all these things in the community – if you help us prosper you also help these things to grow’. That’s the kind of dialogue that we have.” Supplier

This highlights another communication need in relation to social procurement – the need for clearer communications about the social impacts and benefits that such approaches could deliver, and also for greater levels of clarity around how social benefit suppliers deliver such impacts.

“At the end of the day, its’ got to come back to social impact – you’ve got to be able to demonstrate that by procuring through here you’re making some additional benefit. And if there’s additional costs that’s even more important. If you’ve got social clauses you’ve got to find some way of demonstrating it. All the work that’s going on around social impact at the moment is absolutely critical – until we can crack that nut it’s going to be really difficult. It can’t be something like an SROI – a huge spread sheet that takes months, and that costs a fortune. The procurement officers are just not going to go for that – they want like a one page box that they can tick. So at the moment, the gulf between what they have and what they want is huge, extreme. There’s got to be some pulling together between these things.” Purchaser

Clarity of communication also extended past the tendering stages of the process into the contract management and evaluation phases, with many suppliers and purchasers identifying the need for much deeper relationships and open communication, particularly when mistakes were made or the required quality of service was not delivered.

“We’re not asking you to change your standards – we’re asking you to support our people to come up to your standards. These are people who’ve never worked or haven’t worked for years – they don’t know what a standard is, they don’t know that, they’ve never experienced it. Now they are in communication – they can come and talk about it. Yesterday one of the guys came in and was so excited and said that they’d had a recall but all they could pick on was that there was a bit of grass between the pavers – and they saw that as huge progress because it used to be so much more than that – so there’s a pathway, and support to come up to the standards, to meet the standards”. Supplier

Key insights for suppliers:

- There is a need for social benefit suppliers to understand and appreciate the processes and procedures of purchasing and procurement, particularly in the public sector;
- Participation in a dialogue with purchasers about some of the challenges that many social benefit suppliers face in competing in tender processes and about the benefits of social procurement processes in opening opportunities for such suppliers could be helpful for engaging purchasers;
- Dialogue with potential purchasers can be assisted by site visits and helping purchasers to understand social benefit suppliers business models and impacts.

Key insights for purchasers:

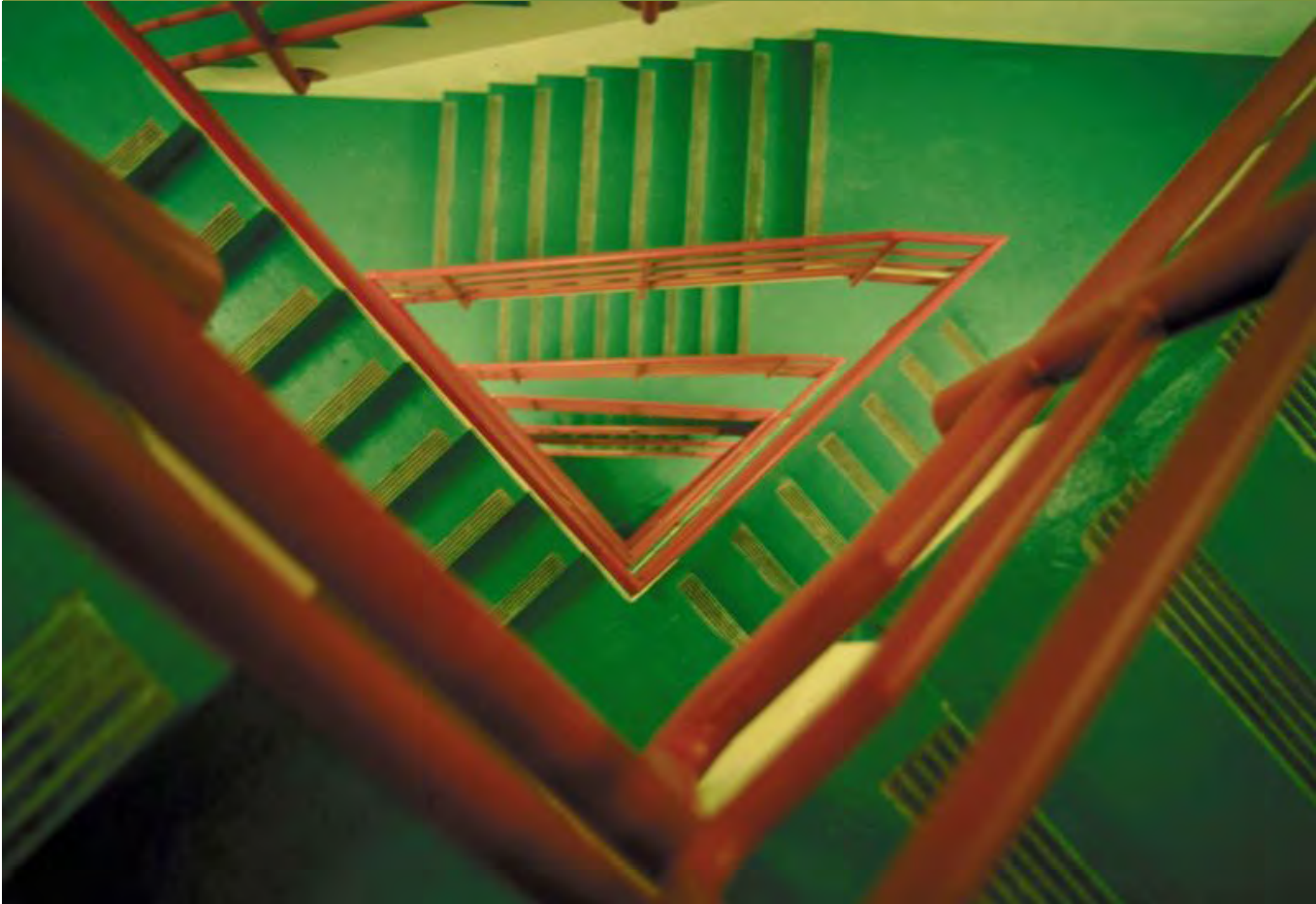
- Being able to articulate the procurement process and assist social benefit suppliers to understand the procedures and constraints, particularly in relation to public procurement, could be an important foundation for social procurement;
- Developing a deeper understanding of social benefits and social impacts, and understanding these in the context of social benefit suppliers is important if such suppliers are going to be able to build the capacity to become suppliers and compete in tender processes;
- Visiting social benefit suppliers and learning about their business models and impacts can help purchasers to understand barriers to and opportunities for supplier engagement.

This chapter has outlined some of the key insights from the interviews about what supports success in social procurement.

The next and final chapter examines the challenges ahead for developing social procurement in Australia.

Chapter Five

Challenges and Conclusions



This report has defined social procurement, outlined some of the processes and practices of social procurement and has explored what factors make it work in those instances where it has developed in Australia. The case study compendium that accompanies this report also provides more detailed understandings of how social procurement has been implemented in various organisations and sectors. In conclusion, this final chapter outlines some of the key challenges facing social procurement in each of the sectors and amongst various stakeholders. These challenges provide insights into the next steps necessary in each sector in order to develop social procurement in Australia.

The challenges that lie ahead for the development of social procurement are similar and related to the broader growth and institutionalisation of sustainable procurement. However there are also some specific challenges that need to be discussed, debated and addressed if social procurement is to develop beyond a few key examples nationally.

This report has provided a conceptual basis for some of these discussions, however it will not be enough to leave them in a written report – they need to be brought to life in public debate. The key areas that need further dialogue and discussion include:

1. Agreement about the **definition of social procurement**, and its links to sustainable procurement (as part of triple-bottom-line thinking in procurement practice) and what constitutes ‘social benefit’ and ‘social impact’;
2. Exploration of the **‘social benefit supplier’ concept** that links what are currently disparate social policy agendas, and creates an umbrella concept for a kind of supplier that is able to deliver specific social benefits and impacts within non-social service focussed contracts;
3. **Engagement of mainstream suppliers** into the discussion of social procurement and the delivery of social benefits;
4. **Involvement of broader stakeholders** such as unions into the dialogue, to ensure that any questions or issues of worker displacement or reductions in worker conditions by social benefit suppliers can be discussed and addressed;
5. **Debunking some of the myths** about social procurement, particularly those that suggest that it threatens the commercial principles of procurement practice;
6. **Educating social benefit suppliers** also about the importance of the key principles of procurement (particularly in public procurement) and the need to respect these principles;
7. **Growing a community of practice around social procurement** to encourage sharing of case studies, examples, sample contracts, legal advice and other relevant materials through some form of clearinghouse model.

There are also specific challenges for each of the three sectors, and for suppliers and other stakeholders such as intermediaries and unions. These are summarised in table 13 and examined further below.

Challenges for the public sector

The public sector has, perhaps, the most to gain from developing social procurement as it leads both economic and social policy and is itself a very larger purchaser. For this sector the three key challenges are:

- **Developing and disseminating legal clarity:** Because purchasing and procurement is regulated by different legislative frameworks across different jurisdictions, it is important that legal clarity is pursued so that procurement professionals and management across the public sector are able to engage with social procurement actively.
- **Encouraging innovation and exploration in social procurement:** As many of the case studies provided in the compendium illustrate, there are significant social impacts that can be generated from public sector involvement in social procurement. Many of the most successful examples of social procurement have developed because of support and encouragement from public sector executive managers and political leaders. A key challenge for the development of social procurement is

Public Sector	<ul style="list-style-type: none"> • Establishing legal clarity across different jurisdictions; • Encouraging innovation and exploration in social procurement; • Addressing tensions between funding and purchasing from social benefit suppliers.
Private Sector	<ul style="list-style-type: none"> • Ensuring CSR agendas are reflected in purchasing and procurement policies and practices; • Moving beyond negative screens towards positive impacts in relation to social aspects of sustainable procurement
Social Sector	<ul style="list-style-type: none"> • Adopting a leadership and modelling role in relation to social procurement; • Aligning purchasing practices with social objectives.
Social Benefit Suppliers	<ul style="list-style-type: none"> • Understanding the legal and policy bases of procurement and the constraints this puts on purchasers (particularly in public sector); • Developing capacity to compete for contracts.
Mainstream Suppliers	<ul style="list-style-type: none"> • Developing understanding of social procurement and the challenges and opportunities it presents; • Developing the capacity to deliver on social objectives and clauses.
Other Stakeholders (such as unions and intermediaries)	<ul style="list-style-type: none"> • Developing an understanding of social procurement and build constructive relationships with social benefit suppliers; • Working with suppliers to build their capacity to compete and deliver social benefits and impacts.

Table 13: Key Challenges Presented by Social Procurement for Sectors and Stakeholders

demonstrating the benefits to other public sector leaders and generating incentives for innovation and exploration in relation to how purchasing power could generate greater social benefits. This will, in part, require addressing some of the fear that is embedded in many public sector organisations around issues such as probity, and encouraging a culture in which innovations such as social procurement become 'normal' rather than 'novel'.

- **Addressing concerns regarding the tension between investing in social benefit suppliers and then creating pathways for them to gain public sector contracts:** One of the core arguments often raised against social procurement in the public sector centres on accusations of anti-competitiveness arising out of what are seen as subsidies received by some social benefit suppliers (such as social enterprises) in the form of grants. The argument suggests that such suppliers are given an unfair advantage if government provides funding *for* them in addition to opening opportunities for purchasing *from* them¹⁰.

¹⁰ This argument has become more vigorous since the Federal governments' spending through the Jobs Fund and Innovation Fund, which focussed on employment creating social enterprises who are all expected to reach a degree of sustainability during the one-off funding cycle, and who are thus actively exploring all avenues for raising revenue, including approaching government purchasers in relation to contracts. While this is not in itself a problem, it does

This is a complex situation that is frequently presented and responded to in relatively simplistic terms. The case that is often presented is depicted in figure 20 below.

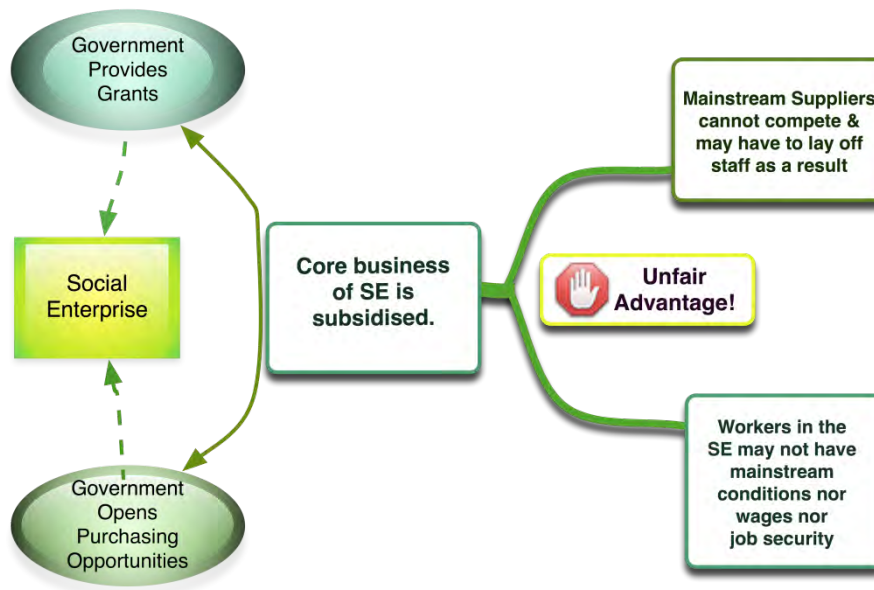


Figure 20: Arguments of unfair advantage often presented as an argument against social procurement

Some greater level of attention needs to be paid to the complexities of this situation, including the following:

- Social impacts generated by social benefit suppliers are not cost neutral, and some may require ongoing funding of some kind in order to be viable or sustainable. This is not necessarily a conflict or unfair advantage as they are addressing what could be seen as market failures. Care, however, needs to be taken to ensure that ongoing funding is focussed on off-setting impact costs rather than subsidising unviable operations (see Burkett, 2010a).
- Arguments of employment displacement are currently based on anecdotal case studies rather than serious research or examination, and therefore require further study (this is where accusations are raised that contracting social benefit suppliers displaces workers employed by mainstream suppliers, where conditions may be more secure and wages may better reflect awards or collective agreements).
- Consideration should be given to all the (possibly more subtle) ways in which mainstream suppliers are 'subsidised' or indirectly supported to be able compete for public contracts.
- A much more holistic interpretation of social benefit suppliers needs to be developed as many of the current arguments are focussed only on social enterprises and disability enterprises, and then often only on employment focussed or intermediate labour market enterprises, which in effect represent only a small part of a much larger pool of social benefit suppliers (many of whom are not receiving public funding, and many of whom are not solely focussed on employment impacts).

The public sector has provided a great deal of leadership in relation to social procurement in Australia and its achievements to date should be acknowledged and celebrated. There is, however, a long way to go until social procurement becomes mainstream in the public sector, and in many ways the public

sector organisations included in the case study compendium could be seen as some of the pioneers in this journey.

Challenges for the private sector

Given that the private sector does not have a direct mandate in the arena of social policy, the core challenges of growing social procurement in this sector are centred on how well purchasing functions can be linked to corporate social responsibility agendas and how well social procurement can be linked to broader sustainable procurement agendas.

In many ways this involves a cultural shift for many corporations whereby corporate social responsibility moves beyond charitable relationships with organisations focussed on social benefits, towards more economically based relationships such as partnerships and purchasing from social benefit suppliers. In other words, social procurement provides a mechanism through which corporations can move their corporate social responsibility agendas from peripheral functions into the centre of their businesses, and begin to see social benefit suppliers as part of their supply chains, and therefore, their core business.

Further, the development of social procurement (as outlined in this report) adds detail to the ‘social’ dimension of triple-bottom-line thinking in relation to corporate purchasing, giving greater depth to sustainable procurement agendas. Berglund (2008;p8) argues that social issues are part of sustainable purchasing agendas, and that procurement professionals can play an important role in the strategic contribution of corporations to addressing social issues:

“supply professionals can shape the strategic responses to meet their organisational needs in context with the competitive markets we all face. They can also end the cycle that has led to inequities and participate directly in new business models without compromising on quality and cost effectiveness”.

In relation to some social benefit suppliers (such as Indigenous businesses), there have been advances into corporate supply chains (see for example AIMSCs success stories in developing Indigenous suppliers for working for large corporates in Australia). Other corporates have indicated their willingness and support for partnering with social benefit suppliers in specific instances (see Spotless and Fair Repairs case study below). Still others have addressed social issues such as fair trade across their supply chain and linked with other businesses to demonstrate industry leadership (see NAB case study in the case study compendium). Some parts of the corporate sector have been more responsive than others. Those who are responsive can often see a direct link to their businesses, for example:

- Corporations linked to place-based work such as development and resource companies;
- Companies who need lower skilled employees and usually seek to train these themselves;
- Companies whose brands are linked with certain social responsibilities (such as financial services, service companies and resource companies).

There is, however, still much scope for the development of social procurement in the Australian corporate sector. Given this sector’s purchasing power and the scale of its reach, the development of social procurement in this sector has the potential to generate huge social impacts and benefits over coming years.

“In reality corporates would rather give you money than give you opportunities – it’s more clear cut, there’s no ongoing responsibilities, it’s just easier, full-stop But it’s the opportunities that will help us grow and help us become a going concern. It’s the opportunities we need. I’d like to say to them, ‘we don’t want your \$10,000 grant, we want your \$1million cleaning contract. ” Supplier

**Spotless:
A Case of Social Procurement in the Corporate Sector,
in partnership with Public and Nonprofit sectors.**

Spotless is a well-known services company delivering services such as cleaning, food, management and laundry to many public and private sector organisations. It holds contracts related to services and management of a number of key public sector departments, including several State Government Housing Departments. In NSW Spotless has partnered with Housing NSW and nonprofit organisation Fair Business in relation to Fair Repairs, a social enterprise that trains and employs Housing NSW tenants to undertake repairs and maintenance in their local areas (where Spotless has contracts for facilities management, cleaning or other service work undertaken on Housing NSW properties). Spotless has been able to develop an understanding of the social needs and the benefits that could be created through tenant employment across their business, from the local contract manager who originally sat down with the local Housing NSW manager and the Fair Business manager to design the work, right through to the CEO, who enthusiastically wrote about the work with Fair Repairs in the Spotless 2010 annual report:

“Spotless is embedding its role within thousands of local communities. For example, by partnering with social business enterprise Fair Repairs, Spotless is providing training and employment for long term unemployed public housing residents, enabling individuals to build career pathways and at the same time make demonstrable improvements to their own communities”.

Spotless has built a commitment to sustainability into their business model – including procurement, and including the social dimensions of sustainability. This is reflected in the chairman’s reflections in Spotless’ annual report for last year:

“It’s critically important that we continually have an eye on the future in every aspect of our business model. It requires courage to take a longer term view, but a sustainable mindset can provide improved value for shareholders whilst also delivering tangible environmental, social and other benefits for all stakeholders”.

The inclusion of social benefits and partnership with both purchasers and local nonprofit sector organisations and social enterprises who can help to deliver the social impacts extends beyond the work that Spotless has done with Fair Repairs in Western Sydney. The work of Fair Repairs is growing across NSW and extending into Victoria (through the partnership model). Spotless has also extended the intent and focus of this model to the ACT, where the Territory Government has a social procurement policy in place, and where Spotless currently has the contract for housing facilities management.

The **ACT government** has a very transparent procurement process, and the contracts plus variations are therefore publicly available (though confidential information is not included in these publicly available documents). Through this facility it is possible to view the social clause that has been included in a Variation of Agreement in the contract between the ACTs Commission for Social Housing and Spotless that stipulates employment of tenants and other target groups as part of the deliverables in the contract. This clause is as follows:

“From 1 July 2010, the Total Facility Manager must ensure specified target groups achieve employment and economic engagement through either direct employment or through its sub-contractors. Target groups are Aboriginal and Torres Strait Islanders, people with disabilities and tenants or occupants of Dwellings. Employment targets, where a count of 1 represents an individual, are as follows:

Target groups	2010-11	2011-12
Aboriginal and Torres Strait Islander persons	2	4
Tenants	5	10
Disabled Clients	1	3

Performance against each target will be endorsed at the appropriate Contract Management Group Meeting” (Source: Variation of Agreement Contract, ACT Government, available at the ACT government contracts register:
www.contractsregister.act.gov.au/contracts/cr.nsf/0/02C0F80B6369D062CA2570430014053F?OpenDocument)

The work that has been undertaken by Spotless, in partnership with these two state government housing departments and nonprofit partner Fair Business is an excellent example of how mainstream suppliers can engage with social impact delivery, and can play a leadership role in sustainable procurement. It also points to a sophisticated use of social procurement which is cross-sectoral, based on partnership (with qualities of a joint venture) and which makes use of contractual tools such as social clauses.

Challenges for the nonprofit sector

Nonprofit organisations have been great advocates for social procurement – particularly when they have initiated social enterprises or supported some other forms of social benefit suppliers. Interestingly, however, many nonprofit organisations do not themselves procure from social benefit suppliers, and very often do not have policies that link their purchasing power to their social objectives. The key challenge for the nonprofit sector, then, is to ‘walk the talk’ (as one interviewee phrased it) and demonstrate the social impacts of purchasing goods, services and works from social benefit suppliers. The quotes below indicate that there is an awareness amongst nonprofits of this challenge.

“We don’t have any affirmative social procurement policies, and I think we should do. I think the challenge is like for any other organisation, what are the models for doing it” Purchaser

“If the wider social economy is not yet acting on social procurement, can we really ask the government and corporations to socially procure?” Purchaser

“Agencies like us talk about social procurement – but we really need to do it ourselves, we need to model it because others ask ‘where are the models, do you do this?’ Purchaser

The challenge is twofold: first, recognising the purchasing power of the sector, particularly large nonprofits; and second, modelling social procurement both to demonstrate the capacity of social benefit suppliers, but also to provide a test-ground for such suppliers before they seek work in the private or public sectors.

There is a natural fit between many nonprofit organisations and the intent of social procurement that needs to be grown for the purposes of modelling these practices, but also because it makes social and economic sense to align purchasing in this sector with organisational social objectives.

For many nonprofit organisations, contracting services (such as cleaning or facilities management) involves commercial decision-making. Adding social procurement should not mean that core principles of this decision-making, which is often centred on factors such as price and quality of service, are compromised. Just as happens in public and private sectors, nonprofits need to consider costs and standards of work – however, they also cannot expect social benefit suppliers to lower their prices or to provide more services for the prices paid. The arrangements between nonprofits and social benefit suppliers need to mirror as much as possible commercial arrangements if they are to be a test-ground for such suppliers to entering the broader market. The experience below from a nonprofit purchaser illustrates this.

“We use a social enterprise for all our cleaning work (property cleaning). They tendered for the contract – to be quite honest I did not treat them as a social enterprise, I was looking at a cleaning contract, I’m a property services manager not a service provider. They competed against other cleaning contractors and they won the contract on their own merit. The main reason why I’ve kept them on – it’s all well and good that they are doing this fantastic work in redeploying people and helping them to get back into the workforce, that’s great, but it is not a reason for keeping them on – it’s about the way they do the work. It’s about price, quality – the way they do the work. It’s an \$80,000 to \$100,000 contract. And of course they’ve got other work because of word of mouth – that’s how it works, organisations, whether they are nonprofits or not, want good people who do the job well”. Purchaser

Challenges for social benefit suppliers

Social procurement could potentially open up opportunities for social benefit suppliers as social impacts become a consideration in purchasing and procurement processes. The challenge for social benefit suppliers is to get ready for these opportunities. There are many questions that need to be considered:

- Are there enough social benefits suppliers, with enough capacity, to participate in the opportunities that may emerge from social procurement?
- Will social benefit suppliers be able to deliver quality goods and services in addition to social impacts, benefits and outcomes?
- Will social benefit suppliers be able to demonstrate and talk about the social benefits that they achieve?
- Will social benefit suppliers be able to leverage increased sustainability and impact from the opportunities that could be presented through social procurement?

Social procurement should not be seen as some kind of panacea for social benefit suppliers. It will not mean that such suppliers will be favoured in tendering processes, and nor will it mean that contracts will be guaranteed or gifted to social benefit suppliers. It merely opens up opportunities for social benefit suppliers to engage with procurement and purchasing processes, something that has often not been an option, particularly for smaller suppliers. In order to take advantage of these opportunities, social benefit suppliers will need to ensure that they develop the capacity not just to deliver social impacts and benefits, but also that they deliver quality goods, services and/or works, at a price that is able to compare to mainstream suppliers (but that may include some costing of the social benefits). This means that such suppliers need to be able to demonstrate and cost their social impact and to get beyond the 'good story' of this impact to deliver quality goods and services – as the following quote illustrates.

“We need more than good stories! Yes, you can tell the story and everyone gets excited, then you’ve got to deliver and you’ve got to do a good job!” Supplier

Chapter three outlined some of the capacity building that social benefit suppliers identified as being necessary to develop if they are to be able to engage effectively with purchasing and procurement. As opportunities begin to open up, it will also be necessary for social benefit suppliers to evaluate these opportunities and make decisions as to their viability and value, as the following supplier indicated.

“It’s important to say ‘no’ to contracts that are not worthwhile for our development. Sometimes organisations want to help but they hand you crumbs not chunks. It can be just tokenism – and it ends up costing us rather than them! You’ve got to know what is worthwhile and what to say no to, that’s what it boils down to” Supplier

Finally, it may not be possible for all social benefit suppliers to respond to social procurement opportunities, particularly if those opportunities exceed their capacities or capabilities. Therefore, it may be necessary for suppliers to consider innovative partnerships, consortia or joint venture structures in order to respond to opportunities (see chapter four).

Challenges for mainstream suppliers

As the social dimension of sustainable procurement becomes more visible in processes and practices, mainstream suppliers will increasingly be asked to respond to social benefit deliverables in contracts. The challenges this presents for mainstream suppliers are twofold:

- To take the social benefit deliverables seriously, as they would any other contractual obligations and to seek to respond in ways that reflect quality and impact;
- To engage with social benefit suppliers more effectively and to understand how these suppliers could assist with the delivery of social benefits and impacts.

In many of the interviews, purchasers spoke of examples where social clauses in contracts were met with either resistance or minimalist acquiescence by mainstream suppliers. If social procurement is ultimately to be successful, the challenge will be for both purchasers and suppliers to develop a level

of sophistication and seriousness in the deliverables of social benefits alongside goods, services and works. There is a long way to go before this happens consistently in the Australian context.

Challenges for other stakeholders (including intermediaries and unions)

As was outlined in chapters three and four, there are many ways in which intermediaries can support and develop the capacities of social benefit suppliers (and there are intermediaries who are already engaged in this work). The challenge for intermediaries as social procurement develops will be to support:

- The type of information social benefit suppliers have about the range of procurement opportunities available in timeframes that allow for building readiness;
- Access to capacity building so that social benefit suppliers are able to respond effectively to opportunities;
- The dissemination of information purchasers have about social benefit suppliers, and ways to link purchasers with suitable social benefit suppliers;
- The development of some forms of accreditation or assessment of social benefit suppliers to ascertain their suitability and capacity to undertake work to a certain quality and standard.

It is unclear in the current context whether a number of intermediaries will undertake this work, or whether some specialist intermediaries are needed who can focus on particular segments of the social benefit supplier market.

For unions and other stakeholders interested in the long-term interests of workers employed by both mainstream suppliers and social benefit suppliers, the challenges centre on the capacity to engage in a constructive dialogue across all sectors and stakeholders. Unions have expressed some concerns that social procurement could result in suppliers offering non-award conditions and wages displacing workers employed by mainstream suppliers who offer standard employment conditions. While it is the case that some social benefit suppliers do not offer job security or award wages (primarily because they are training or intermediate labour market enterprises/programs), this is not the case for all such suppliers. Some unions are currently discussing the issues presented by social procurement. The challenge will be for these discussions to consider all the ways in which unions could support and build the capacity of social benefit suppliers in order that they have the best possible opportunities to become good employers as they deliver social impact. Further, unions could play a pivotal role in advocating for mainstream suppliers to consider the positive impacts for their workplaces and employees that can be derived from delivering social benefits as part of contracts.

The development of social procurement, like all innovation processes, requires experimentation, creativity, risk-taking and learning. In many organisations and for many people, these are not easy behaviours – as many of the interviewees in this report testified. They require measures of courage, gritty determination and perseverance in facing blockages and challenges. In many organisations and contexts what is needed is not just practical procedures and systems, but cultural shifts that create a willingness to find and appreciate holistic, small steps forward to addressing some of our most intractable social issues. Social procurement is not a panacea. It is not a singular answer to ‘wicked’ problems in our communities. It is, however, a small step forward to breaking down some of the barriers between economic and social responses to disadvantage and creating pathways for more substantive opportunities for promoting social inclusion that go beyond welfare. There are many challenges ahead for developing social procurement. This report represents a beginning point for greater discussion, debate and action to address these challenges and to build further innovations and opportunities.

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As part of this research many organisations were consulted and contact was made with many more who did not respond to invitations for participation. The following organisations were consulted in a more substantial way in the form of interviews, discussions, email exchanges and/or workshops. They are listed in alphabetical order. It should be noted that this does not represent the entirety of those organisations consulted or approached, and further, some organisations who were interviewed and consulted did not wish to be named in the report.

Abbotsford Biscuits
ACT Government
AHURI
AMES
ASIX
Bendigo City Council
BHPBilliton
Boystown
Brimbank City Council
Brisbane City Council
Brotherhood of St. Laurence
Centre for Philanthropy and Nonprofit Studies, QUT
City of Melbourne
City of Monash
City of Wodonga
City of Yarra
Community Chef
Corporate Express
Darebin City Council
Department of Planning and Community Development, Victoria
Department of Human Services, Victoria
Department of Housing, NSW
Department of Employment (DEEWR)
Eaglehawk Recycling
Ecobuy
Fair Repairs, Campbelltown
Green Collect
Hornery Institute
Ipswich City Council
Jesuit Social Services
Local Buy
Logan City Council
MAV
Mission Australia
Moonee Valley City Council
NAB
Nundah Community Enterprises Co-operative
Parramatta City Council
Queensland Government Chief Procurement Office
Social Firms Australia
Social Innovation Exchange
Social Traders
Social Ventures Australia
ULDA Queensland
United Way
Urban Communities
VicUrban
VLGA
Westpac
Westpac Foundation
Workventures

