

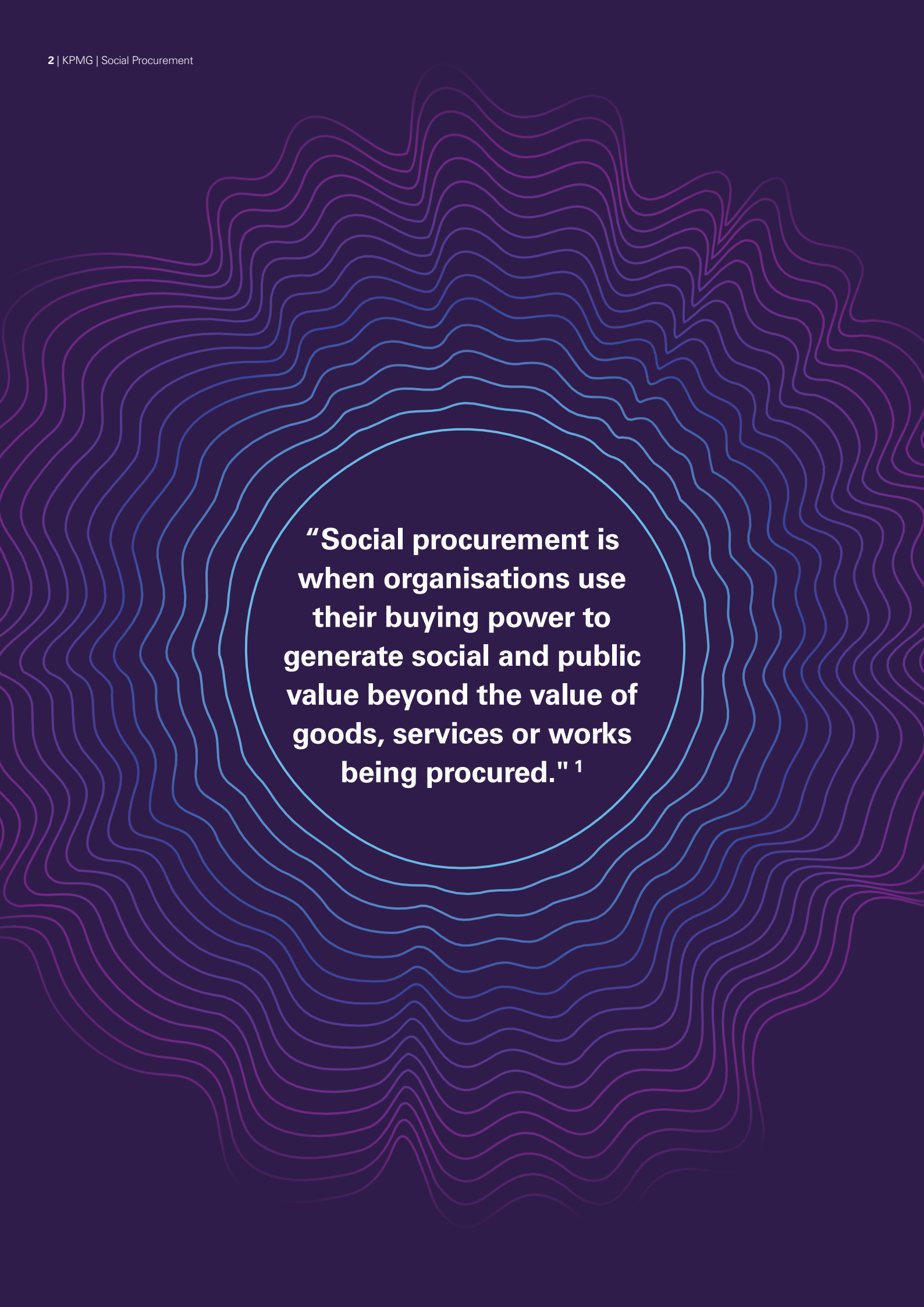


Social Procurement

Tackling the practical realities

2021

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"Social procurement is when organisations use their buying power to generate social and public value beyond the value of goods, services or works being procured." ¹

The Catalyst

In late 2020, the Government announced it aimed to commit at least 5% of all procurement contracts from its approximate \$42 billion annual spend to Māori businesses. This has dramatically amplified the attention on social procurement and the opportunities it presents for businesses and society.

The Māori economy is estimated at \$68.7 billion, and represents a young and agile workforce.² In addition to growing in value, it is also diversifying, with its asset base broadening beyond traditional primary sectors of the economy.

Several organisations have been driving the agenda forward in Aotearoa, with Auckland Council, through The Southern Initiative, and Amotai leading the way in unlocking social procurement's untapped potential. However, social procurement uptake and experience is still relatively low across the country. This paper offers insights to organisations who are exploring the 'why' and 'how' of social procurement and are keen to lead impactful change.

The KPMG IMPACT team, which is focused on solving today's extraordinary environmental and social challenges, has been working with many public sector, corporate and Iwi organisations to understand what progress has been made; the barriers to adoption; and what lessons can be applied from the Australian public sector Indigenous Procurement Policy (IPP) that was introduced in 2015.

+100

**Government agencies to
use the NZ Government
Progressive
Procurement Policy**



The Rationale

Social procurement is a way to extract higher returns from every dollar spent, both financial and non-financial. It's an opportunity for organisations to play their role in supporting society by delivering broader outcomes and societal benefits through procuring goods and services within government, local government and private sector organisations.

The Treasury's Living Standards Framework focuses on 'four Capital stocks' that can support the current and future wellbeing of Aotearoa: social, natural, human, financial and physical.⁴ The concept of social procurement is similar, asking organisations to look

beyond the financial and physical, and consider how their business decisions can affect other areas for the prosperity of all New Zealanders.

And why now? We live in an era where 'stakeholder capitalism' is on the rise. Profit on its own is no longer a sufficient metric for success, as consumers and investors alike call on businesses to consider their broader impact on local communities, wider society and the environment. For example, a new report from The Economist Intelligence Unit, commissioned by WWF, shows an enormous 71% rise in online searches for sustainable goods globally over the past five years.⁵

When Supply Nation in Australia investigated the quantifiable benefit of social procurement, it found that for every \$1 spent, the Social Return on Investment was an average of \$4.41.³



The IPP has helped to generate more than \$3.5 billion in contract opportunities for Indigenous businesses since it launched in 2015. This has involved over 24,470 Australian Government contracts awarded to more than 2,140 Indigenous businesses.



Organisations within the Infrastructure and Construction industry are already unlocking broader outcomes through formal social procurement on large-scale new build developments by nurturing relationships with diverse suppliers and creating socio-economic opportunities for local communities.

The Opportunity

This operating environment presents significant opportunities for businesses and organisations to be on the right side of the ledger and receive broad social acceptance through developing and maintaining a social licence to operate. We don't have to cast our minds back far to see the negative impact of corporate inaction and disingenuous intent in the face of the Black Lives Matter movement. Even locally, we saw media companies adversely impacted by businesses pulling their advertising due to disagreements with the views of media personalities.

A common misconception is that social procurement requires you to completely replace existing procurement processes. Social procurement is about deriving additional value from procurement for the same level of goods and services.

There are also considerable benefits to organisations who engage in social procurement:



Revenue:

- Revenue growth as a result of meeting social procurement eligibility criteria for large government and local government contracts
- Qualifying for social procurement linked incentive payments on large capital projects



Talent:

- The ability to attract the next generation of talent that is looking for a purposeful and impactful employer
- Improvement in job satisfaction as employees can affect positive social change



Reputation:

- Improved brand reputation in the minds of consumers and enhanced social licence to operate
- Provides a tool for credibility in ESG goals
- Increased cultural awareness to enable more effective community-level engagement



Innovation:

- Interaction with a greater diversity of people and businesses, providing the conditions for innovation
- Raised procurement maturity which can drive further achievement of strategic objectives

The Journey

There's no doubt this is uncharted territory for many organisations, and no one wants to compromise the level of goods and services they currently receive. Getting it right, therefore, is important.

At its heart, there is a change in practices and behaviours required to adopt a social procurement strategy. For those in procurement functions, it requires an expanded definition of 'value' from purchasing activity. In operational terms, it requires a review of what shifts might be needed to the strategic agenda, procurement strategy and procurement operating model, including growing the diversity of the supplier base.

Integrating this change into an organisation rather than looking for short-term sticking plasters will help future-proof businesses. Leaning into the wider societal changes that are fuelling stakeholder capitalism will help organisations create growth plans with longevity and resilience.



Organisations who have successfully implemented social procurement have diversity across their boards, senior management and operational teams, including champions tasked with driving change. They are supported by governance structures, processes and policies to ensure commitments are tracked and reported accordingly.



The Implementation

Organisations sit at different places on the spectrum in terms of social procurement maturity. Taking the time to recognise your position and planning your approach based on this is key to success. What effective social procurement and Rome have in common is that neither can be built in a day.

If you are starting out, it's a matter of exposing people to the concepts and taking small steps to help shift organisational awareness and appetite. For those with more experience under their belt, it might be time to bring more structure to your social procurement practice. Finally, for those who have been doing this for some time, attention might need to shift to optimising the outcomes and widening social procurement strategy, impact and reach.

So, what are the practical next steps buyers can take to start the journey to maturity? The core foundation is to commit to the concept of procuring for broader social outcomes. Some of the more granular actions include:



Consideration should be given to the procurement evaluation approach and how criteria weightings are allocated. In the UK, a minimum weighting of 10% of the total score for social value will be applied for future Government funded programmes.



Strategy:

- Set a clear vision and aspiration
- Understand where you can make an impact to help target your efforts
- Identify categories of spend that might be well suited to social procurement and where demand meets supply



Change management:

- Establish senior leadership commitment and communicate this widely
- Identify social procurement champions to drive change
- Engage with stakeholders including your suppliers and customers
- Clarify how your procurement evaluation process will change
- Celebrate your successes and share within your wider industry networks



Operational considerations:

- Be proactive, take a pulse check of your organisation, reflect on current procurement practices and understand the successes, enablers and barriers
- Work with an intermediary to understand and connect with the diverse supplier base



Tracking results:

- Consider what success looks like and how you would measure it
- Set time-bound targets and reflect on progress frequently – and be ready to pivot where necessary

Once social procurement experience has been built within an organisation, shifting focus and using the initial learnings to consider how it can be embedded in the procurement strategy is a logical next step.

Organisations will need to focus their efforts on identifying and implementing the procurement operating model needed to deliver on their strategy, as they try to understand the people, process, technology, data, governance and delivery models needed to be successful.

At the more mature end, the next step might be reviewing strategy, optimising the outcomes and expanding the categories to which social procurement will apply. Measuring social impact is not easy, but in all trade the perceived value of goods may differ. Outlining metrics for how to measure and value different impacts will be an advanced but important step.



At a local government level, success has been achieved through implementing, recording and measuring multiple outcomes. Alliance partners are expected to deliver against minimum contractual requirements with incentives through financial reward or commercial sanction provided for.



The Next Steps

As with anything new, there is a balance between experimenting and implementing learnings. Spending too little time on the former can lead to wasted investment; spending too much time can result in missed opportunities and a lack of outcomes. The only certainty is that you need to start the journey before you can reap the rewards.

Social procurement is a relatively new discipline in Aotearoa, and the opportunity for organisations to be a market-leader and demonstrate a more holistic approach to ‘value’ is huge. While the task may appear daunting, there are many insights and lessons learned from collective experience to date. Our team is well positioned to work alongside you, drawing on our access to a global network, to develop a social procurement strategy and approach to support your organisation.

If you wish to discuss, please contact us.



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FUELLING PROSPERITY

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MŌ AOTEAROA, MŌ TĀTOU

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