

Handbook on Supplier Diversity in Europe



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The Migration Policy Group (MPG) is an independent European organisation committed to contributing to lasting and positive change resulting in open and inclusive societies in which all members have equal rights, responsibilities and opportunities in developing the economic, social and civic life of Europe's diverse societies.

To this end, MPG stimulates well-informed European policy debate, cooperation and action by producing and disseminating information and analysis, and managing international expert networks in the three programme areas of Migration & Mobility; Anti-discrimination & Equality; and Integration & Diversity.

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Supplier Diversity Europe

Supplier Diversity Europe is a business-led supplier diversity programme that currently operates in the UK, France and Germany. Supplier Diversity Europe engages with small medium enterprises and business intermediary organisations, in order to link them into the network of buyers based within large member organisations.

Membership of Supplier Diversity Europe is available to large organisations that are committed to capturing the business benefits of diversity in their supply chain, within the context of European legislation and culture.

Supplier Diversity Europe is a programme managed by MPG.

www.supplierdiversityeurope.eu



Centre for Research in Ethnic Minority Entrepreneurship (CREME), De Montfort University

Led by Professor Monder Ram, CREME works collaboratively with policymakers and practitioners to support ethnic minority businesses. It combines outstanding community engagement with a strong commitment to academic rigour. CREME routinely works with business support agencies, local authorities, formal and informal ethnic minority business groups, social enterprises and public and private sector organisations.

CREME's work is international in reach and contributes to important academic, policy and practitioner debates. In recent years, CREME has produced a number of reviews on academic and policy developments in ethnic minority entrepreneurship. It is also at the forefront of research on emerging issues, for example, supplier diversity, new migrant business activity, and policy innovation.

Stakeholder engagement is a defining characteristic of CREME's work. The fulfilment of a bridging function between diverse stakeholders was a key reason for the Centre's establishment. It takes a variety of forms, ranging from the organisation of international conferences on key policy issues to the staging of small workshops with local entrepreneurs.

www.creme-dmu.org.uk



Foreword

This Handbook makes a strong case for supplier diversity. As organisations involved in this Handbook, we have been working on supplier diversity since 2002. During this time, we have worked with hundreds of large purchasing organisations, thousands of small and medium enterprises, governments and many related stakeholders.

In Europe, supplier diversity is about the inclusion of small and medium enterprises more than 50 per cent owned and managed by people from under-represented groups, including, but not limited, to people from an immigrant background or belonging to an ethnic minority group, people with a disability, women, or lesbians, bisexuals, gays, or transgender (LGBT) people in the supply chain of large companies and public sector organisations. Often these persons are very successful entrepreneurs and their small and medium businesses are perfectly able to supply larger businesses. Too often they are being ignored or not selected precisely because of their personal characteristics.

A better understood and more commonly used business practice in the United States, the Handbook examines the context of supplier diversity in Europe and activity undertaken to date with a particular focus on the situation in the United Kingdom, France, Germany and Sweden. It summarises the years of learning so far and provides a platform from which to move forward and expand supplier diversity across Europe.

The Handbook has tackled three areas of supplier diversity which had remained relatively unexplored. First, the drivers for supplier diversity are clearly presented by sector. This information provides the impetus for large private and public sector procurement organisations and policymakers to push the supplier diversity agenda forward.

Second, research included in the Handbook makes clear that voluntary action alone is not sufficient: it must be linked with legislative action. Without legislative impetus, corporations and public sector organisations will not change their procurement objectives to include equality alongside quality and cost. There is now a unique opportunity to link voluntary with legislative action.

The Handbook comes at a time when European equality legislation is being implemented and expanded and when governments and commercial firms seek to more firmly link economic with social goals. We demonstrate that supplier diversity is about good business sense, equality, social responsibility and sustainability. We provide information and guidance for actors in the public and private sector, enabling them to put principles into practice.

Third, in this Handbook, we have introduced a concrete 'social case' for supplier diversity. Many policymakers, procurers from the public and private sectors, business organisations and under-represented businesses feel that supplier diversity is 'the right thing to do' because it helps the wider society.



The findings of the Handbook strongly indicate that supplier diversity does enable people who are not part of mainstream business to become more included and more optimistic about their economic futures. As a result of supplier diversity, under-represented groups will contribute to economic prosperity and societal integration– two areas which benefit everyone in society.

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A note on navigating through the Handbook on Supplier Diversity in Europe

This Handbook has been designed for ease of reference and navigation through the text.

By clicking on the arrows on the bottom right of each page you can navigate back and for between pages.

By clicking on the  icon in the right margin you will return to the table of contents.

The table of contents gives direct access into the text, by clicking on the chapter titles and subtitles you will reach the corresponding pages without the need to scroll through.

Where other sections in the text are cross-referenced within the Handbook, by clicking on the reference you will reach the corresponding section. To return to your original page click the 'Step back' arrow.

Wherever possible, web-links to further information online have been provided. Please note these were correct at time of drafting.



Table of Contents

Migration Policy Group	3	5.3 Immigrant and Ethnic Minority Businesses	43
Supplier Diversity Europe	3	5.3.1 Immigrant and Ethnic Minority Businesses in Europe	43
Centre for Research in Ethnic Minority Entrepreneurship (CREME), De Montfort University	4	5.3.2 Immigrant and Ethnic Minority Businesses in UK	45
Foreword	5	5.3.3 Immigrant and Ethnic Minority Businesses in France	47
1 Executive Summary	9	5.3.4 Immigrant and Ethnic Minority Businesses in Germany	48
2 Introduction	13	5.3.5 Immigrant and Ethnic Minority Businesses in Sweden	50
2.1 Objectives	14	5.4 Lesbian, Gay, Bisexual and Transgender (LGBT) Businesses	51
2.2 Methods	14	5.5 Businesses Owned by Disabled People	52
3 Definitions & Glossary Of Key Terms	15	5.6 Social Economy	53
4 Population Demographics	18	5.6.1 Social Economy in Europe	53
4.1 Size of Population	19	5.6.2 Social Economy in the UK	55
4.1.1 Trends in Size of Population	19	5.6.3 Social Economy in France	57
4.2 Age	20	5.6.4 Social Economy in Germany	58
4.2.1 Trends in Age	20	5.6.5 Social Economy in Sweden	59
4.3 Gender	21	5.6.6 Conclusion	59
4.3.1 Trends in Gender	21	6 Legislation	61
4.4 Disability	22	6.1 Procurement	62
4.5 Immigration and Ethnicity	23	6.1.1 EU Procurement Legislation	62
4.5.1 The UK and 'Ethnic Minorities'	26	6.1.2 UK Procurement Legislation	64
4.5.2 Immigrants and Ethnic Minorities in France	27	6.1.3 French Procurement Legislation	64
4.5.3 Immigrants and Ethnic Minorities in Germany	28	6.1.4 German Procurement Legislation	65
4.5.4 Immigrants and Ethnic Minorities in Sweden	29	6.1.5 Swedish Procurement Legislation	66
4.5.5 Trends in Immigration and Ethnic Minorities	29	6.2 Equalities and Anti-Discrimination	67
4.6 Sexual Identity	30	6.2.1 EU Equalities and Anti-Discrimination Legislation	67
4.7 Conclusion	31	6.2.2 UK Equalities and Anti-Discrimination Legislation	69
5 Business Demographics	32	6.2.3 French Equalities and Anti-Discrimination Legislation	70
5.1 Small and Medium Enterprises (SMEs)	33	6.2.4 German Equalities and Anti-Discrimination Legislation	72
5.1.1 Small and Medium Enterprises in Europe	33	6.2.5 Swedish Equalities and Anti-Discrimination Legislation	74
5.1.2 Small and Medium Enterprises in the UK	35	6.3 Data Protection	75
5.1.3 Small and Medium Enterprises in France	37	6.3.1 EU Data Protection Legislation	75
5.1.4 Small and Medium Enterprises in Germany	37	6.3.2 UK Data Protection Legislation	78
5.1.5 Small and Medium Enterprises in Sweden	38	6.3.3 French Data Protection Legislation	79
5.2 Women-owned Businesses	38	6.3.4 German Data Protection Legislation	81
5.2.1 Women-owned Businesses in Europe	39	6.3.5 Swedish Data Protection Legislation	82
5.2.2 Women-owned Businesses in the UK	39	7 The Business Case For Large Purchasing Organisations (Demand Side)	84
5.2.3 Women-owned Businesses in France	41	7.1 Responding to a Changing External Environment	85
5.2.4 Women-owned Businesses in Germany	41	7.1.1 Appropriate Products and Services for a Diverse Marketplace	85
5.2.5 Women-owned Businesses in Sweden	42	7.1.2 Responding to Tenders and Contract Requirements	86



7.1.3 Finding the Best Suppliers: Widening the Applicant Pool	87	9.6.4 Lesbian Gay, Bisexual and Transgender (LGBT), Women and Economic Disadvantage	124
7.2 Building Stakeholder Relations	88	9.6.5 Rural issues and Economic Disadvantage	125
7.2.1 Consumers Choose Companies Who Buy From People Like Them	88	9.7 To Boost the Impact of Business Support Programmes	126
7.2.2 Capturing Innovation	89	10 Implementing Supplier Diversity	127
7.2.3 Gaining Market Knowledge and Goodwill	91	10.1 Comparison between the USA and Europe	127
7.3 Contributing to Strategic Objectives	92	10.1.1 Summary of the US approach to Supplier Diversity	128
7.3.1 Supplier Diversity and Workplace Equality	92	10.2 Implementing Supplier Diversity in Europe	129
7.3.2 Supplier Diversity and Corporate Social Responsibility (CSR)	94	10.2.1 Guides and Advice for Europe	129
7.3.3 Supplier Diversity and Environmental Sustainability	96	10.2.2 Supplier Diversity Europe	130
7.3.4 Supporting Economic Development	98	10.3 Implementing Supplier Diversity in the UK	131
7.4 Improved Organisational Performance	99	10.3.1 Summaries of Activity 2001 to 2007	131
7.4.1 Cost Control/Reduction	100	10.3.2 Guides and Advice for the UK	132
7.4.2 Revenue-Earning Activity	101	10.3.3 Supplier Diversity Initiatives: Supplier Diversity Europe, WEConnect, MSD(UK)	132
7.4.3 Risk Spreading	101	10.3.4 Greater London Authority Responsible Procurement Strategy	133
7.4.4 Better Strategic Fit	102	10.3.5 London 2012	135
8 The Business Case For Small And Medium Enterprises (Supply Side)	103	10.3.6 CompeteFor	136
8.1 To Break Down Barriers to Procurement Opportunities	103	10.3.7 Local Procurement Initiatives	139
8.2 Access to Markets	105	10.3.8 Local Procurement: iCAM Supply	140
8.2.1 Europe: Contract Award Notices on the Official Journal of the European Union (OJEU)	105	10.3.9 Local Government: Expenditure Analysis and Supplier Diversity	141
8.2.2 UK: Overall Pool of Potential Suppliers	107	10.3.10 Business Support: Developing the Supply-side	143
8.2.3 UK: Suppliers who want to sell to Large Purchasing Organisations (LPOs)	108	10.3.11 Measuring Impact: Local Multiplier 3 and Other Measures	144
8.2.4 UK: Current Suppliers to Large Purchasing Organisations	110	10.4 Implementing Supplier Diversity in France	145
9 The Business Case For Policymakers	115	10.4.1 Guide on Public Procurement for Small and Medium Enterprises	145
9.1 Summary of the Current Policy Climate	115	10.4.2 Immigrant Businesses and Corporations	146
9.2 To Strengthen the Business Base	116	10.5 Implementing Supplier Diversity in Germany	146
9.3 To Bridge the Enterprise Gap	117	10.6 Implementing Supplier Diversity in Sweden	147
9.4 To Address Issues Specific to Under-represented Groups	118	10.7 Positive Action versus Levelling the Playing Field	148
9.4.1 Women-owned Businesses	118	10.8 Benchmarking Tool	149
9.4.2 Immigrant and Minority Ethnic Businesses	119	10.8.1 Full Supplier Diversity Benchmarking Tool	149
9.4.3 Disabled-owned businesses	120	10.8.2 Supplier Diversity Short Benchmarking Tool	150
9.5 To Speed-up the Economic Integration of Immigrants	121	10.9 Key Learning Points from Supplier Diversity Activity	152
9.6 To Regenerate Local Communities	122	11 Conclusions	153
9.6.1 Ethnicity and Economic Disadvantage	122	12 Recommendations	155
9.6.2 Disability and Economic Disadvantage	123	13 References	156
9.6.3 Class and Economic Disadvantage	124	14 Credits	167



1 Executive Summary

This Handbook has been prepared to collect together and share good practice and learning around supplier diversity activity, in a European context, and so to encourage many more organisations to become involved. Particular focus is placed on UK, France, Germany and Sweden.

What Supplier Diversity is

'Supplier diversity' is considered to be proactive activity undertaken by large purchasing organisations to ensure that all relevant, potential suppliers have the fair and equal opportunity to compete for business within their supply chains. This can include small businesses (i.e. those with fewer than 50 employees), medium sized businesses (those with 50-249 employees), 'local' businesses and 'under-represented' businesses (small and medium firms and social enterprises that are majority owned and controlled by minority groups, including, but not limited to ethnic minorities, immigrants, women, disabled, lesbian, gay, bisexual and transgender people).

The context for supplier diversity

Some data is available around people and businesses in Europe. There are, however, significant gaps in the data-sets around 'under-represented' individuals and businesses.

The population demographics of France, Germany and Sweden and the UK are changing.

Change is most evident in relation to the age structure of the population and the number of people of foreign, immigrant origin and/or minority ethnic backgrounds. An increasing proportion of older people in the population is likely to lead to a higher rate of disability. Developments in equalities legislation may be contributing to people becoming more confident in expressing their sexual identity and religious and belief systems.

Thus the marketplace for the products and services produced by large purchasing organisations is changing. Customers and end consumers have an increasing variety of needs, cultures and preferences.

Just as populations are changing, the demographics of the business community are changing. 'Under-represented' businesses are making up an increasing proportion of the small and medium-sized business community. Thus the pool of potential suppliers for large purchasing organisations is also becoming increasingly 'diverse'.

The legislative frameworks of the Europe Union, UK, France, Germany and Sweden are generally conducive to supplier diversity.

Equalities legislation allows 'positive action' (not positive discrimination) to be taken to address issues relevant to target individuals and business groups.

EU Public Procurement Directives define general principles of ensuring transparency in procurement and accessibility for all to business



opportunities. They also allow social considerations to be included in public procurement. The complex ways in which the Directives are implemented by many procurers, appears to put up barriers to participation in public procurement to certain business groups, particularly small businesses. Small businesses seem to be more successful in winning contracts from French organisations who appear to award contracts as lots more frequently than non-French organisations.

The UK's data protection legislation and national culture facilitates the collection of a wider variety of personal data than that collected in France, Germany and Sweden. For example, the UK collects data around race and ethnicity in a manner that is unacceptable elsewhere. USA models of supplier diversity rely on the collection of personal data about the owners of companies. Thus US-style programmes are possible in the UK but less so in other parts of Europe.

Why implement Supplier Diversity?

There are many different reasons why different stakeholders should implement supplier diversity and many different ways in which they could benefit from it.

Large purchasing organisations need to respond to a changing external environment and to maintain the best possible 'strategic fit' with it. They need to produce products and services that are appropriate to an increasingly diverse marketplace, and be able to find the best suppliers

from an increasingly diverse candidate pool. Supplier diversity can help them achieve all this. Increasingly, they are also being asked to respond to questions around supplier diversity in tenders and contracts.

Supplier diversity offers large purchasing organisations the opportunity to build stakeholder relations. Certain consumer groups may choose to buy only from companies who are prepared, in turn, to buy from suppliers owned by people like them. Making supply chain opportunities accessible to a wider range of suppliers can generate goodwill and market knowledge. It also allows large organisations to capture the innovation offered by more agile, quick moving, smaller companies.

The strategic objectives of large purchasing organisations can be advanced through supplier diversity. It has a key role to play in advancing equalities, corporate responsibilities and environmental sustainability programmes. For public bodies with a remit to support the economic development of defined areas, supplier diversity can help achieve this by bringing in new business opportunities and hence the prospects of job and wealth creation.

Supplier diversity can deliver improved organisational performance. Cost control and reduction and risk spreading can be achieved by widening the pool of potential suppliers. New revenue earning activity can be identified through capturing the innovation of small and medium enterprises and the market knowledge and goodwill created by supplier diversity activity.



A mass of evidence indicates that, at present, many small and medium sized businesses simply do not have access to information about what procurement opportunities are offered by large purchasing organisations. Where they do have access to that information, many are unable to compete for the contracts because of barriers put up during the procurement processes. Small businesses appear particularly affected by these issues and relatively under-represented as first tier suppliers, yet small businesses constitute 99.5 per cent of European businesses (i.e. pool of potential suppliers), employ more people than large companies and, in the UK, generate 37 per cent of private sector turnover. Small and medium enterprises benefit from supplier diversity activity by having free and fair access to new business opportunities. The businesses that are strong and competitive enough to win those contracts then have the opportunity to grow.

Policymakers in Europe are beginning to consider and capture the benefits of supplier diversity. Such activity creates business opportunities and the potential for strong businesses to grow more rapidly than they might otherwise. This can strengthen the base of small and medium enterprises generally, but those opportunities are particularly beneficial for 'under-represented' businesses and economically disadvantaged areas. This has 'spin-off' benefits such as speeding-up economic integration of marginalised groups, regenerating local communities and helping to encourage new entrepreneurs. Most publicly-funded business support activity targets small and medium enterprises; supplier diversity is a low or no cost way of boosting

the impact of those programmes by creating real business opportunities for those businesses that have gone through them.

There are many ways in which supplier diversity is being implemented in Europe. Examples of programmes giving small and medium enterprises practical support to compete for contracts from large purchasing organisations are identified in the UK, France and Sweden. Brokerage systems to link buyers with smaller, potential suppliers exist in the UK and France. There are many examples of large purchasing organisations taking strategic and practical steps to make their supply chains more accessible to target groups of potential suppliers. This type of activity is most advanced in the UK but is now found in France and other parts of Europe.

The manner in which large purchasing organisations take action to make their supply chains accessible to target groups of potential suppliers (i.e. how they implement supplier diversity) varies significantly between organisations and is based on their specific internal and external contexts. Public bodies in the UK have sought to push this activity through supply chains through use of clauses in tenders and contracts and planning agreements. London 2012's Olympic Delivery Authority has been particularly influential in seeking to achieve supplier diversity.

Current approaches to supplier diversity boil down to two different approaches. One is of 'levelling the playing field' so that any business that wants to compete for a contract can do so, the other is 'positive action' so that



suppliers within certain target groups are given the opportunity to compete for contracts. Which approach is used is currently determined by the nature of the contract and the large purchasing organisation involved. Certain currently 'under-represented' groups may become even more so when an approach purely of 'levelling the playing field' is used.

How to implement Supplier Diversity

There is currently no established methodology in place to measure the impact of supplier diversity activity, although models are evolving. Good practice in how to implement supplier diversity has been captured within the CRÈME/Supplier Diversity Benchmarking Tool, which is available in both full and short formats.

The findings and conclusions of this Handbook lead to the following recommendations:

- Policymakers, large purchasing organisations and small and medium enterprises should all promote supplier diversity and engage with it, as it offers benefits to them all
- A central repository of relevant population and business data should be created and information gaps plugged
- A 'centre of excellence' for supplier diversity in Europe should be created, so that relevant information can continue to be gathered and shared and an impact-assessment model developed
- Large purchasing organisations and policymakers should give careful consideration to the varying benefits and impact of the two current

approaches to supplier diversity; 'levelling the playing field' versus 'positive action'.



2 Introduction

This Handbook is funded by Supplier Diversity Europe, The Migration Policy Group (MPG) and the Economic and Social Research Council.

Europe is still at the beginning of its journey towards supplier diversity. The authors and organisations involved in this Handbook have, however, been involved in supplier diversity activity, within a European context, since 2002. During that time they have worked with hundreds of large purchasing organisations, thousands of small and medium enterprises (many of them ‘under-represented’ businesses), governments and many related stakeholders.

Interest in supplier diversity has built significantly in recent years and many more organisations have become involved. A major challenge has existed, though, in accessing good practice and learning.

This Handbook aims to summarise the years of learning so far and to provide a platform from which to move forward. It seeks to answer the questions that the authors are so often asked, such as “Why should we care about supplier diversity?”, “What can we do to implement it?”

The Handbook examines the context of supplier diversity in Europe and activity undertaken to date. There is a particular focus on the situation in the United Kingdom, France, Germany and Sweden as the UK, France and Germany are the largest economic powers and Sweden is culturally positioned between the UK and continental Europe.

The Handbook comprises two parts:

- Part One includes data on the population and business demographics of the four countries and a summary of legislation within them that is relevant to supplier diversity
- Part Two analyses the business case for supplier diversity from the perspective of large purchasing organisations (‘the demand-side’), small and medium enterprises (‘the supply side’) and policymakers, and summarises supplier diversity activity undertaken to date.

Much of what is contained in Part One underpins the detail of Part Two and, together, they lead to a set of conclusions and recommendations.

The authors envisage that this Handbook will be used to promote the benefits of supplier diversity for the whole of the public, private and third sectors and to encourage more businesses and public bodies to promote and implement it.

It is anticipated that this will ultimately result in improved economic opportunities for economically under-represented communities, and performance benefits for large purchasing organisations, leading to benefits for the economy as a whole.



2.1 Objectives

This report has been compiled with the objectives of:

- Collecting and sharing information on supplier diversity activity in Europe and research
- Summarising learning from these activities and research
- Identifying terminology, data, sources of information and best practice for use by those embarking on supplier diversity activity
- Summarising the benefits of supplier diversity across a range of organisations so as to encourage those not currently involved in supplier diversity activity to become so.

2.2 Methods

A variety of sources are used, including:

- Secondary data on populations, businesses and the policy environment in the European Union and member states; academic research on supplier diversity and the inclusion of SMEs and others in supply chains and related issues
- Face-to-face and telephone interviews with government officials and intermediary organisations with an interest in supplier diversity in three countries (UK, Sweden and France)
- Face-to-face interviews with procurers from the private sector
- Face-to-face interviews with owners of under-represented businesses.



3 Definitions & Glossary Of Key Terms

This section identifies key terminology used in relation to supplier diversity in Europe and within this Handbook. It proposes definitions, based on current common usage of these terms.

Supplier Diversity

There is no single, specific legal definition or legal framework for supplier diversity within or across Europe.

Supplier Diversity Europe (SDE) considers 'supplier diversity' to be proactive activity undertaken by large purchasing organisations (LPOs) to ensure that all relevant, potential suppliers have the fair and equal opportunity to compete for business within their supply chains.

Supplier diversity does not guarantee work to specific business groups. Rather it provides a platform of equal opportunities in the supply chain, on which potential suppliers compete and win or lose based on merit.

Alternative words for supplier diversity, which are in usage in Europe, include 'supply chain diversity', 'supplier equality', 'supplier inclusion' and 'supplier opportunity'.

Supplier diversity activity in Europe has, to date, targeted the following types of potential suppliers;

- Small and medium enterprises (SMEs), including micro businesses
- 'Local' businesses

- Businesses more than 50 per cent owned and controlled by:
 - o People from minority ethnic communities
 - o Women
 - o Disabled people
 - o Lesbian, gay, bisexual, transgender (LGBT) people
- Third sector organisations
- Immigrant businesses
- Workshops employing disabled people.

Supplier diversity is not the same activity as ensuring that suppliers, and their supply chains, are implementing equalities and diversity requirements within their workforce.

Small and Medium Enterprise (SME)

Since 1 January 2005 the European Commission has defined small medium enterprises (SMEs) as follows:

Table 1:

Enterprise category	Headcount (i.e. employee number)	Turnover		Balance Sheet Total
Medium sized	Less than 250	Up to € 50 million	or	Up to € 43 million
Small	Less than 50	Up to € 10 million		Up to € 10 million
Micro	Less than 10	Up to € 2 million		Up to € 2 million



For reasons of practicality, the headcount definition is widely used. Only about 1 per cent of businesses with a headcount under 250 has a turnover of over € 50 million.¹

Under-represented businesses

Small and medium firms and social enterprises that are majority (i.e. more than 50 per cent) owned and controlled by minority groups, including, but not limited to ethnic minorities, immigrants, women, disabled, lesbian, gay, bisexual and transgender people.

Social Economy

The legal nature of social economy organisations differs from one EU Member State to the next. The social economy includes organisations such as cooperatives, mutuals, associations, foundations and social enterprises. All are inspired by common values such as solidarity, social cohesion, social responsibility, freedom of membership, democratic management, participation and autonomy. They combine job creation, quality of employment, economic growth, social links, competitiveness, development of territories and the creation of social capital.²

Notions relating to the social economy include; the non-profit sector, social enterprises and the third sector. In the UK the terms ‘voluntary sector’ and ‘non-governmental organisations’ are widely understood. In France the

concept of the Solidarity Economy and the Social & Solidarity Economy are recognised and in Germany, *Gemeinwirtschaft* or General Interest Economy.³

The following definitions are in use in the UK:

Third sector

The UK government defines the third sector⁴ as non-governmental organisations that are value-driven and which principally reinvest their surpluses to further social, environmental or cultural objectives.

It includes voluntary and community organisations, charities, social enterprises, co-operatives and mutuals. These organisations often include a relatively small paid workforce complemented by a huge contribution by volunteers at all levels.⁵

Social Enterprise

In the UK, ‘social enterprises’ are defined as businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners⁶. This means organisations that trade goods and services and use the majority of their profits for social and environmental goals.⁶

¹ EIM “First section of the Annual Report on EU Small and Medium Sized Enterprises”, 2009

² EU European Economic & Social Committee website http://eesc.europa.eu/groups/3/index_en.asp?id=1405GR03EN

³ “The Social Economy in the European Union” (2007), CIRIEC (European Economic and Social Committee) http://eesc.europa.eu/groups/3/categories/soceco/booklets/EN_Web.pdf

⁴ UK Government Cabinet Office website http://www.cabinetoffice.gov.uk/third_sector/about_us.aspx

⁵ Department for Culture, Media & Sport (DCMS) “Third Sector Strategy”, 2009

⁶ DCMS “Third Sector Strategy”, 2009



Positive Action

Outlawing discrimination will not necessarily be enough by itself to ensure genuine equality of opportunity for everyone in society. Specific measures might be called for to compensate for disadvantages arising from a person's racial or ethnic origin, age or other characteristics which might lead to them being treated unfairly. For example, ethnic minorities may need special training and specific help to have a reasonable chance of finding a job. Putting on training courses or making different arrangements especially for them are ways of improving their chances.

European legislation allows positive action of this kind to be undertaken and does not regard it as infringing the principle of equal treatment.⁷

Public Procurement

Public procurement is the process whereby public sector organisations acquire goods, services and works from third parties. It includes much that supports the work of government and ranges from routine items (e.g. stationery, temporary office staff, furniture or printed forms), to complex expenditure areas (e.g. construction, Private Finance Initiative projects, aircraft carriers or support to major change initiatives).

It also includes expenditure whereby the private and third sectors provide key services directly to citizens in areas such as welfare-to-work, further education, social care and health. Such services may also be provided by the

public sector directly, and in some cases even this public provision can be handled through procurement mechanisms.⁸

⁷ For more information on 'positive action' see the EC report "Beyond Formal Equality: Positive Action Under Directives 2000/43/EC and 2000/78/EC" by the European Network of Legal Experts in the Non-Discrimination Field.

⁸ Office of Government Commerce "Introduction to Public Procurement", 2008



4 Population Demographics

This section gathers together data relating to the current population profiles of UK, France, Germany and Sweden and identifies trends in those populations.

The data collected and trends identified relate to size of population plus age, gender, disability, immigration and ethnicity and sexual identity within the overall population.

This information is important because it provides evidence for the increasing diversification of populations. This supports many aspects of the business case for supplier diversity that are detailed in [section 7](#), [section 8](#) and [section 9](#) of this Handbook.

This will also help large purchasing organisations to shape supplier diversity programmes in a manner that is relevant to their specific needs and contexts.

There are gaps and inconsistencies in data in relation to all 'minority' issues other than gender. Specifically:

- No data is quoted in relation to religion and belief as no reliable data could be identified
- There are significant gaps in data relating to sexual identity
- There are inconsistencies between countries in relation to data on disability
- There are major gaps in data and significant inconsistencies between countries in regard to the collection and reporting of data on migration

and ethnicity. The UK differs significantly from other European countries in its approach to these issues.



4.1 Size of Population

The current size of the population in the UK, France, Germany and Sweden is as follows:

Table 2:

Size of the population ⁹	UK	France	Germany	Sweden
2008	61,185,981	63,753,140	82,217,837	9,182,927

4.1.1 Trends in Size of Population

The size of populations is determined by how many babies are born, how long people live and how many enter and leave a country.¹⁰

The United Nations “World Population Prospects: the 2008 Revision” projects the following population trends:

Table 3:

	Population (000s)			
	UK	France	Germany	Sweden
1950	50,616	41,832	68,376	7,014
2009	61,565	62,343	82,167	9,249
2015	63,528	63,900	81,346	9,498
2025	66,601	65,769	79,258	9,915
2050	72,365	67,668	70,504	10,571

⁹ “Eurostat Website <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00001&plugin=1>

¹⁰ Eurostat “Consumers in Europe”, 2009



4.2 Age

The current age structure of the population of UK, France, Germany and Sweden is as follows:

Table 4:

		UK	France	Germany	Sweden
Average age profile of the population ¹¹	2008				
Number	under 15s	10,768,733	11,794,331	11,263,844	1,542,732
	15-64	40,566,305	41,630,800	54,428,208	6,024,000
	65 and more	9,850,943	10,391,762	16,525,785	1,607,012

4.2.1 Trends in Age

Table 5:

People by Age: Share of Total Population¹²

		UK	France	Germany	Sweden
0-14 years	1997	19.4%	19.4%	16.1%	18.8%
	2008	17.6%	18.5%	13.7%	16.8%
15 – 24 years	1997	12.3%	13.6%	11.0%	12.1%
	2008	13.4%	12.7%	11.6%	13%
25 – 49	1997	36.3%	36.8%	38.4%	34.6%
	2008	34.9%	34.0%	36.0%	33%
50 – 64	1997	16.1%	14.9%	18.8%	17.1%
	2008	18%	18.6%	18.6%	19.6%
65 - 79	1997	11.9%	11.5%	11.8%	12.7%
	2008	11.6%	11.4%	15.3%	12.2%
80 years +	1997	4%	3.9%	3.9%	4.8%
	2008	4.5%	4.9%	4.8%	5.3%

A pattern of an ageing population is observed across most of Europe. This is driven by a range of factors; lower birth rates, the so-called baby-boom and an increase in life expectancy. These are all contributing to older generations accounting for a larger proportion of the total population.¹³

¹¹ Eurostat Website <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&init=1&pcode=tps00010&language=en>

¹² Eurostat Website <http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=0&init=1&pcode=tps00010&language=en>

¹³ Eurostat, "Consumers in Europe", 2009



4.3 Gender

The current gender structure of the population of UK, France, Germany and Sweden is as follows:

Table 6:

		UK	France	Germany	Sweden
Women ¹⁴	2008	50.9%	51.4%	51.0%	50.3%
Men	2008	49.1%	48.6%	49%	49.7%

4.3.1 Trends in Gender

More boys than girls have been born each year in the UK since 1922, the first year these figures were available. Boys and men continue to outnumber girls and women in all age groups up until the early 30s. From this age group upwards women outnumber men and the difference is most pronounced in the oldest age groups. Because of higher mortality rates for males at all ages and also some higher adult migration for males, there are slightly more females than males in the overall population. This difference is particularly pronounced amongst older people because of the higher life expectancy of women and also higher young adult male mortality during World War Two.¹⁵



¹⁴ <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00011&plugin=1>

¹⁵ ONS, "Social Trends 39", 2009

4.4 Disability

The current structure of the populations of UK, France, Germany and Sweden, in relation to disability is as follows:

Table 7:

	UK	France	Germany	Sweden
Percentage of population with disability ¹⁶	27.2%	24.6%	11.2%	19.9%

Table 8:

	UK ¹⁷	France ¹⁸	Germany ¹⁹	Sweden ²⁰
Most common forms of impairment	Physical Impairment (66%) Hearing impairment (15%) Visual impairment (12%) 'Fluctuating condition' (11%) Mental Health Condition (12%) Learning difficulties (2%) 'Other' (20%)	Physical, including motor, sensory and visceral (53.8%) Learning difficulties or mental health condition (7.7%) Both physical and learning difficulty (10.2%) Indefinite (28.2%)	Impairments acquired as a result of diseases or accidents (majority)	Mobility (31.9%) Allergy (20.2%) Mental (9.3%) Hearing (8.6%)

Eurostat²¹ suggests that large differences between countries (e.g. the low German figure) should be interpreted with caution. These differences may reflect the impact of cultural traits on how respondents perceive questions and how they reply.

Overall there is little difference in the prevalence of disability between males and females. The prevalence rates of Long Standing Health Problems and Disabilities (LSHPD) are higher among those with lower education, and among the widowed, divorced and the inactive. These rates increase with age in all Member States.

¹⁶ Eurostat website: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00001&plugin=1>

¹⁷ ANED, "UK – ANED Country Profile", 2009 <http://www.disability-europe.net/content/pdf/United%20Kingdom%20-%20ANED%20country%20profile.pdf>

¹⁸ ANED, "France – ANED Country Profile", 2009 <http://www.disability-europe.net/content/pdf/France%20-%20ANED%20country%20profile.pdf>

¹⁹ ANED, "Germany – ANED Country Profile", 2009 <http://www.disability-europe.net/content/pdf/Germany%20-%20ANED%20country%20profile.pdf>

²⁰ ANED, "Sweden – ANED Country Profile", 2009 <http://www.disability-europe.net/content/pdf/Sweden%20-%20ANED%20country%20profile.pdf>

²¹ Eurostat "Press Release: Closing Ceremony of the European Year of People with Disabilities", 2003 at http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-05122003-AP/EN/3-05122003-AP-EN.HTML



4.5 Immigration and Ethnicity

Jacobs et al²² report findings key to this section. They find that different EU Member States use different statistical constructions to measure the sections of their population that are of foreign or ethnic origin. Direct comparisons are therefore extremely difficult. This is because official definitions vary, or may be non-existent, and cultural contexts vary significantly between Member States.

A summary of the nature of data collected within the four Member States of this report is as follows:

Table 9:

	UK	France	Germany	Sweden
Population register	N	N	Y	Y
Annual statistics on citizenship	Y	Y	Y	Y
Annual statistics on country of birth	Y	Y	N	Y
Annual statistics on country of birth of parents	N	N	N	Y

Statistical comparisons are often made on the lowest common denominator basis of 'nationals' or 'non-nationals'. For the Member States within this report, these figures are as follows:

²² "The Challenge of Measuring immigrant Origin and Immigration-related Ethnicity in Europe" by Jacobs, Swyngedouw, Hanquinet, Vandezande, Andersson, Beja Horta, Berger, Diani, Gonzalez Ferrer, Giugni, Morariu, Pilati, Statham, 2009. (Published in "Int. Migration & Immigration")

²³ Eurostat website <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00157&plugin=1>

²⁴ United Nations Population Division website <http://esa.un.org/migration/index.asp?panel=2>

Table 10: Resident citizens with foreign nationality

	UK	France	Germany	Sweden
Percentage of resident citizens with foreign nationality ²³	6.6%	5.8%	8.8%	5.7%

Table 11:

	International immigrants as a % of total population ²⁴			
	1990	1995	2000	2005
UK	6.6%	7.3%	8.1%	9.1%
France	10.4%	10.5%	10.6%	10.7%
Germany	7.5%	11.1%	11.9%	12.3%
Sweden	9.1%	10.3%	11.2%	12.4%

- Jacobs et al make the following observations on the individual Member States studied within this report:
 - o In the UK the classification of individuals is on the basis of 'self identification' according to origins, and even race, is standard operating procedure. Visible majorities might choose not to identify themselves
 - o In France individuals are identified on the basis of their nationality. Some data is collected on immigrants, without any identification of ethnic groups
 - o In Germany, data is available on current nationality and place of birth



- o Sweden records data according to country of birth and the country of birth of parents, allowing identification of individuals with a foreign background
- In 2007, the EU adopted a regulation in order to attempt to harmonise data. Member states are being pushed to collect and produce population data on country of birth and number of persons acquiring citizenship. The collection of such data will still leave gaps on the understanding of the size of so-called 'second and third generations'
- Most EU Member States lack a definition of ethnic minorities. Where definitions do exist, they are generally on the basis of historical linguistic minorities. France declines to accept this.

Eurostat collects data on the origins of people migrating into and out of individual Member States and on the origins of people taking up citizenship. This provides a useful snapshot of the backgrounds of immigrant communities within individual Member States:

Table 12:

	2006				Acquisition of citizenship
	Foreign Immigration ²⁵		Largest immigrant groups	Main Country of previous citizenship ²⁶	
	Immigration per 1,000 inhabitants	Of which % EU Citizens			Non-EU Citizens
UK	7.4	31%	69%	Poland, India, China	India (9.8%), Pakistan (6.7%), Somalia (5.9%)
France	2.9			Algeria, Morocco, China	Morocco (24.9%) Algeria (18.1%), Tunisia (7.5%)
Germany	6.8	57%	43%	Poland, Turkey, Romania	Turkey (28.8%), Poland (5.5%), Russia (3.8%)
Sweden	8.8	32%	68%	Iraq, Poland, Denmark	Iraq (25.2%), Finland (5.8%), Turkey (5.7%)

²⁵ Eurostat "Press Release: Immigration in the EU27 in 2006", 2008 at <http://epp.eurostat.ec.europa.eu/portal/page/portal/population/documents/Tab/3-18112008-EN-AP.PDF>

²⁶ Eurostat "Acquisition of Citizenship in the European Union", 2008 http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-08-108/EN/KS-SF-08-108-EN.PDF



The OECD has collected data from the early 2000s on the country of birth of residents of individual countries. This gives us a snapshot of the background of the immigrant communities, some of whom may have been resident for many years.²⁷

Table 13:

	UK	France	Germany	Sweden
Total number foreign born	4 503 466	5 600 198	7 831 959	933 830
% Africa	762 575 (17%)	2 745 341 (49%)	177 560 (2%)	56 470 (6%)
% Asia	1 475 375 (33%)	432 843 (8%)	965 858 (12%)	224 730 (24%)
% Europe (non-Native)	1 552 005 (34%)	2 282 800 (41%)	5 370 220 (69%)	579 695 (62%)
% North America	193 335 (4%)	48 500 (<1%)	39 080 (<1%)	13 695 (1%)
% Oceania	156 804 (3%)	5 566 (<1%)	c. 0%	3 140 (<1%)
% South and Central America & Caribbean	324 096 (7%)	85 148 (1.5%)	52 760 (<1%)	56 100 (6%)
% Other and unknown	39 276 (1%)	c. 0%	1 226 481 (16%)	c. 0%

Within individual Member States, geographical areas can be identified where there are particular concentrations of people from immigrant backgrounds:

Table 14:

Cities within which residents have the most diverse backgrounds (as % of total population)²⁸

	France	Germany	Sweden
Non-nationals	1. Cayenne (23%) 2. Paris (14%) 3. Strasbourg (10%) 4. Lyon (9%) 5. Ajaccio (8%)	1. Munchen (29%) 2. Stuttgart (24%) 3. Frankfurt am Main (22%) 4. Wiesbaden (20%) 5. Mainz (19%)	1. Malmo (10%) 2. Stockholm (9%) 3. Goteborg (9%) 4. Uppsala (6%) 5. Orebro (5%)
Nationals born abroad	1. Nice 2. Marseille 3. Toulon 4. Montpellier 5. Toulouse	1. Stuttgart 2. Monchengladbach 3. Wiesbaden 4. Bremen 5. Essen	1. Malmo 2. Goteborg 3. Stockholm 4. Uppselen 5. Jonkoping
Non-EU nationals moved to city in previous 2 years	1. Cayenne 2. Paris 3. Strasbourg 4. Saint Etienne 5. Lyon	1. Monchengladbach 2. Karlsruhe 3. Munchen 4. Frankfurt am Main 5. Darmstadt	1. Malmo 2. Stockholm 3. Goteborg 4. Uppselen 5. Linkoping



²⁷ Source: OECD Stat Extracts Website <http://stats.oecd.org/index.aspx>

²⁸ Source: Urban Audit website www.urbanaudit.org, France data is from 2001, German and Swedish data from 2008

4.5.1 The UK and 'Ethnic Minorities'

Jacobs et al. explain that, in the UK, 'ethnic minority' is not a term that has a legal definition, even though it is in wide use. Rather, the Race Relations Act 1976 uses the term 'racial group', to identify and protect groups of people on the basis of their race, colour, nationality and ethnic or national origins. In 1983 the House of Lords emphasized that the word 'ethnic' should be interpreted relatively broadly in a historic and cultural sense. Case-law has determined that English, Scots and Welsh are not racial groups by virtue of distinct 'ethnic origin'.

Data is available in the UK in relation to ethnicity; comparable data is not available in other EU Member States.

The most recent, comprehensive population data for the UK by ethnic group was collected during the 2001 Census:²⁹

Table 15:

	Total Population %	Non-white Population %
White	92.1	
Mixed	1.2	14.6
Indian	1.8	22.7
Pakistani	1.3	16.1
Bangladeshi	0.5	6.1
Other Asian	0.4	5.3

²⁹ ONS website <http://www.statistics.gov.uk/CCI/nugget.asp?ID=764&Pos=4&ColRank=1&Rank=176>

³⁰ ONS, 'Social Trends 39', 2009

	Total Population %	Non-white Population %
All Asian or Asian British	4.0	50.3
Black Caribbean	1.0	12.2
Black African	0.8	10.5
Black Other	0.2	2.1
All Black or Black British	2.0	24.8
Chinese	0.4	5.3
Other ethnic groups	0.4	5.0
All minority ethnic population	7.9	100
All population	100	

Amongst the 'white' are almost 691,000 White Irish people; accounting for 1 per cent of the population.

Self identity of ethnic minorities in the UK

In 2007, people from non-White groups were more likely than White groups to identify themselves as 'British'.³⁰

In 2007 the majority of people in many non-White ethnic groups living in Great Britain described their national identity as British, English, Scottish or Welsh. This included almost nine in ten (87 per cent) people from the Mixed group, 85 per cent of people from the Black Caribbean group, 80 per cent from the Pakistani and 78 per cent from the Bangladeshi groups.



Less than one-half of people in the Chinese group (49 per cent) and around one-quarter (26 per cent) of people in the White Irish group identified themselves as being either British, English, Scottish or Welsh.

Only one-third (34 per cent) of people from the White British group described themselves as British. White British were much more likely to describe themselves as English, Welsh or Scottish.

‘Super Diversity’ in the UK

The term ‘super diversity’ has begun to be used in the UK to explain a level and complexity of ethnic diversity that has not previously been experienced.

Steven Vertovec explains that super diversity is distinguished by:

“A dynamic interplay of variables among an increased number of new, small and scattered, multiple-origin, transnationally connected, socio-economically differentiated and legally stratified immigrants.”³¹

As Vertovec observes, “New patterns of super-diversity pose significant challenges for both policy and research.”

4.5.2 Immigrants and Ethnic Minorities in France

For reasons summarised in section 4.5 and 6.3.2 on data protection legislation, specific data on the ethnicity of people in France is not available.

Based on 2004/5 data, INSEE³² estimate that around 4.9 million people, or 8 per cent of the population are foreign born immigrants. Algeria is the country of origin of the largest number of immigrants, followed by Morocco, Portugal, Italy, Spain, Turkey, Tunisia, Germany, UK, Belgium, Poland, Vietnam, Senegal, China, and Mali, in that order.

Between the 1999 census and collection of data in 2004/5, the relative numbers of people from all of these countries of origin increased, except for Portugal, Italy, Spain and Poland which decreased and Vietnam which remained unchanged.

This data might not reflect internal European population movements following the expansion of the EU in 2004.

Based on the 1999 census, the number of people with foreign origins is estimated at around 6.7 million, or 10 per cent of the population.

³¹ Vertovec S, “The Emergence of Super Diversity in Britain”, 2006 (Centre on Migration Policy and Society, Oxford) <http://www.compas.ox.ac.uk/fileadmin/files/pdfs/Steven%20Vertovec%20WP0625.pdf>

³² INSEE website at <http://www.insee.fr/fr/ffc/ipweb/ip1098/graphiques.html#graphique1>



4.5.3 Immigrants and Ethnic Minorities in Germany

There are roughly six immigrant groups involved in Germany's economy:

- Post-war expellees of German or ethnic German origin
- 'Guest workers' from Southern Europe and Turkey
- Labour immigrants from socialist countries to the former German Democratic Republic
- Ethnic German immigrants from Central and Eastern Europe
- New East-West immigrants since 2004
- New immigrants (investors) according to the 2005 Immigration Act (*Zuwanderungsgesetz*).

Discussion about immigration has been dominated by the discourse about foreigners (Ausländer) for a long time. This category includes people who were actually born in Germany and are second and even third generation of immigrants, born and raised in Germany but without German citizenship.

The term Ausländer excluded millions of persons who came as ethnic German immigrants (Aussiedler)³³ from Central and Eastern Europe after 1950. This group enjoyed the privilege of immediate naturalisation upon immigration and, as a consequence, disappeared from German statistics on foreigners.

Thus, a paradox is apparent whereby a certain segment of the native born population was included in the category of foreigners and another segment of foreign born population was excluded from the landscape of immigration.

In the early 2000s a new, more encompassing term emerged; Personen mit Migrationshintergrund ('persons with immigrant background' or 'persons of immigrant origin'). It was included in Germany's 2005 micro-census (an annual one per cent statistical sample) for the first time. The newly created category includes immigrated foreigners (*Zugewanderte* Ausländer), foreigners born in Germany (in Deutschland geborene Ausländer), naturalised foreigners (*Eingebürgerte* Ausländer), and ethnic German immigrants (Aussiedler and *Spätaussiedler*).

As an effect, statistical analyses roughly doubled from 6.76 million foreigners to 15.3 million people of immigrant origin.

In "Ethnicity, Gender and Entrepreneurship: Turkish Entrepreneurs in Germany" Putz, Schreiber and Welpé³⁴ state that, in 2007, there were 1.95 million Turkish nationals living in Germany, of which more than a third were born in Germany. In addition there were 450,000 German nationals who had a Turkish immigrant background. Berlin is the city that is home to most who still have Turkish nationality and many who now have German nationality.

³³ These are members of German minorities in Central and Eastern Europe who were allowed to immigrate to (West) Germany after World War II. They were not seen as immigrants, but as co-ethnic population that was repatriated as a consequence of historical circumstances.

³⁴ Putz, Schreiber and Welpé "Ethnicity, Gender and Entrepreneurship: Turkish Entrepreneurs in Germany" in: "Handbook of Research in Ethnic Minority Entrepreneurship" edited by Leo-Paul Dana, 2007



4.5.4 Immigrants and Ethnic Minorities in Sweden

In 1998, 11 per cent of Sweden's population was foreign born. This proportion has constantly risen since then and reached 14 per cent in 2008. Among foreign born, Finns comprise the largest group followed by Iraqis.

In Sweden, 378,000 persons have two foreign-born parents while they themselves were born in Sweden. This group together with the foreign born comprise 18 per cent of the entire population.³⁵

³⁵ Statistics Sweden website http://www.scb.se/Pages/PressRelease____257312.aspx

³⁶ Data and information provided by Diversity Works for London

³⁷ <http://news.bbc.co.uk/1/hi/education/7147954.stm>

4.5.5 Trends in Immigration and Ethnic Minorities

The United Nations identifies UK, France and Germany as major net receivers of international immigrants during the years 2010 to 2050;

- United Kingdom: 174,000 annually
- Germany: 110,000 annually
- France: 100,000 annually.

In Great Britain the number of people who came from an ethnic group other than White grew by 53 per cent between 1991 and 2001, from 3.0 million in 1991 to 4.6 million in 2001. Based on this trend it is likely that the ethnic diversity of the UK is now much greater than the 2001 figures suggest.

In London in 2009³⁶

- 300 languages are spoken
- Around 30 per cent of the population is from a black, Asian or other minority ethnic group
- Over the next decade, BAME groups will account for 80 per cent of the increase in London's working age population.

In December 2007, the British Broadcasting Corporation³⁷ reported statistics from the Department for Children, Schools and Families indicating the diversity of the backgrounds of the children in England's schools.



The BBC reported that 13.5 per cent of children speak English as a second language (up from 7.8 per cent in 1997). In the 14 boroughs that make up Inner London this figure is 53.4 per cent and the background of just 21.5 per cent of pupils was stated as being 'white British'.

Anecdotal evidence suggests that a wave of migration from Eastern Europe took place following expansion of the European Union in the mid 2000s, but that many of these workers moved away from the UK as the economic recession took hold in 2008. Those immigrants who have stayed are resident across the UK, including parts of the country (e.g. Wales, Scotland) where the population sizes of other, non-White ethnic minorities are relatively very small.

4.6 Sexual Identity

EU legislation protects individuals from discrimination on the basis of their sexual orientation and gender realignment. Thus they are, together or separately, regarded as 'dimensions' of equality in Europe, alongside gender, disability, age, religion or belief, ethnicity or national origin.

This contrasts sharply with the rest of the world. In many countries same-sex acts result in imprisonment and even the death penalty.³⁸ In others, there is no legislation and anecdotal evidence suggests that homophobic violence is common.

Data on the sexual orientation of the population is not routinely collected nor analysed in EU Member States.

The UK's Office for National Statistics is undertaking a 'Sexual Identity Project' to develop methodology around information on sexual identity.³⁹

UK HM Treasury Actuaries estimate⁴⁰ that 6 per cent of people are attracted to people of the same sex (lesbian women and gay men) or both the same and opposite sex (bisexual people). Stonewall⁴¹ calculates that this equates to 3.6 million people, of which 1.7 million are working age.

³⁸ ILGA, "LGBTI Rights in the World", 2008

³⁹ <http://www.ons.gov.uk/about-statistics/measuring-equality/sexual-identity-project/index.html>

⁴⁰ Confederation of British Industry (CBI), Trades Union Congress (TUC) and Equality & Human Rights Commission, "Talent Not Tokenism", 2008

⁴¹ Stonewall, "Sexual Orientation Employer Handbook, third edition", 2009



Lesbian, Gay, Bisexual and Transgender (LGBT) support, campaign and action groups work on the basis that up to 10 per cent of the population is gay or lesbian.⁴²

4.7 Conclusion

The data in this section demonstrates how the population demographics of Europe are changing. There are gaps in some data sets (e.g. around sexual identity and religion and belief) but changes in populations in relation to age, immigration and ethnicity and disability are apparent. This means that the nature of the marketplace and the needs and preferences of customers and end-consumers in relation to the goods and services that they use, is changing. The emergence of the concept of 'super-diversity' indicates just how profound these marketplace changes are. This is a major issue for those organisations that design, distribute and market any kinds of product; to stay competitive they must change with that marketplace and adapt to change. Supplier diversity offers a way to stay aligned with a changing marketplace, as explored in detail in the [later sections](#) on 'the business case'.



⁴² Pinke.biz website <http://www.pinke.biz/pages/2/>

5 Business Demographics

This section draws together data relating to the demographics of businesses based in the UK, France, Germany and Sweden and identifies relevant trends in those business communities.

The data and trends relate to businesses of different sizes (e.g. micro, small, medium and large businesses), the social economy and businesses majority owned and controlled by women, immigrants and ethnic minorities, disabled people and people who are lesbian, gay, bisexual and transgender (LGBT).

This data is important because it provides evidence that demonstrates the economic value and increasing diversification of the business community. This supports many aspects of the business case for supplier diversity that are detailed in [section 7](#), [section 8](#) and [section 9](#) of this Handbook.

The vast majority of businesses in European economies are small and medium enterprises (SMEs). Their value as employers and creators of wealth is immense. The number of large businesses is, relatively, extremely low. Data demonstrating the value of SMEs, and the increasing diversity of that SME community, will help large purchasing organisations to shape supplier diversity programmes in a manner that allows them to capture the benefits offered by that SME community. If large purchasing organisations limit themselves to trading only with other large companies, then their pool of potential suppliers is very small.

The only relevant business data available in a comparable form for the whole of Europe relates to small and medium enterprises (SMEs) and sub-sets of this group, namely micro, small and medium-sized businesses. Self-employed people are included in some of these data sets.

The availability of data relating to the diversity of the people who own and control businesses is extremely limited. Availability appears to be wholly dependent on whether specific organisations within individual countries have taken it upon themselves to collect it. Where similar data has been collected in different countries, differing methodologies mean that direct comparisons are not always possible.

Some data is available on women-owned businesses but data on businesses owned by disabled, immigrant and ethnic minority and lesbian, gay and bisexual (LGB) people is significantly less available. If these 'minority' business groups are so poorly mapped, then it is likely that they are poorly understood, under-supported and, possibly, under-performing against their potential within national economies.



5.1 Small and Medium Enterprises (SMEs)

5.1.1 Small and Medium Enterprises in Europe

The percentages of the working age population that is self-employed in each of the four Member States addressed in this report are as follows:⁴³

Table 16:

	UK	France	Germany	Sweden
2000	12.8%	9.2%	11.0%	10.3%
2001	12.8%	8.9%	11.1%	10.0%
2002	12.7%	8.8%	11.2%	9.8%
2003	13.2%	8.8%	11.4%	9.6%
2004	13.6%	8.9%	12.1%	9.9%
2005	13.4%	9.0%	12.4%	9.8%
2006	13.5%	9.0%	12.2%	10.0%
2007	13.8%	8.9%	12.0%	10.6%

'Self-employed', in this context, includes a range of activity from employers (i.e. people who own their own businesses and employ other people) to sole proprietors (i.e. those who do not employ others) including freelance workers.

The numbers of SMEs per 1,000 inhabitants in each relevant Member State are as follows:

Table 17:

	Number of SMEs per 1000 inhabitants ⁴⁴
EU	Almost 40
UK	26
France	36
Germany	20
Sweden	58

The actual number of SMEs in the four Member States addressed in this report, and the number of employees within them, are detailed in table 18. In all Member States:

- SMEs account for over 99.5 per cent of the total business stock
- Micro businesses account for 82 per cent to 94 per cent of the total business stock
- SMEs employ significantly more people than large companies

These figures exclude sole proprietors and freelance workers. The data has been collected by the EU according to a methodology that is the same across all four Member States and so allows for direct comparison.

⁴³ Source: OECD <http://stats.oecd.org/index.aspx>

⁴⁴ SBA "Factsheet: EU SME Performance Review 2008", 2008 http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/spr_main_en.htm#Additional_Studies



Table 18: Structure of Non-Financial Business Economy in Europe, 2008⁴⁵

		Type of business by size					
		Micro	Small (excluding micro)	Medium	SME (micro + small + medium)	Large	Total (SME + large)
UK	Number enterprises	1,350,000	174,000	27,000	1,551,000	6,000	1,558,000
	Number persons employed	3,861,000	3,206,000	2,684,000	9,751,000	8,266,000	18,017,000
France	Number enterprises	2,171,000	151,000	24,000	2,346,000	5,000	2,351,000
	Number persons employed	3,375,000	3,096,000	2,427,000	8,898,000	5,663,000	14,561,000
Germany	Number enterprises	1,394,000	248,000	40,000	1,682,000	8,000	1,690,000
	Number persons employed	3,959,000	4,634,000	4,031,000	12,623,000	8,359,000	20,982,000
Sweden	Number enterprises	506,000	25,000	5,000	536,000	1,000	537,000
	Number persons employed	670,000	551,000	483,000	1,704,000	993,000	2,696,000

The studies of the four individual Member States in subsequent sections are drawn from data and information prepared by local agencies. Their methodology may differ from that used by the EU to collect the data included in table 18. Therefore some data sets may appear different and direct comparisons across Member States may not be possible.

⁴⁵ Data extracted from the spreadsheets used to prepare the "2008 Annual Report on SMEs", EU 2008 which can all be accessed at http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/spr_main_en.htm



5.1.2 Small and Medium Enterprises in the UK

Business data in the UK generally includes sole proprietorships and the self-employed. The relative economic value of this and the wider SME community is as follows:

Table 19:

UK businesses⁴⁶

	0 employees *	1-9 employees	10-49 employees	Medium companies (50 to 249 employees)	SMEs overall	Large companies (250+ employees)
Private sector enterprises						
Number	3,460,360	1,109,295	166,815	26,690	4,673,315	5,915
% of total	99.3%			0.6%	99.9%	0.1%
People employed						
Number	3.77 million	3.76 million	3.27 million	2.7 million	23.5 million	9.3 million
% of private sector employment	47.5%			11.7%	59.2%	40.8%
Annual Turnover						
£	222,000 million	413,000 million	410,000 million	395,000 million	£1,440 bn	£1,360 bn
% of private sector turnover	37.4%			14.1%	51.5%	48.5%

* Companies with 0 employees are either sole proprietorships and partnerships comprising only the self-employed owner-manager(s), or companies comprising only an employee director.

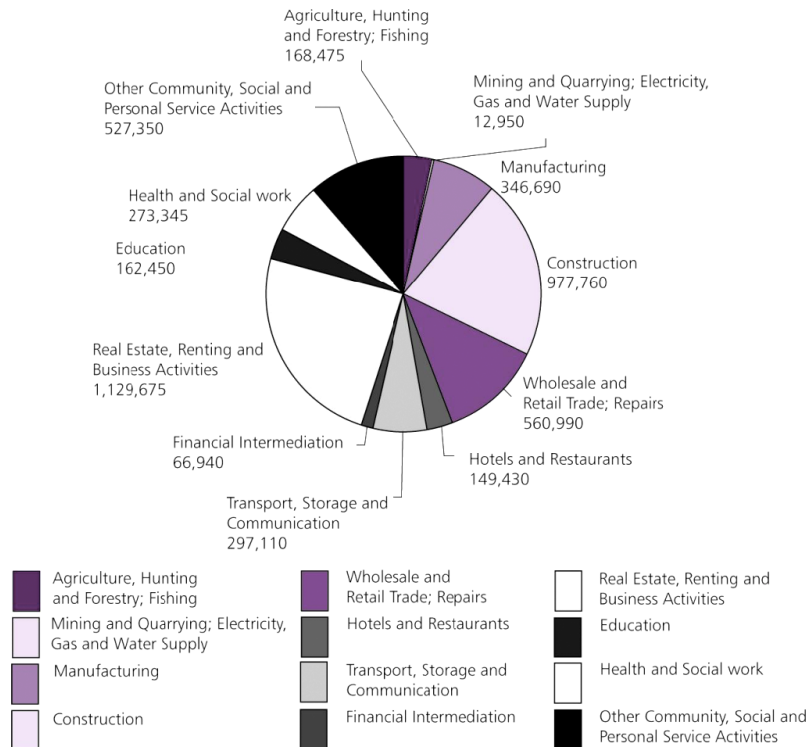
⁴⁶ BERR, "Statistical Press Release: SME Statistics for the UK and Regions 2007", 2008



The 4.67 million SMEs operate in the following business sectors:

Chart 2:

Chapter 1 – Introduction – The role of SMEs in the UK economy
Number of SMEs by Sector



Source: Small and Medium Enterprise Statistics for the UK and Regions, BERR Enterprise Directorate, 2007

The 4.7 million private sector enterprises in the UK (large and SME) can have one of several types of legal status.

Sole proprietorships and partnerships may or may not be ‘registered’. That is, they may be registered to pay Value Added Tax (VAT), which is legally required if turnover is in excess of £61,000 per annum and/or for the Pay As You Earn system (PAYE), which is a legal requirement when employing people.

An organisation that is ‘registered’ (for VAT and/or PAYE) can generally be assumed to have a greater trading capacity than one that is not.

- There are 3 million sole proprietors in the UK; 10.6 per cent have employees and 610,000 are registered for VAT and/or PAYE⁴⁷
- There are 507,000 partnerships; 36.8 per cent have employees and 320,000 are registered for VAT and/or VAT
- There are 1.2 million companies; 60.3 per cent have employees.



⁴⁷ Data on VAT and PAYE registration extracted from ‘Methodology and Accuracy: Technical Notes’ accompanying ‘Statistical Press Release: SME Statistics for the UK and Regions 2007’ BERR, 30 July 2008

5.1.3 Small and Medium Enterprises in France

Businesses in France, by sector, in 2007 were as follows:⁴⁸

Table 20:

Sector	Number of businesses (rounded to nearest 100)
Wholesale	658,300
Business services	516,700
Personal services	416,900
Construction	380,600
Education, health, welfare & government	364,900
Real estate	198,800
Other goods; producing industries	183,000
Transportation	88,300
Food	64,300
Financial Activities	53,500
Total	2,925,100

5.1.4 Small and Medium Enterprises in Germany

The German Federal Ministry of Economic and Technology and IFM Bonn (Institute for SME Research) offers a significantly different definition of an SME⁴⁹ to that proposed by the EU:

Table 21:

Small businesses	Medium-sized businesses
Less than 1 million euros turnover annually	1 to 50 million euros turnover annually
up to 9 employees	10 to 499 employees
Qualitative criteria include the unity of ownership and management as well as the management's accountable involvement in all business decisions.	

On the basis of this definition, small and medium businesses in Germany;

- Represent 99.7 per cent of all businesses
- Produce 40.8 per cent of taxable turnover
- Provide 70.5 per cent of jobs
- Train 83.4 per cent of all apprentices
- Account for around 95 per cent of all innovative companies.⁵⁰

There are 3.4 million small and medium-sized businesses and self-employed professionals active in the skilled crafts, industry, trade, tourism, services and professional services.

⁴⁸ Insee, « La France en Bref », 2009 at <http://www.insee.fr/fr/pdf/intfrcbref.pdf>

⁴⁹ Federal Ministry of Economics & Technology Website <http://www.bmwi.de/English/Navigation/Economy/small-business-policy.html>

⁵⁰ Federal Ministry of Economics & Technology Website <http://www.bmwi.de/English/Navigation/Economy/small-business-policy,did=79734.html>



5.1.5 Small and Medium Enterprises in Sweden

In Sweden there are around 600,000 businesses. Over 99 per cent of them have fewer than 250 employees (i.e. are classed as SMEs) and they account for roughly 60 per cent of total employment.⁵¹

5.2 Women-owned Businesses

The availability of data and information about numbers and types of businesses according to the diversity of the owners varies significantly across Europe.

Data is available across the EU regarding self-employment. Frequently studies make the assumption that self-employment and entrepreneurship are one and the same. This assumption may result in an inaccurate picture; a relatively high rate of self-employment might indicate one of many factors, ranging from entrepreneurial attitudes (e.g. to set up a growth business to employ people) to the existence of barriers to the mainstream labour market which force people into self-employment.⁵²



⁵¹ ALMI, "Getting Sweden Working", http://almi.se/Global/Dokument/PDF/almi_english.pdf

⁵² SOPEMI / OECD, "International Migration Outlook", 2009

5.2.1 Women-owned Businesses in Europe

Table 22:

	Women owned businesses			
	UK	France	Germany	Sweden
Female self-employed (as % of total)	27% ⁵³	39% ⁵⁴	28% ⁵⁵ - 31% ⁵⁶	25% ⁵⁷
Women owned businesses (as % of total)	14% ⁵⁸ - 16% ⁵⁹	28% ⁶⁰	33% ⁶¹	22% ⁶² - less than 30% ⁶³

5.2.2 Women-owned Businesses in the UK

Prowess is the UK association of organisations supporting women to start and grow businesses. It provides the following facts and figures:⁶⁴

- There are approximately 1,013,000 self-employed women (7.6 per cent of women in employment) and 2,706,000 self-employed men (17.4 per cent of men in employment) in the UK⁶⁵
- In the UK, women-owned businesses comprise approximately 16 per cent of the business stock and women comprise approximately 27 per cent of the self-employed population
- Total Early Stage Entrepreneurial Activity (TEA) rates for women in the UK are 3.9 per cent of the total working age female population. This compares with 6.2 per cent of the total (male and female) population. The female entrepreneurial activity rate is only half that of male entrepreneurial activity
- The most entrepreneurial age group for females is 35 – 44.⁶⁶

⁵³ Carter S, "Women's Business Ownership", 2006 <http://www.prowess.org.uk/documents/WomensbusinessownershipSaraCarter.pdf>

⁵⁴ OECD "Labour Force Statistics", 2004

⁵⁵ OECD "Labour Force Statistics", 2004

⁵⁶ The European Network to Promote Women's Entrepreneurship (WES), "Annual Activity Report 2007", 2007

⁵⁷ OECD "Labour Force Statistics", 2004

⁵⁸ BERR "Annual Small Business Survey" 2008

⁵⁹ Carter S, "Women's Business Ownership", 2006 <http://www.prowess.org.uk/documents/WomensbusinessownershipSaraCarter.pdf>

⁶⁰ WES, "Annual Activity Report 2007", 2007

⁶¹ WES, "Annual Activity Report 2007", 2007

⁶² WES "Annual Activity Report 2007", 2007

⁶³ ALMI "Getting Sweden Working", http://almi.se/Global/Dokument/PDF/almi_english.pdf

⁶⁴ Prowess website <http://www.prowess.org.uk/facts.htm>

⁶⁵ Carter, S, "Womens Business Ownership" 2006

⁶⁶ Global Entrepreneurship Monitor, London Business School, February 2006 quoted on Prowess website <http://www.prowess.org.uk/facts.htm>



Businesses are invited to self-identify as majority female owned businesses when they register on the Compete For procurement portal. Of the 72,605 businesses registered by 26th May 2009, the percentages that self-identified are as follows:

Table 23:

Businesses registered on Compete For Portal

	% that identify as women-owned
National	18.2%
East Midlands	17.4%
East of England	18.1%
London	17.3%
North east	17.6%
North west	15.9%
Northern Ireland	11.5%
Scotland	16.1%
South east	18.3%
South west	21%
Wales	16.5%
West Midlands	16.9%
Yorkshire	16.9%
Non-UK	10.6%

The anecdotal experience of business support and supplier diversity programmes (sections [10.3.3](#) and [10.3.10](#)) suggests that many women become self-employed in order to be able to better balance work life with

family and caring responsibilities. Many of these women do not plan to grow their businesses beyond their own income needs or employ other people.



5.2.3 Women-owned Businesses in France

The “Annual Activity Report 2007”⁶⁷ of the European Network to Promote Women’s Entrepreneurship (WES) reports that women make up 28 per cent of French entrepreneurs.

In 2006 female entrepreneurs accounted for 28.6 per cent of business start-ups (an increase on the 27 per cent in 2002) but 43.1 per cent of business take-overs.

Sectors in which women are most likely to start-up businesses are: personal services (51 per cent of total start-ups) and education, healthcare and social action (59 per cent of total start-ups).

Women were less likely to start-up businesses in the sectors of construction (6 per cent), transport (16 per cent) and financial services (24 per cent).

5.2.4 Women-owned Businesses in Germany

Data available in Germany relates to the number of women in self-employment, including those running businesses.

For example, WES’ “Annual Activity Report 2007” reports that the number of self-employed women:

- Rose from 1.012 million in 2001 to 1.264 million in 2006
- Varies between regions, for example;
 - o 28.6 per cent in Bremen
 - o 35.1 per cent in Hamburg
 - o 31.6 per cent in Saxony-Anhalt
 - o 34.7 per cent in Mecklenburg- Western Pomerania.



⁶⁷ WES, “Annual Activity Report 2007”, 2007

5.2.5 Women-owned Businesses in Sweden

The Women's Business Research Institute (Wombri)⁶⁸ estimates that 4 per cent of women in Sweden run their own company compared to 13 per cent of men, and that approximately 25 per cent of businesses are women-owned.

Swedish business support network ALMI⁶⁹ suggests that less than 30 per cent of Swedish businesses are women-owned.

In 2009, Monica Restig of Wombri identified just 286 women owned businesses in Sweden with a turnover in excess of SEK 25 million (c. €2.5 million). Ms Restig identifies how almost half of working women are employed in the public sector. Around 90 per cent of businesses in the publicly financed sector are state owned (hospitals, schools, old people's homes, day-care centres, etc). So women generally have competencies in sectors where new business opportunities are limited. This is, though, changing, as the state seeks to save money by letting private businesses run operations; lots of these businesses are women-owned.

62 per cent of women-owned businesses are in the service sector. Trading companies are the second largest sector and manufacturing the smallest sector.⁷⁰

⁶⁸ Information provided directly by Wombri www.wombri.se

⁶⁹ www.almi.se

⁷⁰ WES "Activity Report", 2007

⁷¹ Wombri Forlag (Women's Business Research Institute) website <http://www.wombri.se/page.asp?cnt=0104&nav=01>

⁷² WES, "Annual Activity Report 2007", 2007

The proportion of new businesses established by women has increased significantly since 1993:⁷¹

Table 24:

	Total number of companies started	Number of companies started by women	Women's share of new companies
1993	22400	4700	21%
1994	34700	8700	25%
1995	35000	8750	25%
1996	36000	10000	28%
1997	37000	11100	30%
1998	33900	10500	31%
1999	35820	11462	32%
2000	38745	12398	32%
2001	35517	11010	31%
2002	37348	10594	28%
2003	36771	10601	29%
2004	41608	12349	30%
2006 ⁷²			35%

The European Network to Promote Women's Entrepreneurship's (WES) "Activity Report 2007" observes that the fact that the percentage of women starting up businesses in Sweden (35 per cent in 2006) is so much higher than the overall percentage of businesses owned by women (22 per cent)



indicates that new entrepreneurs are increasingly young. WES also observes that they are relatively better educated.

The most common type of company established is sole trader. Women formed 43 per cent of all limited liability companies established in 2006, an increase from the 2005 rate of 38 per cent.

5.3 Immigrant and Ethnic Minority Businesses

5.3.1 Immigrant and Ethnic Minority Businesses in Europe

Immigrant entrepreneurs are defined as entrepreneurs who are either immigrants or have an immigrant background.

In the UK such businesses are normally referred to as ‘minority ethnic’ or Black, Asian and Minority Ethnic (BAME) businesses.

As explained in the [previous section](#) on women-owned businesses, the most commonly available and comparable data relates to self-employment and it is difficult to extract from this any data or conclusions relating to businesses that employ other people.

Table 25: Share of self-employment in total employment of 15-64 year olds, by place of birth in 2007⁷³

	Native born	Foreign born
UK	11.9%	13.4%
France	8.1%	10.8%
Germany	10%	9.5%
Sweden	8.5%	10%



⁷³ SOPEMI / OECD, “International Migration Outlook”, 2009

An EU-wide study in 2000 found that immigrant or minority ethnic individuals comprised no more than 10 per cent of the client base of 288 business support and membership organisations and that no more than 4 per cent of businesses supported were run by people from those groups.⁷⁴

This same 2000 study identified relatively few business support and membership organisations whose objectives were to support immigrant and BAME businesses. A 2008 study⁷⁵ found 146 policy measures and support schemes targeted at these, same groups; an apparently significant increase in eight years.

This data is considered likely to be indicative of a lack of take-up of support by immigrant and BAME businesses, or a failure to communicate with them, rather than a low number of such businesses.

The pattern of development of immigrant businesses away from their countries of origin is well recorded by research. UN-Habitat⁷⁶ summarised it succinctly:

“Businesses owned by immigrants often begin by serving the needs of co-ethnics and only later branch out to serve the broader market. Such enterprises tend to be geographically clustered near ethnic enclaves, generating jobs for immigrants and providing them with the opportunity

to learn how to run a business. As enterprises expand they tend to employ more natives.”

⁷⁴ CEEDR Middlesex University Business School, “Young, Women, Ethnic Minority and Co-Entrepreneurs” 2000 at <http://ec.europa.eu/enterprise/entrepreneurship/craft/craft-studies/entrepreneurs-young-women-minorities.htm>

⁷⁵ IMES University of Amsterdam & Triodos Facet, “Examination and Evaluation of Good Practices in the Promotion of Ethnic Minority Entrepreneurs”, 2008 at http://ec.europa.eu/enterprise/entrepreneurship/support_measures/migrant/eme_study_en.pdf

⁷⁶ UN-Habitat, “Migration – Migrant Entrepreneurship”, 2006



5.3.2 Immigrant and Ethnic Minority Businesses in UK

The Ethnic Minority Business Task Force estimates that the Black, Asian and Minority Business (BAME) base in the UK:⁷⁷

- Comprises 410,000 businesses
- Comprises 9 per cent of all VAT/PAYE registered businesses in the UK (some 212,000 businesses)
- Contributes between £30 billion and £40 billion of national gross value added (GVA)⁷⁸
- Is generally located in the traditional sectors of wholesale and retail trade and food service activities
- Is growing in presence in high value sectors including finance, business and professional services, IT and the creative and media industries
- Will double in size in some regions by 2020.

Table 26:

Number of VAT/PAYE Registered BAME Businesses, 2007

Region	White	Total BAME	Total Businesses	BAME as % of Total
Great Britain total	2,136,100	212,300	2,348,400	9.0%
East Midlands	153,000	10,600	163,600	6.3%
East of England	227,200	10,400	237,600	4.4%
London	280,900	100,900	381,700	26.5%
North East	68,700	2,800	71,500	3.8%
North West	229,400	17,600	247,000	7.2%

⁷⁷ Ethnic Minority Business Taskforce, "Submission to Government", 2009

⁷⁸ GVA or Gross Domestic Product (GDP) are the values of a country's overall annual output of goods and services.

⁷⁹ www.berr.gov.uk/files/file50124.doc

Number of VAT/PAYE Registered BAME Businesses, 2007

Region	White	Total BAME	Total Businesses	BAME as % of Total
Scotland	166,800	6,800	173,600	3.9%
South East	362,700	17,000	379,700	4.4%
South West	209,800	5,300	215,100	2.3%
Wales	97,000	3,100	100,100	3.4%
West Midlands	175,500	24,900	200,400	12.6%
Yorkshire & Humber	165,200	12,900	178,100	7.5%

Source: Annual Business Inquiry 2006 and National Opinion Research Survey. All data rights belong to Axciom UK Ltd and may not be used without the express permission of Axciom UK Ltd

These figures are significantly higher than the estimate of 240,000 BAME SMEs in the UK (6 per cent of the total) calculated by the UK Government's BERR Annual Small Business Survey 2007.⁷⁹

The Ethnic Minority Task Force also observes that BAME households have a higher propensity to entrepreneurship than equivalent white households. Businesses are invited to self-identify as BAME when they register on the Compete For procurement portal. Of the 72,605 businesses registered by 26th May 2009, the percentages that self-identified are as follows:



Table 27:

Businesses registered on Compete For Portal

	% that identify as BAME
National	8.3%
East Midlands	4.6%
East of England	5.3%
London	20.6%
North East	1.7%
North West	3.8%
Northern Ireland	2.1%
Scotland	1.9%
South East	4.5%
South West	2.2%
Wales	2.5%
West Midlands	6.5%
Yorkshire	3.7%
Non-UK	7.2%

Research by the Ethnic Minority Business Forum indicates that expansion into international markets and high value-added growth sectors is particularly driven by third generation BAME entrepreneurs who have more confidence about diversifying.⁸⁰ This indicates the potential that under-represented businesses offer in relation to international trade. UK-born Asians, for example, are almost uniquely advantaged by their bilingualism and their enduring cultural links with nations of origin, which in the case of British Chinese or Indians gives access to markets whose scale and growth are

well documented. These links offer potentially enormous benefits to Large Purchasing Organisations (LPOs).

‘Co-ethnic’ trading⁸¹ continues, though, to be a feature of many minority businesses. The scope for business growth and development offered by this ethnic niche strategy is limited, particularly in relation to the development of higher value added activities. The result is a mass of non-expansionary BAME firms operating well below their theoretical capacity with limited scope for significant business and income growth, trading in precarious high risk labour-intensive markets, where returns to labour, capital and management are often very meagre.⁸²

⁸⁰ Ethnic Minority Business Taskforce, “Submission to Government”, 2009

⁸¹ Ram m & Smallbone D, “Supplier Diversity Initiatives and the Diversification of Ethnic Minority businesses in the UK”, 2003 (*Policy Studies, Vol. 24, No 4, 2003*)

⁸² Ram M, Jones T, 2007, “Ethnic Minority Business in the UK: a Review of Research and Policy Developments” (Environment and Planning C: Government and Policy 2008, volume 26, pages 352-374). Observed earlier by Jones et al in 1994 and Metcalf et al in 1996.



5.3.3 Immigrant and Ethnic Minority Businesses in France

For cultural and legal reasons explained in the Population Demographics and Legislation sections of this report, evidence around the size and nature of the businesses established by immigrant entrepreneurs in France is very hard to find.

Analysis⁸³ of the 1999 census data provides probably the best picture of immigrant-owned businesses.⁸⁴ These entrepreneurs accounted for 10 per cent of all entrepreneurs with the largest group being Portuguese (15.8 per cent) followed by Algerians (11.3 per cent) and Moroccans (10 per cent). Over the period 1990 to 1999 the number of long-established Spanish and Italian entrepreneurs declined and the number of entrepreneurs from newer countries of origins such as Morocco, Turkey, Vietnam and sub-Saharan Africa increased. Ethnic entrepreneurs appear concentrated by sector, with a large concentration in retailing.

UN-Habitat⁸⁵ observes that there has been a growing trend of immigrant women from North Africa as business owners. In 2000, of small businesses owned by foreigners, 44 per cent were owned by North Africans and 46 per cent by non-French Europeans.

⁸³ Dinh B & Mung E. M, "French migratory policy and immigrant entrepreneurship", 2008 (Migrações , 3, October 2008, 85-97)

⁸⁴ The definition of immigrant entrepreneurs applied in the INSEE census is: 'immigrant' people – who engage in activities as craftsmen, as traders or as paid heads of companies of ten or more employees.

⁸⁵ UN-Habitat, "Migration – Migrant Entrepreneurship", 2006

⁸⁶ UN-Habitat, "Migration – Migrant Entrepreneurship", 2006

⁸⁷ Kloostermann, R. & Rath, J "Introduction: Immigrant Entrepreneurs", 2003 in: Kloostermann, R. & Rath, J. (Ed), Immigrant Entrepreneurs: venturing abroad in the age of globalization" Berg: Oxford.

⁸⁸ Adivé website www.adive.fr

The overall patterns of development of immigrant businesses that UN-Habitat⁸⁶ observes globally appear to apply to France. Kloosterman and Rath⁸⁷ observe signs there of the diversification of immigrant firms.

A Paris-based organisation, Adivé⁸⁸, was established in 2009 to work with 'diverse' entrepreneurs. Adivé's leadership comprises people from immigrant backgrounds. The organisation is establishing relationships with 'diverse' small and medium enterprises, particularly those with the potential to sell into large purchasing organisations in the public and private sector. As Adivé develops, qualitative and quantitative evidence around immigrant entrepreneurs may emerge.



5.3.4 Immigrant and Ethnic Minority Businesses in Germany

In “Immigrant Entrepreneurs in Hamburg”, Nikolinka Fertala⁸⁹ points out that, because of potential legal challenges, it is rare for data with respect to immigrants to be published.

In 2002 Fertala undertook a comparative study of 500 immigrant businesses in Hamburg. The countries of origin of Fertala’s immigrant entrepreneurs are: Afghanistan, China, former Yugoslavia, Iran, Poland and Turkey.

The sectors in which they operate are:

Table 28:

Sector	Total annual turnover (Euros)
Manufacturing	930,000
Handicraft (Includes all entrepreneurs who hold a commercial degree and/or are members of the Chamber of Handicraft)	675,000
Wholesale	665,000
Other services (e.g. cleaning, internet, financial services, freelancers)	610,000
Retail	573,000

⁸⁹ Fertala N “Immigrant Entrepreneurs in Hamburg” in: “Handbook of Research in Ethnic Minority Entrepreneurship” edited by Leo-Paul Dana, 2007

⁸⁹ http://books.google.co.uk/books?id=DtjSpIRhNNMC&pg=PA511&lpg=PA511&dq=migrant+entrepreneurs+germany&source=bl&ots=W5L6Gi44as&sig=mayKiQOgGDfTL5GGeHWhOb3kvVc&hl=en&ei=7vVaSpKFFYLQjAeEobW1DA&sa=X&oi=book_result&ct=result&resnum=4

⁹⁰ UN-Habitat, “Migration – Migrant Entrepreneurship”, 2006

⁹¹ Institut für Mittelstandforschung (IFM), Universität Mannheim « Die Bedeutung der ethnischen Ökonomie in Deutschland : Push und Pull Faktoren für Unternehmensgründungen Ausländer und Ausländerstammiger Mitbürger »

Sector	Total annual turnover (Euros)
Catering	510,000
Transportation (e.g. taxicabs & couriers)	347,000

In the late 1990s, it was estimated that⁹⁰ there were 51,000 entrepreneurs of Turkish origin in Germany, employing 185,000 people of whom 20 per cent were German. 73 per cent relied on German businesses for supplies and they were increasingly taking part in international ventures. A 2003 study (described in detail, below) increased this estimate to 61,500 firms and 260,000 employees. Comparable figures today are likely to be significantly higher.

A 2003 study by the Federal Ministry for Economics and Labour investigated the economic importance of foreign (or immigrant) businesses and businesses owned by entrepreneurs with German nationality, but a foreign background.⁹¹

286,000 foreign entrepreneurs were counted, half of which were from outside the EU. The study went on to investigate 2,010 businesses from Germany’s then most important immigrant groups: Turks (565 firms), Italians (467 firms) and Greeks (465 firms).



Table 29: Overview quantitative importance of firms in study:

Population	Greek	Italian	Turkish	Total Foreign
Number of foreign/immigrant entrepreneurs	26,000	46,000	43,000	286,000
+ number nationalised entrepreneurs	1,500	3,500	17,500	
Total foreign & foreign background	27,500	49,500	60,500	
% of which are women	24 %	19,6%	18,6%	26,2%
% of all foreign businesses	9.1%	16.1%	15.0%	100.0%
Development since 1991	+ 5,000	+ 16,000	+ 21,000	+111,000
% change since 1991	+ 24%	+53%	+95%	+ 63%

Key qualitative findings:

- Greek and Turkish firms are mostly located in the main cities. Italian firms are more equally distributed, often in smaller cities
- The firms are active in sectors that are highly competitive, high risk and labour intensive, like catering and trade
- Turkish businesses are more spread among sectors than Italians and Greeks. One third is active in trade, repairs, maintenance and personnel services
- Liberal professions and business services are under-represented: 6 per cent of Turkish and around 10 per cent of Italian and Greek businesses. Liberal professions and business services are mostly carried out by persons that

have obtained German citizenship. Germans with a Turkish background are more often active in non-traditional sectors and liberal professions than foreigners. These professionals from immigrant backgrounds, particularly tax advisors and accountants, often have clientele who are themselves immigrants or have immigrant backgrounds, and so they act as important intermediaries with the German society at large

- Greek, Italian and Turkish businesses together employ over 600,000 people, accounting for 3 to 4 per cent of total employment. Employment within German firms is decreasing, within ethnic firms employment is slightly increasing.

These immigrant businesses have created numerous business associations over past decades. Often these are linked to certain sectors and backgrounds (e.g. Italian ice-cream manufacturers). Turkish businesses appear most likely to build a pan-European structure,⁹² which could offer benefits to Large Purchasing Organisations (LPOs).

The former East German state imported labour from Socialist countries including Algeria, Cuba, Mozambique and Vietnam. Whilst many of these people were repatriated, a relatively large number of Vietnamese remained, and moved into self-employment. Their shops and businesses are particularly evident in Berlin and East Germany.⁹³

Kloosterman and Rath⁹⁴ observe signs of the diversification of immigrant firms in Germany.

⁹² Information collected by Jan Niessen for Supplier Diversity Europe in 2007.

⁹³ Information collected by Jan Niessen for Supplier Diversity Europe in 2007.

⁹⁴ Kloosterman, R. & Rath, J "Introduction: Immigrant Entrepreneurs", 2003 in: Kloosterman, R. & Rath, J. (Ed), Immigrant Entrepreneurs: venturing abroad in the age of globalization" Berg: Oxford.



5.3.5 Immigrant and Ethnic Minority Businesses in Sweden

Immigrant entrepreneurs have long been influential in the Swedish economy. For example, an immigrant from Czechoslovakia in the 1930s, Herbert Felix, established a food company which is now regarded as ‘completely Swedish’. There is now a Herbert Felix Institute at Eslov which highlights the role and importance of immigrants in Swedish development.⁹⁵

Sweden has an organisation with a specific role to support people with immigrant backgrounds in operating businesses; Internationella Företagarföreningen i Sverige, or International Entrepreneur Association in Sweden (IFS).

According to the IFS:⁹⁶

- There are around 70,000 immigrant owned businesses in Sweden, which employ around 250,000 people and are found throughout the economy
- 20 per cent of business start-ups are immigrant businesses
- Young immigrants are particularly inclined to start their own businesses
- Immigrants start businesses more often than Swedes, whether unemployed or employed
- Immigrant women start businesses more often than Swedish women

- The more time the immigrant has been in Sweden, the greater the likelihood of them starting a business
- The largest numbers of immigrant entrepreneurs have Asian backgrounds.

The IFS runs a specific project to help immigrant businesses to conduct business with the public sector,⁹⁷ as few currently do so.⁹⁸

⁹⁵ Herbert Felix Institute website <http://www.tillvaxtverket.se/sidhuvud/englishpages/structuralfunds/articlesaboutprojects/articles/innovationcentrewillsupportentrepreneurshipamongimmigrants.5.3c4088c81204cca906180009078.html>

⁹⁶ IFS website <http://www.ifs.a.se/en/Olika-sprak/Engelska/migrant-Entrepreneurship/>

⁹⁷ IFS website <http://www.ifs.a.se/en/Olika-sprak/Engelska/Projects/>

⁹⁸ IFS “Företagens villkor och verklighet”, 2008



5.4 Lesbian, Gay, Bisexual and Transgender (LGBT) Businesses

There are no statistics available on the number of businesses owned and controlled by lesbian, gay, bisexual and transgender people (LGBT) within Europe or individual European countries.

The Population Demographics section of this Handbook explained issues in relation to the reporting of statistics for the LGBT community and these also relate to LGBT-owned businesses.

Supplier Diversity Europe has found that some LGBT business owners are comfortable to self-identify themselves when registering within the Supplier Diversity Europe Database. Also, some business owners who have attended Supplier Diversity Europe events as business owners in relation to other diversity dimensions (gender, ethnicity, disability) are comfortable to further self-identify as LGBT business owners and discuss issues relating to sexual identity, when at these events.

In the UK, the Compete For portal has been inviting businesses to self-identify as LGBT as they register:

- Nationally, 1.2 per cent have identified as LGBT
- Regionally, figures range from 0.6 per cent (Scotland) to 2.1 per cent (London)

Over the years, independent organisations and databases have emerged in several of the countries included in this report, through which 'LGBT-friendly' businesses can market themselves.

For example; the UK's Pinke.biz was established to address the need of LGBT people to be able to identify companies who they could approach and buy from without risk of homophobic hostility (e.g. photographers for Civil Ceremony celebrations in the UK). The businesses within Pinke.biz and similar portals may, or may not, themselves be LGBT-owned and managed.

UK

Pinke.biz (www.pinke.biz) and Gay Business Association (www.gba.org.uk)

France

SNEG (Syndicat National des Entreprises Gaies) (www.sneg.org)



5.5 Businesses Owned by Disabled People

Data on the number of disabled people in the population and in the workplace is available for all the countries included in this report. An overall finding is that the level of employment of people of working age who have a disability is significantly lower than that of people who do not have a disability.

Statistics on the number of businesses owned by disabled people are, however, much more difficult to establish.

Supplier Diversity Europe has found that some business owners who have a disability do not self-identify as such, even though these people are willing to self-identify in relation to their gender and ethnicity.

In the UK, the Compete For portal has been inviting businesses to self-identify as disabled as they register:

- Nationally, 1.3 per cent have identified as disabled
- Regional figures range from 0.5 per cent (Northern Ireland) to 1.7 per cent (London).

UK

The Labour Force Survey 2006/07 found that 14.4 per cent of those disabled people who are in employment are self-employed. This equates to 7.3 per cent of all disabled people of working age; a total of around 500,000 people.⁹⁹

Publicly funded business support programmes in the UK are required to monitor the diversity of business owners and employees with whom they work, including in relation to disability.

The experience of the authors of this report is that funding bodies put targets in place, in relation to the number and percentage of disabled people with whom they work. These targets range from 2 per cent to 5 per cent of clients, which is significantly less than the percentage of disabled people and disabled self-employed people in the population. This may indicate that such schemes are inadvertently placing access or cultural barriers in place, reducing access for disabled entrepreneurs.

Anecdotal evidence suggests that people are less likely to self-declare as 'disabled' when they take part in business support programmes (even where that disability is 'visible') than they are in relation to their gender and/or ethnicity. This may be because people perceive a greater degree of prejudice and discrimination to exist in relation to disability than in relation to gender or ethnicity.

Leonard Cheshire is a charity that focuses on the development and support of disabled entrepreneurs. Leonard Cheshire's report "They've Already Started" (jointly authored by Barclays Bank) demonstrates both the market potential of established disabled businesses and the challenges faced by disabled entrepreneurs in setting out in business.

⁹⁹ Disability Rights Commission, "Disability Briefing", 2007 at <http://www.leeds.ac.uk/disability-studies/archiveuk/DRC/DRC%20Disability%20Briefing%20May%202007.pdf>



France

At the time of writing this Handbook, France's 2005 "Loi sur le Handicap" is coming into effect. Businesses with over 20 employees are being fined if they do not fulfil a quota of 6 per cent handicapped people in their workforce or (under very strict conditions) trade with certain types of organisations including specialist workshops that train and employ disabled people.

This legislation appears likely to benefit the situation for disabled people in the workforce but possibly not disabled businesses owners.

5.6 Social Economy

5.6.1 Social Economy in Europe

The social economy represents 10 per cent¹⁰⁰ of all enterprises and employs over 11 million people in the EU, 6.7 per cent of the wage-earning population.¹⁰¹

The EU recognises the value of organisations in the social economy. Its policy is to "guarantee them a level playing field" in which to compete against all other types of businesses, including SMEs.

The Social Economy in the European Union credits France with being the birthplace of the notion of the social economy, with the concept also being 'well advanced' in Sweden. The UK is regarded as having a 'median' level of acceptance and Germany 'little or no recognition'.

Well-known examples of the social economy include: MACIF¹⁰² and the Tapiola Group in France, the Bedenden Healthcare Society in UK, Alte Feuerwache Köln in Germany and Trångsviksbolaget in Sweden.

¹⁰⁰ EU Enterprise and Industry website at http://ec.europa.eu/enterprise/entrepreneurship/craft/social_economy/soc-eco_intro_en.htm

¹⁰¹ CIRIEC, "The Social Economy in the European Union", 2007

¹⁰² www.macif.fr



Table 30: Paid employment in co-operatives, mutuals, associations and similar organisations in the EU, 2002 -2003¹⁰³

	Co-operatives	Mutual societies	Associations	Total	% total employment
UK	190,458	47,818	1,473,000	1,711,276	6.1%
France	439,720	110,100	1,435,330	1,985,150	8.3%
Germany	466,900	150,000	1,414,937	2,031,837	5.7%
Sweden	99,500	11,000	95,197	205,697	4.8%



¹⁰³ CIRIEC, "The Social Economy in the European Union", 2007

5.6.2 Social Economy in the UK

The Social Economy in the European Union describes the social economy in the UK as follows*:

Table 31:

Cooperatives and other similar accepted forms	Mutual Societies and other similar accepted forms	Associations, foundations and other similar accepted forms
- Cooperatives: (2005: 190,458 jobs 18,895,862 members 609 enterprises)(1) Among them: - Consumer Cooperatives (2004: 14,000 jobs 9,898,000 members 42 enterprises) (2) - Cooperative Banks and Insurance (2004: 12,938 jobs) - Agricultural Cooperatives (2000: 1 2,600 jobs 583 enterprises) - Credit Unions (2005: ca. 900 jobs 564 enterprises) - Worker Cooperatives (2005: 1,340 jobs 397 enterprises)	- Building Societies (2005: 35,615 FT jobs 12,203 PT jobs 63 enterprises) - Mutual Societies (Mutual Insurance) (1997: ca. 267 enterprises)	- All nonprofit sector (1995: 1,473,000 jobs ETC) (4) Among them: -Educational and Research Voluntary Organisations (1995: 587,000 jobs*) -Cultural Voluntary Organisations (1995: 347,000 jobs*) -Social Services Voluntary Organisations (1995: 185,000 jobs *) -Development and Housing Voluntary Organisations (1995: 108,000 jobs *) - Other voluntary organisations (1995: 247,000 jobs *)
190,458 jobs 18,895,862 members 609 enterprises	47,818 jobs 330 enterprises	1,473,000 jobs

(*) Source: Roger Spear (Open University) (1) Source: Performance Report of Cooperatives Europe, 2005. Refer only to those cooperatives affiliated to Cooperatives Europe. (2) Source: Eurocoop (2005) (3) Source: Johns Hopkins study (1995)



Guidestar UK¹⁰⁴ holds details of 169,000 registered charities in England and Wales. It is unclear how many of these have trading arms; a necessary prerequisite to compete for contracts and deliver services, for example on behalf of local authorities and National Health Service (NHS) trusts.

In 2005 a new type of company registration became possible in the UK; that of Community Interest Company (CIC). Since then around 3,000 organisations have registered as CICs.¹⁰⁵ This type of registration is particularly applicable to those organisations considering themselves as social enterprises and for whom charity status is not appropriate.

There are estimated to be many thousands more voluntary and community sector organisations in the UK. Some of these may deliver products and services to Large Purchasing Organisations, but their capacity and capability to do so will be limited and so trading relationships will be ad hoc.¹⁰⁶

¹⁰⁴ Guidestar website <http://www.guidestar.org.uk/guidestar.aspx>

¹⁰⁵ Community Interest Companies regulator website <http://www.cicregulator.gov.uk/coSearch/companyList.shtml>

¹⁰⁶ This is based on the experiences of one of the authors, working with the voluntary and community (VCS) in two London boroughs



5.6.3 Social Economy in France

According to Edith Archambault and Philippe Kaminski, quoted in The Social Economy in the European Union, France's social economy was shaped as follows in 2003:¹⁰⁷

Table 32:

Cooperatives and other similar accepted forms	Mutual Societies and other similar accepted forms	Associations, foundations and other similar accepted forms
<ul style="list-style-type: none"> - Cooperative Banks (2003: 206,700 jobs 5 cooperative groups) - Agricultural Cooperatives (2003: 150,000 jobs 3,600 enterprises (13,300 CUMA) - Production Cooperatives (2003: 35,200 jobs 1,580 enterprises) - Consumer Cooperatives (2003: 17,050 jobs 70 enterprises) - Others (craftsmen, tradesmen) (2003: 33,000 jobs 1,046 enterprises) 	<ul style="list-style-type: none"> - Health Mutuals (2003: 58,000 jobs 750 enterprises) - Mutual Insurance companies (2003: 27,700 jobs 34 enterprises) (with 15,000 FTE volunteers) GROUPAMA (MI+bank) 29,400 jobs 1 enterprise 	<ul style="list-style-type: none"> - Social Action Associations (2002: 746,910 jobs 139,000 FTE.volunteers -health 33,078 entities) - Health Associations (2002: 151,840 jobs 2,223 entities) - Research and Education Associations (2002: 194,230 jobs 50,000 FTEvolunteers 15,233 entities) - Grant-making Foundations (2002: 10,100 jobs 72 entities) - Others (p.e. culture & sport) (2002: 331,920 jobs 531,000 FTE volunteers 77,585 entities)
<p>439,720 jobs 6,301 enterprises</p>	<p>110,100 jobs 785 enterprises</p>	<p>1,435,330 jobs 720,000 FTE volunteers 128,191 enterprises</p>

¹⁰⁷ EU European and Social Committee website http://eesc.europa.eu/groups/3/index_en.asp?id=1405GR03EN



5.6.4 Social Economy in Germany

(2) Bundesarbeitsgemeinschaft der Freien Wohlfahrtspflege e. V.
(www.bagfw.de)

The Social Economy in the European Union describes the social economy in Germany* as follows:

(3) Source: Cooperatives Europe, Intermediary Report, 2007

Table 33:

Co-operatives and other similar accepted forms	Mutual Companies and other similar accepted forms	Associations and other similar accepted forms
<ul style="list-style-type: none"> - Cooperative Banks (2001: 199,706 jobs 1,813 enterprises) - Agricultural Cooperatives (2001: 113,300 jobs 3,815 enterprises) - Worker Cooperatives (2001: 107.100 jobs 1,422 enterprises) - Consumer Cooperatives (2001: 16,300 jobs 47 enterprises) - Housing Cooperatives (2001: 21,229 jobs 1,991 enterprises) (Cooperatives Europe:2006 531,000 jobs 21,730,409 members 10,236 enterprises)(3) 	<ul style="list-style-type: none"> - Health and Social Care Insurance (1999: 150,000 jobs) (1) 	<ul style="list-style-type: none"> - Non-statutory Welfare Associations (2004: 1.414.937 jobs -751.250 full-time; 663.687 part-time) 98.837 entities) (2) - Other entities: - Social Action Associations (incl. Self help Groups and civic engagement) (2001: 72,530 entities) - Environmental Associations (2001: 5,614 entities) - Profession, Economy, Politics Associations (2001: 51,581 entities) - Sport Associations (2001: 215,439 entities) - Culture Associations (2001: 61,983 entities)
<p>466,900 jobs 9,088 enterprises</p>	<p>150,000 jobs</p>	<p>1,414,937 jobs 505,984 entities</p>

(*) Source: Birkhoelzer, Lorenz & Tiburcy.

(1) CIRIEC-TSE



5.6.5 Social Economy in Sweden

The Social Economy in the European Union describes the social economy in the Sweden as follows*:

Table 34:

Cooperatives and other similar accepted forms	Mutual Societies and other similar accepted forms	Associations, foundations and other similar accepted forms
- Agricultural Cooperatives (2005: 23.500 jobs 200 enterprises)	Mutual Societies (2005: 11.000 jobs 230 enterprises)	- Foundations (2004: 23.135 jobs 4.218 entities)
- Consumer Cooperatives (2005: 33.000 jobs 500 enterprises)		- Associations: (2004: 72.062 jobs 27.194 entities)
- Housing Cooperatives (2005: 7.000 jobs 14.070 enterprises)		
- Others (p.e. Tourism, Education) (2005: 36.000 jobs 4.000 enterprises)		
99,500 jobs 18,770 enterprises	11,000 jobs	95,97 jobs 31,412 entities

(*) Source: Jan Olsson

5.6.6 Conclusion

This section has demonstrated how there are significant gaps in the data around the nature of the business community in Europe and in comparable data between countries. Several key conclusions do, however, emerge from the data that is available.

Small and medium businesses make up the vast majority of the business community and thus the majority of potential suppliers to large purchasing organisations. They are vitally important in the economy as creators of wealth and employment.

Immigrant and ethnic minority businesses are a significant and growing section of the business community. Immigrant businesses tend initially to provide goods and services first for their own communities, but as they become more established they offer products, employment and wealth creation opportunities for the wider society.

The relative number of women-owned businesses is increasing. It remains low compared to women’s participation in the workplace and as self-employed people. The relative number of businesses owned by disabled people and people from Lesbian, Gay, Bisexual and Transgender (LGBT) groups appears relatively low, but may be under-estimated due to problems with data collection. The size of the social economy is relatively small. This indicates



an 'enterprise gap' which is a concern for policymakers. [Later sections](#) of this report discuss how supplier diversity activity can help address this and related policy issues.

The nature of the business community from which large purchasing organisations source their goods and services is significantly more diverse in terms of size and ownership than many procurers perceive. [Later sections](#) explain how, by tapping into this diversity of suppliers and potential suppliers, Large Purchasing Organisations can harness business benefits.



6 Legislation

This section maps and details aspects of legislation that are relevant to supplier diversity. Its purpose is to give practitioners and policy makers the basic information and confidence they need to design and implement supplier diversity activity in a manner that is entirely compliant with current legislation.

The experience of the authors of this report is that legislation is commonly used as an excuse as to why procurers cannot implement supplier diversity. This section counters that incorrect argument by demonstrating why European and national legislation and supplier diversity are entirely compatible.

The Chartered Institute of Purchasing and Supply (CIPS) has mapped the legislative framework within which procurement takes place. This includes:¹⁰⁸

- o EU procurement law
- o International law relating to mercantile law, competition and e-commerce
- o Sector-specific legislation
- o Environmental legislation
- o Health & Safety legislation
- o Equalities legislation
- o Data Protection & Freedom of Information
- o Powers to trade with other organisations and set up partnerships
- o Powers and duties of auditors, inspectors, ombudsmen and monitoring officers

- o Other relevant, national legislation.

Legislation around procurement, equalities and data protection is particularly relevant to supplier diversity. This section identifies elements and trends in these legislative issues that are relevant to anyone with an interest in supplier diversity.

This Handbook does not seek to provide a comprehensive mapping and analysis of all the legal issues. Specialist legal advice should be sought if specific guidance is required.

There are European Directives in place in relation to all procurement, equalities and data protection.

A European Directive prescribes an end result. For these objectives to become applicable to physical or legal persons, an “act of transposition” is required by each Member State, whereby national law is adapted to the objectives laid down in directives. When a directive is transposed into national law, obligations and prohibitions are imposed upon national authorities, institutions and persons and, on the other hand, rights are bestowed upon those (e.g. individuals and organisations) on whose behalf those obligations were imposed.

¹⁰⁸ Chartered Institute of Purchasing and Supply (CIPS), “Purchasing and Supply Management Professionals’ Competence with the Law” (CIPS Knowledge Works Knowledge Summary) at <http://www.cips.org/documents/P%20and%20SM%20Competence%20with%20the%20Law.pdf>



It is up to each Member State to determine the form and methods to achieve the objectives of directives. They have some discretion to take account of their specific national circumstances.

Directives, as opposed to regulations, cannot be directly relied upon by individuals in front of national jurisdictions. However, the absence of direct effect cannot allow Member States not to comply with the obligation to transpose a directive. Therefore, the European Court of Justice has recognised a limited direct effect to effectively enforce directives into national systems. In the absence of national transposition, individuals may in their vertical relations with the States invoke the rights and obligations laid down in a directive. Directives cannot have horizontal direct effect (against another individual or a company).

In this section we look at each of the three types of EU directives relevant to supplier diversity and how each has been transposed into the UK, France, Germany and Sweden.

6.1 Procurement

6.1.1 EU Procurement Legislation

The legal bases for public procurement within the European Union are Directives 2004/17/EC¹⁰⁹ and 2004/18/EC,¹¹⁰ referred to as the “EU Procurement Directives”. These apply to public contracts and have the aim of increasing competition, reducing prices, achieving better quality of services and increasing transparency, fairness and interoperability (‘working together’).¹¹¹

In practical terms, these result in obliging all public authorities to advertise procurements above specific financial thresholds¹¹² and in given sectors¹¹³ in the Official Journal of the European Union (OJEU) and to follow set procedures and timeframes in the advertising and award of those contracts. All notices (often referred to as ‘advertisements’) posted within OJEU can be searched and viewed for free, by anyone, through Tenders Electronic Daily.

The basic principles of the Directives, and the fact that they ensure free access to information about what is being bought and when, should be beneficial to any potential supplier seeking to sell into the public sector.

¹⁰⁹ Directive 2004/17/EC of the European Parliament and of the Council of 31 March 2004 coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors.

¹¹⁰ Directive 2004/18/EC of the European Parliament and of the Council of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts

¹¹¹ Europa website http://europa.eu/legislation_summaries/internal_market/businesses/public_procurement/index_en.htm

¹¹² Office of Government Commerce website http://www.ogc.gov.uk/procurement_policy_and_application_of_eu_rules_eu_procurement_thresholds.asp and SIMPA website http://simap.europa.eu/supplier/opportunities-in-europe_en.html

¹¹³ Social care is one sector that is exempt from the directives because the geographical location of the supplier is necessarily close to the client and end user. Most sectors are not exempt.



Anecdotal evidence indicates that procurers find the implementation of the Directives daunting.¹¹⁴ A fear of any litigation that might result from incorrect implementation of the Directives leads to a risk-averse attitude by large purchasing organisations. In particular it leads to the use of procurement processes, paperwork and language that is off-putting to many potential bidders. Some small and medium enterprises simply refuse to respond to any OJEU-advertised opportunity because they expect to find the bureaucracy involved in bidding to be too burdensome.¹¹⁵

Small and medium enterprises win a far lower percentage of the contracts awarded following advertisement in OJEU than they do of local government spend in the UK (see sections 8.2.1 “Europe: Contract Award Notices on OJEU” and 8.2.4 “UK: Current Suppliers to Large Purchasing organisations”). This may be reflective of the nature of the goods and services advertised in OJEU (e.g. they are higher value, higher risk) but it might also indicate that the Directives, and/or how they are implemented by procurers, unwittingly construct barriers to some SMEs competing for and winning contracts.

Case law and various articles and recitals of the EU Procurement Directives allow for consideration and inclusion of social issues in procurement, for example in relation to training, employment, SME access to sub-contracting, sheltered workshops¹¹⁶ and environmental sustainability. Procurers’ anxiety around the Directives appears to result in the fact that such considerations are rarely included in tender and contracting procedures. Thus opportunities are being missed to deliver benefits to communities and individuals.

¹¹⁴ London Borough of Haringey, “Final Evaluation and Report for Trade Local and Haringey SME Procurement Pilot”, 2005

¹¹⁵ This comment is based on discussions over several years between SME owners and staff of Supplier Diversity Europe during which specific experiences have been shared

¹¹⁶ London Borough of Haringey & Anthony Collins Solicitors, “Haringey SME Procurement Pilot, Community Benefit Clauses in Tenders and Contracts” 2005

Anecdotal evidence suggests that some procurers claim that positive action around social issues is illegal under EU Procurement Directives, when the opposite is actually true. Positive action is legal, positive discrimination is illegal and these are two very different activities.

The European Union has drafted “Buying Social: A Guide to Taking Account of Social Considerations in Public Procurement”. This details socially responsible public procurement (SRPP) activity that is possible within EU law, including making supply chains accessible to small and medium enterprises. The Guide includes case-studies from UK, France, Germany and Sweden.

The private sector does not have to follow EU Procurement Directives. Private sector companies might, though, be required to push certain obligations through their supply chains, if they are required to do so by a contract with a public sector client. These obligations could relate to social issues (e.g. inclusion of SMEs in supply chains), equalities and sustainability (see section 8.2.4 “UK: Current Suppliers to Large Purchasing Organisations”).



6.1.2 UK Procurement Legislation

EU Procurement Directives have been transposed into UK law and are the primary legislative drivers to UK public sector procurement behaviour.

Key pieces of additional, national legislation which procurers in local government are required to consider are the Local Government Acts.

The Local Government Act 1999: Best Value. Under best value, each local authority has a duty to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.”¹¹⁷

‘Best value’ is not the same as ‘value for money’, although the two are connected. Value for money is defined as “the optimum combination of whole life costs and quality.”¹¹⁸ Neither are the same as simply considering ‘lowest price’.

The Local Government Act 2000: ‘Well Being’ places an obligation on local authorities to work towards the well-being of their communities, in relation to social, economic and environmental conditions. Some procurers have utilised this requirement to include social clauses in their tenders and contracts.

¹¹⁷ I&DeA website <http://www.idea.gov.uk/idk/core/page.do?pageld=5184420>

¹¹⁸ OGC and NAO “Getting Value for Money from Procurement: How Auditors Can Help” at [http://www.ogc.gov.uk/documents/Value_for_Money_\(VFM\)_in_Procurement_-_The_Role_of_Auditors.pdf](http://www.ogc.gov.uk/documents/Value_for_Money_(VFM)_in_Procurement_-_The_Role_of_Auditors.pdf)

¹¹⁹ Allen & Overy website <http://www.allenoverly.com/AOWEB/AreasOfExpertise/Editorial.aspx?contentTypeID=1&contentSubTypeID=7944&itemID=40679&countryID=18716&aofelD=302&practiceID=14285&prefLangID=410>

¹²⁰ E-practice website <http://www.epractice.eu/en/document/288234>

¹²¹ EC (2004) Public procurement: commission acts to enforce Law in France and Italy. IP/04/162.

6.1.3 French Procurement Legislation

The latest version of the French Public Procurement Code was adopted on 1 August 2006 and entered into force on 1 September 2006. It transposes the EU Procurement Directives [2004/17/EC](#) and [2004/18/EC](#).

There are some gaps between the Directives and the Code,¹¹⁹ for example around standstill periods, and so further amendments to the Code and to the French law on public works concessions are expected.

The Code states that as from 1 January 2010, the French contracting authorities will have the right to require the transmission of applications and tenders in electronic format only.¹²⁰

Some French purchasing organisations have used non-economic criteria in deciding the award of public procurement contracts. Some of these, such as those included in the new EU “Buying Social” Guide are regarded as good practice, in other cases they have resulted in legal challenges. France has been taken to the Court of Justice by the European Commission for non-compliance with procurement legislation relating to transparency specifically in terms of advertising and the numbers being called to tender.¹²¹



6.1.4 German Procurement Legislation

Germany incorporated most elements of the EU Procurement Directives into its national law in November 2007, but failed to include elements around social criteria in procurement.¹²²

Ethical Corporation magazine suggested, in November 2007, that a reason for this might be the rift between the grand coalition parties within the German government:

“On one side is the Ministry of Economic Affairs, run by the conservatives and responsible for implementing the directives. It told Ethical Corporation: ‘Legally binding social and ecological criteria lead to enormous bureaucracy, add to the cost of procurement and create reporting demands that in most cases are impossible to fulfil!’

On the other side are the Ministries of Environment, Labour and Development Collaboration, all run by the social democrats. They want to follow the lead of some federal governments by introducing laws to ensure public procurement is made sustainable.”

Ethical Corporation goes on to describe how the German government’s failure to address social issues in procurement is also reflected in the private sector:

“The Bundesverband der Deutschen Industrie (BDI, the association of German industry) maintains that sustainable procurement is unworkable because of the problems of monitoring ethical contract criteria. German companies are reluctant to comment on what is deemed to be a political issue. Car-maker Daimler would say only that the less bureaucracy provided by the directives, the better. Rival Volkswagen, which is deeply engaged with building sustainable supply chains, has refused to comment. A spokesman for HP says the company advocated voluntary measures, saying these already worked perfectly well in Germany.

A stable regulatory framework is missing in Germany, where buying standards vary between different ministries and between national and regional governments. The result is confusion for companies. But it is the pressure from business lobby groups against regulation that is itself partly responsible for the current stalemate.”

¹²² Ethical Corporation website <http://www.ethicalcorp.com/content.asp?ContentID=5475&newsletter=24>



6.1.5 Swedish Procurement Legislation

From 1992 to 2007 the foundation of Swedish public procurement legislation was the Lagen om offentlig upphandling (LOU) and the LOU still applies to any public procurement initiated before January 2008.

On November 21, 2007, the Swedish parliament passed the Act on Public Procurement (PPA) for the public sector and the Act on Public Procurement for the utilities sector (PPAU), which implements the EU Procurement Directives 2004/17 and 2004/18. Both entered into force on January 1st 2008.¹²³ The Konkurrensverket (Swedish Competition Authority) is responsible for overseeing the provision of information and supervision of these new public procurement acts. Konkurrensverket describes the principles of these acts:¹²⁴

- The principle of non-discrimination prohibits all discrimination based on nationality. No contracting entity may, for example, give preference to a local company simply because it is located in the municipality.
- According to the principle of equal treatment all suppliers must be treated equally. All suppliers involved in a procurement procedure must, for example, be given the same information at the same time.
- According to the principle of transparency, the procurement process must be characterised by predictability and openness. In order to ensure equal conditions for tenderers, the contract document has to be clear and unambiguous and contain all the requirements made of the items to be procured.

- The principle of proportionality states that qualification requirements and requirements regarding the subject matter of the contract must have a natural relation to the supplies, services or works which are being procured and not be disproportionate.
- The principle of mutual recognition means among other things that documents and certificates issued by the appropriate authorities in a Member State must be accepted in the other Member States.

In July 2002 a new Swedish law was adopted, allowing inclusion of anti-discrimination clauses in public procurement contracts. It was estimated that the total value of public procurement conducted with the anti-discrimination clause in mind was 3 billion SEK out of a total procurement budget of 100 billion SEK. By 2003, 95 per cent of public authorities had still not used the anti-discrimination clause in their procurements, citing reasons ranging from lack of significant purchase since the law change, to lack of resources to administer and lack of knowledge about the LOU and the anti-discrimination clause. 32 per cent further indicated that they did not anticipate using the clause in the future.¹²⁵

¹²³ The legal 500 website <http://www.legal500.com/developments/3858>

¹²⁴ Swedish Competition Authority website http://www.konkurrensverket.se/t/Page___490.aspx

¹²⁵ Information collected by MPG in 2003



6.2 Equalities and Anti-Discrimination

6.2.1 EU Equalities and Anti-Discrimination Legislation

Anti-discrimination Directives

For many years¹²⁶ the focus of EU action in the field of non-discrimination was on preventing discrimination on the grounds of nationality¹²⁷ and gender. In 1997, however, the Member States unanimously approved the Treaty of Amsterdam, which with the new Article 13, authorised the Council of the European Union to adopt measures to combat discrimination on the grounds of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation.

Since the Treaty of Amsterdam came into force in 1999, new Directives that have been enacted in the area of anti-discrimination are the Racial Equality Directive, 2000/43/EC, and the Employment Equality Directive, 2000/78/EC. The principle rules laid down in the two Directives are as follows:

The Racial Equality Directive 2000/43/EC

- Implements the principle of equal treatment between people irrespective of racial or ethnic origin.
- Provides protection against discrimination in employment, self-employment and occupation, vocational training, membership of and involvement in organisations of workers and employers, education, social

protection (including social security and healthcare), social advantages, and access to and supply of goods and services, including housing.

- Contains definitions of direct and indirect discrimination and harassment and prohibits the instruction to discriminate and victimisation.
- Allows for positive action measures to be taken, in order to ensure full equality in practice.
- Gives victims of discrimination a right to make a complaint through a judicial and/or administrative procedure, associated with effective, proportionate and dissuasive sanctions for those who discriminate.
- Allows for limited exceptions to the principle of equal treatment, for example in cases where a difference in treatment on the ground of racial or ethnic origin constitutes a genuine occupational requirement.
- Provides for the sharing of the burden of proof between the complainant and the respondent in civil and administrative cases, so that once an alleged victim establishes, before a court or other competent authority, facts from which it may be presumed that there has been discrimination, it is for the respondent to prove that there has been no breach of the equal treatment principle.
- Provides for the establishment in each Member State of an organisation to promote equal treatment and provide independent assistance to victims of discrimination on the grounds of racial or ethnic origin.

The Employment Equality Directive 2000/78/EC

- Implements the principle of equal treatment in employment, self-employment and occupation, vocational training and membership of

¹²⁶ Information in this section is summarised from the EC Employment, Social Affairs and Equal Opportunities website <http://ec.europa.eu/social/main.jsp?catId=612&langId=en>

¹²⁷ Meaning the nationality of member states



and involvement in organisations of workers and employers irrespective of religion or belief, disability, age or sexual orientation.

- Includes identical provisions to the Racial Equality Directive on definitions of discrimination and harassment, the prohibition of instruction to discriminate and victimisation, on positive action, rights of legal redress and the shift of the burden of proof.
- Requires employers to make reasonable accommodation to enable a person with a disability who is otherwise qualified to do the job in question, to have access to employment or to participate in training.
- Allows for limited exceptions to the principle of equal treatment, for example, where a characteristic among those protected by the Directive constitutes a genuine and determining occupational requirement for the particular job or where the ethos of a public or private organisation which is based on religion or belief needs to be preserved, or where the requirement for an employee to be from a certain age group is objectively and reasonably justified by a legitimate aim.

National Equalities Bodies

All Member States are required to designate “National Equality Bodies” for the promotion of equal treatment.¹²⁸

The bodies are expected to:

- Provide independent assistance to the victims of discrimination
- Conduct surveys and studies
- Publish independent reports and recommendations.

Legislation specifically requires Member States to establish bodies concerned with racial or ethnic origin discrimination. Many countries have also decided to set up bodies that will cover the other grounds of discrimination protected by the Employment Equality Directive. The national Equality Bodies in the countries included in this report are as follows:

UK

Equality & Human Rights Commission www.equalityhumanrights.com

Germany

Antidiskriminierungsstelle des Bundes (Federal Anti-Discrimination Agency)

<http://www.antidiskriminierungsstelle.de/>

Die Bundesregierung <http://www.bundesregierung.de/Webs/Breg/DE/Bundesregierung/BeauftragtefuerIntegration/beauftragte-fuer-integration.html>

(Federal Commissioner for Matters relating to Disabled Persons) <http://www.behindertenbeauftragter.de/>

Sweden

Diskriminerings Ombudsmannen <http://www.do.se/>

France

Haute Autorite de Lutte Contre les Discriminations et pour l’Egalité <http://www.halde.fr/>

¹²⁸ EC Employment, Social Affairs and Equal Opportunities website <http://ec.europa.eu/social/main.jsp?catId=616&langId=en>



Policy Framework

On 2nd July 2008 the EU Commission adopted a renewed social agenda.¹²⁹

This includes a non-discrimination package comprising:

- A proposal for a new directive on equal treatment prohibiting discrimination on grounds of age, disability, sexual orientation and religion or belief outside the employment sphere.
- A communication which presents a comprehensive approach to step up action against discrimination and promote equal opportunities, opening the way for the completion of the legal framework for Europe-wide action against all forms of discrimination as provided for in Article 13 TEC.

It also states that better legislative protection against discrimination must be supported by an active strategy to promote non-discrimination and equal opportunities mainly through:

- More effective use of the instruments available, such as non-discrimination mainstreaming, positive action, actions to measure discrimination and evaluate progress, awareness raising and training, activities promoting diversity at the work place.
- A new impetus given to the dialogue on non-discrimination policy both targeted at national authorities (mainly thanks to the new governmental experts group; see decision below) and civil society.

This policy framework gives a strong indication of future EU legislation and hence where national legislation will be required to follow.

¹²⁹ EC Employment, Social Affairs and Equal Opportunities website <http://ec.europa.eu/social/main.jsp?catId=547&langId=en>

¹³⁰ Government Equalities Office (GEO) "A Fairer Future: The Equality Bill and Other Action to Make it a Reality", 2009 at <http://www.equalities.gov.uk/pdf/A%20Fairer%20Future-%20The%20Equality%20Bill%20and%20other%20action%20to%20make%20equality%20a%20reality.pdf>

6.2.2 UK Equalities and Anti-Discrimination Legislation

EU Directives have been transposed into UK law through a series of pieces of 'single-ground' legislation each addressing one of the following issues; gender, race/ethnicity, disability, age, religion/belief and sexual orientation.

In June 2009 the UK government published a new, draft Equalities Bill. This brings all current legislation together into one 'multi-ground' piece of legislation and strengthens and widens the scope of existing legislation.

In its introduction to the Bill¹³⁰ the government states that 'the Equalities Bill will do' the following, inter alia. All are potentially relevant to supplier diversity:

- Introducing a new public sector duty to consider reducing socio-economic inequalities
- Putting a new Equality Duty on public bodies to consider the needs of diverse groups in the community (according to race, gender, disability, age, sexual orientation, religion or belief, pregnancy, maternity, gender-reassignment) when designing and delivering public services
- Using public procurement to improve equality
- Banning age discrimination outside the workplace
- Extending the scope to use positive action



6.2.3 French Equalities and Anti-Discrimination Legislation

There has been a historic refusal in France to countenance any type of discrimination outside the principle of equality before the law. The approach to equality and anti-discrimination is based on historical forces which have shaped the legal conceptions of racism and discrimination and reflect strong republican resistance to social distinctions.¹³¹

The ethos underpinning the French anti-discrimination regime could be described as ‘race-blindness’.¹³² A determination of the supervisory authority for data protection in France, La Commission Nationale de l’Informatique et des Libertés (CNIL), illustrates the reasoning behind this approach. In July 2005, CNIL recommended that the collection and use of data around ethno-racial profiles is prohibited.¹³³ This is largely because no general methodology or indicators for ethno-racial profiling have been constructed by national institutions managing statistics in France, and the relevance of such indicators are controversial and remain contested. There is no reliable methodological framework to collect data or to allow comparative analysis on the basis of ethnic origin or race. Therefore, such studies cannot be improvised and they should not be allowed until such time as the legislator authorises them and only when authorised.

Thus there is a lack of statistical information on ethnic populations in France.

Neither are some other grounds of discrimination (age, gender, sexual orientation) defined in French law. Disability is, though, defined in a law of equal rights and opportunities for disabled people (11th February 2005), which adapts the employment code to cover disability discrimination, sets out financial penalties for non-complying firms, and obliges all large purchaser companies to include at least 5 per cent of people with disabilities in their workforces.

France has transposed both EU Directives into its national law through specific legislation, labour and penal codes and some administrative law.¹³⁴ France has actually gone beyond EU law in that the grounds for discrimination described within French law are wider than those within the Directives. For example, Law no. 1006-2001 of November 16 2001, explicitly includes equality of opportunity for workers and modifies certain aspects of the French Labour Code to strengthen anti-discrimination activities. In such a context, French unions play a large role in protecting and acting on the behalf of victims of discrimination.

These changes are significant. Until recently, while the principle of equal treatment has been a constitutional right, its application to minorities was not made explicit in civil law. The recent changes in legislation encompass discrimination on grounds of racial or ethnic origin, religion or belief, age, disability or sexual orientation, and apply to employment, housing and social protection. There have also been changes in the burden of proof

¹³¹ Suk, J. C. “Equal by comparison: Unsettling assumptions of anti-discrimination law”, 2007 (American Journal of Comparative Law, 55, 2)

¹³² Suk, J. C. “Equal by comparison: Unsettling assumptions of anti-discrimination law”, 2007 (American Journal of Comparative Law, 55, 2)

¹³³ CNIL recommendation on national, racial and ethnic data of July 5, 2005 [www.cnil.fr/index.php?id=1844&news\[uid\]=272&cHash=55f0416448](http://www.cnil.fr/index.php?id=1844&news[uid]=272&cHash=55f0416448) : summary: www.cnil.fr/index.php?id=1845

¹³⁴ Bell, Chopin & Palmer “Developing Ant-Discrimination Law in Europe, The 25 Member States Compared”, 2006



which make it easier for victims of discrimination to make a claim, extended protection across the whole of a person's career and brought it in line with EU antidiscrimination law.¹³⁵

President Sarkozy is currently demonstrating personal support for diversity and anti-discrimination. The president appointed Yazid Sabeg as High Commissioner for Diversity and Equal Opportunities responsible for diversity programmes in France, with a mandate to make changes and implement diversity in France.

There is on-going debate regarding the merits of positive action as a means of increasing workplace diversity. Current plans appear to focus on using social outcomes as a measure of diversity with the aim of monitoring these in forthcoming years.

As discussed previously in this section, whilst the French government is officially committed to address discrimination, it has been reluctant to identify explicit public policy goals for ethnic minorities.

Within France, there are large communities of immigrants. Despite the principle of equality before the law of all persons from ethnic groups some, such as Turks, Maghrebians and black Africans, appear to remain challenged by discrimination, particularly in accessing employment and educational opportunities. An estimated 6.5 million jobs in public services, state-owned firms and regulated professions are effectively closed to non-EU nationals.

Partly in response, the Law no. 2004-1486 of December 30, 2004 established the High Authority against Discrimination and for Equality (HALDE – Haute autorité de lutte contre les discriminations et pour l'égalité). The HALDE, came into operation in 2005, and is an independent administrative authority campaigning against all forms of discrimination.



¹³⁵ European Industrial Relations Observatory Online website <http://www.eurofound.europa.eu/eiro/2000/11/inbrief/fr0011298n.htm>

6.2.4 German Equalities and Anti-Discrimination Legislation

Prior to 2006 anti-discrimination legislation in Germany was scattered, only offering protection on a limited number of grounds and areas.

Equality and anti-discrimination in the workplace was addressed in the Work Constitution Act (Betriebsverfassungsgesetz, BetrVG), which regulates the relationship between employer and the employees, represented by the work council. According to this, the employer and the works council are obliged to take care that all employees are treated equally irrespective of their descent, religion, nationality, origin, political or trade union activities or opinions, gender, or sexual orientation. Significant amendments to this Act in 2006 further strengthened protection against racism, discrimination and xenophobia.

The Act on Equal Opportunities of Disabled Persons (Behindertengleichstellungsgesetz, BGG) came into force in 2002, containing equality provisions prohibiting discrimination against disabled persons by federal authorities and defining tasks of the Federal Government Disability Commissioner (Beauftragter für die Belange behinderter Menschen). Additionally, individual anti-discrimination provisions are spread over some other laws, such as the Public Transport Law and the Insurance Supervision Act.

The General Law on Equal Treatment (German abbreviation: AGG) has been in force since 14 August 2006 and was amended in December 2007. It transposes EU Anti-Discrimination Directives into German law and represents the first comprehensive anti-discrimination law in Germany. AGG came about only after protracted discussion and consideration amid questions about the need for such comprehensive legislation.

The purpose of AGG is to prevent or to stop discrimination on the grounds of race or ethnic origin, gender, religion or belief, disability, age or sexual orientation. This law covers labour law, general contract law, and public law and it applies in the field of employment and also in private contract law.

AGG applies the constitutional principle of equal treatment. That is, no person must be treated in a disadvantaged or privileged manner due to his/her sex, descent, race, language, origin, faith or religious or political opinion or disability. This provides a constitutional guarantee of equal treatment for 'citizens' which encompasses German as well as non-German citizens.

The Federal Anti-Discrimination Agency states that it pursues a 'horizontal approach'¹³⁶ in its work, so that all the various grounds for discrimination merit protection to an equal extent. Thus the creation of a hierarchy of grounds for discrimination and/or of groups of affected individuals is avoided.

¹³⁶ Federal Anti-Discrimination Agency website <http://www.antidiskriminierungsstelle.de/bmfsfj/generator/ADS-en/Anti-Discrimination-Agency/horizontal-approach.html>



The Federal Anti-Discrimination Agency conscientiously avoids the use of the term ‘race’, which is included in the AGG. It denies all theories that try to prove the existence of different human races.

The EU Racial Equality Directive is not only transposed through the AGG, but also by a large number of measures of the Federal Government and the Länder to combat right-wing extremism, racism, anti-Semitism as well as violence which has occurred on grounds of racism, or of right-wing extremism.

The AGG foresees the protection of people who have been the victims of ‘multiple discrimination’. This term was coined during the UN World Conference against Discrimination in South Africa in 2001; it refers to unequal treatment related to discrimination on a number of grounds, for example, when a disabled woman with an immigrant background is rejected on two or more of these grounds when applying for a job or home.

German lawmakers have recognised the need to act in this context since the reasons for discrimination are not always clearly distinguishable from one another. In cases of multiple discrimination, the AGG determines that the Federal Anti-Discrimination Agency and the Commissioners of the Federal Government and the Bundestag responsible for such issues shall work together.¹³⁷

¹³⁷ Federal Anti-Discrimination Agency website <http://www.antidiskriminierungsstelle.de/bmfsfj/generator/ADS-en/The-Act/multiple-discrimination.html>

¹³⁸ EU Commission « Discrimination in Europe. Eurobarometer 57.0. Executive Summary”, 2003

¹³⁹ Peucker M, “Equality and anti-discrimination approaches in Germany”, 2006 (European Forum for Migration Studies. University of Bamberg, Germany).

¹⁴⁰ “DGB fordert eine Kultur der Antidiskriminierung”, in: *einblick* (DGB) No 4/2004, p.5; expert hearing on the antidiscrimination bill in the parliamentary committee “Family Affairs, Senior Citizens, Woman and Youth (March 2005), printed matter 15(12)435

¹⁴¹ Peucker M, “Equality and anti-discrimination approaches in Germany”, 2006 (European Forum for Migration Studies. University of Bamberg, Germany)

National commentators in Germany continue to argue that any general culture of anti-discrimination remains weak and controversial, a reflection of low awareness of discrimination¹³⁸ compared to other EU Member States. Failures in social integration have been perceived as being due to a lack of skills amongst immigrant workers rather than a result of direct or indirect discrimination.¹³⁹ Non-governmental organisations (e.g. the German Federation of Trade Unions, the Cologne-based anti-discrimination Office ADB Köln) have described the social climate as being a “weak culture of anti-discrimination.”¹⁴⁰

Consequently increased workforce diversity remains very much a live issue.

It has been suggested¹⁴¹ that given the diversity of immigrant and minority communities in Germany and their current weak negotiation position, it might be useful for these organisations to collaborate and work with NGOs to co-ordinate their activity. This may give their voice in the national debate greater strength and in turn build their capacity to meet their equality and anti-discrimination objectives.



6.2.5 Swedish Equalities and Anti-Discrimination Legislation

In line with other EU members, Sweden has taken steps to harmonise its anti-discrimination legislation. In June 2008 the Swedish Parliament (Riksdag) adopted a new Anti-discrimination Act,¹⁴² to replace The Equal Opportunities Act and six other anti-discrimination laws: the Prohibition of Ethnic Discrimination Act, (1999); The Prohibition of Discrimination in Working Life of People with Disability Act (1999); The Act on a Ban against Discrimination in Working Life on grounds of Sexual Orientation (1999); the Equal Treatment of Students at Universities Act (2001); The Prohibition of Discrimination Act (2003); Act Prohibiting Discriminatory and Other Degrading Treatment of Children and Pupils (2006) .

It also set up a new Agency called the Office of the Ombudsman¹⁴³ against Discrimination to monitor compliance with the new act. This new Agency will replace the four previous offices which will be phased out: the Office of the Equal Opportunities Ombudsman, the Office of the Ombudsman against Ethnic Discrimination, the Office of the Disability Ombudsman and the Office of the Ombudsman against Discrimination on the ground of Sexual Orientation.

The new Act prohibits discrimination on grounds of gender, transgressing identity or expression, ethnic origin, religion or other belief, disability,

sexual orientation or age. The Act applies to most areas such as working life, education, goods, services and housing, social services, the social insurance system, health care, national military and civilian service and regarding public appointments.

A novel feature of the Act is its extension of protection to cover public employment, military service, civilian service, the education system, public meetings and events. The new Act also extends protection in working life as it covers all aspects of the employer-employee relationship and all aspects of the recruiting process including inquiries from a potential job seeker about a job. The prohibition of discrimination on the ground of disability is extended to the area of health, medical care and social services.



¹⁴² Ministry of Integration and Gender Equality (SFS 2008:567) Discrimination Act at http://www.do.se/Documents/pdf/new_discrimination_law.pdf?epslanguage=sv

¹⁴³ Diskriminerings Ombudsmannen website http://www.do.se/Documents/pdf/new_do_law.pdf?epslanguage=sv

6.3 Data Protection

The collection of data is key to analysing and monitoring the impact of any kind of activity.

Supplier diversity activity requires the capture, storage and sharing of information about potential suppliers. This sometimes includes ‘sensitive information’ such as the gender, ethnicity, disabilities and sexual orientation of the people who are the majority owners and controllers of the supplying organisation.

The collection of data about individuals is considered important in ensuring compliance with equalities and anti-discrimination law.¹⁴⁴ It is in this context that Data Protection laws around ‘sensitive information’ have been particularly examined and tested. The findings are relevant to supplier diversity.

¹⁴⁴ Makkonen T, Measuring Discrimination, Data Collection and EU Equality Law’, 2006

¹⁴⁵ EU Freedom, Security and Justice website http://ec.europa.eu/justice_home/fsj/privacy/index_en.htm

6.3.1 EU Data Protection Legislation

In order to balance the need for the free movement of information across the European Union with the privacy of the individual, a European Directive on Data protection was introduced in 1995. This harmonises national legislation across the EU.¹⁴⁵

The Directive applies to a variety of personal data, including business data processed by automated means (e.g. a computer database of suppliers or customers) and non-automated means (e.g. a card filing system) in which information is accessible according to specific criteria.

‘Personal data’ is defined according to whether information relates to an identified or identifiable living individual. An individual is ‘identified’ if you have distinguished that individual from other members of a group, or could do so. In most cases an individual’s name together with some other information will be sufficient to identify them, but individuals may be identifiable without a name.



The Directive identifies 'data controllers'. These are those people or organisations who determine why and how information is processed. Data controllers must follow the following rules:

- o Data must be processed fairly and lawfully
- o Data must be collected for explicit and legitimate purposes and used accordingly
- o Data must be relevant and not excessive in relation to the purpose for which it is processed
- o Data must be accurate and where necessary, kept up to date
- o Data controllers are required to provide reasonable measures for data subjects to rectify, erase or block incorrect data about them
- o Data that identifies individuals must not be kept longer than necessary.

Each Member State must provide one or more supervisory authorities to monitor the application of the Directive. One responsibility of the supervisory authority is to maintain an updated public register so that the general public has access to the names of all data controllers and the type of processing they do.

The supervisory authorities in the four countries of this report are as follows;

UK

Information Commissioner, www.ico.gov.uk

France

Commission Nationale de l'Informatique et des Libertés (CNIL), www.cnil.fr

Germany

Der Bundesbeauftragte für den Datenschutz und die Informationsfreiheit, www.bfdi.bund.de

Sweden

Datainspektionen, www.datainspektionen.se

In principle, all data controllers must notify supervisory authorities when they process data. Member States may provide for simplification or exemption from notification for specific types of processing which do not entail particular risks. Member States may require prior checking, to be carried out by the supervisory authority, before data processing operations that involve particular risks may be undertaken. It is for the Member States to determine which types of processing operations involve particular risks.

Personal data can only be processed (e.g. collected and further used) if:

- o The data subject has unambiguously given his or her consent, i.e. if he or she has agreed freely and specifically after being adequately informed
- o Data processing is necessary for the performance of a contract involving the data subject or in order to enter into a contract requested



by the data subject, e.g. processing data relating to an applicant for a job or for a loan

- o Processing is required by a legal obligation
- o Processing of data is necessary to protect an interest that is essential for the data subject's life. (e.g. if following a car accident the data subject is unconscious, emergency paramedics are allowed to give blood tests if it is deemed essential to save the data subject's life)
- o Processing is necessary to perform tasks of public interests or tasks carried out by official authorities (such as the government, tax authorities, police, etc.)
- o The controller or a third party has a legitimate interest in doing so. However, this interest cannot override the interests or fundamental rights of the data subject, particularly the right to privacy.

Very stringent rules apply to processing so-called 'sensitive data', including relating to racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership, health or sexual preference. One of the specific circumstances in which such sensitive data can be processed is when the data subject has given explicit consent.

Data subjects have the right to:

- o Be informed of any data processing when they are the data subject
- o Have access to data about themselves
- o Have access to the logic on which automated decisions are based.

Data should not be transferred outside the EU (i.e. to an area where these Directives do not apply; the United States of America, India or China, for example) without taking special precautions to ensure that the level of protection given to the data is consistent with that provided by European law.



6.3.2 UK Data Protection Legislation

In UK there is a general statutory duty upon British public authorities to eliminate unlawful race and disability discrimination and to promote equality of opportunity between persons of different ethnic groups and for all persons with disabilities.¹⁴⁶

As part of giving effect to this duty, public authorities are often required to monitor the ethnic composition of their workforce and the relevant pools of service users, as well as the numbers of disabled persons they employ and who use their services. The Commission for racial Equality (later merged into the Equality & Human Rights Commission) published guidance on how public authorities should conduct monitoring of the ethnic composition of their workforce and service users, and what ethnic categories should be used.¹⁴⁷ Standard practice is to use the categories of a) White, with options for White British, White Irish, White Other; b) Mixed, with options to tick White and Black Caribbean, White and Black African, White and Asian or any other mixed background; c) Asian or Asian British, with options for Pakistani, Bangladeshi, Indian, Other Asian background; d) Black or Black British, with options for Black African, Black Caribbean, or Other Black background; e) Chinese or Other Ethnic, and f) mixed categories. It is beginning to be more common for membership of the travelling community or Roma ethnicity to be included in these categories. Similar guidance was issued for monitoring

in accordance with the disability equality duty, which came into force in December 2006.¹⁴⁸

There are no national rules that restrict data collection in respect of all five grounds of discrimination, although organisations are subject to data protection requirements that prevent the collection and retention of data in a form that would identify specific individuals. Many employers collect data on the ethnic composition of their workforce, and this practice is becoming more common for disability and age. It is still rare for data on sexual orientation and religious belief to be collected, although certain organisations have introduced some data collection in these areas, with considerable caution and sensitivity.

Data protection laws in the UK expressly set out workplace monitoring as a legitimate form of processing sensitive data. This may be unique in Europe.¹⁴⁹ The UK is the only EU country to collect data on race in its census.

Individuals in the UK are familiar with the process of completing equalities monitoring forms that ask for details of their gender, ethnicity/race and any disabilities when applying for jobs. Business support agencies use similar forms to monitor and report on the diversity of people and businesses receiving support. Some business support agencies (e.g. in London) include a question around sexual orientation on their monitoring forms.

¹⁴⁶ European Network of Legal Experts in the Non-Discrimination Field "UK Country Report 2007", 2007

¹⁴⁷ See <http://www.cre.gov.uk/duty/ethnicmonitoring.html> (last accessed 31st January 2006) for the detailed guidelines.

¹⁴⁸ See DRC, *Code of Practice on the Disability Equality Duty*, available at <http://www.drcgb.org/thelaw/publicsectordutycode.asp>

¹⁴⁹ Makkonen T, "Measuring Discrimination, Data Collection and EU Equality Law", 2006 p. 65



6.3.3 French Data Protection Legislation

Data collection¹⁵⁰ in France is governed by the Law 78-17 of 1978 relating to information systems, data and the protection of freedom. This covers collection and manipulation of personal information relating to both computerised and non-computerised information and files. This legislation is enforced by The Commission nationale de l'informatique et des libertés (CNIL/National Commission for data protection). The Law was modified in 2004 in order to implement the 1995 EU Data Protection Directive.

Article 8 (I)(a) of the Law prohibits the processing of sensitive data:

« Il est interdit de collecter ou de traiter des données a caractère personnel qui font apparaître, directement ou indirectement, les origines raciales ou ethniques, les opinions politiques, philosophiques ou religieuses ou l'appartenance syndicale des personnes, ou qui sont relatives à la santé ou a la vie sexuelle de celles-ci. »¹⁵¹

Data collection is permitted under some exceptional circumstances, the most relevant being listed below:

- When the explicit consent of the surveyed individuals is given, the processing of sensitive treatment as described in Article 8(I)(a) of the Law is allowed, except when the Law states that the prohibition cannot be lifted with the explicit consent of the surveyed individuals (Article 8 II paragraph 1 of the Law).

- Processing of sensitive data by an association or any similar kind of non-profit organisation with a religious, philosophical, political or trade unionist mission is allowed (Article 8 II paragraph 3 of the Law)
- When data mentioned in Article 8 (I)(a) relates to the mission of the organisation
- If the processing only concerns data belonging to the members of this organisation and, if appropriate, to persons having regular contacts with the organisation in the framework of the latter's activities.
- And if the processing only concerns data which will not be communicated to third-parties, unless the persons expressly allow it.

The statistical treatment of personal data by the governmental national statistics institutes, under the supervision of the CNIL (Article 8 II paragraph 7 of the Law)

«Les traitements statistiques réalisés par l'Institut national de la statistique et des études économiques ou l'un des services statistiques ministériels dans le respect de la loi n° 51-711 du 7 juin 1951 sur l'obligation, la coordination et le secret en matière de statistiques, après avis du Conseil national de l'information statistique et dans les conditions prévues à l'article 25 de la présente loi. »

All processing of data is subject to an administrative declaration to the CNIL (Articles 21 to 24 of the Law). Some processing, for instance those related to the statistical treatment of personal data by the governmental national

¹⁵⁰ Information in this section is extracted from "Legal Definition of Discrimination Grounds and Possibility of Data Collection – France" Internal briefing paper for Supplier Diversity Europe, 2007

¹⁵¹ The personal data differs somewhat from the definitions of the prohibited grounds of discrimination. Data revealing age is not included, but data concerning disability and sexuality are, although the law uses broader terms in this respect. "Philosophical beliefs", even together with "political opinions", may however be narrower in scope than "belief" in the sense in which the term is used in the Employment Equality Directive.



statistics institutes, are subject to an authorisation by the CNIL (Articles 25 to 29 of the Law).

The CNIL recommended in 2005 and in 2007 that the use of data to induce ethno-racial profiles is prohibited.¹⁵²

As a result of the above, the collection and analysis of sensitive data that is allowed in other EU Member States is prohibited in France. The situation is summarised in the following table:

Table 35:

Discrimination grounds	Legal definitions	Equivalent terms used in national law	Data collections allowed/prohibited
Age			
Disability	Law No. 2005-102 of 11/02/05 introducing art. L114 ¹⁵³ in the Code de l'action sociale et de la famille		
Gender			
Origin, race and ethnicity			Principle:prohibition. Art. 8(1) of Law No. 78-17 of 06/01/78 on Informatique, Fichiers et Libertés. Exceptions: Art. 8(2)
Sexual orientation			Principle:prohibition Art. 8(1) of Law No. 78-17 of 06/01/78 on Informatique, Fichiers et Libertés. Exceptions: Art. 8(2)

¹⁵² CNIL recommendation on national, racial and ethnic data of July 5, 2005 [www.cnil.fr/index.php?id=1844&news\[uid\]=272&cHash=55f0416448](http://www.cnil.fr/index.php?id=1844&news[uid]=272&cHash=55f0416448) : summary: www.cnil.fr/index.php?id=1845; CNIL statement October 5, 2007: <http://www.cnil.fr/la-cnil/actu-cnil/article/article/91/mesure-de-la-diversite-la-cnil-entendue-par-le-parlement/>

¹⁵³ Art. L-114 states that “a person has a disability for the purposes of this code if he has, a complete limitation of activity or restriction of the ability to participate in society encountered by a person in his or her environment by reason of a substantial, lasting or definitive alteration of one or many physical, sensory, mental, cognitive or psychological faculties, of multiple disabilities or of a disabling illness.”



6.3.4 German Data Protection Legislation

Germany enjoys a differentiated set of statutory regulations on data protection.¹⁵⁴ A great deal of case-law exists on these matters. The regulations have their constitutional basis in the interpretation of the fundamental right to the protection of the personality, Article 2.1 in conjunction with Article 1 Grundgesetz (Basic Law). The Federal German Constitutional Court ruled that everybody enjoys the right to informationelle Selbstbestimmung (informational self-determination). This right is not restricted to sensitive data. Everyone has the right to determine generally which data can be used and which not. The limits of this right are fundamentally those of the principle of proportionality. If the person concerned consents to the use of data, their use is of course permissible. Given the doctrine of the requirement for a specific statutory regulation (Gesetzesvorbehalt) for matters that touch upon fundamental rights, detailed legal regulations on data protection have been established in many spheres of life.

These laws encompass the relations between the State and citizens, and private relations. For public authorities, the Federal Law on the Protection of Data stipulates as a general principle that a public authority is allowed to collect data, if it is necessary for carrying out its tasks.¹⁵⁵ The provision sets out further restrictive conditions as a precondition for data collection for such purposes. The law groups cases according to a strict test of proportionality for data collection that serves the public good in order to protect the

fundamental right to informational self-determination. These general rules are specified in legislation dealing with certain areas of public law.

The Federal Law on the Protection of Data further provides that the collection, storing, exchange and communication of personal data by private natural or legal persons is permissible first; if these actions serve the aim of contractual relations, second; if they serve the justifiable interest of the party collecting the data, if there is no reason to assume that the other party does not have interests to the contrary which it can legitimately expect to be protected; or third, if the data is publicly accessible, if the other party does not have a legitimate interest in these actions not being taken.¹⁵⁶

Public and private actors have a duty to report on the collection of data on racial and ethnic origin, political opinion, religious and philosophical belief, membership of unions, health and sexual life.¹⁵⁷

The collection of data for purposes relating to non-discrimination policies has to respect these principles and their expression in legislation at federal and Land level, and more precisely the constitutional right to informational self-determination and the limits this imposes on the collection of data by public authorities and private actors.

Germany gathers data using occasional nationwide censuses, and more frequently by so-called micro-censuses on a smaller scale and recurrent

¹⁵⁴ European Network of Legal Experts in the Non-Discrimination Field. "Germany Country Report 2007"; 2007

¹⁵⁵ Section 13.1 Federal Law on the Protection of Data (*Bundesdatenschutzgesetz*).

¹⁵⁶ Section 28.1 Federal Law on the Protection of Data (*Bundesdatenschutzgesetz*).

¹⁵⁷ Section 4d.5 in conjunction with Section 3.9 Federal Law on the Protection of Data (*Bundesdatenschutzgesetz*). The report can be directed to the Ombudsman for Data Protection.



specialised statistical surveys on a representative basis to update the given data. Population data includes nationality, religion, age and disability.

Section 131 Social Code IX (Sozialgesetzbuch IX) stipulates the collection of federal statistics on severely disabled persons, including number, personal characteristics such as age, sex, nationality and place of residence, and type, cause and grade of disability.

The Commissioners for Integration/Foreigners publish periodical reports on the situation of foreigners in Germany, including statistical data.

It should be observed that given historic experience, German authorities are explicitly reluctant to gather data for whatever purposes on certain characteristics that have been the basis of discrimination in the Nazi Period.

6.3.5 Swedish Data Protection Legislation

Sensitive data is expressly allowed to be processed for statistical and scientific purposes. The national data authority has the given powers to authorise the processing of sensitive data in contexts other than those expressly mentioned by law.¹⁵⁸

The (1998:2004) Act on Personal Information (Personuppgiftslagen) contains the general rules on the right to register personal information. There is a general prohibition to register (among other things) such 'sensitive personal information' as ethnicity, religion or other belief, and information concerning health and sexual life including sexual orientation (Sec. 13) However, as regards employers it is permitted to keep records 'only to the extent this is really necessary for the employer to meet the requirements of labour law' (Sec. 16(a)). With regard to health authorities there is also a right to register such sensitive information when necessary for medical reasons, in which case there is a corresponding rule on secrecy (sec. 18). In Sec. 16 there is also a general exception whenever legal claims make keeping record of sensitive information necessary in an individual case and this is also the case when the person registered has explicitly agreed to the registration (Sec. 15). Punitive and economic damages can be claimed in case of actual practices not complying with these norms. Such claims are presented to the ordinary court system and a group claim could thus, at least theoretically, be made. Against this background information is as the general rule not kept



¹⁵⁸ Makkonen T, "Measuring Discrimination, Data Collection and EU Equality Law", 2006 p. 65

monitoring ethnicity or religion, sexual orientation and disability. On the other hand, the sex and the age of an individual are, as a rule, always known.

For general statistics purposes there is, however, the population register (folkbokföringsregistret) managed by the tax authorities. This register contains information (among other things) on the place of birth and nationality of a person as well as the place of birth of his/her parents and the date of taking up residence in Sweden. Religion and belief as such are not registered but the membership of a church may be registered (as regards the Swedish church, always). Information on disability or sexual orientation is not included in the population register.¹⁵⁹



¹⁵⁹ European Network of Legal Experts in the Non-Discrimination Field, "Sweden Country Report 2007", 2007

7 The Business Case For Large Purchasing Organisations (Demand Side)

This section compiles the numerous and varied arguments that have been put forward for why Large Purchasing Organisations (LPOs), in the public, private or third sector, should engage in supplier diversity and equivalent activity.

This section utilises Worthington’s framework for the business case, references the evidence identified by Worthington and adds additional evidence, experience and viewpoints collected by Supplier Diversity Europe and CRÈME.

The purpose of this section is to provide an answer to the question so often asked by procurers and business strategists, “Why should I bother with supplier diversity?”

In 2009 Ian Worthington¹⁶⁰ reviewed existing research into the demand-side business case for supplier diversity and undertook additional interviews of UK and USA based corporations.

Worthington identified four elements to the business case for large purchasing organisations (LPOs) to undertake supplier diversity activity:

Chart 3:



¹⁶⁰ Worthington I, “Corporate Perceptions of the Business Case for Supplier Diversity: How Socially Responsible Procurement can ‘Pay’”, 2009 (Journal of Business Ethics Springer 2009. DOI 10.1007/s10551-008-0025-5)



7.1 Responding to a Changing External Environment

7.1.1 Appropriate Products and Services for a Diverse Marketplace

Worthington identifies how a supplier diversity programme can be seen as an indicator of how an LPO is achieving a 'fit' between the organisation's internal environment (resources, structure, capabilities etc) and its external context.

Section 4 on Population Demographics demonstrates how the marketplace of customers and end consumers for products and services is becoming increasingly diverse.

Thus a 'fit' can be achieved through engagement with suppliers who reflect changing customer demographics. Such activity can be viewed as a business imperative that allows the LPO to reach the communities who buy from it. Failure to undertake supplier diversity risks 'strategic drift', loss of competitive advantage and loss of market share.

The value of individual sectors within this diverse marketplace is significant. For example:

- The annual, after-tax income of London's Black, Asian and minority ethnic communities is around £16 billion¹⁶¹
- UK lesbian, gay and bisexual people have an estimated £70 billion spending power¹⁶²
- In Germany, women contributed or greatly influenced 79 per cent of expenditure on tourism and travel¹⁶³
- Women make 80 per cent of buying decisions in all homes.¹⁶⁴

The concept of super-diversity suggests that the marketplace is changing at a rate and to an extent that has not previously been experienced. This increase in market complexity challenges brands, marketers and public services.

It is logical to suggest that an LPO which has a diverse supplier base is more likely to be able to develop goods and services appropriate to this diverse marketplace, compared to an LPO which has a homogenous supplier base.

This principle applies to both the public and private sectors. The 'rewards' for the private sector are, potentially, increased turnover and profit. For the public sector the rewards, potentially, relate to improved quality of services.

Supplier Diversity Europe has collected together anecdotal evidence from the UK that supports this. For example:

¹⁶¹ Source: Diversity Works For London

¹⁶² Stonewall, "Gay People, Your Business", 2006

¹⁶³ Jaffe D, "Eve-olution: Women's Rising Power in Travel Decisions" 2007, (in "Trends and Issues in Global Tourism 2007")

¹⁶⁴ Gogoi P, "I am Woman, Hear Me Shop", 2005 (in "Business Week" Feb 14th 2005) http://www.businessweek.com/bwdaily/dnflash/feb2005/nf20050214_9413_db_082.htm. This figure is oft-quoted and appears based on the work of Davis (1976) and Davis & Rigaux (1974)



- Many UK supermarkets now stock ethnic-specific food and drink. Much of this is manufactured in the UK or imported into the country by Black, Asian and Minority Ethnic (BAME) companies¹⁶⁵
- BAME marketing company Media Reach Ltd has worked with corporations, public bodies and charities, to market their goods and services successfully to specific ethnic groups
- Staples Advantage both buys from and sells to a wide range and number of businesses. Its 'Staples Soul' programme links learning from these activities (section 7.3.2 "Supplier Diversity & CSR").

The assumption should not be made that businesses from under-represented communities only produce goods and services appropriate to their own groups or communities. Examples of under-represented businesses successfully selling a wide range of products and services to LPOs can be found on the Supplier Diversity Europe website and in the forthcoming "Report on Supplier Diversity from the Ethnic Minority Suppliers' Perspective" by M Ram and K Woldesenbet.¹⁶⁶

7.1.2 Responding to Tenders and Contract Requirements

Clauses around supplier diversity are increasingly appearing in tenders and contracts issued by private and public sector LPOs in the UK.

Transport for London (TfL) used extensive supplier diversity clauses in the main works contract for the construction of the East London Line. Recent tenders issued by the Greater London Authority group (of which TfL is a part) have scrutinised bidders in relation to how far they meet Diversity Works For London's diversity framework, which includes supplier diversity.

In some cases, procurers have used the term 'supplier diversity' where they actually mean the pushing of workplace equalities through the supply chain.

The Local Government Act 2000, 'Well Being', gives local authorities extensive powers and obligations to improve social, economic and environmental conditions within their communities. Local authorities have used this as the basis for supplier diversity clauses in their tenders and contracts and related social and community benefit clauses. Developers and contracts may also be required to sign up to such obligations as part of section 106 planning agreements (see section 10.3.8 "Local procurement: iCAM Supply").

¹⁶⁵ Full article in the Supplier Diversity Europe Jan/ Feb 2009 newsletter

¹⁶⁶ Centre for Research in Ethnic Minority Entrepreneurship (CRÉME), De Montfort University



A challenge for all purchasing organisations is to make sure that such clauses are used in a manner that does not put up additional barriers to bidders, and that deliver benefits without extra costs.

7.1.3 Finding the Best Suppliers: Widening the Applicant Pool

Section 5 shows how the European SME community (i.e. the pool of potential suppliers to large purchasing organisations) is becoming increasingly diverse.

Section 8.1 (“Business Case for SMEs: To Break Down Barriers to Procurement Opportunities”) demonstrates how SMEs generally encounter barriers to trading with LPOs because of a lack of information about procurement opportunities. Anecdotal evidence suggests that these barriers can be even greater for certain diverse businesses.¹⁶⁷

If procurers are to be sure that they are accessing the widest possible pool of potential suppliers, they need to ensure that information about their procurement opportunities is spread through more varied routes than they might have relied on previously, in order to reach a diverse applicant pool.

There might be a previously unknown supplier, a member of business networks with whom the procurer does not normally engage, who offers a unique competitive advantage to an LPO; if that LPO doesn’t reach them, their competitor might.

¹⁶⁷ MEECOE (Minority Ethnic Enterprise Centre of Expertise, led by CRÈME) in Birmingham, UK is working hard to engage with entrepreneurs from the ‘new’ ethnic communities of Birmingham. Early evidence suggests that these groups are more distanced from business support and related sources of information even than other BAME groups are.



The Social Economy

Unlike their counterparts in the commercial economy, organisations in the social economy often operate in 'hard to reach' areas¹⁶⁸ and sectors core to public service delivery¹⁶⁹ such as education, social care, leisure, transport, niche waste management (e.g. recycling) and specialist manufacturing.

Social enterprises, voluntary and community organisations may be well placed to deliver specialised contracts such as services to deprived sections of the community. In common with 'commercial' SMEs, smaller organisations in the social economy can offer cost effective, responsive and innovative solutions to procurement needs.

Given their distinct cultures and ethos, businesses operating in the social economy may well be part of business networks unfamiliar to 'mainstream' procurers and so particular action might be required to identify and engage with them.

7.2 Building Stakeholder Relations

7.2.1 Consumers Choose Companies Who Buy From People Like Them

There is evidence that certain consumer groups prefer to buy from companies who, in turn, buy from people like them. Having supplier diversity activity can, therefore, attract business.

- A survey of women in the USA found that 79 per cent said knowing a company buys from women businesses would compel them to try a company's product or services if they were not a current customer. 81 per cent said awareness of a company's mission to buy from women's businesses would moderately or significantly solidify their brand loyalty.¹⁷⁰

Certain consumer groups consider wider issues of equality, sustainability and fairness when making purchasing decisions. Supplier diversity activity can support and contribute to these wider issues:

- Gay consumers show higher levels of brand loyalty. A US survey showed that over 90 per cent of lesbians and gay men would be 'somewhat or very likely' to use a product advertised in the lesbian and gay media, especially if the brand was associated with a company that had actively promoted equality¹⁷¹.

¹⁶⁸ In the UK this term is used to mean areas of economic deprivation and/or those with high concentrations of minority ethnic people

¹⁶⁹ OGC, "Ensuring Access to Government Contracts", 2006

¹⁷⁰ WBENC website <http://www.wbenc.org/PressRoom/release2007-5.aspx>

¹⁷¹ Source: RainbowReferrals.com quoted within Stonewall, "Sexual Orientation Employer Handbook, third edition", 2009



- Ben Summerskill, Chief Executive of Stonewall, believes that Stonewall's Workplace Equality Index (which includes 'supplier diversity') is used by lesbian, gay and bisexual consumers in deciding where to use their spending power.¹⁷²

7.2.2 Capturing Innovation

SMEs are frequently identified as being particularly innovative and offering this benefit to LPOs.¹⁷³

Business support and supplier diversity programmes (e.g. those listed in sections [10.3.3](#) "UK Supplier Diversity Initiatives" and [10.3.10](#) "Business Support: Developing the Supply-side") have captured case-studies demonstrating qualitative examples of how SMEs have offered innovative solutions and added value to LPOs.

Globally, theory is divided on whether SMEs or large organisations are the more innovative. Potter¹⁷⁴ contrasts one theory on how large monopoly businesses can spend more money on research and development with Baumol's 2002 theory that SMEs contribute relatively more to R&D as they can bring radical rather than incremental innovations to the economy. Indeed, history is littered with large firms who have failed and collapsed as they have been overtaken by nimbler, initially much smaller competitors.

Procurers who are sceptical about supplier diversity have requested quantitative evidence of how SMEs are more innovative than large purchasing organisations.

¹⁷² Stonewall, "Stonewall Top 100 Employers 2009: The Workplace Equality Index", 2009

¹⁷³ For example, in the OGC publication "Smaller Supplier... Better Value?", 2005

¹⁷⁴ Potter JT "Local Innovation Systems and SME Innovation Policy", 2005 in: "SME and Entrepreneurship Outlook 2005 (OECD)



Innovation is a difficult concept to quantify. A scan of various EU and national websites promoting innovation¹⁷⁵ identifies the following characteristics being used to measure innovation:

- Appropriate strategy and policy
- Participation in technological, innovation, funding and social networks, nationally and internationally
- Investment in innovation (e.g. research and development)
- Protection of Intellectual Property rights (e.g. number of patents)
- Spin-out and technology transfer activities (e.g. licensing, contract research, equity investments)
- New products, services and processes
- Staff training and development.

The link between innovation and SMEs has been particularly scrutinised in Germany. Röhling and Multhap¹⁷⁶ describe how the “innovative skills, responsiveness to new customer requirements and expertise in high technology” of German SMEs “combine to make them more competitive than many large companies.”

In the UK, the 2006 Annual Small Business Survey indicated a trend of SMEs increasingly engaged in innovation. 48 per cent introduced new or significantly improved products or services in the previous 12 months. Of these, 73 per cent introduced innovations that were new to their business

with 26 per cent believing their innovation to be completely new. Similar patterns were reported in relation to the introduction of new or significantly improved processes into businesses.

Innovation and Immigrant and BAME Businesses

On-going research at de Montfort University increasingly demonstrates that SMEs are a significant resource for innovation in niche markets that demand high flexibility and customised products.¹⁷⁷

By introducing new products and new ways of marketing, even immigrant firms at the base of the economy can be innovators.¹⁷⁸ Indeed the heritage, culture and community networks of such businesses serve to broaden the range of goods and services in a country and expand consumer choice; benefits which LPOs could capture through supplier diversity programmes.

As well as serving as ‘growth labs’ for innovation and risk-oriented product development, SMEs can provide a foundation for long-term growth and for development of larger companies.¹⁷⁹ To facilitate this, successful innovation should be firmly grounded in the social relationships (social capital) that develop between the SMEs and the large purchasing organisations. This is because the development of social capital reflects the building of trust between organisations, which in turn facilitates the exchange of knowledge, shared understanding and collaborative development of new knowledge.¹⁸⁰

¹⁷⁵ For example, as used in the Annual German Innovation Survey www.kew.de and by the EU Paxis Programme website http://cordis.europa.eu/paxis/src/about_paxis.htm

¹⁷⁶ Röhling K & Multhap T, “Innovative SMEs in Germany”, 2005 in: “SME and Entrepreneurship Outlook 2005 (OECD)

¹⁷⁷ This issue is noted in papers by Ram, Jones and Worthington and their co-authors cited throughout this Handbook.

¹⁷⁸ Kloostermann, R. & Rath, J “Introduction: Immigrant Entrepreneurs”, 2003 in: Kloostermann, R. & Rath, J. (Ed), *Immigrant Entrepreneurs: venturing abroad in the age of globalization* Berg: Oxford.

¹⁷⁹ Luetkenhorst W, ‘Corporate social responsibility and the development agenda: the case for actively involving small and medium enterprises’, 2004 (*Intereconomics*, 39:3, 157–166)

¹⁸⁰ Gulati, Ranjay, ‘Network location and learning: the influence of network resources and firm capabilities on alliance formation’, 1999 (*Strategic Management Journal* 20/5: 397-420).



As explained in section 5.3.2 and 5.3.4, BAME and immigrant businesses offer enormous potential in relation to international trade as they often retain close links with their countries of origin, such as India, China and Turkey.

7.2.3 Gaining Market Knowledge and Goodwill

Sharing Knowledge

Strong ties and trust-based relations between organisations facilitate transformation of knowledge into a competitive asset.¹⁸¹ These can be developed through supplier diversity activity.

Research on social capital¹⁸² indicates how networks involving face-to-face personal relationships are crucial to all commercial transactions, including innovation, and the creation of knowledge as a competitive resource¹⁸³. Research points to collaboration in the supply chain as being essential, in particular, to successful environmental management and performance outcomes for LPOs.¹⁸⁴ These outcomes, however, are dependent upon relationship-based collaborations, rather than the transaction-based relationships which tend to dominate procurement processes.

Market Knowledge

Worthington credits Carters & Jennings¹⁸⁵ in identifying that engagement with minority ethnic suppliers can give LPOs a better insight into the needs

¹⁸¹ Vachon, S, and Klassen, R. D. "Environmental management and manufacturing performance: The role of collaboration in the supply chain", 2008 (International Journal of Production Economics, 111(2): 299-315) & Andersson, Ulf, Mats Forsgren, and Ulf Holm 'The strategic impact of external networks: subsidiary performance and competence development in the multinational corporation', 2002 (*Strategic Management Journal*, 23: 979-996), Wolf, H-H, "Making the transition to strategic purchasing", 2005 (MIT Sloan Management Review, 46(4): 17-20), Gulati, Ranjay (1999) 'Network location and learning: the influence of network resources and firm capabilities on alliance formation'. *Strategic Management Journal* 20/5: 397-420., Nahapiet, J., & Ghoshal, S (1998), 'Social capital, intellectual capital, and the organizational advantage', *Academy of Management Review*, 23(2), 242-266, Powell, Walter, Kenneth Koput, and Laurel Smith-Doerr (1996) 'Inter-organizational collaboration and the locus of innovation: networks of learning in biotechnology'. *Administrative Science Quarterly*, 41/1: 116-145. Andersson, Ulf, Mats Forsgren, and Ulf Holm. (2002) 'the strategic impact of external networks: subsidiary performance and competence development in the multinational corporation'. *Strategic Management Journal*, 23: 979-996.

¹⁸² Coleman, J. (1988) Social Capital in the creation of human capital. *American Journal of Sociology*, 94, s95-s120.

¹⁸³ Harland, C. M. and Knight, L. (2001) Supply Strategy: A corporate Social Capital Perspective. *Research in Sociology of Organisations*, Feb 151-183.

¹⁸⁴ Vachon, S and Klassen, R. D. (2006). Extending green practices across the supply chain – the impact of upstream and downstream integration. *International Journal of Operations and Production Management*, 26, 7: 795-821.

¹⁸⁵ Carter CR & Jennings MM "Purchasing's Contribution to the Socially Responsible Mangement of the Supply Chain", 2000 (Centre for Advanced Purchasing Studies, Arizona State University, USA)



and expectations of ethnic consumers and customers. Also, that engagement can create a reservoir of ‘goodwill’ and ‘trust’ and thus engender positive responses from external stakeholders.

This principle should be transferable to other diverse groups, such as women, disabled people and Lesbian, Gay, Bisexual and Transgender (LGBT) groups.

Carter & Jennings’ findings are based on the US experience where ‘goals’ apply to expenditure on certain target groups and so there is, more or less, a guarantee that certain minority groups will secure a minimum level of spend as first tier suppliers to large purchasing organisations. Similar ‘goals’ do not exist in Europe (see section 10.1 “Implementing Supplier Diversity: Comparison between USA and Europe”).

The experience of Supplier Diversity Europe suggests that LPOs should take care in Europe in promoting their supplier diversity activity. Unless it can be backed up with hard evidence and case studies, there is a risk that diverse businesses believe that such programmes are a public relations exercise only, that expectations have been raised but not met, and so corporate reputations could be damaged.

7.3 Contributing to Strategic Objectives

7.3.1 Supplier Diversity and Workplace Equality

As defined in the [Glossary section](#) of this Handbook, supplier diversity is an activity that is distinct from the driving of workplace equality and diversity practice through the supply chain.

Workplace equality has been developing as a business practice in Europe for many more years than supplier diversity. As demonstrated in section 6.2, workplace equality and anti-discrimination has been driven by legislation.

In 2005 the European Commission published “The Business Case for Diversity: Good Practices in the Workplace”. This listed the case for diversity as being ethical, regulatory and business driven. The business benefits were listed as:

- Enhancing organisational capital by effecting culture change
- Human capital benefits from improving workforce diversity and cultural mix
- Enhancing market opportunities
- External recognition and image.

The EU’s 2008 update on this, “Continuing the Diversity Journey: Business Perspectives, Practices and Benefits”¹⁸⁶ particularly emphasises the connections between diversity, creativity, innovation and productivity.



¹⁸⁶ EC Employment, Social Affairs & Equal Opportunities website <http://ec.europa.eu/social/main.jsp?catId=423&langId=en&eventsId=125&furtherEvents=yes>

In 2008 the UK's Confederation of British Industry (CBI), Trade Union Congress (TUC) and Equality & Human Rights Commission's "Talent Not Tokenism" report identified that treating people fairly in recruitment, training, development and promotion can build a reputation as being a good place to work. This brings:

- Increased employee satisfaction
- A wider range of applicants for job vacancies
- Lower staff turnover.

Other authors have identified benefits of workplace equality as being:

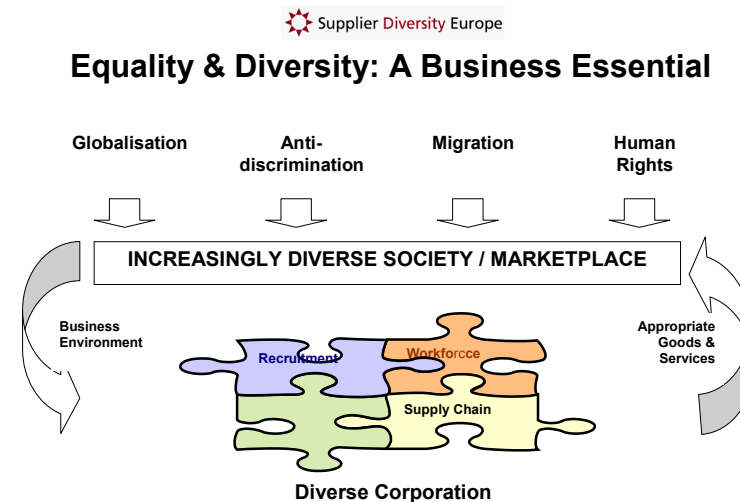
- Improved decision making, enhanced market performance, opportunities to tap markets related to ethnic-specific consumer demand and the competitive advantage that can result.¹⁸⁷
- Attraction, recruitment and retention of people from a wider talent base, reducing the cost of labour turnover and absenteeism, building morale and commitment of employees, increasing employee flexibility and responsiveness, enhancing creativity and innovation and building social cohesion.¹⁸⁸

It is possible to conceptualise how the benefits of workplace equality could be transposed into the supply chain. For example, if we apply the benefits of equality described in "Talent Not Tokenism" to suppliers rather than individuals; companies treated fairly in tender and contract management could build the reputation of a large purchasing organisation as a good place to supply. This could bring:

- Increased commitment and quality of service from suppliers
- A wider range of bidders for procurement opportunities
- Fewer contract terminations or problems with suppliers.

Anecdotal evidence suggests that the organisations interested in supplier diversity have well-developed workplace equalities and diversity practice, and understand and appreciate the value that diversity can bring.

Supplier Diversity Europe has developed a schematic model to show how workplace equalities and supplier diversity are related, and how they are both necessary to align products and services with an increasingly diverse marketplace:



¹⁸⁷ Jain, H. C. and A. Verma: 1996, 'Managing Workforce Diversity for Competitiveness: The Canadian Experience', International Journal of Manpower 17(45), 14–29.

¹⁸⁸ EU 'For Diversity Against Discrimination' campaign website <http://www.stop-discrimination.info/2851.0.html>



In the UK public bodies have a duty to promote equality. Therefore the evaluation of equalities policy and practices is a key part of public sector procurement procedures and processes. It is possible that supplier diversity could be included within this framework, in order to push supplier diversity through the supply chain in the same way as workplace equalities.

The UK Office of Government Commerce's 2008 "Make Equality Count" procurement guidance¹⁸⁹ addresses equality and diversity considerations in public procurement. This includes the need to ensure that the procurement opportunity itself is accessible to SMEs, including; "those majority owned by women and minority ethnic people groups, as well as supported factories and businesses for people with disabilities." That is, the need to consider supplier diversity.

7.3.2 Supplier Diversity and Corporate Social Responsibility (CSR)

Worthington quotes a definition of CSR as being "those situations in which the organisation goes beyond compliance and engages in actions that appear to further some social good..."

He identifies sources that identify a link between CSR activity and improved organisational performance and those that do not. Within the report are examples of several corporations who view supplier diversity activity as part of wider CSR work.

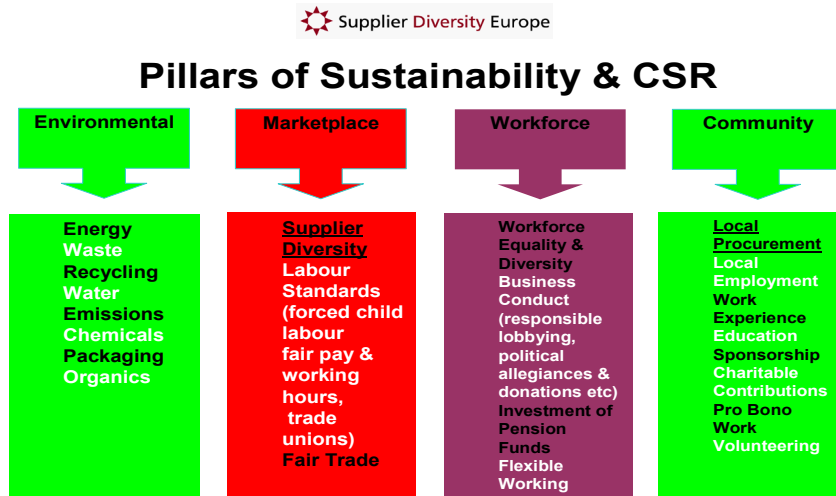
Supplier Diversity Europe identified how a UK member, Corporate Express, was addressing supplier diversity and local procurement as two elements within an integrated CSR framework. This framework was based on the four 'pillars' of programme activity of Business in the Community,¹⁹⁰ of which Corporate Express was also a member.

¹⁸⁹ OGC "Make Equality Count", 2008 at http://www.ogc.gov.uk/documents/Equality_Brochure.pdf

¹⁹⁰ Business in the Community (BitC) website <http://www.bitc.org.uk/programmes/index.html>



Chart 4:



Netherlands-headquartered Corporate Express was subsequently acquired by US-headquartered Staples and the UK operation has now been re-branded as Staples Advantage. CSR is now addressed through the global ‘Staples Soul’ programme,¹⁹¹ which includes supplier diversity and related activity:

Table 36:

Diversity	Environment	Community	Ethics
Diversity of people workforce diversity	Environmentally preferable products sourcing, using and selling	Staples Foundation for Learning charitable support and donations	Ethical conduct corporate governance around conflicts of interest, customer privacy, accurate books and records
Diversity of experiences workforce diversity	Recycling internal and customer	Partnerships support and donations	Supplier responsibility supplier code of conduct addressing forced & child labour, harassment & abuse, non-discrimination, health & safety, freedom of association, collective bargaining, wages & benefits, hours of work, overtime compensation
Diversity of thought workforce development	Energy & climate energy conservation, renewable energy, reducing impact of energy on environment	Cause marketing initiatives proceeds from sales of specific products to specific causes	
Diversity of Suppliers	Environmental education	Local giving e.g. in-kind product donation	

Both of these frameworks are useful in demonstrating how supplier diversity relates and can add value to wider CSR activity.

¹⁹¹ Staples website <http://www.staples.com/sbd/content/about/soul/index.html>



Small and Medium Enterprises and Corporate Social Responsibility

SMEs themselves often demonstrate a high degree of Corporate Social Responsibility (CSR), albeit in a different way to large purchasing organisations. LPOs could therefore benefit from being associated with SMEs and their CSR activity.

Relationships that the SME owner and staff have with different stakeholder groups often provide the basis for extremely fruitful CSR practices,¹⁹² with volunteerism and giving to charity providing an opportunity to invest in social capital. At the same time as “doing good”, the SME is cultivating close relationships within its social and business environment, establishing mutually beneficial relationships which can help ensure stability and survival in increasingly competitive markets.

Involvement in CSR may also enhance reputation, stimulate confidence and loyalty, stabilise the workforce and improve productivity, improve relationships with financial institutions, suppliers and partners and provide a source for differentiation and visibility in increasingly complex and dynamic markets.^{193 194}

¹⁹² Spence, L., Schmidpeter, R. & Habisch, A. (2003), ‘Assessing social capital: Small and medium sized enterprises in Germany and the U.K.’, *Journal of Business Ethics*, 45, 17-29

¹⁹³ Vyakarnam, S., Bailey, A., Myers, A. and Burnett, D. (1997), ‘Towards an understanding of ethical behaviour in small firms’. *Journal of Business Ethics*, 16:15, 1625–1636.

¹⁹⁴ Spence, L.J. and Lozano, J.F. 2000. ‘Communicating about ethics with small firms: experiences from the UK and Spain’. *Journal of Business Ethics*, 27:1, 43–53. Murillo, D. and Lozano, J.F. (2006), ‘SMEs and CSR: an approach to CSR in their own words’. *Journal of Business Ethics*, 67:3, 227–240.

¹⁹⁵ Defra website <http://www.defra.gov.uk/sustainable/government/what/index.htm>

7.3.3 Supplier Diversity and Environmental Sustainability

As demonstrated in the previous section, 7.3.2, environmental sustainability and supplier diversity can sit alongside one another within Corporate Social Responsibility (CSR) frameworks.

Environmental sustainability issues are, increasingly, being driven by legislation. Also, public pressure increasingly views improved environmental performance as necessary for humankind’s survival.

There is a conceptual link between environmental sustainability and supplier diversity within public sector frameworks. The UK government’s Department for Environment, Food and Rural Affairs (Defra) has prioritised the need for sustainable development in relation to four key areas:¹⁹⁵

- Sustainable consumption and production
- Climate change and energy
- Natural resource protection and environmental enhancement
- Sustainable communities.

Supplier diversity is an activity that creates business opportunities for SME and under-represented businesses and so can help to achieve sustainable communities.



Anecdotal evidence indicates that some procurers believe that large companies are better positioned than SMEs in regard to environmental sustainability. In particular, some procurers believe that large, rather than SME, suppliers will supply the products and services that large purchasing organisations need to become more environmentally sustainable.

Like people, businesses demonstrate a whole range of behavioural characteristics from 'environmentally clean' to 'dirty'. The issue of environmental sustainability is too complex, messy and under-evolved to benefit from sweeping statements.

The following sections collect together information informing the argument that supplier diversity and environmental sustainability are mutually compatible activities.

Environmentally sustainable innovation

Supplier Diversity Europe has collected outline case-studies on SME and under-represented suppliers who are developing and selling environmentally sustainable products and services to large purchasing organisations.

Supply Chain Foot-printing

The SME firm, Trucost,¹⁹⁶ is analysing the carbon footprint of the supply chains of large purchasing organisations in the UK. Trucost:

- Analyses the supply chain (typically 90 per cent of the supplier base by carbon), so that each supplier's footprint is normalised to expenditure (tonnes of CO² per £1 million expenditure)
- Creates a footprint report of the supply chain, which includes a list of the suppliers and sectors that contribute most to the carbon footprint
- Ranks each supplier against the group as a whole and against other suppliers within the same expenditure category
- Provides analyst support in the identification and mitigation of carbon-related risks within the supply chain.
- Provides supplier engagement, monitoring and support via an online portal. Suppliers can update information on their environmental performance at any time and this is validated and reported back to the relevant large purchasing organisation. Suppliers receive a calculation of their own footprint each time they update their information.

Trucost found that, roughly, 10-20 per cent of suppliers generally account for 80-90 per cent of a large purchasing organisation's supply chain footprint. It is not uncommon for 20 suppliers to account for 50 per cent of the footprint. These suppliers are predominantly large companies and are not based near to the large purchasing organisations (e.g. local authorities) involved.

As demonstrated in section 8.2.4 ("UK: Current Suppliers to Large Purchasing Organisations"), around 60 per cent of local authority expenditure is on SMEs and so their carbon footprint is relatively low compared with the level of spend. This is probably largely explained by expenditure category.

¹⁹⁶ www.trucost.com. Information in this section was provided by Trucost.



Carbon footprints are predominantly determined by sector. Sectors that have a particularly large footprint are; construction, manufacturing, packaging, transportation, warehousing.

Large purchasing organisations have, so far, used Trucost’s findings to pursue their ‘dirtiest’ large suppliers and work together to achieve ‘quick wins’ in reducing environmental impact. SMEs have generally not been targeted with action, as their impact and the opportunity for ‘quick wins’ is less.

An exception is the London Borough of Lewisham. This local authority used Trucost’s methodology to assess the carbon footprint of local community and voluntary organisations, then to help them go ‘greener’ and, in doing so, reduce overheads such as energy bills.¹⁹⁷

7.3.4 Supporting Economic Development

Many public bodies (e.g. local government and health service organisations) have responsibility for a specific, geographical location, legal responsibilities to work towards the improvement of their communities and performance indicators in place to measure the impact of their activities.

Private sector organisations might have objectives around community development included in their CSR frameworks (section 7.3.2)

Increasingly, such organisations are recognising that procurement development and supplier diversity activity has the potential to bring benefits to their local communities, including enhancing economic development. As a result, ‘buy local’ and similar initiatives aimed at supporting ‘local’ businesses are often initiated. Specific examples of these are given in section 10.3.8.

Given that over 99 per cent of businesses are SMEs, the term ‘local business’ can generally be equated with ‘SME’.

As sections 8.2.1 (“Europe: Contract Award Notices on OJEU”) and 8.2.4 (“UK: Current Suppliers to Large Purchasing Organisations”) show, different types of SMEs have variable levels of success in winning places as first tier suppliers to LPOs. Also, it is not appropriate to treat under-represented business groups such as immigrant, ethnic minority and women businesses as homogenous



¹⁹⁷ London Green 500 website <http://www.green500.co.uk/cms/mayor-awards-london-s-top-carbon-busting-organisations-2/>

groups (sections [5.2.2](#) and [5.3.2](#)) as the entrepreneurs within these groups demonstrate a whole range of characteristics, drivers, self-identities, and so on.

Evidence suggests that, to deliver beneficial economic impact, local activity should be delivered in a targeted manner (i.e. use of 'positive action') rather than on the basis of a 'one size fits all' model.

The specific potential to achieve local regeneration through procurement is addressed in more detail in the policy context in section [9.6](#).

7.4 Improved Organisational Performance

Many of the ways in which supplier diversity improves organisational performance are linked to the three elements of the business case described previously; responding to changing external climate, contributing to strategic objectives, and building stakeholder relationships.

Worthington identifies four specific areas in which supplier diversity improves organisational performance;

- Cost control and reduction
- Revenue earning activity
- Risk spreading
- Better strategic fit



7.4.1 Cost Control/Reduction

Reducing Costs by Improving Procurement Practice

In the UK, successive studies¹⁹⁸ have shown how poor and/or inflexible procurement practice raises barriers to SME participation in supply chains.

Therefore improved procurement practice could increase opportunities for SMEs. This could be as simple as using procurement processes and procedures that are appropriate to the risk inherent in the procurement.

One of the key goals of the UK Treasury's Office of Government Commerce (OGC) is to deliver sustainable procurement.¹⁹⁹ A range of guidance has been put together to help achieve this. The successful implementation of this guidance clearly requires procurement processes and procedures that are professional and effective, particularly in relation to mitigation of risk.

Anecdotal evidence from SMEs, LPOs and procurers support this viewpoint. Procurement processes in which sustainability issues are poorly or inappropriately addressed are also likely to be procurements where there are problems with procurement processes and paperwork (e.g. apparently unnecessarily bureaucratic paperwork) which impact negatively on SMEs. These are all symptoms of a lack of professionalism in the procurement process.

Where an LPO is spending time on inappropriate procurement practices, they are wasting resources and are at risk of entering into an inappropriate contract.

Improving standards of strategy and tactics in procurement benefits sustainable procurement (including supplier diversity and SMEs) and saves large purchasing organisations money.

An example that supports this point is a local authority in East London. It has worked to improve and streamline its procurement function (e.g. by reducing 'rogue spend') in order to achieve multiple benefits, including 'efficiency savings'. As a result, it has been able to identify several million pounds worth of procurement opportunities, which have been shared with SMEs via East London Business Place (section 10.3.10). Less organised local authorities have been less able to share procurement opportunities.

Other cost control and reduction benefits that can be derived from supplier diversity include:

- Lower prices by accessing widest candidate pool (section 7.1.3)
- Local sourcing can mean lower costs as less transportation is required

¹⁹⁸ OGC, "Government: Supporter and Customer?" 2003, "Accelerating the SME Economic Engine: through Transparent, Simple and Strategic Procurement" Anne Glover, 2008 & London Borough of Haringey "Haringey SME Procurement Pilot: SME Issues Log", 2005

¹⁹⁹ OGC website <http://www.ogc.gov.uk/>



7.4.2 Revenue-Earning Activity

- Winning customers by delivering products and services that are appropriate to a rapidly diversifying marketplace (section 7.1.1)
- Finding the best possible suppliers amongst a supplier base that is, itself, becoming more diverse (section 7.1.3)
- Improving knowledge of diverse markets (section 7.2.3)
- Access to public sector contracts where supplier diversity considerations are included in tenders and contracts (section 7.1.2).

7.4.3 Risk Spreading

- Reducing reliance on existing suppliers and finding alternatives at a time of supply chain problems or crisis by finding new suppliers amongst a supplier base that is becoming more diverse (section 7.1.3)
- Reducing threat to corporate reputation through the generation of trust and goodwill through supplier diversity activity (section 7.2.3).



7.4.4 Better Strategic Fit

- Better alignment with changing external conditions (e.g. population, [section 4](#) and supply base, [section 5](#))
- Means of demonstrating commitment to CSR (section [7.3.2](#)), equalities (section [7.3.1](#)) and supporting commitment to environmental sustainability (section [7.3.3](#))
- Embedding organisation in local markets through economic development activity including 'local procurement' (sections [7.3.4](#) "Supporting Economic Development", [9.6](#) "To Regenerate Local Communities" and [10.3.7](#) "Local Procurement Initiatives")
- Achieving 'Best Value' by having a wide applicant pool (section [7.1.3](#)) and aligning procurement to wider organisational drivers and objectives (section [7.3](#)).



8 The Business Case For Small And Medium Enterprises (Supply Side)

This section investigates the reasons why potential suppliers, including Small and Medium Enterprises (SMEs), should encourage large purchasing organisations to undertake supplier diversity activity.

The two key reasons identified are:

- To break down barriers to procurement opportunities
- To facilitate access to markets.

Qualitative and quantitative evidence is collected together here that supports this reasoning.

In particular, available data is collated that indicates what types of businesses want to sell to large purchasing organisations and how successful they are in becoming first tier suppliers. This includes data on the varying success rates of businesses of different sizes winning contracts advertised in the Official Journal of the European Union (OJEU) and other public sector business.

Data detailing the size and diversity of ownership of first tier suppliers to large purchasing organisations is patchy in availability in relation to the public sector and almost non-existent in relation to the private sector. The limited data that is in the public domain relates mainly to the size of first tier suppliers. Data around the success of under-represented businesses winning contracts is rarely collected and even more rarely made public.

8.1 To Break Down Barriers to Procurement Opportunities

SMEs, under-represented businesses and organisations in the social economy face barriers when seeking to compete for contracts.

At worst, these barriers are preventing organisations competing for contracts. At best, they are limiting their success in winning those contracts.

Supplier diversity activity involves the identification and breaking down of these barriers.

Summaries of the nature of barriers faced by SMEs in seeking to win public contracts and evidence for the existence of these barriers has been collected together by many reports, for example:

EU

- "European Code of Best Practice Facilitating Access by SMEs to Public Procurement Contracts,"²⁰⁰ a 2008 European Commission Staff Working Document
- "Evaluation of SMEs' Access to Public Procurement Markets in the EU" by GHK & Technopolis in 2006.

²⁰⁰ Commission of the European Communities, "European Code of Practice Facilitating Access by SMEs to Public Procurement Contracts", 2008 at http://ec.europa.eu/internal_market/publicprocurement/docs/sme_code_of_best_practices_en.pdf



UK

- UK Government’s 2008 report “Accelerating the SME Economic Engine: through Transparent, Simple and Strategic Procurement”, known as the ‘Glover Report’²⁰¹
- “Evaluating SME Experiences of Government Procurement”, 2008, Freshminds for the Scorecard Working Party (Confederation of British Industry, Federation of Small Businesses, British Private Equity and Venture Capital Association)
- “Government: Supporter and Customer?” Better Regulation Task Force & Small Business Service, 2003
- Haringey SME Procurement Pilot ‘SME Issues Log’
- “Public Services Industry Review”, 2008, Dept for Business, Enterprise & Regulatory Reform (BERR)
- “Health & Safety in Public Sector Construction Procurement” Department for Trade and Industry (DTI), Office of Government Commerce (OGC) & Health and Safety Executive, 2007.

The Glover Report summarised the barriers identified by SMEs in public procurement as relating to;

- **“Transparency:** the tendering process and communications need to be simple, clear, open and transparent, allowing SMEs to participate
- **Simplicity:** The excessive bureaucracy and required documentation raise real barriers for SMEs
- **Making procurement strategic**

²⁰¹ “Accelerating the SME Economic Engine: through Transparent, Simple and Strategic Procurement” Anne Glover, 2008 at http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/pbr08_economicengine_2390.pdf

²⁰² This echoes the findings of researchers such as Ram and Smallbone, referenced elsewhere in this Handbook, where trading with co-ethnics is identified a trait of ethnic minority businesses. White, male, British procurers might be more comfortable working with white, male, British suppliers.

- o Encourage innovative SMEs
- o Improve public sector procurement capability
- o Encourage good practice between prime and sub-contractors.”

The 2008 European Commission Staff Working Document states bluntly, “what is most needed to facilitate SMEs access to public procurement is not legislative changes in the Public Procurement Directives, but rather a change in the contracting authorities’ procurement culture.”

Anecdotal evidence, in particular the experiences of Supplier Diversity Europe, indicates that these same barriers exist within the procurement operations of private sector organisations. The barriers around ‘transparency’ appear to be even higher than those within the public sector because:

- There is no requirement at all to publicly advertise procurement opportunities
- For cultural reasons, procurers may limit the types of new potential suppliers they approach to invite to quote or tender to those who are ‘like them.’²⁰²



8.2 Access to Markets

Supplier diversity activity will allow SME suppliers, particularly those from under-represented groups, to access new markets and supply chain opportunities which are not currently open to them.

By making this statement, the assumption is made that ‘access to markets’ is currently limited for certain types of suppliers in certain situations. This section collects together evidence for this, by evaluating:

- The relative numbers of SMEs who are interested in selling into large purchasing organisations (LPOs)
- The relative numbers of SMEs who are first tier suppliers to LPOs.

8.2.1 Europe: Contract Award Notices on the Official Journal of the European Union (OJEU)

A 2006 study²⁰³ for the EU analysed all Contract Award Notices (CANs) published during the previous year in the Official Journal of the European Union (OJEU), and evaluated the types of organisations that had been awarded contracts. Data and information in this section is extracted from that report.

In 2002 it was estimated that the total annual value of public procurement in the EU was €1,500 billion. An estimated 16 per cent of public procurement was above thresholds fixed by EU directives; that is, procurements which are legally required to be advertised in the OJEU.

Conversely, this means that an estimated 84 per cent of public procurement does not have to be advertised in the OJEU.

Nature of contracts awarded

Prior to the 2004 expansion of the EU, UK, France and Germany together issued 74 per cent of CANs. Following expansion this percentage decreased to 56 per cent.

France issued a particularly high number of CANs. This is partially explained by the fact that many French contracts were tendered as lots and a different



²⁰³ GHK & Technopolis, “Evaluation of SMEs’ Access to Public Procurement Markets in the EU” (2006) http://ec.europa.eu/enterprise/entrepreneurship/docs/SME_public_procurement_Report.pdf

CAN was issued for the award of each lot. The letting of contracts in lots is a practice that is generally regarded as being beneficial to SMEs.

Table 37: Number of Contract Award Notices published in OJEC/OJEU 2002-2005:

	Number	% of total published
UK	24,791	9%
France	110,960	39%
Germany	36,570	13%
Sweden		3%

The sector and median value of contract varied significantly between Member States:

Table 38: Distribution of CAN 2002-2005 by sector of product/service

	UK	France	Germany	Sweden
Manufactured products	45%	41%	28%	39%
Construction	6%	14%	49%	11%
Business services	27%	22%	14%	24%
Other	22%	23%	9%	26%

Table 39: Median value of contracts awarded in 2005

	Euros
UK	665,000
France	224,000
Germany	307,000
Sweden	452,000

SME share of contracts awarded

Estimates have been made regarding the proportion of above-threshold (i.e. OJEU advertised) procurement that is won by SMEs. In 2001 the figure was estimated as being 29-43 per cent. In 2005 it was estimated that SMEs won 42 per cent of contracts by value and 64 per cent of contracts by number across the EU.

Table 40: The estimated share, in terms of value, of contracts awarded to companies by size, class and country, 2005:

	Share of individual size classes in %				
	Micro businesses	Small businesses	Medium businesses	SMEs overall	Large businesses
UK	2%	5%	24%	31%	69%
France	7%	16%	12%	35%	65%
Germany	7%	12%	18%	37%	63%
Sweden	6%	16%	22%	44%	56%

Medium sized companies secured a higher share by value of OJEU-advertised contracts (23 per cent) than their share of total turnover within the economy (19 per cent). Large businesses showed a similar pattern of relative success. The reverse pattern applied to small and micro companies.

The smaller the value of the contracts, the higher the relative success of micro and small companies in winning those contracts:



Table 41: Share of public contracts awarded to companies in different size ranges, broken down by size class, 2005

	Micro	Small	Medium	Large
Below €100,000	20%	31%	22%	27%
100,000 – 500,000	16%	28%	22%	33%
500,000 – 1 million	14%	26%	25%	35%
1m – 2m	10%	20%	25%	45%
Above 2m	4%	8%	21%	67%

The relatively low participation by micro and small businesses in OJEU advertised contracts is probably partially explained by the values, sectors and risks of the contracts involved. This same EU report did, however, identify specific, perceived barriers to SMEs being able to compete for these contracts, which could be reduced through better procurement practice (section 8.1). The use of electronic methods of communicating and responding to tenders was regarded as helpful by SMEs, alongside training, the use of framework agreements and contracts, and more time to respond to bids.

8.2.2 UK: Overall Pool of Potential Suppliers

Section 5 on Business Demographics describes a situation in Europe where the vast majority of businesses are very small.

Let us assume that, in the UK, company formation and registration for VAT/PAYE is a necessary pre-requisite to win a contract from a LPO. There are 2.13 million businesses in the UK who are potential, direct suppliers. Around 2.1 million of these are small enterprises, of which around 1.9 million are micro-sized (from table 18 in section 5.1.1). Therefore the vast majority of potential suppliers to large purchasing organisations in the UK are micro businesses.

Anecdotal evidence suggests that many organisations who are not registered (e.g. sole traders below VAT threshold) do win work from LPOs. This, though, appears to be on an ad-hoc basis or via partnership and ‘horizontal’ sub-contracting²⁰⁴ arrangements with larger, registered enterprises.



²⁰⁴ For example, where a consultant or training provider is supplying direct into a LPO, but their contractual relationship is as an Associate with a third party supplier.

8.2.3 UK: Suppliers who want to sell to Large Purchasing Organisations (LPOs)

Not all SME and under-represented businesses who have the potential to sell into LPOs want to do so. Some also operate in sectors where it is not appropriate for them to be first tier suppliers.

This section gauges the type of businesses who wish to sell into LPOs.

In the UK there are several public-sector led and financed procurement schemes through which businesses can register their interest in supplying to LPOs. These relate particularly to opportunities from the public sector and London 2012 and involve registering profiles and receiving email alerts about relevant opportunities. Supply2.gov²⁰⁵ and CompeteFor²⁰⁶ are two of the best known.

These schemes have all made extensive efforts to market themselves to SMEs. The nature and impact of that marketing effort is still being debated in parts of the UK, but, overall, the types of organisations who have registered with these schemes give us a gauge of what types of suppliers and potential suppliers have the desire to sell into LPOs.

Table 42:

		Supply2.gov.uk ²⁰⁷	Compete For ²⁰⁸
	Total number businesses registered	147,000	72,605
Number of employees	1-20	69%	78.2%
	20-50	11%	
	50 – 100	5%	
	100-250	4%	6.3%
	250-500	2%	
	500+	4%	
	Unknown	5%	15.4%

SMEs comprise over 78 per cent of businesses registered with Compete For and 89 per cent²⁰⁹ on Supply2.gov. This is smaller than SMEs’ overall representation in the national business community, which is over 99 per cent.

Constructionline²¹⁰ is a UK government-endorsed database of pre-qualified companies in the construction sector. In mid June 2009 there were 17,576 construction-related companies and consultants registered with the scheme.

²⁰⁵ Website www.supply2.gov.uk

²⁰⁶ CompeteFor website www.competefor.com

²⁰⁷ Information correct at end of April 2009 and supplied by Supply2.gov.uk

²⁰⁸ Information correct as of 26/5/09 and supplied by Compete For

²⁰⁹ 69%+11%+5%+4%

²¹⁰ Constructionline website <https://www.constructionline.co.uk/static/>



Table 43:

Annual turnover	Percentage of companies registered
£250K	29%
£250K-1M	28%
£1M-2M	14%
£2M-5M	14%
£5M-20M	10%
£20M-50M	3%
£50M+	2%

Given that the EU financial threshold to be a small company is €10 million and a SME is €50 million (table 1 in section 3), the proportion of small and SME companies within Constructionline appears significant.

Women, Ethnic Minority and other under-represented businesses

Compete For and Constructionline request and collect data on the diversity of the business ownership of the companies who register with their schemes. Constructionline is unable to report findings. Compete For's findings are reported in the relevant [Business Demographics sections](#) earlier in this report.

The percentage of under-represented businesses within the pool of suppliers who want to sell to LPOs appears roughly equivalent to, or slightly lower, than the estimated percentages within the whole business community described in section [5.2.2](#) and [5.2.3](#).

Supplier Diversity Europe has collected information on over 1,000 businesses that self-identify as BAME, majority owned by women, disabled people and LGBT people. As this sample is relatively small within the wider business context, it is not analysed here. Most of the anecdotal evidence from SMEs referred to throughout this Handbook has been collected from under-represented businesses registered with Supplier Diversity Europe.

Third sector organisations

No information is currently available on the percentage of the 169,000 charities in England and Wales with trading arms who wish to supply to the public sector. Some charities are important suppliers to the public sector. For example, The Shaw Trust provides publicly-funded support to help vulnerable people back into the workplace and Age Concern and Help The Aged provide care services for the elderly.

It is very likely that many of the 3,000 Community Interest Companies (CICs) would like to deliver services on behalf of, or funded by, the public sector.



8.2.4 UK: Current Suppliers to Large Purchasing Organisations

In this section, available evidence is collected together on the relative numbers of SMEs and under-represented businesses who are first tier suppliers to LPOs in the UK.

UK: Public sector

The UK government Glover Report included an estimate that in 2005/6 SMEs won around 16 per cent by value of central Government contracts and 60 per cent by value of local Government contracts.

The source of the figures within the Glover Report is the “Procurement Survey of Contracts Awarded to SMEs” DTI, 2005/6.²¹¹ This survey further scrutinised the figures around local authority spend with SMEs and found that, compared to their overall value within the economy:

- Small (but not micro) and medium businesses were relatively well represented as first tier suppliers²¹²
- Micro businesses and SMEs less than 5 years old were under-represented as first tier suppliers.

The following table shows the percentage of total expenditure won by SMEs and micro businesses, according to the ways in which local authorities buy goods and services:

²¹¹ DTI, “Progress on Improving Access to Public Procurement”, at <http://www.berr.gov.uk/files/file38673.pdf>

²¹² That is, the % share of value of local government spend that was won by small and medium enterprises was greater than those sectors’ share of turnover in the overall economy.



Table 44:

ProClass Level 1	SME share of total spend	Micro share of total spend	ProClass Level 1	SME share of total spend	Micro share of total spend
Cemetery & crematorium	87%	11%	Buildings construction material	46%	10%
Sports & playground	83%	16%	Unclassified trade	46%	16%
Horticulture	76%	24%	Human resources	46%	11%
Furniture	74%	17%	Leisure services	45%	15%
Domestic goods	67%	20%	Construction	41%	6%
Health & safety	66%	18%	Catering	40%	8%
Medical	60%	14%	Cleaning & Janitorial	37%	10%
Clothing	58%	19%	Consultancy	35%	7%
Vehicles (not buses)	58%	10%	ICT	30%	4%
Highway equipment & materials	57%	16%	Unclassified non trade	28%	4%
Transport	52%	17%	Traffic management	25%	3%
Social community care	51%	6%	Financial services	24%	2%
Facilities management	51%	13%	Environmental services	19%	3%
Legal services	50%	13%	Mail services	13%	5%
Education	50%	9%	Utilities	8%	1%
Stationery	47%	12%			

Source: Spikes Cavell Database



Many local authorities have undertaken detailed analyses of their expenditure (see section 10.3.9) and some have published elements of the analysis:

Table 45:

Large Purchasing Organisation(s)	% of Direct Spend		
	SMEs	Local ²¹³ organisations	Local SMEs
33 local authorities in North West England ²¹⁴	64%	64%	
Greater London Authority ²¹⁵	19%		10%
London Borough of Haringey ²¹⁶	68%	20% (57% in London)	
London Borough of Tower Hamlets ²¹⁷		36%	
Wakefield Council ²¹⁸	65%		
Brighton & Hove Council ²¹⁹		49%	

London Borough of Haringey further reported that, in 2004:

- 31 per cent of its spend was with BAMEs; of which 19 per cent identified themselves as ‘white non-British
- 22 per cent of its spend was with women-owned and controlled businesses

- 4 per cent of its expenditure was with disabled-owned and controlled businesses.

Haringey is a borough of pronounced ethnic diversity. The amount of money spent with BAMEs appeared to be in line with the overall proportion of minority ethnic minority people in its own and neighbouring boroughs.

The London Borough of Tower Hamlets further reported that 10 per cent of its expenditure was with third sector organisations (i.e. the social economy).

Overall, only 2 per cent of total public sector spending is estimated to be spent with the third sector on service delivery.²²⁰ It appears that local government spends proportionately much more with organisations in the social economy than central government does.

All of this data indicates that SMEs are far more successful in supplying directly to local government than to central government.²²¹ Anecdotal evidence suggests a number of reasons why this might be:

- The nature of goods and services bought; possibly more lower, value, lower risk procurements within local government than central government

²¹³ Each large purchasing organisation defines what ‘local’ means to them. In the case of a local authority, it is their geographical area of responsibility. The address to which invoices are sent is generally the address used to define locality of a supplier.

²¹⁴ Poulter C, “Is Buying a Burden?”, 2007 (North West Centre of Excellence). ‘Local’ is defined as across whole North West of England region.

²¹⁵ GLA Group Responsible Procurement Programme, “Summary of Responses to GLA Group Supplier Survey”, 2009. ‘Local’ is defined as London

²¹⁶ London Borough of Haringey & Small Business Service, “Haringey SME Procurement Pilot Phase III Report”, 2004

²¹⁷ London Borough of Tower Hamlets, “Corporate Procurement Strategy 2009-2011”

²¹⁸ Response from Wakefield Council “Questionnaire for Public Procurers and Those Representing Contracting Authorities”

²¹⁹ Brighton & Hove Council “Corporate Procurement Strategy 2008-2011”

²²⁰ PWC, “Social Private Partnerships: Innovation in Public Service Delivery”, 2009

²²¹ The exception to this statement is the Greater London Authority. This appears to be because of the spending patterns of Transport for London, the largest budget holder within the Authority.



- The relative value of procurement opportunities; local government possibly engaging in more low value, ad hoc procurement than central government
- Types of procurement processes used; possibly more straightforward requests for quotations by local government than central government.

Anecdotal evidence indicates that local government is increasingly using framework agreements established by central government (e.g. the Office of Government Commerce) for the supply of certain goods and services. It may be that the participation of SMEs in these frameworks is significantly lower than in comparable local government arrangements. Local authorities who have a cross-cutting interest in procurement and local regeneration might wish to consider this factor when using national framework agreements. More analysis would be useful to analyse this theory further.

UK: CompeteFor

Supplier diversity within London 2012 supply chains and the associated CompeteFor portal are discussed in detail in sections 10.3.5 and 10.3.6.

As of May 2009, contracts awarded following postings on CompeteFor had been won by the following sizes of organisation:

Table 46: CompeteFor Awards to SMEs²²² (defined by number of employees)

No. of Employees	No. of Awards	% of Total Awards
1-10	33	22.3%
11-20	22	14.9%
21-50	26	17.6%
51-100	17	11.5%
101-250	20	13.5%
Sub-Total to SMEs	118	79.7%
250+	30	20.3%
TOTAL	148	100%

Please note that this data does not relate to overall London 2012 supply chains; but only those procurements advertised on Compete For and awarded prior to May 2009.

Data on the diversity of ownership of the companies who won these contracts is not publicly available. Anecdotal evidence and Smallbone et al’s 2008 report for the Equalities and Human Rights Commission²²³ (section 10.3.6) demonstrates that some under-represented businesses (e.g. BAME and women-owned businesses) have won work through Compete For.

²²² Data supplied by Compete For and correct as of mid May 2009

²²³ Smallbone D, Kitching J, Athayde R, and Xheneti M “Procurement and Supplier Diversity in the 2012 Olympics”, 2008 (for Small Business Research Centre, Kingston University & Equality & Human Rights Commission)



UK: Private sector

Some corporations have undertaken analysis of the nature of their first tier suppliers. This has generally come about as a result of corporations' interest in supplier diversity following the undertaking of similar activity in the USA. This particularly applies to those who are members of supplier diversity initiatives such as Supplier Diversity Europe, WEConnect International and MSD(UK).

None of this information is publicly available. This is for reasons of commercial confidentiality and because of concerns over the statistical significance and robustness of data collected, particularly where suppliers have been qualitatively surveyed.

Where any kind of analysis has been undertaken, some SME and under-represented businesses have been identified as first tier suppliers. Anecdotal evidence suggests that the estimated numbers and percentages are relatively low, lower than comparable figures for local authorities, for example.

It may be that more SMEs and under-represented businesses participate in the supply chains of corporations at a 2nd or 3rd tier level. At present there is no evidence to support or challenge this hypothesis.

There are some current situations in which private sector organisations are being required to collect and report supplier diversity-related data:

- To demonstrate compliance with section 106 planning obligations; particularly in the London boroughs of Newham (section 10.3.5), Camden and Islington (section 10.3.8)
- To demonstrate compliance with relevant clauses in Transport for London contracts (sections 7.1.2 and 10.3.4)
- To demonstrate compliance and/or co-operation with London 2012 requirements and/or objectives (section 10.3.5).

In all of the above situations, the requirement to report has been passed on to private sector companies by public sector organisations. This is demonstrative of the power that the public sector has in driving private sector behaviour on supplier diversity.



9 The Business Case For Policymakers

This section collects together the reasons put forward for why policymakers in the public, private and third sectors should promote supplier diversity and related activity.

The reasoning goes far beyond the financial and business arguments for supplier diversity described in [section 7](#) and [section 8](#) and into the realms of national and European economic success and societal stability and integration.

Arguably, in common with many emerging business themes (e.g. equalities, environmental sustainability) supplier diversity requires policymakers, legislators and practitioners to promote it in order for its potential and actual benefits to be recognised and realised. It is an issue not just for individual businesses, but one that is of macroeconomic importance.

9.1 Summary of the Current Policy Climate

Concern for SME development is global. The World Bank²²⁴ identifies how “supporting SMEs is a key factor to alleviating poverty” and “SMEs play a major role in serving the ... market for goods and services to the ... people at the base of the economic pyramid.”

The European Commission is a powerful advocate for supporting entrepreneurship, particularly SMEs.²²⁵ As part of this agenda there is now a focus at European level on eliminating barriers to growth of under-represented enterprises,²²⁶ although the SME agenda still dominates.

The British, French, German and Swedish governments all have stated aims and objectives to support SMEs and, to a lesser extent, the social economy. Support for specific under-represented groups is less evident.



²²⁴ International Finance Corporation / World Bank “Creating Opportunities for Small Businesses”

²²⁵ For example, the design and implementation of The Small Business Act

²²⁶ See for example the European comparative results from: Triodos Facet and Institute for Migration and Ethnic Studies (2008) Examination and Evaluation of Good Practices in the Promotion of Ethnic Minority Entrepreneurs. Final Report.

9.2 To Strengthen the Business Base

Certain sections of the business community are under-represented as first tier suppliers to LPOs (sections 8.2.1 and 8.2.4). EU and national government reports have identified specific problems (i.e. market failures) that contribute to this (section 8.1).

Supplier diversity activity addresses these market failures, so that more businesses can have the opportunity to compete for business based on their own merit. This allows the strongest businesses to win new contracts, increase their turnover, take on new employees and contribute to improving the economy.

Some writers take this argument further and contest that small and under-represented businesses suffer within a capitalist economy, because of a systematically unfavourable opportunity structure in markets dominated by large corporations.²²⁷

It is argued that small firms depend overwhelmingly on residual markets that large corporations have chosen not to exploit, often because they are inherently not profitable enough.²²⁸ In parallel to this, there is the endemic problem for small firms of raising capital and, if financial capital is not adequately available, the need to survive through sheer, labour intensive, hard work.

Studies of the UK clothing industry²²⁹ point out that many small firms exist to supply large corporations with cheap products which it would be uneconomic for the corporations to produce themselves. Supply chain arrangements are often highly unsatisfactory, acting against principles of social justice and inclusiveness. Often small suppliers are only able to meet these demands on the basis of low waged labour-intensiveness. In extreme situations some companies may commit offences against National Minimum Wage provisions and employ undocumented immigrants to meet their targets.



²²⁷ Kloostermann, R. & Rath, J. (2003), Introduction: Immigrant Entrepreneurs. In Kloostermann, R. & Rath, J. (Ed), Immigrant Entrepreneurs: venturing abroad in the age of globalization. Berg: Oxford.

²²⁸ Barrett R, Rainnie A, 2002, "What's so Special About Small Firms? Developing an Integrated Approach to Analysing Small Firm Industrial Relations" (Work, Employment and Society, 16, 415-432)

²²⁹ Ram, M., Edwards, P. and Jones, T. 2007 'Staying Underground: Informal Work, Small Firms and Employment Regulation in the UK', *Work and Occupations*, 34, 3: 318-344

Rainnie, A. (1989), *Industrial Relations in Small Firms*, London, Routledge

Rath, J. (2002). *Unravelling the rag trade: Immigrant entrepreneurship in seven world cities*, Oxford: Berg Publishers

9.3 To Bridge the Enterprise Gap

Presently, Europe is suffering from an ‘entrepreneurial gap’, with 50 per cent of Europeans preferring paid employment and only 45 per cent favouring self-employment. The equivalent figures for the USA are 37 per cent and 61 per cent.²³⁰

As mentioned in section 5.3.2, minority ethnic families in the UK have a higher propensity towards entrepreneurship than white families. The Ethnic Business Task Force, however, observes how ‘thinking’ is not necessarily turned into ‘doing’.

Entrepreneurship is, traditionally, not a preferred career option in Europe. The European Commission promotes entrepreneurship²³¹ but is fully aware that success depends on a better climate of public opinion.²³²

The positive promotion of enterprise, through supplier diversity programmes, could serve to raise the profile of entrepreneurship as a viable career option. There is no clear link between the establishment of supplier diversity programmes in the USA (section 10.1.1) and high levels of self-employment in that country, but the two might be connected.

In view of immigration growth, it is no surprise that there has been an increase in ethnic entrepreneurship measured by most EU member states²³³ (section 5.3). It has been suggested that ethnic entrepreneurs may be important in filling any gap in entrepreneurial activity.²³⁴ The EU has recently demonstrated specific interest in how immigrant and BAME businesses could help ‘plug the entrepreneurial gap’.²³⁵

²³⁰ Flash Eurobarometer 146 ‘Entrepreneurship’, Oct 2003.

²³¹ EC (2008) Enterprise and Industry Directorate-General. Supporting Entrepreneurial Diversity in Europe – Ethnic Minority Entrepreneurship/Migrant Entrepreneurship conclusions and recommendations of the European Commission’s Network ‘Ethnic Minority Businesses’ Brussels.

²³² Eurobarometer Survey on entrepreneurial attitudes 2004. http://ec.europa.eu/enterprise/entrepreneurship/facts_figures.htm

²³³ Die Bedeürung der ethnischen Okonomie in Deütschländ: Push und Pull Faktoren fur Undnernehmensgründungen ausländer and asuländerstammiger Mittbürger, IFM, Universtität Mannhiem.

²³⁴ GEM 2004 Executive Report. Babson College, USA and London Business School, UK. http://www.gemconsortium.org/download/1237464031656/GEM_2004_Exec_Report.pdf

²³⁵ Conclusions & Recommendations of the European Commission’s Network ‘Ethnic Minority Businesses’, 2008, European Commission



9.4 To Address Issues Specific to Under-represented Groups

Section 8.2.4 indicates how difficult it is to obtain data around participation of under-represented businesses as direct or first tier suppliers to LPOs.

What data exists suggests an under-representation of small businesses and those owned by women, disabled people, people from minority ethnic groups, etc.

9.4.1 Women-owned Businesses

Levels of entrepreneurship amongst women vary across the EU (section 5.2) and are significantly lower than comparable figures in the USA.²³⁶

In the UK, it has been identified that:

- One in five women come into self-employment from unemployment, compared to one in fifteen for men²³⁷
- As employees, women earn on average 22.6 per cent less per hour than men. At current rates of change this 'pay gap' will not close until 2085.²³⁸

Women's entrepreneurship offers a way for women to escape the pay gap in the workplace and unemployment. Anecdotal evidence suggests that, for many, it also offers a more rewarding solution to the need to balance family and caring responsibilities than generally offered as a paid employee for someone else.

Anecdotal experience from the USA indicates that the creation of opportunities for women businesses, through supplier diversity activity, gives women entrepreneurs the opportunity to grow and flourish and to inspire others.²³⁹



²³⁶ Prowess Website <http://www.prowess.org.uk/facts.htm>

²³⁷ SBS (Small Business Service), "Promoting Female Entrepreneurship", 2005 at <http://www.train2000.org.uk/research-reports/pdfs/PromotingFemaleEntrepreneurship.pdf>

²³⁸ Government Equalities Office, "A Fairer Future: The Equality Bill and Other Action to Make Equality a Reality", 2009

²³⁹ WBENC Website www.wbenc.org

9.4.2 Immigrant and Minority Ethnic Businesses

Section 5.3.1 quoted the United Nation's UN-Habitat programme's summary of the characteristics and growth curve of immigrant businesses.²⁴⁰ These apply globally, with the apparent exception of Germany.²⁴¹

Authors including Ram, Smallbone and Jones have recorded trends in BAME business in the UK²⁴² so that we have a good picture of their dynamics and interactions with their communities.

For relatively new immigrants, such as the Somali community, entrepreneurship is an important means of social mobility.²⁴³ These types of BAMEs tend to be concentrated in particular geographical areas and particular, low-value business sectors.²⁴⁴ Co-ethnic trading is a feature of businesses,²⁴⁵ but the scope offered by this niche is limited and so is the capacity to identify and exploit opportunities in mainstream markets.²⁴⁶

There is a tendency for BAMEs to utilise public sector business support to a lesser extent than the wider small business population.²⁴⁷

BAMEs are increasingly moving into better-rewarded sectors and locations. Entry into low value added business activities (i.e. those that are labour intensive and have relatively low returns), though, still continues and is most likely to involve recent arrival groups.²⁴⁸

Generational factors are relevant to this shift in BAME sectors and location.²⁴⁹ Inter-generational patterns are being observed, whereby first generation immigrants tend to be survivalists catering to the needs of their own ethnic markets; while second and third generation immigrants move towards higher value mainstream labour market opportunities.²⁵⁰

UK research indicates a rising generation of BAME firms moving out of traditional sectors such as retailing, clothing and catering towards growth sectors like finance, business and professional services, ICT and creative and media industries. This sectoral shift has been fuelled by a skills shortage

²⁴⁰ "UN-Habitat Backgrounder: Migration – Migrant Entrepreneurship" (2006), UN-Habitat

²⁴¹ This is because there are only a few urban areas which know inter-ethnic networks of firms within a special ethnic community marked by interethnic solidarity and their own ethnic community customer base.

²⁴² Relevant reports by these authors are quoted throughout the Handbook.

²⁴³ Griffiths D, Sigona N, Zetter R, 2006, "Integrative Paradigms, marginal reality: refugee community organisations and dispersal in Britain" *Journal of Ethnic and Migration Studies*, 32, 881-898

²⁴⁴ "Assessing the Potential of Supplier Diversity Initiatives as a Means of Promoting Diversification Among Ethnic Minority Businesses in the UK", 2002, Ram M, Smallbone D, Linneker B (De Montfort University & Middlesex University)

²⁴⁵ 2003; "Supplier Diversity Initiatives and the Diversification of Ethnic Minority Businesses in the UK" Ram M, Smallbone D (Policy Studies, v. 24, no 4)

²⁴⁶ 2003; "Supplier Diversity Initiatives and the Diversification of Ethnic Minority Businesses in the UK" Ram M, Smallbone D (Policy Studies, v. 24, no 4)

²⁴⁷ "Addressing the Business Support Needs of Ethnic Minority Firms in the UK" (2003) Deakins D, Ram M & Smallbone D

²⁴⁸ This is being investigated in current work by Prof Monder Ram, yet to be published

²⁴⁹ Ram M, Jones T, 2007, "Ethnic Minority Business in the UK: a Review of Research and Policy Developments" (Environment and Planning C: Government and Policy 2008, volume 26, pages 352-374)

²⁵⁰ Jones, T. Ram, M. and Edwards, P. (2004) Illegal immigrants and the Asian underground economy in the West Midlands. *International Journal of Economic Development*, 6, 92-113.



crisis as second and third generation immigrants do not want to work in the sector, due to for example low wages and poor working conditions, when alternative main stream employment opportunities are available.²⁵¹ ²⁵² Second generation Chinese and South Asians are using their improved educational qualifications to widen their career options, among which paid professional employment is often the preferred choice.²⁵³ Highly educated Asians who do opt for self-employment tend to gravitate towards higher yielding fast-growth mainstream sectors.

Generational factors may well explain the observation that young business owners are increasingly unwilling to be ethnically pigeon-holed.²⁵⁴ Section 4.5.1 includes the finding that many people from minority ethnic groups simply consider themselves 'British'.

In short, as the years pass and immigrant communities become more embedded, their economic opportunities improve. It could be that creating business opportunities for these groups, through supplier diversity activity, could speed their progress along this development curve. By creating the opportunity to compete for work, and so allowing strong businesses to grow more quickly.

BAME activity is a complex, nuanced and ever-changing entity, complicated further by the emergence of super-diversity (section 4.5.1).

²⁵¹ Jones, T. Ram, M. and Edwards, P. (2004) Illegal immigrants and the Asian underground economy in the West Midlands. *International Journal of Economic Development*, 6, 92-113.

²⁵² Jones, T. Ram, M., Edwards, P. (2006) Shades of grey in the informal economy. *International Journal of Sociology and Social Policy*, 26, 357-373.

²⁵³ Ram, M and Jones, T (2008) Ethnic-minority businesses in the UK: a review of research and policy developments. *Environment and Planning C: Government and Policy*, 26, 552-374 and Mascarenhas-Keyes S, "British Indian and Chinese student, graduate and academic international entrepreneurship", 2008 (Department for Innovation, Universities and Skills)

²⁵⁴ Ram M, Jones T, Patton D, 2006, "Ethnic managerialism and its discontents: policy implementation and 'Ethnic Minority Businesses'", *Policy Studies*, 27, 295-309

²⁵⁵ This expresses the views of 3 disabled entrepreneurs, all supplying to large purchasing organisations, whose opinions were sought by Supplier Diversity Europe

9.4.3 Disabled-owned businesses

Data in sections 4.4 and 5.5 about disabled people and entrepreneurs in the UK indicates that:

- A significant proportion of the UK population are disabled
- A significant proportion of working age, disabled people are self employed
- Relatively few disabled people identify themselves as being involved in business support activity.

It can be deduced from the data that relatively few disabled people seem to move from being self-employed to running businesses, particularly those that employ other people.

The charity Leonard Cheshire is particularly active in supporting and promoting disabled entrepreneurs, often in association with Barclays Bank.

There are currently no business organisations in the UK specifically for disabled business people,²⁵⁵ in the way that there are for women and people from minority ethnic groups.

In France, legislation supports the involvement of disabled people in the workplace as employees, but less so as entrepreneurs (section 5.5).



USA-based supplier diversity programmes do not involve issues of disability to the extent that they involve ethnicity and gender. Hence issues of disability have also tended to be overlooked by European supplier diversity programmes; Supplier Diversity Europe is the only one to include disability, explicitly, in its remit.

Supplier diversity activity could help address the apparent enterprise gap amongst disabled people by:

- Raising the profile of disabled people as successful entrepreneurs
- Facilitating opportunities for them to compete for business and to grow
- Creating opportunities for large purchasing organisations to engage with suppliers who could offer innovative solutions to addressing the needs of a marketplace that includes increasing numbers of disabled people.

9.5 To Speed-up the Economic Integration of Immigrants

The suggestion that supplier diversity activity could address specific problems facing immigrant and BAME businesses is discussed in section 9.4.2. The fact that such businesses offer ‘spill-over benefits’ into the wider community (sections 9.4.2 and 9.6) raises the very real suggestion that supporting immigrant and BAME businesses through supplier diversity activity could quicken-up the speed of economic integration of immigrants.



9.6 To Regenerate Local Communities

9.6.1 Ethnicity and Economic Disadvantage

Immigrant and ethnic minority businesses are often concentrated in poor, urban areas, or have moved from such areas into wealthier ones. This is thought to be due to immigrant generational life courses, where newly arrived immigrants cluster together for support.²⁵⁶

This clustering can bring benefits; the social capital and complementary suppliers built up by co-ethnics is thought to facilitate credit, lower prices and access to information.²⁵⁷

However, urban areas which have high concentrations of immigrants and minority ethnic communities often have social indicators that suggest economic deprivation. In the UK, Bangladeshi and Pakistani groups make up a four times higher proportion of the population in the most deprived communities than they do in England as a whole, and Black African and Black Caribbean groups twice so.²⁵⁸

²⁵⁶ "Assessing the Potential of Supplier Diversity Initiatives as a Means of Promoting Diversification Among Ethnic Minority Businesses in the UK", 2002, Ram M, Smallbone D, Linneker B (De Montfort University & Middlesex University)

²⁵⁷ "Assessing the Potential of Supplier Diversity Initiatives as a Means of Promoting Diversification Among Ethnic Minority Businesses in the UK", 2002, Ram M, Smallbone D, Linneker B (De Montfort University & Middlesex University)

²⁵⁸ "Deprivation and Ethnicity in England: A Regional Perspective", 2006, Tinsley J & Jacobs M (ONS)

²⁵⁹ Ram M, Jones T, 2007, "Ethnic Minority Business in the UK: a Review of Research and Policy Developments" (Environment and Planning C: Government and Policy 2008, volume 26, pages 352-374) and Jones, T. Ram, M., Edwards, P. (2006) Shades of grey in the informal economy. *International Journal of Sociology and Social Policy*, 26, 357-373.

²⁶⁰ Zheng, J. Christine, H. and Walker, H. (2008) The role of SMEs in public procurement, Centre for Research in Strategic Purchasing and Supply (CRISPs), School of Management, University of Bath.

²⁶¹ Worthington, I. (2009) Corporate Perceptions of the Business Case for Supplier Diversity: How Socially Responsible Purchasing can 'Pay'. *Journal of Business Ethics*, January, in press.

²⁶² Harland, C. M. and Knight, L. (2001) Supply strategy: a corporate social capital perspective. *Research in Sociology of Organisations*, Feb, 151-183.

²⁶³ Carter, C. R., Auskalnis, R. J. and Ketchum C. L. (1999) Purchasing from minority business enterprises: key success factors. *Journal of Supply Chain Management*, 35(1), 28-32.

²⁶⁴ Erridge, A. and Greer, J. (2002) Partnerships and Public Procurement: building social capital through supply chains. *Public Administration*, 80, 3, 503-522.

Firms of immigrant-origin can be crucial in deprived urban areas, where their local provision of employment and services is little short of crucial.²⁵⁹

An emerging evidence base suggests increasing awareness of the importance of supplier diversity on the economy, business, the environment and society,^{260 261} with various scholars arguing that supplier diversity can contribute to increasing corporate social capital,²⁶² adding value and promoting innovation in enterprises²⁶³ and the regeneration of local economies and communities.²⁶⁴

For the target firms themselves, however, the kind of 'breakout' offered by supplier diversity would contribute on several fronts. First, it would open opportunities for individual enrichment, giving proprietors themselves access to wider markets offering a fair return for their efforts and expertise. Indeed, a central theme in the literature on ethnic minority businesses is the paucity and precariousness of rewards for the toilsome labour of small owners trapped in traditional sectors of the economy. Conditions like these are the yardstick against which secure work for guaranteed returns as part of an ethical supply chain must realistically be judged.



There are also potential spill-over effects from supplier diversity activity, benefiting immediate and extended family members and wider ethnic community, tightly knit as it often is around ties of loyalty and common heritage. Much of ethnic minority business is deeply embedded in ethnic communities, so that any progress by the former is almost bound to rebound to the advantage of the latter. Job and wealth creation in deprived localities is only one of the manifold benefits to be derived from the 'breakout' of BAMEs from their co-ethnic markets. Thus supplier diversity can be closely aligned with such goals as social cohesion, inclusion and the banishment of alienation.

9.6.2 Disability and Economic Disadvantage

Jenkins & Rigg²⁶⁵ analysed UK data and found three sources of disadvantage amongst disabled people; pre-existing disadvantage, the effect of the onset of disability itself and the effects of remaining disabled.

In 2006 in the UK,²⁶⁶ the employment rate for disabled people was just 49.6 per cent compared to almost 79.7 per cent for those who were not disabled.

Section 5.5 indicates that there are a relatively high number of disabled entrepreneurs in the UK. Supplier diversity activity could help the growth of businesses currently owned and managed by disabled people and encourage other disabled people into self-employment, as explained in more detail in section 9.4.3.



²⁶⁵ Jenkins, Stephen P. and Rigg, John A. (2003) Disability and disadvantage: selection, onset and duration effects. CASEpaper, 74. Centre for Analysis of Social Exclusion, London School of Economics and Political Science, London, UK

²⁶⁶ Shared Intelligence, "Work Limiting Illness Learning Network: Programme Launch Briefing Paper" (East of England Development Agency) at http://www.eeda.org.uk/files/work_limiting_illness_briefing_paper.pdf

9.6.3 Class and Economic Disadvantage

Deprivation or disadvantage is not just linked to ethnicity or disability. In its introduction to the 2009 Equalities Bill, the UK Government states how “Overarching and interwoven with specific forms of disadvantage is the persistent inequality of social class – your family background or where you were born.” To try and address this inequality, the Bill introduces a new Socio-Economic Duty on public bodies, obliging them to take action to narrow gaps in outcomes (e.g. education, employment) resulting from socio-economic disadvantage. Thus the emphasis is taken away from tackling issues specific to ethnicity, gender, disability, or similar and focused on tackling economic deprivation wherever it is apparent.

This new Socio-Economic Duty is, potentially, an extremely powerful tool for public bodies to utilise as a basis for ‘positive action’ to advance supplier diversity, and related social considerations in contracting.

9.6.4 Lesbian Gay, Bisexual and Transgender (LGBT), Women and Economic Disadvantage

The issue of women and lesbian, gay, bisexual and transgender (LGBT) businesses in the context of supplier diversity and the addressing of economic deprivation appears more problematic.

LGBT businesses are simply not well enough understood for conclusions to be drawn. Given the relative strength of the so-called ‘Pink Pound,’ (section 7.1.1) economic deprivation may not be an issue for LGBT businesses. Anecdotal evidence suggests, however, that alienation, ‘ghettoisation’ and accompanying problems of relative business underperformance might be.

As section 5.2.2 indicated, women-owned businesses cannot be considered as a homogenous group. As relatively more women than men move into self-employment from a position of unemployment (section 9.4.1) there does appear to be a link between female entrepreneurship and economic regeneration. Supplier diversity could encourage this trend.

Anecdotal evidence suggests that the women who are engaging most with supplier diversity programmes in the UK are white, educated and relatively well-off. Spin-off benefits such as new employment opportunities may well be generated and LPOs benefit from such relationships (section 7.1.1 and 7.2.1).



A supplier diversity programme for women, WEConnect International (section 10.3.3), advocates the use of women-owned businesses across the world by LPOs. This includes the promotion of the concept that procurers in the UK and elsewhere in Europe will be connected with women-owned businesses in, for example, Eastern Europe and China. This is so that services can be 'off-shored', with the benefits that this brings to LPOs and the women-owned businesses to whom the off-shoring contracts are awarded. In principle, European-based women companies could partner with those non-European companies. Within the context of economic development and regeneration, careful analysis of this situation would be required by the procurer involved.

Any practitioner wishing to use supplier diversity activity targeted at women businesses to tackle economic disadvantage, may well wish to take a 'positive action' approach and target specific social groups and geographical areas.

9.6.5 Rural issues and Economic Disadvantage

The issue of rural poverty is also a complex one. This is because 'rural' areas can be defined as 'accessible', 'remote' or 'very remote'.²⁶⁷ 'Accessible rural' areas can include well-off areas on the outskirts of cities. Indicators of deprivation are found in some 'remote' or 'very remote' areas. Indicators of deprivation are also found in some urban areas, such as the boroughs surrounding the very wealthy enclave of Canary Wharf in London.

Supplier diversity could be used as part of a 'positive action' approach to tackle disadvantage in specific areas.



²⁶⁷ Ekos, "Rural Communities and Economic Development", 2008 (Scottish Enterprise)

9.7 To Boost the Impact of Business Support Programmes

Large amounts of public money are spent on business support in the UK, France, Germany and Sweden.

Some of this funding originates in Europe e.g. European Regional Development Fund, (ERDF) and some nationally e.g. The Business Link network in the UK is funded by a department of central government.

In recent years, many business programmes in the UK have been funded to support SMEs to become 'fit to bid', 'fit to compete' and 'supply ready' to LPOs.

Evidence from programmes such as the Haringey SME Procurement Pilot suggests that, for SME procurement support programmes to be effective in creating real procurement opportunities, engagement with procurers is essential. This engagement should involve the development of honest and open working relationships with both procurers and SMEs. Additional programmes that have undertaken both 'supply-side' and 'demand-side' activity in this way are listed in section 10.3.10.

Many other programmes have been funded that have not undertaken such engagement. Anecdotal evidence suggests that these have failed to deliver tangible benefits for the SMEs with whom they have engaged. Given that

most business support programmes operate on the basis of the achievement of outputs such as 'number of businesses supported', it is not in the financial interests of the business support providers to make the effort to engage with procurers. Arguably, it is not in the interests of any public body to finance such programmes.

On the basis of information in section 5.3.2 of this report, and as stated in section 8.2.3, it should be remembered that not all immigrant-origin enterprises and other under-represented businesses are potential beneficiaries of supplier diversity.

The distinction between growth-oriented and survival-oriented firms has been long noted in the small business literature for over a decade²⁶⁸ and has more recently been increasingly seen as a salient feature of Asian and other BAME firms.²⁶⁹

Survival-oriented firms are likely to remain unmotivated to engage with any procurement support initiatives on offer. A great many will be inappropriate suppliers, small retailers and personal service providers producing goods and services of no interest to LPOs. This is not to dismiss their value of such businesses and their value should, perhaps, be re-evaluated in broad policy terms²⁷⁰. The message, however, is clear; not all SMEs can be assumed to be alike when developing and delivering supplier diversity programmes.

²⁶⁸ Initially by Storey in 1994

²⁶⁹ Ram M, Jones T, 2007, "Ethnic Minority Business in the UK: a Review of Research and Policy Developments" (Environment and Planning C: Government and Policy 2008, volume 26, pages 352-374), also Basu in 1998

²⁷⁰ Ram M, Jones T, 2007, "Ethnic Minority Business in the UK: a Review of Research and Policy Developments" (Environment and Planning C: Government and Policy 2008, volume 26, pages 352-374)



10 Implementing Supplier Diversity

This section gathers together specific information on how supplier diversity activity has been undertaken in Europe. It also includes a comparison of supplier diversity activity in the USA and Europe.

It will provide practitioners with ideas and encouragement. It is anticipated that future supplier diversity activity can be developed based on the experiences and learning of this activity.

Supplier Diversity Europe identifies two preconditions for supplier diversity;²⁷¹

- An understanding of diversity and the benefits it brings, amongst large purchasing organisations
- A critical mass of under-represented businesses.

The UK, France, Germany and Sweden all meet these preconditions.

Even so, supplier diversity is still in an early stage of development in Europe. Some activity undertaken has been based on models and learning from the USA, whereas some, particularly in the public sector, has been undertaken based purely on the local context.

10.1 Comparison between the USA and Europe

Supplier diversity is further advanced in the USA compared to Europe. Awareness levels are greater and practice is more widespread and more embedded in the USA than in Europe.²⁷²

European legislation and culture differs from the USA in many regards relevant to supplier diversity. European legislation is described at length in [section 6](#) and its difference from legislation in the USA can be summarised as:

- EU legislation promotes transparency, openness and equality of opportunity for all in procurement, rather than goals
- The legislative and cultural acceptability of requesting and capturing data, particularly around ethnicity, is quite different in Europe compared to the USA
- The UK is closer to the USA in its approach to collection of ethnicity data, than it is to France, Germany or Sweden.

In short, supplier diversity appropriate to USA legislation and context is not appropriate to European legislation and culture. In addition, supplier diversity activity that has been developed in the UK to specifically support ethnic minority businesses that has been used in the UK cannot be transposed to other EU countries.



²⁷¹ Internal research by Supplier Diversity Europe, 2007

²⁷² Ram, M., Smallbone, D., and Linneker, B. (2002) Assessing the potential of supplier diversity initiatives as a means of promoting diversification among ethnic minority businesses in the UK. Research Report. Centre for Research in Ethnic Minority Enterprise (CREME) and Centre for Enterprise and Economic Development Research (CEEDR), Middlesex University.

10.1.1 Summary of the US approach to Supplier Diversity

US legislation sets goals around supplier diversity.²⁷³ Federal and other private and public contracts may require supplier diversity participation. Plans submitted in support of this must include the categories of under-represented businesses involved and establish individual goals for contract awards in each category.

Supplier diversity plans, performance and results are subject to quarterly and annual reporting and audits.

US supplier diversity legislation and private sector programmes address: gender, ethnicity, disability, veteran, disabled veteran, disadvantaged (for other social reasons), location (underutilised business zone), 'historically black colleges and universities'. Sexual orientation is addressed by some cities and states and some private sector programmes.

The National Minority Supplier Development Council (NMSDC) and its network of 39 regional councils, Women's Business Enterprise National Council (WBENC,) the Public Utilities Commission, the US Small Business Administration and the majority of US cities and states run accreditation/certification systems for minority ethnic and women-owned and controlled businesses. Accreditation by one of these bodies is generally a pre-requisite

for any business seeking to become involved in corporate supplier diversity programmes.

The US websites of several corporations explain their US approach to supplier diversity²⁷⁴ in more detail.



²⁷³ This summary was prepared by the US-based staff and members of Supplier Diversity Europe during 2007

²⁷⁴ For example, that of Dell at http://www.dell.com/content/topics/global.aspx/about_dell/values/supp_citizen/sup_diversity?~ck=ln&c=us&l=en&lnki=0&s=corp

10.2 Implementing Supplier Diversity in Europe

10.2.1 Guides and Advice for Europe

- “European Code of Best Practice Facilitating Access by SMEs to Public Procurement Contracts”²⁷⁵ is a 2008 European Commission Staff Working Document. This includes a list of practical steps that can be taken to improve SME access to above Official Journal of the European Union (OJEU) threshold contracts.
- European Commission services is preparing “Buying Social: a Guide to Taking Account of Social Considerations in Public Procurement”, for release in 2009.

The consultation draft stated that the purpose of this Guide is:

- o To raise contracting authorities’ awareness about the potential benefits of Socially Responsible Public Procurement (SRPP)
- o To explain in a practical way the possibilities offered by the existing Community legal framework for public authorities, to take into account social considerations in their public procurement, thus paying attention not only to price but also quality/best value.

The types of social considerations addressed by the consultation draft are:

- o Promoting employment opportunities
- o Promoting ‘decent work’

- o Supporting social inclusion
- o Promoting SMEs (including ‘diverse’ businesses)
- o Promoting ‘accessibility and design for all’
- o Taking into account fair or ethical trade issues
- o Seeking to achieve wider voluntary adherence to corporate social responsibility.

The consultation draft included examples of good practice from across the EU. The final version may differ from this format.



²⁷⁵ http://ec.europa.eu/internal_market/publicprocurement/docs/sme_code_of_best_practices_en.pdf

10.2.2 Supplier Diversity Europe

Supplier Diversity Europe has worked to implement supplier diversity initiatives in the UK, France and Germany since 2002.

The programme has worked with large purchasing organisations from the private and third sectors. It has worked with SME suppliers majority owned and managed by women, disabled people, people from minority ethnic communities and LGBT people.

Greatest success has been achieved in the UK, where Supplier Diversity Europe (SDE) has:

- Built the capacity of large purchasing organisations to implement supplier diversity, through:
 - o Workshops
 - o One-to-one support
 - o Development and use of the library and toolkit of supplier diversity materials
 - o Development and use of the CRÈME/ SDE Supplier Diversity Benchmarking Tool (see section 10.8).
- Facilitated relationships between SME suppliers and large purchasing organisations through;
 - o The on-line SDE Database, which SMEs can register within and procurers can search

- o Large group events (Supplier Diversity Days, Business Opportunities Events, Meet the Buyers)
- o Small group meetings.
- Worked with partners and stakeholders in central and local government, Regional Development Agencies, business support and intermediary organisations, academia, etc, to share best practice, promote the benefits of supplier diversity and encourage involvement.

SDE has a principle to never charge SMEs for participation in its work.

Similar work is now underway in France, within the context of French legislation and culture, in association with a partner organisation, Adiver (section 10.4.2).

Work in Germany has been more difficult, due to many of the cultural and legislative differences explained in this Handbook. Supplier Diversity Europe continues to seek partners in Germany with whom supplier diversity can be implemented.

The number of corporations participating in Supplier Diversity Europe decreased in late 2008 and early 2009, as the economic recession deepened. This indicates that supplier diversity was a 'nice to have' activity for those corporations, rather than a 'must do'. Whilst explanation of the business case may help, it is probably pressure from customers, policymakers and



legislators that will achieve the greatest shift towards supplier diversity becoming a 'must do'.

10.3 Implementing Supplier Diversity in the UK

10.3.1 Summaries of Activity 2001 to 2007

Key studies detailing and evaluating supplier diversity activity in the UK, particularly initiatives between the years between 2001 and 2007 are:

- "Procurement Opportunities for Small Firms and Black and Minority Ethnic (BAME) Enterprises in Three English Regions" (2007) Smallbone D, Athayde R, Ying Meng L (Kingston University, Minority Business Diaspora Interchange)
- "Policy Transfer in Practice: Implementing Supplier Diversity in the UK" (2007) Ram N, Theodorakopoulos N, Worthington I (Public Administration, vol 85, No 3, 779-803)
- "Supplier Diversity Initiatives and the Diversification of Ethnic Minority Businesses in the UK" (2003) Ram M, Smallbone D (Policy Studies, v. 24, No 4)
- "Assessing the Potential of Supplier Diversity Initiatives as a Means of Promoting Diversification Among Ethnic Minority Businesses in the UK" (2002) Ram M, Smallbone D, Linneker B (De Montfort University & Middlesex University).

Summaries of supplier diversity activity from 2007 onwards are contained in sections the rest of section 10.3. They build on the learning from earlier (pre 2007) activity.



10.3.2 Guides and Advice for the UK

The following publications provide advice and guidance for procurers and others within large purchasing organisations on how to implement supplier diversity and related activity:

- “Supplier Diversity: A Guide for Purchasing Organisations” (2007) CRÈME for the Commission for Racial Equality
- “Smaller Supplier...Better Value?” (2005) Office of Government Commerce
- “Small Business Friendly Concordat: Good Practice Guide” & related Addendum (2005) Office of the Deputy Prime Minister.

The following publications provide guidance on wider social considerations in procurement, closely related to supplier diversity:

- “Buy and Make a Difference: How to address Social Issues in Public Procurement” (2008) Office of Government Commerce
- “Social Issues in Purchasing” (2006) Office of Government Commerce
- “Making Equality Count” (2008) Office of Government Commerce
- “The Can Do Toolkit” 3 part resource (2009) Anthony Collins Solicitors and Richard Macfarlane (i2i, Wales)
- “Community Benefits in Public Procurement Guidance Notes”, 2008, RR Donnelly (The Scottish Government)
- “Community Benefits in Public Procurement” (2008) Richard Macfarlane and Mark Cook, Anthony Collins Solicitors (The Scottish Government)

²⁷⁶ www.weconnectinternational.org

²⁷⁷ MSD(UK) website www.msduk.org.uk

10.3.3 Supplier Diversity Initiatives: Supplier Diversity Europe, WEConnect, MSD(UK)

Three specific supplier diversity programmes in the UK work to link under-represented businesses with buyers from large purchasing organisations; Supplier Diversity Europe, WEConnect and MSD(UK).

The work of Supplier Diversity Europe is summarised in section [10.2.2](#).

WEConnect was established as an advocate of women-owned businesses as suppliers to global and national corporations and government bodies. Previously based within Prowess, during 2009 the organisation is going through a process of renaming and re-invention, as part of the WEConnect International network.²⁷⁶

MSD(UK)²⁷⁷ works with BAME businesses only; connecting them with buyers within large purchasing organisations through a Database, events and one-to-one matching. MSD(UK) has partnered closely with NMSDC and so has particular access to its US-based corporate membership.

Both WEConnect and MSD(UK) have piloted US-style certification systems for women and BAME businesses, where certification is based, to a large extent, on the gender and ethnicity of ownership and control. The SMEs themselves were required to pay for the certification process. The take-up by SMEs has



been low. Anecdotal evidence suggests that, without legislation and national policy driving LPOs to undertake supplier diversity, SMEs were wary about how far their investment could be recouped through new procurement opportunities.

All three programmes are on-going and current information can be found on their websites.

10.3.4 Greater London Authority Responsible Procurement Strategy

Various elements of UK central government have, over several years, voiced their belief that LPOs should make their procurement opportunities accessible to SMEs. The first public body to move beyond this, use the phrase 'supplier diversity' and develop a nuanced approach to it was the Greater London Authority.

The Greater London Authority²⁷⁸ (GLA) provides strategic, city-wide government for London. It comprises the Mayor of London and the London Authority under whose remit is Transport for London, London Development Agency, London Fire and Emergency Planning Authority, Metropolitan Police Authority and Metropolitan Police Service.

In 2006, under Labour Mayor Livingstone, the GLA produced a Responsible Procurement Policy. The policy was updated in 2008, under Conservative Mayor Boris Johnson.

This Policy has seven themes:

- Encouraging a diverse base of suppliers
- Promoting fair employment practices
- Promoting workforce welfare
- Addressing strategic labour needs and enabling training



²⁷⁸ GLA website www.london.gov.uk

- Community benefits
- Ethical sourcing practices
- Promoting greater environmental sustainability.

‘Encouraging a diverse base of suppliers’ includes the following commitments;

- o We will continue our commitment to the GLA Group Statement of Principles on Supplier Diversity
- o We will provide on-going engagement and support to the Diversity Works for London Programme, which promotes greater supplier diversity for the private sector
- o We will explore opportunities for working with the voluntary and community sector organisations in supply and service delivery.
- o Our on-going programme of reviewing our procurement processes will seek to ensure they remain transparent and open to the whole of the supplier community.

The GLA’s February 2008 “Mayor of London’s Responsible Procurement Report” includes the observation by then Mayor Livingstone that; “I believe that there is a significant opportunity to improve the quality of life of all Londoners through the way in which we buy our goods, works and services.”

The report goes on to describe the GLA’s Supplier Diversity Programme, stating its purpose as being; “to ‘level the playing field’, so that we offer under-represented businesses the same opportunities to compete for GLA group

contracts as other qualified suppliers.” The achievements of the programme include:

- Responsible procurement requirements (including supplier diversity) within the Invitation to Tender and contract conditions of the East London Line Project
- Analysis of GLA’s first tier spend, to show levels of spend with SMEs and businesses majority owned and controlled by women, disabled people and people from minority ethnic and LGBT groups
- Supply London’s work with over 2,000 small businesses, to increase their ability to supply major public and private sector organisations
- Diversity Work For London’s activity with companies of all sizes in London, to promote equalities in general.

Under new Mayor Johnson, the April 2009 report “Getting Value for London: Using Procurement to make a Positive Difference to Our City”²⁷⁹ demonstrates changed political priorities. The seven principles of the Responsible Procurement Policy are restated, including supplier diversity. GLA spend reports relate, though, to spend with small, medium and large companies only; no specific mention is made of under-represented groups such as BAMEs.



²⁷⁹ Downloaded in June 2009 from <http://www.london.gov.uk/mayor/publications/2009/docs/rp-baseline-report.pdf>

10.3.5 London 2012

The GLA's belief in the power of supplier diversity to deliver benefits to London's communities became particularly apparent when, in July 2005, London was named host city for the 2012 Olympic and Paralympic Games.²⁸⁰

Supplier diversity was a key consideration from the moment the Games were awarded. London businesses were vocal in their demand to be able to access contract opportunities and supplier diversity was perceived as having the potential to contribute to a positive 'legacy' for the Games.

As a result, the four years since the award of the Games to London has seen supplier diversity 'fast tracked' in the UK, with a previously unprecedented number of players, initiatives and resources targeted at achieving it.

At the time of writing this report, there are still three years to go until the Games take place. Up to now, the supply chains have primarily been controlled by the Olympic Delivery Authority (ODA), the public-sector body that 'builds the theatres' of the Games, but the predominant procurers will soon be within the London Organising Committee of the Olympic Games (LOCOG), the private-sector organisation that 'puts on the show'. It will likely be in 2013, or even later, that the impact of the supplier diversity activity triggered by London 2012 can be properly evaluated.

The supplier diversity activity that has taken place in relation to London 2012 to date can be split into three types:

- 'Demand-side' development; that is, work with procurers
- 'Supply-side' development; that is, work with potential suppliers
- Matching of demand and supply sides.

Demand-side

Clauses around sustainable and responsible procurement, including supplier diversity, were included in Games tenders and contracts from the outset.

Over time, relationships between the ODA and its supply chain have evolved. Industry-standard contracts are now being used (e.g. NEC) and so clauses in contracts are not the primary driver of procurement behaviour in relation to supplier diversity. Three factors are identified as current, key drivers:

- Conditions written into Section 106 planning agreements, issued by local authorities (e.g. London Borough to Newham) for Games venues being built within their boroughs
- Equalities monitoring, undertaken on suppliers on an on-going basis and including supplier diversity
- A culture of engagement with contractors built since 2005. Contractors and procurers were aware, from the outset, that the political and policy climate was that the Games should be 'Green' and leave a legacy. Activity was structured around this. Procurers are offered practical support to help them achieve supplier diversity through:



²⁸⁰ The ideas expressed in this section are based on the first-hand experiences of the authors and formal and informal interviews with London 2012 stakeholders

- o Access to the CompeteFor portal (see section 10.3.6), through which procurement opportunities can be matched to potential suppliers
- o A Buyer Engagement Team helps procurers and their supply chains, down several tiers, to use CompeteFor
- o Access to 'Meet the Buyer' and less formal events organised by local SME support programmes such as Supply London (see section 10.3.10)
- o Informal group meetings with local, potential suppliers organised by partners and ODA staff.

Supply Side

Extensive resources have been targeted at SMEs across the UK to help them engage with London 2012 supply chains. Events have been organised nationally to explain how they operate.

SMEs are widely encouraged to register their profiles within the CompeteFor portal, by Regional Development Agencies, Business Link organisations, business support providers, local authorities, and others.

Matching of demand and supply-side

The portal CompeteFor has been established as a mechanism to match buyers and suppliers.

London 2012 buyers also attend 'Meet the Buyer' and similar events organised by SME support providers such as Supply London and East London Business Place.

10.3.6 CompeteFor

CompeteFor is the portal that was established as a brokerage service to match London 2012 buyers with potential suppliers.

Suppliers are able to self-register, free of charge. Provided those suppliers meet certain requirements (e.g. around quality management, health & safety, equalities) their profiles are accepted onto the system.

Buyers are able to enter their procurement opportunities onto the system, along with any specific criteria required.

Each procurement opportunity is matched to potential suppliers, and those potential suppliers are emailed and invited to express an interest. Based on the responses given to questions set by the procurer, a shortlist of potential suppliers is produced for the procurer. Everyone who expressed an interest is emailed and told whether they were successful or not.

CompeteFor is used extensively by private sector procurers within several tiers of the supply chains of London 2012 and, increasingly, by public bodies that are not directly associated with the Games.

CompeteFor is an important system because:



- It is the first well-resourced attempt to truly create a ‘level playing field’ in procurement
- Any potential supplier can register, be pre-screened, matched to relevant procurement opportunities and be given the chance to compete
- It provides a unique insight into what is being bought, and when, within public and private sector supply chains.

At the end of May 2009, almost 73,000 suppliers were registered on CompeteFor, of which around 78 per cent are declared as SME, 8 per cent BAME, 18 per cent women, 1 per cent disabled and 1 per cent LGBT. Of contracts awarded at that time through CompeteFor, almost 80 per cent were to SMEs.

Competition for contracts in certain sectors (e.g. IT and Communications) is more intense than others (e.g. wholesale), due to the relative numbers of procurement opportunities compared to the number of suppliers registered in those sectors.

Table 47: CompeteFor Opportunities by Sectors²⁸¹

Sector Description	Opportunities posted by sector	No. Organisations (registered)	Ratio
Agriculture, forestry and fishing	26	676	1:26
Arts, sports and recreation	113	5,590	1:50
Catering and accommodation	157	3,485	1:22

Sector Description	Opportunities posted by sector	No. Organisations (registered)	Ratio
Construction	566	11,051	1:20
Education	95	5,113	1:54
Health and social care services	39	2,188	1:56
IT and telecommunications services	176	10,551	1:60
Manufacturing	764	10,700	1:14
Media and creative services	216	11,147	1:52
Mining, energy and utilities	82	1,214	1:15
Other	55	1,138	1:21
Personal services	34	1,922	1:57
Professional and business services	980	28,439	1:29
Retail, hire and repair	1,266	15,939	1:13
Transport and distribution	153	3,359	1:22
Wholesale	284	2,670	1:9
TOTAL	5,006	115,182	1:23

The five London boroughs hosting London 2012, Newham, Tower Hamlets, Hackney, Greenwich and Waltham Forest, include areas with some of the highest levels of deprivation in the UK and some of the most ethnically diverse communities.



²⁸¹ Correct as of May 2009

“Procurement and Supplier Diversity in the 2012 Olympics”²⁸² investigated how London 2012’s supplier diversity activity, including CompeteFor, would impact on businesses, particularly ‘diverse’ organisations in the five Olympic boroughs. The report identified numbers of ‘diverse’ local businesses that had (at that point in time) already won contracts. It also captures the reservations of some stakeholders that businesses that are, already, less represented than others in supply chains will face additional challenges in competing for work.

There is anecdotal evidence²⁸³ that these reservations continue; SMEs report failing to get through CompeteFor’s pre-qualification process even with a score as high as 98 per cent. Procurers report several hundred applicants for relatively low value procurements and how they are introducing a ‘pre-pre-qualification’ procurement stage to deal with this.

A 2006 EU report²⁸⁴ acknowledged that “there is a potential danger that some practices pursued with the intention to ‘even the playing field’ for... SMEs... could increase both administrative burdens for awarding authorities and generate costs for SMEs”. This may be evidenced, to some extent, with CompeteFor.

CompeteFor appears to be adapting. There are discussions taking place so that local authorities, for example, if and when they use the system for contracts that do not need to be advertised in the OJEU, may be able to shortlist only from suppliers based within their own borough or an identifiable ‘local’ region.

The experience of CompeteFor takes us to the heart of a dilemma around supplier diversity in the UK; should it seek to level the playing field for all, allowing whoever wants to compete to do so, or should it involve some form of positive action? This is discussed in section 10.7.



²⁸² Authors: D Smallbone, J Kitching, R Athayde, and M Xheneti for Small Business Research Centre, Kingston University & Equality & Human Rights Commission

²⁸³ First hand experiences described to the authors of this report

²⁸⁴ GHK & Technopolis, “Evaluation of SMEs’ Access to Public Procurement Markets in the EU”, 2006 at http://ec.europa.eu/enterprise/entrepreneurship/docs/SME_public_procurement_Report.pdf

10.3.7 Local Procurement Initiatives

UK local authorities are increasingly involving themselves in 'local procurement' projects, to help local businesses win work from themselves and other large purchasing organisations.

A driver behind this is the new Comprehensive Area Assessment (CAA) framework for local authorities. The CAA includes a list of 'National Indicators'. These are measures of performance which local authorities are required to measure and upon which their performance will be assessed. Three of these indicators could be improved by implementing supplier diversity activity. These indicators are:

- Overall employment rate (NI 151)
- New business [VAT or PAYE] registration rate (NI 171)
- Percentage of small business in an area showing employment growth (NI 172).

There is a potential tension between 'buy local' initiatives and EU Procurement Directives which do not allow discrimination against potential suppliers for public contracts on the basis of location.²⁸⁵ To comply with this, local authority-supported initiatives have often concentrated on ensuring that local businesses have the opportunity to compete for contracts; the decision on who wins those contracts is based on merit and the competition is open to bidders from any location.

There is also, usually, an element of business support for local SMEs provided alongside, to help ensure that they are 'fit to bid' and also 'fit to supply' (see section 10.3.10).

The City of London Corporation's Local Procurement Policy requires procurers to invite quotes or tenders from at least one 'local' company, when appropriate, and seek voluntary agreements around local procurement, sub-contracting and training of larger suppliers.

This policy framework is underpinned by monitoring. The City of London Corporation's procurement function has just seven Local Performance Indicators (LPIs) and one of these is relevant to local procurement; LPI 5: Local supplier spend in Local Procurement Project target areas.

In 2008 the London Borough of Waltham Forest expressed a new type of target to "increase local procurement to 51 per cent of its expenditure." This setting of a spend target and specific use of the word 'local' is potentially controversial. The City of London's local procurement methodology ensuring that local businesses are given the opportunity to compete is much more in alignment with case law and established good practice.

Any local procurement programme needs to balance local considerations with market considerations. For example, a supplier of a particular niche product or service might simply not be based locally. Local people will be employed by non-local as well as local companies. Businesses in one locality

²⁸⁵ Thatcher, J and L Sharp (2008) Measuring the local economic impact of National Health Service procurement in the UK: an evaluation of the Cornwall Food Programme and LM3. Local Environment, 13,3. 253-270



might be put at a disadvantage if neighbouring local authorities, but not theirs, promote local procurement. Protectionism should not be allowed to replace a vision for change and improvement.

10.3.8 Local Procurement: iCAM Supply

In the London Boroughs of Islington and Camden, a local procurement programme currently known as iCAM Supply²⁸⁶ has been running since 2005. The iCAM team identify and match the supply chain opportunities offered by first tier suppliers to the Councils, mainly in the construction and facilities sector, with local, SME potential suppliers. Capacity building and bid writing support is offered to those local SMEs to help them win the packages of work available. The award decisions are based on merit. Following award of any contract, the local authority Employment Bureau helps the SME recruit any new staff required. Given the location and nature of the bureau, these individuals are also local.

The iCAM Supply team also work with companies involved in large construction projects in the borough, including the Kings Cross redevelopment programme. These companies are obliged to work with the team, and report their activity through the inclusion of obligations in section 106 planning agreements.

Based on the award of over £45 million of contracts, iCAM has calculated that one new job is created per £60,600 of contracts awarded.²⁸⁷ iCAM has been able to calculate this figure because it has been running for several years. The funding of most local procurement projects ends after around two years and



²⁸⁶ iCAM website www.icamsupply.co.uk

²⁸⁷ This figure was provided, verbally, by a member of the icam team, to one of the authors of this report. It may be revised upwards or downwards as the programme evolves

this is not long enough to fully assess the economic impact of supply chains developments.

10.3.9 Local Government: Expenditure Analysis and Supplier Diversity

In 2004 the so-called 'Gershon Report'²⁸⁸ was published. This proposed the achievement of 'efficiency savings' by UK central and local government public sector.

During discussions on implementation of the Gershon Report, local government began to recognise how many individual local authorities buy the same products and services from the same suppliers. They reasoned that joint buying should achieve savings on products and services such as telecommunications, IT, office supplies, energy, etc.

In order to identify where specific efficiency savings could be found, local authorities undertook extensive analysis of their supply chains, often in a co-ordinated manner with neighbouring local authorities in their localities and their local 'Centre of [Procurement] Excellence'.

A product developed by an SME company, Spikes Cavell & Co, proved a particularly popular and effective tool in achieving analysis on where savings could be achieved.

Spikes Cavell's tools analyse a range of additional factors including:

- o Value and percentage of spend with SMEs



²⁸⁸ Gershon P, "Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency", 2004 at http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/media/879E2/efficiency_review120704.pdf

- o Value and percentage of spend with local organisations²⁸⁹
- o Value and percentage of spend with third sector organisations.

This information is collated following a series of processes including cleansing of raw data and comparison to a large range and number of databases. Spikes Cavell has analysed the spend of such a large number of large public-sector purchasing organisations in the UK that they are able to provide clients with 'benchmark' figures for local and SME spend, which can be used to shape policy and activity.

There are no national databases in existence in relation to 'under-represented' organisations (e.g. ethnic minority businesses) and so Spikes Cavell cannot automatically generate reports in relation to 'diverse' spend.

In order to address this, Spikes Cavell developed, with the Greater London Authority, methodology for surveying a supply chain and subsequently reporting on its diversity.

Spikes Cavell continues to develop further tools to help large purchasing organisations manage their supply chains. For example, with the Heads of the Valleys project in South Wales, Spikes Cavell are using their database expertise to identify local businesses who have the potential (in terms of sector, turnover, etc) to supply to large purchasing organisations, but are not currently doing so. The company also works with Trucost and Guidestar (each mentioned elsewhere in this report) to link expenditure analysis with the environmental sustainability and third sector agendas.

The 'efficiency agenda' that emerged from the Gershon Report has been criticised by SMEs²⁹⁰ as driving consolidation and cost-cutting in local authority procurement. But, as illustrated here, a by-product of this 'efficiency agenda' has been the achievement of extensive analysis of data around SME and local procurement. This has heightened the recognition amongst certain procurers of the importance of these businesses in supply chains, aided the evaluation of local multiplier effects (LM3) and triggered much of the 'local procurement' activity that has taken place.

²⁸⁹ Based on the address to which invoices are sent

²⁹⁰ Particular evidence of this was collected by BERR during consultation prior to the preparation of the Glover Report



10.3.10 Business Support: Developing the Supply-side

A great deal of public money continues to be invested in supporting small and medium businesses to become ‘fit to compete’ and/or ‘fit to deliver’ contracts to large purchasing organisations.

Most of these have some element of funding from the European Regional Development Fund (ERDF). Funding is therefore for a limited period of time and related to outputs such as ‘number of businesses supported’, ‘number of jobs created’. Anecdotal evidence suggests that this can result in a focus on quantity rather than quality in the business support.

Several of the earlier (i.e. pre-2007) programmes, such as ABI’s Fit to Supply and Haringey & Enfield Council’s Trade Local realised that, to achieve opportunities and benefits for the SMEs involved, procurers from large purchasing organisations had to be fully involved.

This lesson has been learnt and a number of the SME procurement support programmes currently operating are involving large purchasing organisations from the outset, for example

- o Supply London, London
- o East London Business Place, London
- o Supplier Development Programme,²⁹¹ Scotland
- o Supply Leicester, East Midlands”.

Anecdotal evidence suggests that an objective understanding of how procurement works is essential to ensuring effective SME development programmes. For example, a thorough understanding of the barriers to SMEs in supply chains (section 8.1) can help in the design and delivery of appropriate programme activities. Failure to understand and account for these barriers risks misleading SMEs and therefore wasting public money on ineffective support.

For example, table 44 in section 8.2.4 shows that micro businesses in the sectors of consultancy, human resources, cleaning, ICT, etc win only a very small share of local authority spend. These are exactly the types of businesses that are likely to attend SME procurement development events; their expectations may need to be carefully managed and alternative markets advised upon.



²⁹¹ Supplier Development Programme Scotland website <http://www.sdpScotland.co.uk/>

10.3.11 Measuring Impact: Local Multiplier 3 and Other Measures

The Local Multiplier 3 (LM3) model was developed by the New Economics Foundation (NEF).²⁹² It is the economic model that is referenced most often, to date, as the rationale for implementing local procurement initiatives in the UK.²⁹³

Interest in this model is international. “The Money Trail” has been translated into Italian (“Il percorso del denaro”) and Czech (“Penezum na stope”). The ideas have also been presented in Sweden.

The LM3 tool tracks the passage of money spent in the local economy, with ‘local’ being defined by specific postcodes. The tool calculates how much a large purchasing organisation spends in a specific local area (round one), how much first tier suppliers spend locally (round two) and finally, how much of that first tier spend is re-spent locally (round three). The three rounds are then added together and divided by the initial income to determine the local multiplier.

The indicator gives a general sense of how the local economy is working. The actual process of calculating it can uncover useful, qualitative information about supply chains. Examples of UK LM3 project findings²⁹⁴ are as follows:

- The Royal Cornwall Hospitals Trust applied the LM3 model to some of its food purchases.²⁹⁵ An initial spend of £1,131,000 (on suppliers only) generated an additional spend in Cornwall of £910,625. Other advantages of using local SMEs were identified; locally purchased ice cream was richer and had a greater nutritional value than its cheaper, national competitors; local SMEs could be more flexible (e.g. on packaging); prices could be adjusted downwards (e.g. local suppliers provided cheaper cheese and fish by offering the Trust cheap but high-quality off-cuts which national supermarkets had rejected); buying food locally reduced delivery miles and so delivered environmental and sustainability benefits.
- A two year LM3 project by the North East Centre of Excellence involved 25 local authorities and additional local private and not-for profit organisations. This study found that each £1.00 spent within the North East results in the circulation of £1.80 in the regional economy. This contrasts with a £1.00 spend outside of the region which results in only 21 pence in the regional economy.²⁹⁶
- An analysis of the Street Scene services of Swindon Commercial Services calculated a Local Multiplier effect of 1.64. This means that for every £1.00 spent, 64 pence is reinvested in the local economy.²⁹⁷

²⁹² Sacks, J (2002) The Money Trail: measuring your impact on the local economy using LM3. London. Nef <http://www.neweconomics.org/gen/uploads/The%20Money%20Trail.pdf>

²⁹³ Sacks, J (2005) Public Spending for Public Benefit: how the public sector can use its purchasing power to deliver local economic development. London: Nef. www.egovmonitor.com/node/2435

²⁹⁴ Further information about LM3 can be found k2a's website at www.k2a.cc

²⁹⁵ Thatcher, J and L Sharp (2008) Measuring the local economic impact of National Health Service procurement in the UK: an evaluation of the Cornwall Food Programme and LM3. Local Environment, 13,3. 253-270.

²⁹⁶ “Three: Information and updates for the LM3 Project” Centre of Excellence North East & One NorthEast, May 2008

²⁹⁷ Report downloaded in June 09 from <http://www.laria.gov.uk/content/features/88/feat4.htm>



- A Somerset Local Foods in Schools public procurement project has calculated an LM3 of 1.32 in supply chains relating to its meal ingredients.²⁹⁸

As LM3 calculations take place in other regions it will be interesting to make comparisons; for example between urban and rural areas and areas that are ethnically diverse and those that are less so. Different patterns may emerge.

The iCAM project has, as described in section 10.3.8, found that one new job is created by £60,600 of new contracts. It would be very useful if other programmes who maintain their funding for some years could calculate comparable figures, so that comparisons could be made across sectors and geographical areas.

The New Economics Foundation (nef) has proposed a framework model “Measuring Value: a Guide to Social Return on Investment.”²⁹⁹ This captures many useful concepts which could, in time, be honed into a calculation framework specifically relevant to supplier diversity.

10.4 Implementing Supplier Diversity in France

10.4.1 Guide on Public Procurement for Small and Medium Enterprises

The clear and comprehensive Guide pratique pour la réponse des PME à la commande publique³⁰⁰ advises SMEs on how to access information on public procurement opportunities, relevant regulations, how to understand the needs of large purchasing organisations on the basis of tender documents and how to evaluate whether the SME has the capacity to successfully deliver the contract. There is also a useful glossary of procurement terms.



²⁹⁸ Full report downloaded in June 09 from <http://www.defra.gov.uk/farm/policy/sustain/procurement/pdf/somersetcoast.pdf>

²⁹⁹ “Measuring Value: a Guide to Social Return on Investment” (2008) Lawlor E, Neitzert E, Nicholls J (nef)

³⁰⁰ <http://www.pme.gouv.fr/essentiel/vieentreprise/guidepratique-050208.pdf>

10.4.2 Immigrant Businesses and Corporations

A Paris-based organisation, Adiver,³⁰¹ was established in 2009 to work with 'diverse' entrepreneurs.

Adiver's leadership comprises people from immigrant backgrounds. They have particular experience of working with young entrepreneurs in economically disadvantaged communities.

Adiver is establishing relationships with:

- o Under-represented businesses, particularly those from immigrant backgrounds who have the potential to sell into large purchasing organisations in the public and private sector
- o Private and public sector organisations who wish to trade with under-represented businesses.

The organisation has public sector financial backing and personal support from key individuals within central and local government.

One corporate member of Supplier Diversity Europe is putting systems in place so that, for all low value procurements, at least one company from Adiver's database has to be given the opportunity to quote or respond to an invitation to tender.³⁰²

³⁰¹ Adiver website www.adiver.fr

³⁰² Tender, in this context, means to submit or offer a bid to supply the goods/services specified in the contract by the client.

10.5 Implementing Supplier Diversity in Germany

Supplier Diversity Europe organised 'roundtables' in Germany from 2005 to 2007, which brought together corporations, policymakers and representatives of under-represented suppliers. One roundtable event included a meeting at the Federal Chancellery.

Despite the pre-requisites for supplier diversity being present, activity did not take root and develop. Supplier Diversity Europe identifies several reasons for this:

- Workplace diversity management is a relatively recent concept in Germany compared to the UK, France and Sweden. Once issues of workforce diversity have been addressed German organisations may feel better equipped to begin tackling supplier diversity
- Rates of self-employment amongst immigrants in Germany are lower than rates of self-employment amongst Germans. Therefore the overall size of the pool of potential immigrant suppliers is relatively smaller than in the UK, France and Sweden
- Germany's immigrant businesses produce more for the sphere of consumption (e.g. restaurants) than for business-to-business production
- The policy and cultural framework around positive action is less strong than in, for example, the UK.



Supplier Diversity Europe remains committed to identifying local partners who can help take supplier diversity forward. As diversity and business evolves in Germany, the issues described above may become less apparent and supplier diversity may begin.

10.6 Implementing Supplier Diversity in Sweden

Around a decade ago Stockholm-based Internationella Företagarföreningen i Sverige (IFS), Brussels-based Migration Policy Group (MPG; the parent organisation of Supplier Diversity Europe) and a London-based organisation that is no longer in existence, collaborated on supplier diversity in Sweden.

The three organisations jointly organised events to initiate debate about supplier diversity and supply networks in Sweden. The USA-based National Minority Supplier Development Council (NMSDC) attended and discussed the US experience. This collaboration did not thrive at that time, apparently due to a lack of awareness about supplier diversity. The activity did, however, raise the profile of IFS and immigrant businesses sufficiently for IFS to begin to receive public funding.

In 2008, the IFS initiated a one year pilot project, Safe Trade. This aimed to help under-represented businesses participate in public sector supply chains by informing large purchasing organisations about possible immigrant enterprise, including through the creation of a database of potential suppliers. To advance awareness of supplier diversity, the IFS drew up a document demanding flexibility in procurement regulations to allow businesses to support the Safe Trade initiative. This initiative was considered so successful that the IFS is seeking further funding to allow its continuation.



10.7 Positive Action versus Levelling the Playing Field

The evolution of the CompeteFor brokerage system (section 10.3.6) demonstrates how supplier diversity activity is at a junction. Should it follow the 'level the playing field for all' philosophy preferred by governments or attempt 'positive action'? Both can be undertaken, entirely legally, in Europe.

'Levelling the playing field' is an approach to supplier diversity that seeks to allow all businesses who wish to bid for a contract to be able to do so. For example, any business registered on CompeteFor can, in theory, bid for any procurement opportunity posted within it. In principle, this could result in an unlimited number of businesses competing for a single procurement opportunity.

'Positive action' is an approach whereby specific suppliers are invited to quote or tender for a procurement opportunity. These specific suppliers could be invited to bid on the basis of their location, ethnicity or similar, provided that the process was compliant with all relevant legislation and the suppliers were thought to have the capacity and capability to deliver.

Working solely to 'level the playing field' could be expensive and cumbersome for large purchasing organisations, increasing the number of competing suppliers to a costly and potentially unmanageable degree.

This is accompanied by a risk that the most 'under-represented' businesses will simply become more so, with bigger, more powerful suppliers winning the contracts. On the other hand, there is the theoretical possibility of the procurer finding a new supplier of whom they were previously completely unaware and who offers significantly better value than incumbent suppliers.

An answer to the dilemma already appears to be emerging; where a large purchasing organisation believes that it has a compelling case to undertake positive action, it will do so. Examples of positive action include local procurement initiatives being undertaken by UK local authorities (section 10.3.7) and the relationship between Adiva and a corporate member of Supplier Diversity Europe, in France (section 10.4.2).

Any policymaker or practitioner becoming involved with supplier diversity must be aware of these two poles of activity and be prepared to pitch their strategy and tactics accordingly.



10.8 Benchmarking Tool

The combined knowledge and experience of the staff, partners and members of CRÈME and Supplier Diversity Europe and other stakeholders has been captured in the Supplier Diversity Europe and CRÈME Supplier Diversity Benchmarking Tool.

The Benchmarking Tool comprises two parts; the Full Benchmarking Tool and the Short Benchmarking Tool.

10.8.1 Full Supplier Diversity Benchmarking Tool

The Full Benchmarking Tool scores large purchasing organisations on twelve dimensions of supplier diversity activity;

1. Strategic planning for supplier diversity
2. Supplier diversity policy
3. Senior management support
4. Designated person dealing specifically with supplier diversity
5. Engaging with reputable supplier diversity intermediaries
6. Assessing the baseline, setting targets and monitoring performance
7. Reviewing procurement policies, procedures and practices
8. Making opportunities accessible to under-represented suppliers
9. Educating procurement officers and other internal Stakeholders
10. Involving prime contractors and other suppliers
11. Engaging with underrepresented suppliers
12. Disseminating success stories.

Scores are allocated according to evidence collected and evaluated against specific indicators.

The Full Benchmarking Tool has been piloted with large purchasing organisations in the private and third sectors. All users report that it has helped them evaluate and improve their supplier diversity programme.



Supplier Diversity Europe has developed and collected together a whole suite of material to help large purchasing organisations implement all dimensions within the Benchmark.

The Full Benchmarking Tool is not being published within this document. It will continue to be maintained and utilised by Supplier Diversity Europe and CRÈME.

10.8.2 Supplier Diversity Short Benchmarking Tool

The Short Benchmarking Tool has been developed for incorporation within wider benchmarking schemes related to procurement, equality, Corporate Social Responsibility, and so on.

Third party organisations may use this Short Benchmarking Tool, provided they have the written agreement of CRÈME and/or Supplier Diversity Europe.



150



SUPPLIER DIVERSITY SHORT BENCHMARKING TOOL

- For incorporation into wider benchmarking schemes

Please answer 'yes' or 'no' to each question. 'Yes' answer scores points indicated, 'no' scores 0.

1. Strategic planning for supplier diversity

The organisation has a clearly articulated strategic plan for supplier diversity that links with its organisational mission, objectives and business strategy.

1 Point



2. Supplier diversity policy

The organisation has a clearly articulated supplier diversity policy that draws on the business case and links with the organisational mission, objectives and strategy.

1 Point

3. Senior management support

There is senior management commitment in the organisation demonstrated by way of written senior management statements endorsing supplier diversity efforts and allocation of resources, including monetary, staff time and investment in facilitating infrastructure.

3 Points

4. Designated person dealing specifically with supplier diversity

There is a person charged with supplier diversity in the organisation, holds a well-resourced post to this effect, supplier diversity efforts constitute her/his primary responsibilities and reports directly to senior management.

3 Points or 1 Point if there is such a person, but supplier diversity is a relatively part of his/her responsibilities, i.e. less than 30% of his/her time is allocated to supplier diversity issues.

5. Engaging with reputable supplier diversity intermediaries

The organisation is an active member of a quality supplier diversity intermediary such as SDE and participates in the activities organised by that intermediary.

1 Point

6. Assessing the baseline, setting targets and monitoring performance

The organisation sets objectives timely with regard to planning and implementing activities related to its supplier diversity and conducts a supplier audit in order to assess its existing supplier base and identify the target categories of underutilised suppliers, their percentage, as well as the percentage of total procurement spent with them. Moreover, it undertakes an organisational audit in order to assess areas where underutilised suppliers could supply to the LPO, sets quantitative performance milestones and monitors progress.

4 Points

7. Reviewing procurement policies, procedures and practices

The organisation has reviewed its procurement policies and practices in order to reduce/remove existing barriers to underutilised suppliers. This could include finding ways to reduce bureaucratic demands, simplifying procedures, offering advice on tendering through the purchasing cycle.

1 Point

8. Making opportunities accessible to underutilised suppliers

The organisation provides a consistent through-flow of opportunities for which underutilised suppliers are given the chance to be acquainted with the procurement process and quote/bid, even if most of the opportunities identified as available relate to relatively small, low value contracts at the low risk end.

3 Points



9. Educating procurement officers and disseminating success stories where applicable

The organisation demonstrates commitment to supplier diversity actively by providing informational seminars/training to senior procurement officers, buyers and other internal stakeholders regarding supplier diversity. Such efforts systematic and create organisation-wide awareness. Where examples of good practice are evident, these are communicated to senior management and all key internal and external stakeholders, including procurement officials. Positive behaviour is reinforced by publicly recognising and rewarding those that have done an outstanding job, especially procurement staff. Recognition may be by way of an awards ceremony and/or an article in the company's newsletter or external publications.

1 Point

10. Involving prime contractors and other suppliers

The organisation works with prime contactors to identify how underutilised suppliers currently fit into their supply chains as second and third-tier suppliers. Policies that encourage other suppliers and contractors to consider underutilise suppliers are formulated.

1 Point

TOTAL/MAXIMUM: 20 Points

10.9 Key Learning Points from Supplier Diversity Activity

The staff of CRÈME and Supplier Diversity Europe have identified the following key learning points from their work with large purchasing organisations:

To generate benefits, supplier diversity activity must:

- Have a relevant, defined business case
- Have visible, senior level commitment
- Have the full involvement of procurement practitioners, who are alert to barriers to under-represented businesses within their procurement processes and procedures
- Be aligned with the strategic objectives of the large purchasing organisation
- Be aligned with local legislation and culture
- Be resourced in terms of staff time and money
- Work with relevant, local partners
- Result in real, new procurement opportunities for under-represented businesses.

This all applies to large purchasing organisations working in the public, private and third sectors.



11 Conclusions

This Handbook has pulled together an enormous amount of data, experience and learning in relation to supplier diversity.

Many conclusions can be drawn from this body of evidence. Many of these have been explained in appropriate sections during the course of the Handbook.

There are several major conclusions that are worthy of particular emphasis. These are summarised below:

1. Supplier diversity is still at an embryonic stage in Europe. It offers, though, enormous potential to boost the economic performance of businesses of all sizes and the effectiveness of large purchasing organisations. It can deliver 'win-win' relationships between large purchasing organisations, their suppliers and supply chains. Its potential power is such that it is on the agenda of strategists and policymakers, not just procurers, corporate responsibility and equalities people.
2. Supplier diversity is interpreted differently, where at all, in the UK, France, Germany and Sweden and within those countries. There is also variation in the interpretation across large purchasing organisations.
3. The cultural and legislative framework differs significantly between the USA and Europe. The UK is closer than France, Germany or Sweden to the USA in terms of its cultural acceptance of supplier diversity and in

the relative acceptance of its population to be defined by their race and ethnicity.

4. As a result of (2) and (3) it cannot be assumed that there is a single model for successfully implementing supplier diversity in Europe. Large purchasing organisations can use proven templates (e.g. the CRÈME/ Supplier Diversity Europe Benchmarking Tools) and learn from good practice, but, fundamentally, each organisation has to plan, design and deliver supplier diversity programmes based on their own contexts in order to capture benefits. There is a need to continue collecting and sharing experiences in relation to supplier diversity in Europe so momentum can be built and benefits captured.
5. The enumeration and understanding of 'minority' groups of people and under-represented businesses in Europe is hampered by a lack of comparable data, and complete absence of data in relation to some groups of individuals and businesses. The data that does exist is dispersed and difficult to find and access.
6. The population demographics of France, Germany and Sweden and the UK are changing.

Change is most evident in relation to the age structure of the population and in relation to an increasing number of people i.e. of foreign origin



and/or minority ethnic backgrounds. An increasing proportion of older people in the population are likely to lead to a higher rate of disability.

The European Union's legislative drive towards equality, diversity and inclusion means that people are likely to become increasingly confident in expressing their sexual identity, religious and belief systems and so on.

This all means that the marketplace for the products and services produced by large purchasing organisations is also evolving. End consumers have a wider variety of needs, cultures and preferences. Large purchasing organisations will need to stay aligned to that changing marketplace in order to thrive.

7. Just as populations are changing, the demographics of the business community are changing. 'Under-represented' businesses constitute an increasing proportion of the small and medium-sized business community. Thus the pool of potential suppliers for large purchasing organisations is also becoming increasingly diverse.
8. Medium-sized businesses win places as first tier suppliers to large purchasing organisations more often than their economic significance within the overall economy indicates that they would. Micro businesses and, to a lesser extent, small businesses appear to win places less often than their economic significance suggests they would. Under-represented businesses are generally micro or small.



12 Recommendations

1. Policymakers should recognise the potential of supplier diversity to contribute to the economic improvement of their communities. They should take action to ensure that supplier diversity is implemented by the public and private sector; ideally linked to legislation and binding contract terms.
2. Those organisations that are implementing supplier diversity should be recognised. Other large purchasing organisations (LPOs) should consider the business case for supplier diversity and take strategic and tactical steps to implement it or risk losing market share and competitive advantage. This may require a change of culture amongst many procurers.
3. Small enterprises, particularly those from under-represented groups, are aware of their relative lack of participation as first tier suppliers to large purchasing organisations. They should be more vocal in their lobbying to ensure that procurement opportunities are more accessible to them.
4. For the sake of on-going research and monitoring, there is a need for an organised, centralised repository where all European SME data can be collected and accessed. This should be broken down by country, diversity of business ownership and control (i.e. nature of 'under-representation') and so on. Gaps in the current data set relating to population and business demographics identified during the course of this Handbook need to be researched and filled.
5. A European 'centre of excellence' should be created where information and experience and case-studies on supplier diversity can be shared and a model for evaluation of impact developed.
6. Two contrasting forms of practice are used to implement supplier diversity at present: 'levelling the playing field for all' (i.e. any business that wishes to be able to compete for a contract, regardless of the number of companies involved) and 'positive action' (i.e. inviting certain businesses to compete, such as those based in areas of significant economic deprivation). Evidence is emerging that the impact of the two approaches may be very different. In particular, small and under-represented businesses benefit from 'positive action' and may become more excluded by 'levelling the playing field'. The collection of additional evidence and open debate is required so that policy and strategy can be developed on the basis of the best interest of all stakeholders.



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