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### PROCUREMENT AND SUPPLIER DIVERSITY IN THE LONDON 2012 OLYMPIC GAMES

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#### 1. INTRODUCTION

This paper is concerned with the access of SMEs to public procurement contracts connected to the provision of infrastructure for the London 2012 Olympic Games. The Olympic Delivery Authority (ODA) has a budget of more than £7 billion to deliver the new venues and infrastructure required for the 2012 Olympics. As well as creating an infrastructure for the Games themselves, spending this budget offers considerable potential economic and social benefits through the regeneration associated with building the infrastructure of the Olympic Park and associated venues. This is particularly important in terms of the five boroughs in the East End of London (i.e. Greenwich, Hackney, Newham, Tower Hamlets and Waltham Forest) that are hosting much of the new infrastructure, since they are in need of economic regeneration.

The Department for Business, Enterprise and Regulatory Reform (BERR) estimates that up to 70,000 supply chain contracts may be won, as a result of the 2012 Olympics. (Department of Business, Enterprise and Regulatory Reform (2008). In spending this money, the ODA has an obligation to comply with EU public procurement directives, UK public contracts regulations and public sector duties, including a duty to ensure that its procurement practices are fair and open to diverse suppliers, including SMEs.

In this context, the aim of the paper is to assess the extent to which the procurement policies and practices of Olympic Delivery Authority (ODA), are benefiting SMEs, with a view to identifying ways in which their access might be increased. The study<sup>1</sup>, on which the paper was based, was intended to be a formative assessment, to provide results that could be fed back to policy makers, procurement staff and business support practitioners as part of a process of continuous improvement (Smallbone et al. 2008). The research was undertaken in the summer of 2008, which means the procurement process for the 2012 Olympics is still in its early stages. The case of the London Olympics has potential implications for the wider public procurement policy agenda.

In this context, the paper will assess current ODA procurement policies and practices, from an SME perspective; analyse the expectations and experiences of SMEs in London when accessing ODA-funded work; and draw out the implications for policies designed to increase the access of SMEs to public procurement contracts.

The methodology employed to address these objectives included an initial desk-based review of documents describing the ODA's procurement policies; a series of face-to-face interviews with selected ODA staff; interviews with representatives of business support organisations and membership organisations including some involved in potentially relevant business initiatives, set up to assist local businesses to access ODA contracts; focus groups

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<sup>1</sup> The Small Business Research Centre at Kingston University was commissioned by the Equality and Human Rights Commission to undertake the study in 2008.

and face to face interviews with small business owners. The data gathered relates to the period up to October 2008.

The rest of the paper is divided into four sections. The next section summarises selected previous research with respect to public procurement and SMEs. The third section analyses the procurement policies and practices of the ODA; the fourth presents the findings with respect to the expectations and experiences of SMEs and business intermediaries with respect to ODA procurement; and the final section presents the main conclusions and policy recommendations.

## 2. PREVIOUS RESEARCH EVIDENCE

Access to public procurement contracts is a potential business opportunity for firms of all sizes, although previous research has identified a variety of barriers to SMEs in accessing such opportunities in practice (Bates, 2001; Boston, 1999; Ram et al, 2002; Michaelis et al. 2003; Shah and Ram, 2003; BVCA/FM/FSB/CBI, 2008). Some of these barriers are related to the capability and capacity of small firms to supply, whilst others focus on the policies and practices used by purchasing organisations. In this regard, previous research has referred to the bureaucracy of the procurement process, which can act as a particular barrier for small and micro firms, where internal management resources are typically limited and management approaches are informal (Ram and Smallbone, 2003).

There is also a pre-qualification process for firms to navigate before they are included in tender lists. This usually involves completing questionnaires, including financial data and information about policies on equal opportunities and health and safety, as well as the firm's relevant experience and references. Unlike larger enterprises, small firms are unlikely to be able to allocate dedicated staff resources to the tendering process, which means that the latter has to compete for the time of busy managers with other management functions. It has been suggested that small firms often experience difficulties obtaining information about supply opportunities and how to bid for contracts (Better Regulation Task Force and Small Business Council, 2003; Ram and Smallbone, 2003). The introduction of the [www.supply2gov.uk](http://www.supply2gov.uk) website constituted an attempt to improve information flows, although not all public bodies systematically use it to advertise lower value contracts (usually <£100,000) (Smallbone et al, 2007). The use of open days, supplier briefings and help desks have been welcomed as a positive development for SMEs (Smith and Hobbs, 2002), particularly when combined with a systematic attempt to monitor the changing pattern of supply.

Research has also drawn attention to the constraints, which public bodies seeking to diversify their supply base, have to deal with (Ram and Smallbone, 2003). Procurement officers in public bodies operate within constraints imposed by public tendering procedures, particularly where this involves suppliers possessing formal certification, with respect to issues such as quality assurance and health and safety. The scope to give preference to targeted groups of potential suppliers by public bodies in the UK is limited by national and EU Competition Policy rules, which are based on the principles of non-discrimination, equality of opportunity, transparency and competition. The purpose is to open up the public procurement market to ensure the free movement of goods and services within the EU. As a consequence, the criteria for shortlisting candidates are restricted to: technical capability; financial capacity to deliver the contract; adherence to statutory requirements; and relevant insurances. Indeed, the Treaty of Rome and other EU directives make the use of place of residence and location of bidders illegal when public bodies award a contract.

EU Competition Policy rules set out detailed procedures for advertising and awarding contracts of certain values. Essentially, tenders above the EU thresholds must be advertised in the Official Journal of the European Union (OJEU), which currently means tenders above £139,893 for goods and services, and above £3,497,313 for works. EU law establishes

rules, which promote transparent and non-discriminatory practices in the procurement process. They also set minimum time periods to allow suppliers to respond to advertisements and prepare submissions (Olympic Delivery Authority, 2008).

From an economic development perspective, the size of procurement budgets of public bodies means that even a modest increase in their spending with small firms can have a significant impact. Progress with public sector procurement in the UK has included two national pilot schemes: one in the West Midlands; and the other in the London Borough of Haringey. This reflects recognition on the part of UK central Government that public procurement is a potentially important policy lever for economic development. The wider procurement agenda is also reflected in the work of the Glover Review, which investigated the barriers that small firms face in winning public sector contracts (Glover 2008).

### **3. PROCUREMENT POLICIES AND PRACTICES OF THE OLYMPIC DELIVERY AUTHORITY (ODA)**

#### **The ODA**

The ODA is an Executive Non-Departmental Public Body, accountable to the Secretary of State for Culture, Media and Sport. The ODA's mission is

*'to deliver venues, facilities, infrastructure and transport on time for the London 2012 Olympic and Paralympic Games that is fit for purpose and in a way that maximises the delivery of a sustainable legacy within the available budget'. (Olympic Delivery Authority, 2007: 24)*

Its primary objectives are value for money, fitness for purpose and sustainable development. Seven priority themes underpin the ODA's mission and objectives: cost, on time, safe and secure, environment, quality and functionality, equalities and inclusion and legacy (Olympic Delivery Authority, 2007: 24).

The ODA's procurement activity covers three elements:

- Works - the commissioning and construction of venues and supporting infrastructure
- Services - to plan, guide, design, commission, build, operate and service Olympic facilities as well as to convert legacy venues after the Games
- Goods and commodities.

The ODA has three main procurement teams: Programmes Procurement; Project Procurement; and Corporate Procurement. The Programmes team provides guidance, assurance and standard documentation for procurement across the organisation. The Project team is responsible for procuring works relevant to the construction of venues and infrastructure required to stage the London 2012 Olympic and Paralympic Games. In practice, they provide procurement leaders who sit within project procurement teams to ensure that the procurement policy and procedure is followed accordingly. This involves the use of standard documentation, although some tender documents are bespoke to individual projects. The role of project team members is to deal with the project specific content of procurement that is, the technical specification. The Corporate team is responsible for procuring the goods and services required by ODA itself. All procurement team members are 'procurement trained' and professionally qualified, with a mix of public and private sector experience.

#### **ODA Procurement Practices**

The ODA procures works, services and goods through a multi-tiered supply chain, which means that only first tier contractors contract directly with the ODA. First tier contractors contract with tier two, tier two contract with tier three, and so on. Therefore, the ODA is only directly responsible for procurement from first tier suppliers, and these tend to be for the very large contracts. Whilst the ODA seeks to influence contracts issued below first tier level, in most cases it cannot control them. At the same time, the ODA can veto works contracts and suppliers bidding for a tier two contract worth more than £50,000, such as where prospective suppliers are considered not to be financially sound. However, as of September 2008, ODA procurement staff reported no instances of the veto being exercised. Contracts below first tier level are typically between private companies and are not subject to public duty regulations, including those of the EU. It is possible therefore, for a private contractor to specify a preference for a local firm, for example, as part of a tender specification.

The pre-qualification documentation required by the ODA distinguishes between contracts above the Official Journal of the European Union (OJEU) threshold – where first tier contractors are required to have quality assurance certification (for example, ISO accredited) – and those below the OJEU threshold – where a formal quality assurance policy is required but not necessarily certificated. Pre-qualification questionnaires (PQQs) are used to shortlist bidders by assessing their statutory compliance, capability and capacity, as well as alignment to ODA policies and procedures. Firms responding to contract opportunities are required to supply copies of their policies, procedures and insurance certificates. Invitations to tender (ITT) for particular contracts, on the other hand, require a more detailed response to specific tender documents.

It is ODA policy to offer firms at the tier one level that are unsuccessful at the PQQ stage an opportunity to receive verbal feedback and to offer unsuccessful bidders at the ITT stage a face-to-face debriefing. As providing feedback to tenderers is considered good practice, they expect contractors to do the same. However, the ODA cannot compel contractors at tier two and below to provide feedback to unsuccessful bidders lower down the supply chain, where most opportunities for SMEs lie.

A balanced scorecard sets out the technical and commercial criteria, firstly for potential suppliers to qualify to enter the procurement process (pre-qualification stage); and secondly, for assessing competing bids, following tendering. The balanced scorecard is a template the content of which is fixed at both the PQQ and ITT stages. The ODA also require first tier contractors to use the balanced scorecard approach when choosing suppliers lower down the supply chain. However, whilst it is the intention that the ODA's policies and procurement practices cascade down through the supply chain, beyond the first tier level, the ODA can only encourage use of the balanced scorecard.

### **Reported Opportunities for SMEs**

Most ODA contracts are, and will continue to be, let to large companies due to the scale of the projects. However, ODA policy encourages contractors to offer full opportunities to subcontractors, not disadvantaging SMEs. ODA staff report that procurement opportunities for SMEs in construction will be mainly at tier three level and below. Small firm subcontractors typically offer specialised products or services as niche suppliers further down the supply chain.

According to ODA staff, supply opportunities for smaller firms will increase in the next 18 months to two years (from July 2008) with many perhaps not arising until late 2009 or early 2010, as supply chains are mobilised for all aspects of the infrastructure. Currently, most opportunities are for first and second tier contractors and are therefore, of high value and out of reach of SMEs. As time progresses, fewer opportunities will come from the ODA or from the public sector more broadly. Most will come from the ODA's supply chain and will therefore, be private sector procurements. First tier contracts are currently being allocated and it will take time for contract opportunities to cascade through the tiers.

## **ODA Corporate Procurement**

There appear to be more opportunities for small firms to access ODA corporate procurement contracts, than for construction contracts. Corporate procurement constitutes approximately £1/2bn of the ODA's overall budget. Corporate procurement consists of the supply requirements of the ODA itself, including IT and professional services, maintenance, catering, stationery, transport, logistics, cleaning, printing and security services. The Head of Corporate Procurement reported 135 corporate procurements by July 2008, ranging from contracts of £5,000 or less, up to approximately £25m. Since about half of these contracts were reported to be below £25,000, there appear to be good opportunities for SMEs. Examples of small contractors mentioned by ODA respondents included a specialist assessor of equalities and inclusion practices and a consultant specialising in environmental sustainability assessments. Tenders for certain types of services (for example, catering, taxi and chauffeur services) may specify that contractors need to be local (for example, to be within a 20 mile radius), thereby presenting opportunities for local businesses. Although expenditure on corporate procurement is much smaller than on construction, it is likely to be maintained over the life of the ODA, whereas construction contracts will tail off after 6-9 months.

### **Challenges facing the ODA in achieving Supplier Diversity**

One of the main challenges facing the ODA with regards to procurement is to balance the competing responsibilities placed upon it. ODA's procurement policies and practices have to comply with public duties with respect to issues such as equality, but they must also comply with EU procurement directives and UK public sector contract regulations with respect to price and quality, as well as ensuring that all infrastructure work is completed on schedule. Senior ODA staff stressed the constraints of operating in a public sector procurement environment. There is a need for decisions to be justifiable and auditable, based on objective assessment, with a requirement that unsuccessful bidders are de-briefed. Value for money and the ability to meet delivery deadlines were reported as key criteria.

ODA staff report they have no scope to positively discriminate in favour of, or to prioritise, businesses owned by members of particular groups or located in particular areas. Instead, the approach is to seek to ensure that all businesses have an equal opportunity to bid for ODA contracts. More scope exists for incorporating contract requirements that may favour local firms for example, with contracts below the OJEU threshold, such as taxi or limousine services.

From an ODA perspective, finding firms 'fit to supply' is itself a barrier to implementing supplier diversity. ODA procurement staff referred to many small firms lacking the required supporting documentation for example, with respect to health and safety, quality assurance and equality policies. Also relevant are the effects of size per se, since businesses cannot tender for public sector contracts whose value is greater than 25 per cent of their annual turnover, without a Performance Bond or similar guarantee. The reason for this is to prevent a business from becoming too reliant on any single client and therefore suffering as a consequence of a contract coming to an end. It also ensures that clients are not over-exposed to financial failure.<sup>2</sup>

### **The CompeteFor Website**

The main mechanism for SMEs finding out about Olympic Games contracts is the CompeteFor website. The portal, launched in January 2008, is a pre-procurement brokerage tool enabling purchasers to advertise contract opportunities, for suppliers to express an interest in those opportunities, and to match the two.<sup>3</sup> The operation of CompeteFor is one of the important influences on whether procurement for the Olympic Games is benefiting either SMEs in general, or specific sub-groups.

London business owners may find out about CompeteFor through their own networks or through dissemination events run by London Business Network and the ODA.<sup>4</sup> The ODA,

along with other organisations, have actively sought to engage with business networks through events to disseminate information and to encourage take-up of CompeteFor. ODA procurement staff emphasised national as well as local obligations with regards to dissemination and outreach activities, since all English Regional Development Authorities (RDAs) and devolved administrations contribute to the funding of CompeteFor. These bodies expect to be included in the ODA's programme of dissemination workshops and 'meet the buyer' events. The ODA employ a Business Outreach Manager whose role includes informing SMEs about CompeteFor and its procedures.

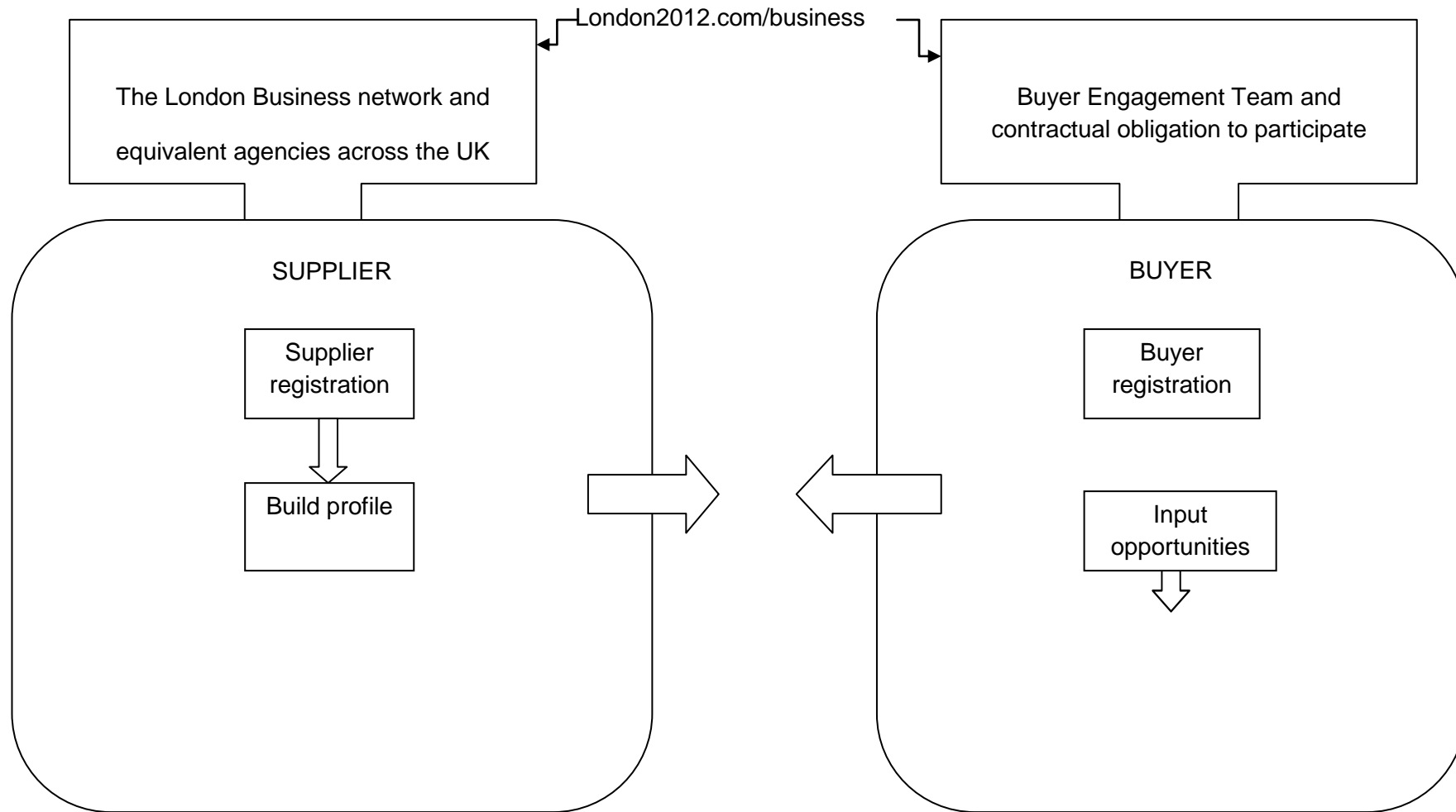
For SMEs to benefit from using CompeteFor, and put themselves in a position to pursue advertised contract opportunities, there are a number of steps to take (Figure 1). First, businesses must register on the portal by providing basic business information such as business name, address and contact details. Registered businesses can view advertised contract opportunities and can express an interest in them without having completed and published their business profile, but they will not be automatically matched to opportunities, receive email alerts or referred to Business Link for support.

Second, businesses complete a business profile; these are described as published organisations. This step requires business owners to submit detailed information on business activities, sales and employment and to meet the business readiness criteria (having health and safety, equality, diversity and quality assurance statements in place). Firms are also requested to submit information on insurances and policies, financial data and ownership characteristics (but these are not disclosed). Buyers cannot, therefore, use ownership characteristics to favour or disadvantage particular firms. For businesses that publish their profile and do not meet the business readiness criteria, Business Link is notified automatically and required to contact the business within 24 hours.

Third, buyers advertise contract opportunities on CompeteFor to solicit expressions of interest from potential suppliers. The ODA has been the dominant single source of advertised opportunities so far, but in September 2008 approximately 80 buyers were reported to use the system. A Buyer Engagement Team has been active in encouraging potential purchasers at all levels in the supply chain to advertise contract opportunities on the CompeteFor portal. This work is now picking up momentum as the ODA works with first tier contractors to develop the supply chain.

The ODA require contractors at all tiers to post contract opportunities on CompeteFor, except where they have a captive supply chain in place. Prospective suppliers are alerted by email, of contract opportunities which match their profile for supply and are invited to apply by completing an online form. Businesses are then shortlisted according to the weighting that buyers attach to particular questions. Unlike tenders issued by public bodies that are subject to OJEU rules, supply chain buyers can weight in favour of aspects such as location or other such elements not available to the ODA under the legislation that applies to Government procurements. Buyers may reweight questions in order to generate a revised shortlist. Firms cannot be identified until the shortlist is closed. Buyers may invite any, or all, shortlisted suppliers identified through CompeteFor to tender formally through their own procurement systems, although they are under no obligation to do so. Buyers may also invite suppliers not identified through CompeteFor, to submit a formal tender.

**Figure 1 Supplier and Buyer Processes**



The London 2012 business network ([www.london2012.com/business](http://www.london2012.com/business)) publishes the names of every first tier contractor. Firms seeking to supply these contractors may use this site to identify ODA contractors with a view to marketing their own goods and services to them. ODA staff report that prospective suppliers are encouraged to think more broadly than CompeteFor as a means of identifying contract opportunities and of seeking to influence buyers' contract specifications. This message is provided at ODA engagement meetings and in the ODA Supplier Guide (Olympic Delivery Authority, 2008), which is a document providing useful information to suppliers and contractors interested in opportunities. These include 'meet the buyer' events, enabling would-be suppliers to discuss product and service ideas with potential buyers.

### CompeteFor Outcomes

Table 1 shows that 32,964 companies had registered on CompeteFor by 19 September 2008.<sup>2</sup> Of these, 10,273 were located in London and 2,113 in one of the five Olympic boroughs. The London Development Agency (LDA) indicated that the aim was to have 30,000 London businesses registered by April 2009 and to have 40 per cent of those winning Olympic Games contracts. However, as of September 2008, less than half of the London firms registered have published profiles. The question of why so many registered firms are not published is unresolved. One view is that these firms are not serious about seeking contract opportunities. Alternatively, these firms may be those in most need of support, because by registering they may be keen to seek contract opportunities but have not placed themselves in a position to express an interest. The LDA is currently working with Business Link to discover why registered businesses do not complete their business profile, with a view to encouraging more firms to publish.

**Table 1 CompeteFor, businesses registered: September 2008**

Location	No. of firms registered	No. of firms with profiles	% of registered firms with profiles	No. of contracts awarded to a CompeteFor short-listed supplier
Greenwich	268	123	46	0
Hackney	486	199	41	7
Newham	391	166	41	2
Tower Hamlets	658	325	49	1
Waltham Forest	310	128	41	4
5 Olympic boroughs	2113	936	44	14
London	10,273	4553	45	No data
Total	32,964	No data	No data	54

Source: LDA.

Notes: as at 19 September, 2008.

<sup>2</sup> This number is rising constantly. Data for 3 November, 2008 suggests 39,000 businesses have now registered.

<sup>2</sup> Data missing for six businesses.



As of September 2008, four small firms with fewer than 50 employees, in the five boroughs were reported to have won contracts as at 15 October 2008 – 18 in London as a whole and 38 in total. For medium-sized firms the figures are three businesses in the five host boroughs, nine in London, and 18 in total.<sup>3i</sup>

LDA have no targets for the number, or proportion, of contracts to be won by CompeteFor shortlisted suppliers. Up to July 2008, CompeteFor shortlisted suppliers won 67 of 135 ODA corporate procurements. The figure is depressed by the fact that some contracts were below the £3,000 threshold for competitive tendering<sup>4</sup> or above the OJEU threshold, and because supplier engagement was at a much earlier stage at that point. Larger contracts may be posted on CompeteFor to alert potential bidders, but must also be advertised through the OJEU in order to comply with EU Competition Policy rules.

Any firm registered on CompeteFor is able to access support from Business Link. Specialist assistance can be particularly important for small firms seeking contracts, as they often need help to comply with the documentation required to support a contract bid. This emphasises the importance of Business Link (and its partners) being able to attract clients from all sections of the SME community.

There is no fixed total number of contracts to be let by the ODA, because contracts may be bundled into more / fewer packages as procurement teams strive to achieve best value. ODA data shows that by the end of August 2008: 759 contracts had been let to first tier contractors; 54 per cent to micro firms or SMEs; 27 per cent to large firms; and the rest are either undisclosed or awaiting confirmation.

#### **4. THE SME DIMENSION**

In this section, we report the experiences and views of small business owners and a range of intermediary organisations with regard to ODA procurement. Given the small sample sizes, we do not claim that the views presented are 'typical' or 'representative' of business owners or intermediaries in the capital, and generalisation to the broader groups from which these samples are drawn should only be undertaken with caution. The findings presented should be seen as indicative of the range of views held by both business owners and intermediary bodies beyond those studied here. In presenting the findings, the aim is to identify issues that those responsible for Olympic Games procurement may need to consider to improve access to contract opportunities for SMEs.

##### **Views of Business Intermediaries**

###### *Perception of Opportunities for Small Firms*

Intermediaries include business associations and public sector organisations involved in business support. Intermediaries reported a range of views of the 2012 Games as a source of possible opportunities for businesses in the target groups. Some were positive about the prospects for businesses, while others predicted negative outcomes as more likely. Several intermediaries acknowledged that small firms might benefit from being able to bid for contracts, but often qualified their comments by claiming that first, the number of opportunities might be limited; second, opportunities would be available to some kinds of small businesses, but not all; third, opportunities may arise from increased tourism and other activities in the period leading up to and during the Games, rather than from opportunities posted on CompeteFor; and, fourth, most opportunities would not come on-stream until much closer to 2012. Even those reporting

<sup>3</sup> Data missing for six businesses.

<sup>4</sup> Contracts below £3,000 require only a single quote.

possible benefits did not place too much weight on the Games. Several associations emphasised that the Games was only one source of potential opportunities for member / client businesses. Others emphasised possible opportunities arising from links with other public sector organisations – unconnected with the Games – and from other London developments.

Critical views with respect to possible business opportunities were more likely to be reported by organisations with no contact with London Business Network<sup>5</sup> or other bodies promoting supplier diversity, suggesting that exposure to the 'CompeteFor message' may mitigate some of these concerns. A number of respondents were concerned that the Games might generate negative outcomes for small businesses in the five boroughs. Some claimed to detect a 'Games effect' on local property rents and prices that might force local businesses to relocate out of the borough or worse, to close (see also New Economics Foundation, 2008). To the extent that such consequences do occur, the prospects for many local businesses might be worse rather than better as a result of London being the host city. Rather than providing a boost to local firms, the Games might simply lead to their displacement by large retailers and other corporates who are able to pay the inflated rents.

#### *Perceived Barriers to Participation by Small Firms*

Intermediaries identified a number of possible barriers to small businesses being able to win Olympic Games-related contracts. First, they recognised that small firms might not be suitable for such contracts. Many operate in sectors for which there will be few, if any, contracts for example, hotels, bars and restaurants. Furthermore, many SMEs simply lack the capacity to win and deliver Games-related contracts. Clearly, this relates to the size of contracts, but without proper preparation and business support, many SMEs, they argue, are engaging in wishful thinking to believe they can win contracts. 'Fledgling' businesses lacking three years trading history are unlikely to win contracts, because a track record of successful delivery is a key factor influencing purchasers' choice of suppliers. New businesses will need to join consortia if they are to overcome this hurdle. Participation in procurement events might enhance firms' capacities to tender for public contracts, although time constraints might prevent them from taking part.

Turning to barriers external to the business, intermediaries made a number of points. First, there was recognition that many contracts, particularly for infrastructure projects, are simply too large for small businesses to take on. Respondents acknowledged that if there are to be opportunities for small firms, these are likely to materialise closer to 2012 at lower tiers in the supply chain. Second, several respondents were wary of claims that opportunities would be abundant even at lower levels of the supply chain because larger contractors already had captive supply chains in place. SMEs may find it difficult to secure opportunities even at the sixth and seventh tiers unless they are already known to contractors. Under pressure to deliver on time and within budget, contractors, even at lower tiers, are likely to turn to existing suppliers.

Third, CompeteFor registration and expressing interest in specific contract opportunities were perceived as possible barriers to small firms. There was concern that the very short period permitted to those wishing to express an interest (sometimes as short as a couple of days) might exclude many SMEs, because their limited internal resources might prevent them from submitting an expression of interest.

At the time fieldwork was undertaken, very few intermediaries knew of contract winners or firms that had unsuccessfully sought contract opportunities through CompeteFor. The number of firms

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<sup>5</sup> London Business Network was established in 2006 to engage London's business community in the lead up to 2012. Its is a joint initiative of London First, the London Chamber of Commerce and the Confederation of British Industry (CBI) London and supported by the LDA.

known to be aspiring to win contracts was higher, but many of these could not genuinely be described as actively pursuing Games-related contracts; rather, they were considering whether to seek such opportunities.

### **Views of Small Business Owners**

A sample of small enterprises was constructed to investigate the views and experiences of small business owners with regard to Olympic Games opportunities. The sample consisted of 31 small business owners, including 6 contract winners; 4 unsuccessful contract seekers and 21 aspirers i.e. those considering seeking contracts but who have not yet done so. Data was obtained in individual interviews (face-to-face and telephone) and in a focus group held with women-owned businesses. Businesses were recruited to the sample through the ODA, business intermediaries, and from procurement events held in London.

#### *Contract winners*

Six contract winners were interviewed in a range of business activities, including events production, training, consultancy, translation services and water supply services. Businesses employed between 2 and 12 full-time staff and five of the six reported using outside contractors when needed. The contracts won varied from £3-25,000 in value. None of the contract winners were located in the five host boroughs. Five were based in Greater London with one in Scotland.

Importantly, all six contract winners had previously won public sector contracts. This highlights the importance to purchasers of prior experience in working for public sector organisations. Two respondents reported undertaking previous subcontract work for the ODA and this encouraged them to seek further contracts. For those winning a contract for the first time, the ODA contract was perceived as good for the business. Contract winners drew upon existing links with business / trade associations as a means of finding out about contract opportunities. Several had attended procurement events and were aware of the statutory requirements placed on suppliers. Respondents stressed the need to keep up-to-date by accessing web portals regularly. Owners reported using three: CompeteFor, Supply2Gov and BiP Solutions.

All six contract winners were aware of CompeteFor and all but one was registered. Two were registered on Supply2Gov and two on BiP. Four found out about ODA contracts through CompeteFor and two also found out about them through Supply2Gov. Two felt that the CompeteFor portal was an efficient way for them to find out about public sector contracts, via the email alert service. The business not registered on CompeteFor found out about the ODA contract through a BiP email alert. Only one business did not discover the contract opportunity they ultimately won via CompeteFor. The business had worked for the LDA previously and was invited to bid for the ODA contract along with two other businesses.

Prior experience of bidding for public sector contracts gave respondents an advantage when seeking to win ODA contracts. All were comfortable using CompeteFor, although previous research suggests small firms experience this as a barrier to seeking public sector contracts.<sup>6</sup>

*I found it pretty straightforward; it didn't take long. That was partly because I had already gone through it all with BiP self-accreditation ... I think the whole area of bidding for contracts<sup>7</sup> is actually quite a complex one. We've been successful in a*

<sup>6</sup> Supplier Adoption and Economic Development Newham's Kick-Start Model for Supplier Adoption.

<sup>7</sup> This is the language used by the respondent. Strictly speaking, firms do not bid or tender for contracts on CompeteFor; they merely express an interest in particular contract opportunities. This raises the broader issue of the language used by procurement professionals and that used by business owners and others. It is not obvious that business owners are able to speak the same language as procurement professionals and, therefore, more effort might be required to ensure they understand the particular meanings given to words such as 'express an opportunity',

*high level of bids that we've gone for. Being small, obviously people look at our turnover and you sometimes feel that might be a disadvantage ... But, having said that, we've done pre-qualifications for lots of people successfully. (Contract winner 1)*

Business owners also remarked on the convenience for small firms provided by the CompeteFor portal:

*The initial process for everyone is it looks a bit challenging, but after you feel your way around I think it's a wonderful idea... it's one place, one stop. It makes life much easier for small businesses to compete with large organisations. Large organisations have a full-time staff member to look for tenders, but if you are a small business, then you don't have that luxury. (Contract winner 2)*

Another potential barrier for small firms seeking public sector contracts is the need to comply with a raft of statutory requirements such as having particular policies and documents in place (equality, health and safety, environmental sustainability, and quality control) (Smallbone et al. 2007). All contract winners reported such policies as a consequence of prior bids for public sector contracts. This experience undoubtedly enabled these businesses to seek, and to win, ODA contracts.

*Having done all the information once, it's all there and easy for us to copy and paste. So we don't always have to re-do it. We have set up this system where a different member of my board takes responsibility for a different topic and we review them every year. At the moment, we are just going through a completely new health and safety policy. (Contract winner 1)*

But even contract winners were occasionally critical of CompeteFor. Several reported that contract details were poorly specified.

The main issue that emerged regarding the operation of ODA contracts refers to the level of detailed contract information available. At least three contract winners reported a lack of information from the client both during the process of responding to, and securing a contract, and in the early stages of contract work. Whilst this caused concern for contract winners, it also provided an opportunity for them to deploy their own expertise, to advise clients on the best way to achieve their goals.

#### *Businesses unsuccessful in seeking contract opportunities*

All four firms in this group found out about contract opportunities through the CompeteFor website. Most were complimentary about CompeteFor, reporting it as easy to use, presenting no difficulties to register or to complete a business profile. Businesses reported that contract opportunities are advertised at short notice but once in possession of the required information, the process reportedly took little time. One owner was very optimistic about CompeteFor reporting the system was created specifically for SMEs. At the same time, he feared that many large contractors to the ODA already have their small suppliers in place and will not choose local businesses.

Unsuccessful seekers of contract opportunities reported a number of concerns regarding the CompeteFor process. First, three of the four reported that contract opportunities were vague in terms of suppliers' obligations. Lack of information might encourage unrealistic expectations on the part of those firms considering expressing an interest. They may seek contracts they cannot deliver or conversely, ignore contracts on which they could deliver.

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'bid' and 'tender'. Given what some respondents reported, it seems clear they do not always attribute the same meanings to these terms as do professional procurers.

*Another problem was that we had to provide information on the number of staff we could allocate each month to [delivering the product]<sup>8</sup> although they hadn't specified how many [products] a month they needed. They had only mentioned up to 25 and I found this information to be quite confusing. (Unsuccessful firm 1)*

Second, firms that had not been successful in getting shortlisted perceived the online form as inadequate to allow them to market their businesses effectively. CompeteFor allows those seeking contract opportunities to answer a number of questions, to describe themselves using a free text section, and to upload three images to represent their businesses – although ODA staff report that many suppliers choose not to complete this section. Two owners considered the form, consisting mainly of questions requiring 'yes' and 'no' answers, to be constraining their capacity to represent their business activities accurately.

Third, the lack of feedback to firms not shortlisted on CompeteFor was a further concern. Firms in this group indicated that although they are informed of their score, they are not notified of the reasons for it. CompeteFor has not been set up to provide feedback but this limits business owners' ability to learn from the experience and to develop their capabilities. Failure provides no foundation for improving future responses to contract opportunities.

Unsuccessful seekers of contract opportunities reported a number of reasons why they believed they had not been shortlisted on CompeteFor. Not surprisingly, owners considered business size and / or experience as decisive influences on outcomes. To overcome the perceived disadvantages of smallness, a number of owners reported considering joining forces with larger, more established, businesses offering complementary products and services, in order to submit better applications. Respondents identified potential partners through prior working and contacts established at events. Despite a lack of success so far, all four firms that unsuccessfully sought contract opportunities indicated they would pursue future opportunities on CompeteFor. This suggests that firms have not been deterred despite a lack of success so far.

### *Aspirers*

'Aspirers' comprise those actively taking steps to access Olympics Games contracts through to those considering whether Games contracts are worth pursuing. Twenty one aspirers were interviewed. This number includes 16 business owners and a further five respondents (all women) in the pre-start, planning phase of their businesses. Most business owners were located in the five host boroughs, as were the five pre-starts.

Aspirers believe they will benefit by seeking contracts through CompeteFor but primarily perceive themselves as likely to benefit through increased demand for their products or services. The huge publicity surrounding the Games, together with the favourable location of these businesses, has definitely increased respondents' expectations.

Procurement events have led many business owners to believe it is easier to win ODA contracts than other public sector work. Others conversely, prefer to direct their efforts elsewhere and not expect too much from the Games, either because they believe other firms will be focusing on the Games (Aspirer 5) or because their products are not likely to be sought by the ODA or their contractors.

Aspirers typically know what CompeteFor is designed to achieve, are registered, have completed a business profile and receive contract email alerts automatically. Many heard about CompeteFor through attendance at procurement events. One respondent described the ODA as:

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<sup>8</sup> Bracketed text inserted by the authors to render remarks intelligible.

*... an organisation that comes to us rather than us having to go to them. ODA is very good in engaging with the community. I do not think other organisations have done the same. (Aspirer 10)*

Other aspirers however, were unaware of CompeteFor, or were critical of its operation. The majority of women focus group participants were not well informed regarding CompeteFor due to being pre-starts or lacking experience of applying for UK Government contracts. Although most aspirers considered CompeteFor processes as being relatively easy, some reported problems. Contracts were perceived as too large for small firms to apply for, with suitable opportunities only becoming available at lower tiers in the supply chain, and possibly not until 2010.

Aspirers reported public procurement events as useful in providing basic information about the CompeteFor website and becoming fit to supply. Many owners see this as a simple process of putting the required policies in place; policy templates can be obtained from business support bodies and from the Internet. But, other factors are also important such as business probity, skills and experience, and working style. Some aspirers had attended up to ten procurement events, often with the primary aim of networking with potential buyers and suppliers. Networking was considered one of the crucial ways to survive and thrive in business.

Some aspirers thought that support providers had an important role to play in increasing the confidence of small business owners to enter the public procurement process. One suggestion was that events might be redesigned to address the different needs of businesses with widely varying experience of involvement in public procurement processes. Most appear to focus on those lacking any prior knowledge of such processes. Third, a lack of awareness of the existing support available, on the part of some companies, is a concern since Business Link assistance is available to firms registered on CompeteFor, to help them become 'supplier ready'.

As with firms that had unsuccessfully sought contract opportunities, there was some scepticism among aspirers that central Government was serious about enabling public sector organisations and their main contractors to engage small businesses as suppliers. Aspirers feel that central Government is letting them down despite generating large expectations. A number of aspirers believe that central Government should demonstrate greater resolve to enable small local businesses to secure Olympic Games contracts. Smallness should not prevent firms from winning contracts. If businesses have a track record of successful delivery, they should not be dismissed just because of their size (Aspirer 5). Some aspirers maintained that Central Government could make subcontracting to small suppliers a condition of contracts with first tier contractors.

To overcome the size constraint, a number of aspirers were considering forming partnerships with larger, more established businesses. Respondents stressed the importance of networking at 'meet the buyer' or other events as a means of becoming visible to large organisations and meeting potential small business partners.

## **5. CONCLUSIONS AND POLICY IMPLICATIONS**

The study on which this paper is based sought to establish an initial baseline with respect to whether the ODA's procurement policies and practices are benefiting SMEs. The research suggested that in a UK context the ODA's policies and practices constitute a significant attempt to increase supplier diversity, within the constraints of existing regulations and regulatory requirements. This includes the CompeteFor Website, which the ODA is contributing to with the LDA and other partners. At the same time, the research indicates that most Olympic Games business opportunities for small firms lie closer to 2012 than to 2008. The process of

procurement for the Games is still at an early stage and first tier construction contracts are too large to be suitable for most SMEs. As a result, few SMEs have won contracts so far. Most opportunities for SMEs from construction projects lie either further down the supply chain as contracts cascade through the tiers over time, or in meeting the ODA's corporate procurement needs.

The ODA's regulatory obligations under UK and EU law inhibit action to favour businesses on the basis of their size or indeed any other characteristic. The ODA must select contractors on best value grounds in a fair manner, which means that no favour can be shown towards suppliers on grounds of size, location or other characteristics. However, there may be opportunities to influence the choice of supplier with lower value contracts, particularly where proximity may be necessary for a contract to be delivered effectively.

In this context, implementing supplier diversity is challenging for the ODA, for a number of reasons. First, the ODA must balance a range of competing pressures alongside achieving a diverse supplier base, the most prominent being value for money and delivering venues and infrastructure in time for the Games. Contract awards will always seek to minimise the risk of non-completion within the permitted timeframe, which will tend to favour contractors with captive supply chains. In addition, many small firms lack the internal capacity, trading history and required policies and documents to win ODA contracts. Thus, whilst any company can express an interest in any opportunity, whether they are then invited to tender for that opportunity depends on their supply capability and capacity to deliver. The CompeteFor website is the main vehicle for linking SMEs with Olympic Games-related business opportunities. The operation of CompeteFor in practice has an important influence on whether ODA procurement will benefit SMEs. The CompeteFor model relies on enabling and encouraging registration and access to contract opportunities by all types and sizes of firm. It is assumed that raising participation by SMEs will translate into an increased number of responses to contract opportunities and ultimately contract awards. However, on its own, this approach might not suffice to generate a proportionate number of contract seekers and winners among SMEs. It is too early to comment on the effectiveness and overall impact of CompeteFor in relation to increasing supplier diversity.

Access to Business Link support is a positive feature of CompeteFor. Many businesses that are potentially capable of delivering on contract opportunities advertised on CompeteFor, are either unable to complete a business profile in order to put themselves in a position to apply or alternatively, lack the policy statements and/or documents required. Business Link can play an important role in enabling such firms to complete a profile and to put the required policies and/or documents in place. Without such support, many businesses that are close to being fit to supply might be unable to respond effectively to CompeteFor contract opportunities.

Business awareness of Olympic Games opportunities is growing. Businesses aspiring to win supply contracts have had their expectations raised as a result of publicity surrounding the Games and the dissemination activities of important organisations including the ODA and the London Business Network. Whilst the active promotion of business opportunities is to be encouraged, there is a risk that business expectations might be raised to a level that cannot be fulfilled. Many SMEs are simply not in a position to win contracts, because they are engaged in activities that are not relevant to the Games; and/or lack the capacity to deliver; and/or do not have the required policies or trading history. Whilst encouraging firms of all sizes to register on CompeteFor is to be encouraged, it is important not to raise expectations beyond what might be reasonably fulfilled.

SME contract winners interviewed as part of this project have previous experience in tendering successfully with public sector organisations. Although difficult to find, all SME contract winners

interviewed had successful experience of bidding for public contracts. This emphasises the potential benefits of SME owners investing time in understanding and meeting the procurement requirements of public sector bodies, as well as business support agencies assisting this process. It also draws attention to public authorities across the board making their procurement practices 'SME user friendly', following good practice experience.

### **Implications for Public Procurement Policy**

Analysis of the procurement policies and practices of a major public body has implications for the wider procurement policy agenda. These include:

- (i) **The policy drivers to achieve supplier diversity appear weak in the context of conflicting policy priorities.** Public procurement is undoubtedly a potentially powerful economic development tool, if it can be opened up to greater involvement by SMEs. However, our analysis suggests that the ODA lacks sufficient powers to achieve a high level of supplier diversity given the competing pressures placed upon it. The ODA has public duties to emphasise 'best value', which in the context of the 2012 Games means high quality goods and services delivered on budget and on time. In terms of the wider procurement agenda, clearer guidance from central Government about competing priorities would be helpful. A consistent message is required to be promoted by Government and all public bodies about their expectations with respect to equality and diversity policies and practices throughout their supply chains. This will help to avoid SMEs finding positive experiences with one public body being matched by negative experiences with others.
- (ii) **Supply chains for public bodies predominantly involve contracts between private companies.** On the one hand, this may be seen as an opportunity as supply chain contracts are not subject to OJEU rules, but on the other hand, public bodies lack 'teeth' to implement supplier diversity at lower levels in the supply chain. From the standpoint of the wider procurement agenda, it may be argued that public bodies such as the ODA lack sufficient powers to achieve their supplier diversity goals. The ODA can compel first tier contractors to advertise contract opportunities on CompeteFor, and encourage this throughout the supply chain, unless a captive supply chain is in place. However, the ODA cannot influence how contractors package their contracts or, in the vast majority of cases, whom they select as suppliers (although they have an ultimate right of veto). Given the rules that the ODA operate under, there are strong limits to their capacity to increase supplier diversity. In practice, the ODA's direct influence appears to be mainly limited to its own corporate procurement (where contract values are lower) and to the encouragement of first tier contractors.
- (iii) **CompeteFor is a novel and superior system compared with public sector procurement models in the UK but improvements could be made.** Continued efforts are required to publicise CompeteFor aims and procedures in order to increase awareness among SME owners. Where possible, buyers should provide appropriate feedback to notify unsuccessful firms of the reasons for not being shortlisted in relation to particular contract opportunities. There would appear to be scope for Business Link to co-operate with ODA staff in providing feedback to such firms.

The CompeteFor model is anticipated to be used as the mechanism for all public sector procurement beyond 2012. For CompeteFor to be able to develop this wider role beyond 2012 there is a need to establish legitimacy with a broader business constituency, including SMEs. In the context of a Government aspiration to ensure small businesses secure 30 per cent of public sector contracts, continued action to ensure a high level of small business participation in the period leading up to the Games is essential. Second,



encouraging CompeteFor registration might create a business base who are 'fit to compete' for contracts for which they might otherwise have been unable or unwilling to pursue. However, it might require considerable effort to sustain the interest of firms that have been unsuccessful in seeking contracts.

- (iv) **Business support organisations can make an important contribution to supplier diversity.** Support organisations can contribute to higher levels of supplier diversity in various ways: first, by playing a role in raising business awareness of CompeteFor (its procedures and contract opportunities) and by hosting dissemination events; second, by providing support to firms registered on CompeteFor, or by enabling other support providers to reach them; third, by providing information on members / clients' businesses and products to enable buyers to identify potential suppliers; and fourth, by assisting SMEs to access purchasing organisations' networks through 'meet the buyer' and similar events.
- (v) **Effective monitoring of supplier diversity is essential at all levels of the supply chain.** However, in practice, the ODA are likely to find monitoring of supplier diversity a complex and resource-intensive task to undertake effectively at lower tiers in the supply chain. The ODA are reliant on contractors at tier one and below to monitor contract outcomes and to supply the data to the ODA. While it might be possible to obtain good quality data from the first tier contractors with whom the ODA deal with directly, their influence on contractors might be expected to diminish at lower levels of the supply chain. Subcontractors lower down the supply chain may feel less motivated to pursue supplier diversity objectives consistent with the ODA's requirements and consequently, less keen to maintain information on contract awards to their own suppliers.
- (vi) **Stronger promotion is required of the mechanisms available to enable innovative SMEs to present novel product / service ideas to potential buyers where no contract opportunity exists on CompeteFor.** Currently, CompeteFor only enables suppliers of innovative products to become involved if buyers have posted a particular contract opportunity on the portal. Innovative business ideas might never see the light of day on CompeteFor because no buyer has ever thought of them. Although opportunities currently exist through the ODA's Industry Days and meet the buyer events, the research suggests these opportunities are not widely known among the local small business community.

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