

# THE CHALLENGE OF SUPPLIER DIVERSITY: THE CASE OF THE LONDON 2012 OLYMPICS

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**Key Words:** SME; public procurement; supplier diversity; Olympic Games.

## Abstract

### *Objectives*

The aim of the paper is to assess the extent to which the procurement policies and practices of the Olympic Delivery Authority (ODA) are benefiting SMEs, and specifically those owned by members of ethnic minority groups, women and disabled persons.

### *Prior Work*

Previous research has identified a variety of barriers to small businesses and accessing public procurement opportunities, emphasising that the public procurement market does not operate on a level playing field. Some barriers are related to the capacity of small firms to supply, whilst others focus on the policies and practices used by public purchasing organisations. There are often a number of pre-qualification stages to navigate before firms are included in tender lists, including questionnaires requiring 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. Research has also drawn attention to the constraints that public bodies seeking to diversify their supply base have to deal with.

### *Approach*

The study employed a mainly qualitative methodology. Data sources included an initial desk-based review of the ODA's procurement policy documents, supplemented by face-to-face interviews with ODA staff; interviews with representatives of business support organisations and membership organisations, including some involved in business initiatives set up to assist local businesses to access ODA contracts; telephone interviews with first tier contractors; and focus groups and face-to-face interviews with small business owners. The research was undertaken between May and October 2008.

### *Results*

Few SMEs have won contracts so far. Most business opportunities for small firms from the London Olympic Games lie closer to 2012 than to 2008. Procurement is still at an early stage and first tier construction contracts are too large to be suitable for SMEs. Most opportunities for SMEs lie in meeting the ODA's corporate procurement needs or further down the supply chain with regard to construction projects. The ODA's competing public duties limit the extent to which supplier diversity can be achieved, despite the fact that the ODA's procurement policies and practices represent a significant attempt to achieve it.

### *Implications*

As well as leading to recommendations as to how the ODA might improve supply opportunities for small firms, the results also have implications for the wider procurement policy agenda with respect to SMEs, which is a priority policy area at both UK and EU levels.

### *Value*

The paper will be of value to researchers, policy makers and practitioners interested in the potential and challenges faced in opening up public procurement contracts to SMEs.

## Introduction

The aim of this paper is to assess the extent to which the Olympic Delivery Authority's (ODA) procurement policies and practices are benefiting businesses owned by members of ethnic minority groups, women and disabled people<sup>1</sup>. Since most businesses owned by members of these groups are small or micro- enterprises, the emphasis is on small enterprises. The paper is concerned with supplier diversity, which refers to an organisation ensuring that its procurement processes provide equal opportunities for all suppliers to compete for contracts (<http://www.diversityworksforlondon.com/server/show/nav.00600e>), particularly under-represented SMEs. The ODA has a budget of more than £7 billion to deliver the new venues and infrastructure required for the London 2012 Olympics. Spending this budget offers considerable potential economic and social benefits through the regeneration associated with building the Olympic Park infrastructure and associated venues, particularly in the five East End boroughs (i.e. Greenwich, Hackney, Newham, Tower Hamlets and Waltham Forest) in which much of the new infrastructure is being constructed. Official estimates suggest that up to 70,000 supply chain contracts may be won as a result of the 2012 Olympics (Department of Business, Innovation and Skills, 2008).

Increasing the diversity of supply to UK public bodies is supported by a statutory responsibility given by the Race Relations (Amendment) Act (2000) to promote race equality. Public authorities are required to take race equality into account in relation to policy making, service delivery and other functions (<http://www.equalityhumanrights.com/>). Other statutes such as the Disability Discrimination Act 2005 and the Equality Act 2006 outlaw discrimination in all functions of public agencies. This includes applies to procurement, which means that public authorities must now consider the equality duties and build race, gender and disability equality into their procurement processes. In addition, one of the key mandates of the Single Equality Act 2006 is to promote good relations between and within diverse communities, across all sections of society, and prohibit discrimination in the provision of goods, facilities, services, premises, education and the exercise of public functions.

The ODA has an obligation to comply with EU public procurement directives, UK public contracts regulations and public sector duties. The latter include a duty to ensure that its procurement practices are fair and open to diverse suppliers. The study, on which the paper was based, was a formative assessment, providing results for 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, in the early stages of the 2012 Olympics procurement process. The experience of procurement for the London Olympic Games has potential implications for the wider public procurement policy agenda.

The study drew upon a variety of primary and secondary data sources, to understand the procurement process from both buyer and supplier perspectives. Data were gathered from an initial desk-based review of the ODA's procurement policies; face-to-face interviews with ODA staff; interviews with representatives of business support organisations and membership organisations including some that were involved in potentially relevant business initiatives, set up to assist local businesses to access ODA contracts; telephone interviews with selected first tier contractors; and focus groups 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 five sections. Next, previous research on public procurement, SMEs and supplier diversity is summarised. Then, ODA procurement policies and practices are analysed, together with the operation of the CompeteFor model, one of the main routes for SMEs to access ODA contracts. Then, the experiences and expectations of small business owners and business intermediaries with respect to ODA procurement are examined. The final section presents the main conclusions and policy recommendations.

## Previous Research Evidence

Access to public sector contracts is a potential business opportunity for firms of all sizes. However, previous research has identified a variety of barriers SMEs face 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 barriers relate to purchasing organisations' policies and practices ,

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<sup>1</sup> The authors are grateful to the ODA, LDA and participating individuals and organisations for giving their time to contribute to the study on which this paper is based. We are also grateful to the Equality and Human Rights Commission (EHRC) for sponsoring the study. However, contents of the paper are the sole responsibility of the authors.

whilst others focus on the capability and capacity of small firms to supply, emphasising that the public procurement market does not operate as a level playing field. According to Bannock and Peacock (1989), market failure may be said to occur as a result of the comparative weakness of small firms in the market place, suggesting that government intervention may be justified to offset the disadvantages they experience as a result of their small size and to offset the perverse effects of government policies. Research has referred to the bureaucracy of the procurement process, which can deter small and micro firms, where internal management resources are typically limited and management approaches are informal (Ram and Smallbone, 2003). This may be viewed as part of a resource-based view of firms, in which management capability and capacity can constrain a firm's ability to grow (Jovanovic, 1982).

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). In this regard, 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 interested in accessing public contracts (Smith and Hobbs, 2002), particularly when combined with systematic monitoring of subsequent changes in the pattern of supply.

Firms often have to navigate a number of pre-qualification stages to be 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 often unable 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. Another potential barrier to small firms is the use of contract bundling, in which multiple contracts are consolidated into a single tender. This may save administrative costs for the buyer but inevitably favours large firms at the expense of small enterprises.

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 conditions imposed by public tendering procedures, particularly where these involve suppliers possessing formal certification with respect to issues such as quality assurance and health and safety. The scope for UK public bodies to give preference to targeted groups of potential suppliers 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, in order to promote transparent and non-discriminatory procurement practices. Tenders above the EU thresholds – currently, £139,893 for goods and services, and £3,497,313 for works - must be advertised in the Official Journal of the European Union (OJEU). The UK and EU emphasis on creating a level playing field contrasts with the US approach, where the principle of 'set-aside' is used by federal, state and city authorities to allocate a certain percentage of procurement expenditure to small and/or minority-owned firms. The use of preferential procurement programmes on the US model is not, however, without its problems. Following the so-called Croson ruling (a US court case which challenged the right of public bodies to take affirmative action) in 1989, cities and states operating these programmes have been required to identify the discrimination they were seeking to remedy. Specifying precisely what constitutes a Minority Business Enterprise (MBE) is another issue, because of the possibility of legal action from non-MBEs who themselves may feel disadvantaged by the intervention (Boston, 1999).

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 SMEs face in winning public sector contracts. Glover (2008)

emphasised the benefits that increasing SME participation can offer the public sector in terms of value for money, quality of service, the supply of specialised products and services, and increased innovation, although it has to be said the evidence base to support these claims is patchy.

### **Procurement Policies and Practices of the Olympic Delivery Authority (ODA)**

The ODA is an Executive Non-Departmental Public Body, accountable to the Secretary of State for Culture, Media and Sport, with a mission: *'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). The ODA is essentially a procurement agency tasked with delivering the infrastructure for the 2012 Olympics. 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).

ODA procurement activity covers three elements:

- works i.e. the commissioning and construction of venues and supporting infrastructure;
- services i.e. to plan, guide, design, commission, build, operate and service Olympic facilities as well as to convert legacy venues after the Games; and
- 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 related to the construction of venues and infrastructure required to stage the 2012 Games. The Corporate team is responsible for procuring the goods and services required by the ODA itself to perform its tasks. 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, whereby first tier contractors contract with tier two suppliers, tier two contract with tier three, and so on. Only first tier contractors, therefore, contract directly with the ODA and these tend to be very large contracts. Contracts below first tier level are typically between private companies and are not subject to public duty or EU regulations. It is lower down the supply chain where most opportunities for SMEs lie. In theory, at least, there is scope for a private contractor to specify a preference for a local firm as part of a tender specification. Whilst the ODA seeks to influence contracts issued below first tier level, in most cases it cannot control them<sup>2</sup>.

The ODA's pre-qualification documentation distinguishes between contracts above the OJEU threshold (where first tier contractors are required to have quality assurance certification, for example, ISO accredited) and those below it, 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.

A balanced scorecard sets out the technical and commercial criteria to assess potential suppliers at the PQQ stage and to assess competing tenders. The scorecard specifies the points awarded to bidders and is fixed at both the PQQ and ITT stages. Whilst the ODA intend their procurement policies and practices to cascade down through the supply chain, they can only encourage contractors to use the balanced scorecard when choosing suppliers.

It is ODA policy to offer tier one bidders 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, ODA expect contractors to do the same.

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<sup>2</sup> 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. As of September 2008, ODA procurement staff reported no use of the veto.

However, the ODA cannot compel contractors at tier two and below to provide feedback to unsuccessful bidders.

The ODA uses a variety of mechanisms in seeking to comply with its public sector duties with regards to equality and diversity. These include:

- incorporating a 'standard' set of equality and diversity questions (with others) at the PQQ stage, which feed into the overall evaluation score (constituting a maximum of 8% of bidders' overall score);
- the inclusion of equality and diversity questions to assess tenders, the weighting of which varies between individual contracts. However, the ODA cannot legally require contractors to have an Equalities Policy and cannot exclude those that do not;
- advertising ODA contracts on the CompeteFor website and by mandating the use of the portal for all tiers, with the exception of contractors with captive supply chains;
- requiring first tier contractors to use the balance scorecard approach and by encouraging them to advise their own suppliers at tier two and below to use it;
- ODA Equality staff working with first tier contractors to promote good practice in their own organisations and in their supply chains;
- involving ODA staff in events to disseminate information about contracts and procurement procedures;
- since most firms owned by members of one of the target groups are small, the ODA package contracts to enhance small firm access.

#### *Reported Opportunities for Small Firms*

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

ODA staff reported that supply opportunities for small firms will increase between 2008 and 2010, as supply opportunities cascade through the supply chain. At the time of the study, most opportunities were for first and second tier contractors, of high value and, therefore, 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.

#### *ODA Corporate Procurement*

There appear to be more immediate opportunities for small firms to access ODA corporate procurement contracts, than for construction contracts. Corporate procurement (which makes up approximately £1-2bn of the ODA's overall budget) 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 that 135 corporate procurements had been commissioned 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 smaller firms to compete. 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 in the run up to 2012.

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

One of the main challenges facing the ODA is to balance the competing responsibilities placed upon it. The ODA must comply with public duties with respect to issues such as equality, but they must also comply with EU procurement directives, with respect to transparency and non-discrimination; and also with UK public sector contract regulations with respect to price and quality. The ODA must also ensure that all infrastructure work is completed on schedule. As senior ODA staff stressed, decisions

must be justifiable and auditable. Value for money and the ability to meet delivery deadlines were reported as key criteria.

ODA staff reported 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. As mentioned above, more scope exists for incorporating contract requirements that may favour local firms for example, with contracts below the OJEU threshold, such as taxi services.

For the ODA, finding firms 'fit to supply' is a further challenge they face in implementing supplier diversity. ODA procurement staff referred to many small firms lacking the required documentation with respect to health and safety, quality assurance and equality policies. Size per se is also a barrier, since businesses cannot tender for public contracts whose value is greater than 25 per cent of annual turnover, without a Performance Bond or similar guarantee. This rule is designed to prevent businesses becoming too reliant on any single client and suffering when contracts come to an end.

### **The CompeteFor Website: a Route to Supply Opportunities**

The main mechanism for SMEs to find 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; suppliers to express an interest in those opportunities; and for purchasers and potential suppliers to be matched. Buyers advertise contract opportunities on CompeteFor in order to solicit expressions of interest from potential suppliers. The ODA require contractors at all tiers to post contract opportunities on CompeteFor, except where they have a captive supply chain in place. An ODA Buyer Engagement Team has actively encouraged potential purchasers at all levels in the supply chain to advertise contract opportunities on the portal. ODA staff reported buyer use of CompeteFor to be picking up momentum. As of September 2008, the ODA was the dominant source of advertised opportunities; although a further 80 buyers were reported to be using the system.

To take advantage of the CompeteFor website, businesses must take a number of steps (Figure 1). First, businesses must register on the portal by providing basic information such as business name, address and contact details. Registered businesses can view advertised contract opportunities and can express an interest in them. But, they will not be matched automatically to opportunities, receive email alerts or referred to Business Link for support, until they publish a business profile. Second, registered businesses must publish a profile incorporating detailed information on business activities, ownership, sales, employment, insurances and on 'business readiness' criteria (i.e. health and safety, equality, diversity and quality assurance statements in place). Buyers cannot, however, use ownership characteristics to favour or disadvantage particular firms as these details are not disclosed on the website. Where published businesses do not meet the business readiness criteria, Business Link is notified automatically and required to contact the business within 24 hours.

Published businesses are alerted by email of contract opportunities matching their profile and invited to apply to submit a formal tender by completing an online form. Businesses are then shortlisted according to the weighting buyers attach to particular questions. Unlike public bodies subject to OJEU rules, buyers can weight criteria such as location highly because they are not subject to the same procurement rules as the ODA. 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 tender.

The ODA have sought to engage with business owners, and to encourage use of CompeteFor, through dissemination events, although such activities extend beyond the target groups and beyond London. ODA procurement staff emphasised national as well as local obligations with regards to dissemination and outreach activities, since all English RDAs and devolved administrations contribute to the funding of CompeteFor. In London, the ODA and the London Business Network<sup>3</sup> have organised a series of dissemination events to inform business owners about CompeteFor.

Another route to procurement contracts for SMEs is by contacting contractors directly. All first tier contractors are listed on the CompeteFor website. Firms seeking to supply these contractors may approach them direct with a view to marketing their goods and services, identifying contract

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<sup>3</sup> London Business Network was established in 2006 to engage London businesses in the lead up to 2012. It is a joint initiative of London First, the London Chamber of Commerce and the Confederation of British Industry London and supported by the LDA.

opportunities and of seeking to influence buyers' contract specifications. Potential suppliers can also meet contractors at 'meet the buyer' events, which enable would-be suppliers to discuss product and service ideas with potential buyers.

### *CompeteFor Outcomes*

As of 19 September 2008, 32,964 businesses had registered on CompeteFor (Table 1).<sup>4</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 had published profiles, which reduced the number able to use the system fully.

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

<b>Location</b>	<b>No. of firms registered</b>	<b>No. of firms with profiles</b>	<b>% of registered firms with profiles</b>	<b>No. of contracts awarded to a CompeteFor short-listed supplier</b>
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.

Note: Data were up to date on 19 September, 2008.

As of September 2008, four small firms with fewer than 50 employees in the five Olympic boroughs were reported to have won contracts— 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>5</sup>

The LDA do not have 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 was depressed by the fact that some contracts were below the £3,000 threshold for competitive tendering<sup>6</sup> or above the OJEU threshold, and because supplier engagement was at an early 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.

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.

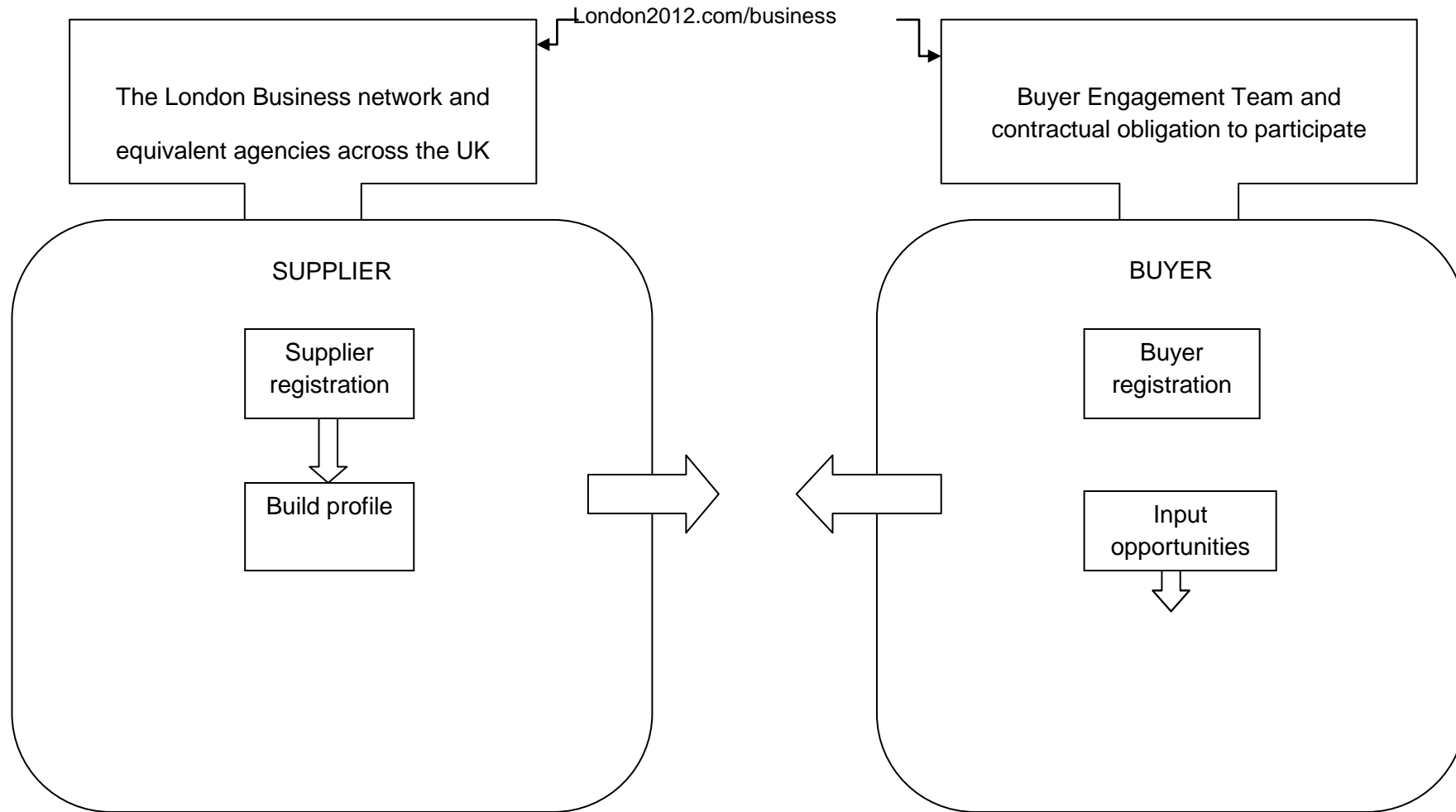
<sup>4</sup> This number is rising constantly. Data for 3 November, 2008 suggested 39,000 businesses had registered.

<sup>4</sup> Data missing for six businesses.

<sup>5</sup> Data missing for six businesses.

<sup>6</sup> Contracts below £3,000 require only a single quote.

Figure 1 Supplier and Buyer Processes [NEED TO HAVE A SOURCE FOR THIS FIGURE]





## Views of Business Intermediaries

Intermediaries include business associations and public sector organisations involved in business support. Representatives of intermediary bodies dealing with business owners in one of the specified target groups were asked to assess what their clients/members might expect to gain from the Olympic Games and for details of their experience of ODA procurement practices. Some intermediaries were positive about the prospects for businesses in the target groups with respect to the Olympics, 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 is likely to be limited; second, opportunities would be available for 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 CompeteFor-advertised opportunities; and, fourth, most opportunities would not come on-stream until much closer to 2012.

Critical views of possible business opportunities were more commonly reported by those organisations not in contact with the London Business Network<sup>7</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 able to pay the inflated rents.

Intermediaries identified a number of possible barriers to small businesses being able to win Olympic Games-related contracts. Some of these related to the capacity of firms to supply, while others related to ODA practices. First, many contracts, particularly for infrastructure projects, are too large for small businesses to win. Second, larger contractors already had captive supply chains in place, restricting opportunities even at lower levels of the supply chain. 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 are likely to turn to existing suppliers. Third, the process of registering for CompeteFor and expressing interest in contract opportunities were perceived as possible barriers to small firms. The very short period permitted to those wishing to express an interest (sometimes just a few days) might exclude many SMEs. Fourth, many small firms operate in sectors for which there will be few, if any, contracts (e.g. hotels, bars and restaurants). Fifth, many SMEs simply lack the capacity to win and deliver Games-related contracts. Without proper preparation and business support, many SMEs, they argue, are engaging in wishful thinking to believe they can win contracts. 'Fledgling' businesses with less than three years trading history are unlikely to win contracts, because a track record of successful delivery is a key influence on purchasers' choice of supplier. 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.

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 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 and Experience of Small Business Owners*

A sample of small enterprises owned by members of one of the target groups was constructed to investigate their views and experiences with respect to Olympic Games opportunities. Data were obtained

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<sup>7</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.

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. Given their small numbers and the method used to identify the firms, we do not claim that the views presented are 'typical' or 'representative' of business owners in the capital, and any generalisation to the broader groups from which these samples are drawn should be undertaken with caution. 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.

#### *Contract winners*

Six contract winners engaged in a range of business activities were interviewed, including events production, training, consultancy, translation services and water supply services. Businesses employed 2 to 12 full-time staff and five of the six reported using outside contractors when needed. The contracts won varied between £3000 and £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.

Significantly, all six contract winners had previously won public contracts, highlighting the importance of suppliers having prior experience of working for public sector organisations. Two respondents reported prior work for the ODA and this encouraged them to seek further contracts. 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, such as CompeteFor, Supply2Gov<sup>8</sup> and BiP Solutions<sup>9</sup>.

All six contract winners were aware of CompeteFor and all but one was registered. Four found out about ODA contracts through CompeteFor and two also found out about them through Supply2Gov. Two felt the CompeteFor portal was an efficient way for them to find out about public sector contracts via the email alert service. Only one business did not discover the contract opportunity via CompeteFor, finding out about the ODA contract through a BiP email alert. This 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 contracts gave respondents an advantage when seeking to win ODA contracts. All were comfortable using CompeteFor, and several reported benefits, although previous research suggests small firms experience this as a barrier to seeking public contracts.<sup>10</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>11</sup> is actually quite a complex one. We've been successful in a 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)*

*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*

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<sup>8</sup> Supply2.gov.uk is an official Government lower-value (typically below £100,000) contract opportunity portal, created by the Government to provide small businesses with access to lower-value public sector contracts. <http://www.supply2.gov.uk/>

<sup>9</sup> BiP is a leading provider of public sector contract information, offering suppliers and buyers access to a large database of current open contract opportunities (<http://www.bipsolutions.com/about.htm>).

<sup>10</sup> Supplier Adoption and Economic Development Newham's Kick-Start Model for Supplier Adoption.

<sup>11</sup> This is the language used by the respondent. Strictly speaking, firms do not bid or tender for contracts on CompeteFor; rather, they express an interest in a contract opportunity. 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 speak the same language as procurement professionals and more effort might be required to ensure they understand the particular meanings of terms such as 'express an opportunity', 'bid' and 'tender'. Given some respondents' comments, it is clear their use of such terms differs from that of professional procurers.

*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 contracts identified in previous research is the need to comply with various 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 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)*

Contract winners were occasionally critical of CompeteFor. One concern related to the perceived poor specification of contract details. At least three respondents 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 unsuccessful firms 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 contract opportunities to be advertised at short notice but once the required information was acquired, the process reportedly took little time. One owner was very optimistic about CompeteFor, which he appreciated had been created specifically for SMEs. At the same time, he feared that many large contractors already have suppliers in place and will not choose local businesses through CompeteFor.

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

*Another problem was that we had to provide information on the number of staff we could allocate each month to [delivering the product]<sup>12</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 through the CompeteFor process perceived the online form as inadequate into enable 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 perceived the form as a constraint on their capacity to represent their business activities accurately, because it consisted mainly of questions requiring 'yes' and 'no' answers.

Third, the lack of feedback to non-shortlisted firms was a further concern. Unsuccessful firms indicated that although they had been informed of their score, they were not notified of the reasons for it. CompeteFor has not been set up to provide feedback but this limitation affects business owners' ability to learn from their experience and to develop their capabilities. Failure does not provide a foundation for improving future responses to contract opportunities.

Unsuccessful firms offered a number of reasons why they believed they had not been shortlisted through CompeteFor. Not surprisingly, owners considered business size and experience as decisive influences on outcomes. To overcome the perceived disadvantages of smallness, several owners reported considering joining forces with larger, more established, businesses offering complementary products and services, in

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<sup>12</sup> Bracketed text inserted by the authors to render remarks intelligible.

order to submit stronger bids. Respondents identified potential partners through prior working and contacts established at events. Despite a lack of success so far, all four firms indicated they would pursue future CompeteFor opportunities, suggesting firms have not been deterred despite a lack of success.

### *Aspirers*

'Aspirers' comprise firms that had actively taken steps to access Olympics Games contracts, and others considering whether Games contracts are worth pursuing. Twenty one aspirers were interviewed, including 16 established business owners and five respondents (all women) in the pre-start, planning phase. Most were located in the five host boroughs, including all five pre-starts.

Aspirers believe they will benefit by using CompeteFor but primarily perceive a 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. Conversely, others prefer to direct their efforts elsewhere and do not expect too much from the Games, either because they believe other firms will be focusing on them (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:

*... 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 and lacking experience of applying for UK Government contracts. Although most aspirers considered CompeteFor processes as being relatively easy, some reported problems. Aspirers reported public procurement events as being useful in providing basic information about the CompeteFor website and becoming fit to supply. Many owners see this as a straightforward process of putting the required policies in place, based on policy templates which can be obtained from business support bodies and from the Internet. But, other factors were 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. Some thought that business support providers had an important role to play in increasing small business owners' confidence to enter the public procurement process.

As with firms that had unsuccessfully sought contract opportunities, there was some scepticism among aspirers about central Government's commitment to enabling public sector organisations and their main contractors to engage small businesses as suppliers. Aspirers felt 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. Some suggested that Central Government could make subcontracting to small suppliers a condition of contracts with first tier contractors.

To overcome size constraints, 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.

## **Conclusions and Policy Implications**

This study has sought to establish an initial baseline to indicate whether the ODA's procurement policies and practices are benefiting SMEs and specifically those owned by members of ethnic minority groups, women and disabled people. The results suggest that in the UK context the ODA's policies and practices constitute a significant attempt to increase supplier diversity, within the constraints of existing regulatory

requirements. This includes the CompeteFor website, which the ODA is contributing to with the LDA and other partners. The research also indicates that most Olympic Games opportunities for small firms lie closer to 2012 than to 2008. The process 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 lie in meeting the ODA's corporate procurement needs or further down the supply chain with regard to construction projects.

In fulfilling its public duties with respect to equality and diversity, the ODA test potential contractors against the statutory requirements concerning equality. However, it cannot exclude firms at the PQQ stage if they do not have an equality policy. The ODA also requires contractors to use a balanced scorecard approach and encourages its use throughout the supply chain. However, in view of the modest weighting given to equality and inclusion issues at the PQQ stage, this is unlikely to be a major influence on supplier selection. ODA equality and diversity staff also work with first tier contractors to promote good equality and diversity practices, both in their own organisations and in the supply chain.

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 owner characteristics. At the same time, there may be opportunities to influence supplier choice with lower value contracts, particularly where proximity may be necessary for effective contract performance.

Implementing supplier diversity is, therefore, 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. Moreover, 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, invitations to tender for them depend on their capacity to deliver.

The CompeteFor website is the main vehicle for linking SMEs with Olympic Games-related opportunities. 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 SME participation will translate into an increased number of responses to contract opportunities and ultimately contract awards. However, this approach alone might not suffice to generate a proportionate number of SME contract seekers and winners. It is too early to comment on the overall impact of CompeteFor on 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 and, therefore, able to apply or, alternatively, lack the required policy documents. Business Link can help firms to complete a profile and to put the required policies and 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 organisations such as the ODA and the London Business Network. Whilst 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 their activities are not relevant to the Games, they lack the capacity to deliver or do not have the required policies or trading history. Whilst encouraging firms of all sizes to register on CompeteFor is positive, it is important not to raise expectations beyond what might be reasonably fulfilled.

The SME contract winners interviewed all have previous experience of tendering successfully for public contracts. This emphasises the potential benefits for SME owners to invest time in understanding and meeting the procurement requirements of public bodies, because of the transferability of the experience gained. It also justifies business support agencies allocating resources to assist CompeteFor participants, because of the potential long-term benefits of increasing the number of SMEs accessing public

procurement contracts, At the same time, 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 ODA's procurement policies and practices 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 SME involvement. However, our analysis of the experience of the ODA suggests that public bodies lack sufficient powers to achieve a high level of supplier diversity given the competing pressures placed upon them. 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 with respect to competing policy priorities would be helpful. A similar conclusion emerged from a recent study of procurement by local authorities in England (Smallbone et al, 2007). A consistent message is required from 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) *Achieving supplier diversity is limited by the fact that supply chains for public bodies predominantly involve contracts between private companies.* On the one hand, this constitutes an opportunity as contracts between private companies 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. In terms of the wider procurement agenda, it may be argued that public bodies, such as the ODA, lack sufficient powers to achieve supplier diversity goals, particularly where supply chains are long. 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). At the same time, the ODA cannot influence how contractors package contracts or, in the vast majority of cases, who they select as suppliers (although they have an ultimate right of veto). Given the rules that public bodies operate under, there are strong limits to their capacity to increase supplier diversity. In practice, in this study, the ODA's direct influence appears to be limited mainly to its own corporate procurement (where contract values are lower) and to the encouragement of first tier contractors. Further research is needed to assess the impact of extending public sector equality and diversity duties to private sector organisations.
- (iii) *CompeteFor is a novel and superior system compared with other UK public sector procurement models, although improvements need to be made if it is to be more widely promoted.* A key point in term of the wider implications of the analysis is that the CompeteFor model is anticipated to be used 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 broad business constituency, including SMEs and particularly those from the specific target groups. In the context of a Government aspiration for small businesses to secure 30 per cent of public contracts, continued action to ensure a high level of small business participation in the period leading up to the Games is essential. Encouraging CompeteFor registration might create a business base 'fit to compete' for contracts which they might otherwise have been unable or unwilling to pursue. At the same time, it might require considerable effort to sustain the interest of firms that have been unsuccessful in seeking contracts.

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 for contract opportunities. There would appear to be scope for Business Link to co-operate with ODA staff in providing feedback to such firms.

- (iv) *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*. Innovation is one of the rationales used by government to justify the encouragement of increased supplier diversity. Currently, *CompeteFor* only enables suppliers of innovative products to become involved if buyers have posted a 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.

- (v) *Business support organisations can make an important contribution to achieving supplier diversity in public bodies*. Based on analysis of the ODAs experience, business support organisations can contribute to higher levels of supplier diversity in various ways: first, by 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 member/client 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. If supplier diversity is to be achieved, it is important that Business Links throughout the country allocate resources to implementing these roles.
- (vi) *Effective monitoring of supplier diversity is essential at all levels of the supply chain*. Effective monitoring of supplier diversity is required in order to demonstrate results in a transparent manner. However, based on analysis of the ODA's experience, monitoring supplier diversity is 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. While it might be possible to obtain good quality data from the first tier contractors with whom the ODA deal 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.

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