



THE TRUE POWER OF PROCUREMENT: BUILDING A CASE FOR SOCIAL ENTERPRISES



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Even though South Africa's social enterprise market is relatively young, the potential of using social enterprises to channel procurement spend to have a powerful social impact should act as a source of real hope for all of us. Unlocking this potential requires corporates to overlay their existing procurement processes with a deeper sense of responsibility, however, as well as committing to a more careful selection of suppliers. **Marcus Coetsee, National Coordinator of the African Social Entrepreneurs Network**, explains.

Social inequality and challenges continue to affect South Africa despite the best efforts of many. With government, the private sector, non-profit organisations and numerous individuals all committed to driving change, it's clear that maintaining the status quo is not a way to address pervasive social issues. We rather need to take a new approach to them – in the form of social innovation.

A relatively new concept in the market at the moment, social innovation involves developing new and smarter ways to make use of one's resources to tackle social issues. As such, the idea of 'social enterprise' is in itself a social innovation; it involves applying business principles to fill poverty and developmental gaps, among others, while developing business models that can support this sustainably.

Given the above, it's important to note that the term 'social enterprise' has become particularly fashionable over the past couple of years, making it difficult to define both in our local context and internationally. There are, however, certain principles that are relevant:

- **Legal form doesn't matter.** A social enterprise can take any appropriate legal form – from being set up as a private company through to being a voluntary association. It can also be a combination thereof: a 'hybrid' social enterprise.
- **The enterprise must have an explicit social purpose.** It must be set up to address a clearly defined social challenge. Its social impact must be why it exists and not just a consequence of how it makes money.
- **The enterprise must generate income through some sort of business activity.** While there are debates about what percentage of total revenue has to be generated (versus donated to it), consensus is that it must be more

than 50%. This doesn't mean that social enterprises have to function without donations, but rather that it's preferable to limit their dependence on these. In many cases, business activities themselves are difficult to identify but generally involve the selling of a commodity or service for a profit.

- **Profits have to be reinvested towards their social purpose.** The only exception to this rule is where a social investor requires a return on their investment in the enterprise.
- **It operates constructively.** A social enterprise strives to achieve social impact in the way that it does business. Its need to have a constructive influence on staff, suppliers, partners etc. is ingrained in its DNA.

In spite of these principles, it's still difficult to quantify the number and social impact of these enterprises in South Africa given that many don't define themselves as such. We still see many social enterprises classifying themselves as "sustainable non-profit organisations" or "high impact businesses".

That being said, social enterprises have a critical role to play in terms of acting as a bridge between communities and corporates. By approaching corporates as key customers, they're thus able to tap into procurement spend in a potentially far more impactful way – given the enterprise's objectives – using this for far-reaching good that can be directly felt in communities. Additionally, they're often well-placed to assist corporates to act responsibly. In an instance where a company in Cape Town is generating vast quantities of paper waste for example, they could employ the services of Oasis Association to collect and recycle this and, in so doing, enable the employment of intellectually disabled people. Just by doing business in a more 'social' way therefore, they can have an incredibly positive impact on society.

The above example raises important questions in terms of how corporates select their suppliers – and what impact their procurement contracts have the power to unlock. In doing business with these organisations, corporates are able to use the way they operate to have a social impact. It additionally enables them to simultaneously fulfill various roles they are committed to: acting responsibly (traditionally the ambit of corporate affairs or communications); supporting charities and communities (through their CSI arm); and developing SMMEs (by means of their enterprise and supplier development spend).

Putting it in perspective:

Latest statistics in the UK have over 70 000 social enterprises, generating a collective annual turnover of over £18 billion. This is over 10 times the annual income of South Africa's entire non-profit sector – giving one a sense of the potential of social enterprises.

While this shift is compelling, it requires a mindset change and, in many instances, a review of existing procurement processes and systems to accommodate these organisations. Even though the legal form of a social enterprise is allowed to be fluid, a procurement department will typically not consider procuring a product like toilet paper from a social enterprise run by a non-profit organisation. As such, because procurement staff are often uninformed about the roles and functions of social enterprises, many enquiries are invariably referred to the CSI department instead of being dealt with as bona fide supplier applications. This is very often just the beginning of a confusing minefield of enquiries... A social enterprise that is not structured as a NPO will usually find it cannot be 'assisted' by the CSI department and will have its call transferred to the Enterprise Development team where it often won't meet black ownership requirements because of its trust set-up... And so on, and so on... As a result, social enterprises often find themselves relegated to the side-lines and unable to add real value from both product and social impact perspective.

Paving the path to a solution that acknowledges social enterprises as strategic supply partners will therefore invariably involve what might seem 'non-traditional' approaches to procurement by corporates. With so many of these professional organisations out there doing such targeted and impactful work, however, companies that fail to include them or give them a means of competing for procurement spend are potentially doing themselves a significant disservice."