BARRIERS TO INDIGENOUS ENTERPRISE IN THE AUSTRALIAN CONSTRUCTION INDUSTRY

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Many Indigenous populations around the world face enormous challenges of relatively high unemployment, poor health and integrating into modern society. The Australian government is seeking to address these problems through social procurement initiatives that encourage construction clients and firms to employ Indigenous businesses in their supply chain. The aim is to build supply chains through regulation, which more closely reflect the demographics and social needs of the communities in which they build. However, many barriers to entry exist for Indigenous businesses and through a national survey of Australian Indigenous enterprises it is shown that these include adjusting to unique construction industry cultures and practices, breaking into existing business networks and being under-cut by industry incumbents and competitors when tendering for projects. Compared to non-Indigenous business, they appear to face special difficulties in starting and scaling-up their businesses due to a lack of mentoring, capital and finance.

Keywords: Australia, Indigenous, procurement, social enterprise.

INTRODUCTION

In Australia a person is considered Indigenous if he or she: is of Aboriginal and/or Torres Strait Islander origin; identifies as Aboriginal and/or Torres Strait Islander; and is accepted by an Aboriginal and/or Torres Strait Islander community as being of that decent (Australian Bureau of Statistics 2012). There have been long-standing inequalities in health, life expectancy and employment opportunities between Indigenous and non-Indigenous Australians (Commonwealth Government 2015) and the Australian Government is implementing new social procurement initiatives aimed at increasing opportunities for Indigenous enterprise in the sector.

In Australia, Indigenous businesses are those that are at least 50% owned by an Indigenous person (IPP 2015). Social procurement differs from traditional procurement in being the use of procurement to leverage extra social benefits and create ‘social value’ in local communities, beyond the simple purchasing of products and services required (Bonwick 2014). For example, in construction projects, social procurement may involve construction companies specifying products on projects which promote fair trade or requiring subcontractors and suppliers to not only deliver traditional products and services but to also provide employment opportunities for social benefit organisations which employ and train disadvantaged and marginalised groups in society such as the homeless, disabled, ex-offenders, ethnic minorities and Indigenous peoples.

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As Furneaux and Barraket (2014) point out, through social procurement initiatives, governments effectively create a quasi-market for certain types of minority or social purpose business, diversifying their supply chains with the dual goal of maximising both economic and social value. However, research also shows that many social benefit organisations face significant barriers to entry into the industries within which they operate (Kernot and McNeill 2011). Loosemore and Higgon’s (2015) recent research into social enterprise in the construction sector shows that they particularly struggle to penetrate the construction industry. However, while there is an emerging body of research into social enterprise in construction, there has been little research into the barriers to entry facing Indigenous businesses, apart for a small number of studies looking at the dominance of multinationals compared to Indigenous companies in developing countries (Saka and Ajayi 2010). It is this context that the aim of this paper is explore the barriers to entry for Indigenous enterprises in the Australian construction sector.

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According to Hindle and Moroz (2010), Indigenous business offers new opportunities for governments to address Indigenous social, economic and health problems through Indigenous wealth creation, social advancement and the strengthening of local communities. However, Foley (2003) warns that Indigenous entrepreneurs face more barriers than non-Indigenous entrepreneurs in building a business. Sullivan and Sheffrin (2003) define a barrier to entry as an obstacle that makes it difficult for a business to enter a given market. These barriers may involve access to client and business networks, industry incumbents, switching costs, economies of scale, existing relationships, and industry reputation, experience and knowledge. However, Foley (2003) argues that Indigenous entrepreneurs generally suffer from poorer business experience, education and training, poorer business networks and industry experience and higher levels of racial discrimination and prejudice compared to non-Indigenous entrepreneurs trying to enter a similar market. Wood and Davidson (2011) also highlight other unique barriers to entry such as: alienation from their own Indigenous community; clashes of cultural value sets; access to an appropriate consumer population; lack of Indigenous role models; language barriers; and lack of access to finance due to their indigeneity.

It is generally considered that the construction industry has relatively low barriers to entry (Murray and Smyth 2011; de Valence 2012). For example, the construction industry has a relatively high level of start-ups each year (Anikeef and Sriram 2008). However, there is also considerable evidence that a large number of these new firms fail (Holt 2013; Konno 2015). A recent report by Australian Security and Investments Commission (2014) identified the construction industry as one of Australia’s riskiest industries to operate within, consistently having one of the highest insolvency rates of any industry. De Valence (2003) showed that potential barriers to entry into construction include the cost of investment for entry, market power of incumbents, acquisition of technology, skills, access to capital, state of the market, and intensity of the competition.

Gruneberg and Ive (2000) identified economies of scale, supply chains, incumbent cost advantages, private information, contestable markets and client imposed barriers as significant entry barriers to new construction firms. De Valence (2012) analysed these barriers, further refining them in accordance with the nature of the market a firm enters. For example, perfect competition markets generally contain low entry barriers...
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and entry barriers increase as the market becomes monopolistic, and increases again as it becomes oligopolistic. Cheah and Garvin (2004) presented a new conceptual model for corporate strategy in the construction industry that identified a range of political, social, cultural, economic, industrial and environmental factors that might impact on a decision to enter into the construction industry. Furthermore, Flanagan et al.’s (2007) framework for analysing competitiveness research in the construction industry suggests that there may be barriers at a project, firm, industry and national level that could affect a firm’s decision to enter into the market.

Unlike other countries with significant Indigenous populations like South Africa and Canada, where governments have introduced social procurement policies to encourage the removal of Indigenous barriers to entry, there has been no research into barriers to entry for Indigenous businesses into the Australian construction industry. For example, Ruthensamy (2012) found that South Africa’s Preferential Procurement Policy Framework designed to help South African construction enterprises owned by historically-disadvantaged individuals (HDI’s), has increased participation and success of HDI-owned construction enterprises in government construction tenders.

However, it was also found that supply side constraints limited their penetration into the market arguing that a strategy of unbundling was needed to provide greater business opportunities for HDI-owned construction enterprises, supported by a better enabling environment to help such companies access the market. Similarly, in Canada, Mah (2014) found that Canada’s procurement policies for Aboriginal business have increased the number of Aboriginal firms competing for and obtaining government contracts. However, it also highlighted an over-reliance on the program by Indigenous businesses, inconsistent implementation and success rates across Canada and increasing competition for government contracts which crowded-out Indigenous businesses. Mah (2014) found that to be effective, social procurement policies needed to be supported by complimentary programs that reduce barriers to entry for Indigenous businesses.

METHOD

Undertaking research in the Indigenous arena is challenging, especially for non-Indigenous researchers. For example, the term ‘research’ often has negative contextual and historical significance for Indigenous people as it is often seen as an extension of “centuries of violation, disrespect, subjectivism, and intolerance” towards their communities (Pidgeon and Cox 2002:96). Over-research in some social sciences, particularly research done without permission, consultation, or involvement of Indigenous people, has generated significant mistrust and animosity amongst Indigenous groups of researchers (Martin and Mirraboopa 2009). Although these harmful practices have generally stopped (Cochran et al 2008), the implication is that research is often seen by Indigenous people as another form of racism and colonial monitoring (Holmes et al 2002). For these reasons, particular care must be taken to ensure inherent assumptions and guiding research principles do not contribute to increasing the divide of understanding with Indigenous people (Pidgeon and Cox 2002).

Recognising the importance of these social and cultural sensitivities to the validity of the research, this study adopted a constructionist ontology which recognised that our respondents would have different attitudes towards and experiences of doing business in the largely non-Indigenous Australian construction industry (Bryman 2001).
Ontologically, constructivism requires researchers to recognize and respect these experiences which are the result of interactions between different actors in real social contexts (in our case Indigenous entrepreneurs and non-Indigenous construction professionals). This ontology necessitated an interpretivist epistemology that required the researchers to treat our respondents as ‘meaning makers’ and to engage with them to understand how they interpret their experiences from their own perspective (Yin 2009). Epistemologically, interpretivism is anti-positivist in nature which recognizes that this research cannot be conducted in a laboratory environment, but rather in collaboration with Indigenous stakeholders. It also requires the use of qualitative ‘meaning-oriented’ methods that provide a depth of insight into our respondent’s experiential interpretations (Morse and Richards 2002). To avoid accusations of relativism, we employed both qualitative and quantitative methods (Creswell, 2004).

After gaining ethics approval for the research study from a multicultural ethics committee, data were collected via an electronic survey of Australian Indigenous entrepreneurs operating within and outside the construction sector. While it is recognized that surveys are often associated with officialdom and mistrusted by Indigenous respondents and that low literacy rates might mean that some Indigenous respondents may not be able to understand questions asked (Holmes et al 2002), an online survey was considered the best way to maximise the response rate across a highly geographically and often remotely spread national Indigenous community.

The literacy problem was not a problem in this research because the target of the survey was Indigenous business owners who were highly educated and all businesses had an on-line presence which enabled the online survey approach to be used effectively. Furthermore, Holmes et al. (2002) confirmed that surveys can be used successfully in an Indigenous research space if supported by the Indigenous community and to this end the survey was distributed in partnership with Supply Nation and New South Wales Indigenous Chamber of Commerce - NSWICC (both peak bodies for Indigenous enterprise). Considerable discussions were had with these peak Indigenous Business bodies to ensure that the cultural sensitivities and research protocols noted above were carefully considered and respected. The contact details of the researchers were also provided in case the respondents needed clarification on any questions or if respondents preferred to talk about their experiences rather than complete an anonymous survey. This happened in a number of cases.

The questionnaire was developed into four separate sections based on an extensive literature review of research relating to barriers to entry in mainstream business literature, Indigenous business literature and social enterprise literature both within and outside construction. The first section was used to establish the demographic make-up of respondents, focussing on questions relation to age, experience, business turnover, location, scope of activities, industry sector - construction or non-construction etc. on a nominal scale. The second section of the questionnaire related to entry barriers faced by Indigenous businesses in all sectors. The third section asked questions about respondents’ involvement in the construction industry. All questions asked respondents to nominate the barriers they had experienced against a seven point bipolar Likert scale. Open questions were also provided to allow respondents to highlight barriers not covered in the structured survey.

To obtain a representative sample of Indigenous enterprises purposive non-probability sampling was used to select a range of Indigenous enterprise directories from across Australia. Peak Australian Indigenous business bodies, Supply Nation and NSWICC
also distributed the survey to their members. In total, the survey was distributed to 235 Indigenous enterprises with 33 usable responses providing a response rate of 14% (a low response rate for the reasons discussed above). The majority of businesses who took part in the survey were between 1-3 years old (30.6%) and under 5 years old (44.7%). 36.1% of respondents identified themselves as a social enterprise (with an Indigenous mission), while 86.1% identified as an Indigenous business/enterprise. 33% of respondents categorised themselves as hard construction trade services and 33% of respondents had more than 50% of their business in the construction sector.

In analysing the survey data, descriptive statistics were used to show the frequency, mean and standard deviation of respondent characteristics. In order to compare the experiences of each sub-group, a non-parametric Mann-Whitney U test was conducted due to the small sample size in each sub-group. Bryman and Cramer (1990) assert that this test is more powerful than the median test because instead of comparing the number of scores that are above the median for two samples, it compares the number of times a score from one of the samples is ranked higher than a score from the other sample. To highlight any relationships between the entry barriers a Spearman correlation test was also run. The Spearman correlation test was performed due to the low sample size of construction focussed Indigenous enterprises (n=18). This test is relevant since it identifies variables that relate to each other, demonstrating that some barriers may be linked or part of a cumulative effect).

RESULTS AND DISCUSSION

The majority of respondents were in the 36-55 age range (69.4%) with graduate education (56.6%) and most were male (69.4%) with just under 70% having at least ten years’ experience, although this did not necessarily reflect the time that their business had been operating. The majority of businesses that took part in the survey were between 1-3 years old (30.6%) and under 5 years old (44.7%). Of the respondents, 36.1% identified themselves as a social enterprise (with an Indigenous mission), while 86.1% identified as an Indigenous business/enterprise. Surprisingly, given the youth of these businesses, the majority of respondents’ businesses (66.7%) operate in both metropolitan and regional/country areas and the business turnover was well spread.

This would suggest that these companies are growing fast, raising questions about the challenges and potential risks of scaling-up rapidly across large areas. Seventy-five percent of respondents had some business in the construction industry and 33% of respondents had more than 50% of their business in the construction sector. This shows that the construction sector is a very important source of business for Indigenous businesses. However, the majority have little experience of working in the industry (41.7% had less than three years working in the construction sector). When asked about general barriers to entry in all industries (including construction) the largest barrier was adjusting to an industry’s unique practices and cultures (4.97) followed by ability to break into industry networks (4.83) and being undercut by industry competitors (4.33). Negotiating with suppliers was also a significant problem (3.93). A Mann-Whitney U test was undertaken to compare the responses of Indigenous enterprises vs. non-Indigenous enterprises, social enterprises vs. non-social enterprises, and construction businesses vs. non-construction businesses.

The results showed that the majority of comparisons are not significant across the three groups, which indicates that Indigenous businesses experience similar barriers to
entry compared to non-Indigenous businesses. However, the construction Indigenous business groups did differ significantly in accessing finance to start their business and government support than their Indigenous non-construction counterparts (p = 0.05 and p = 0.024, respectively). Why access to finance is more difficult is unclear but may have something to do with the high risk and insolvency rates of working in construction in general, since the small non-Indigenous sample also experienced the same problems in this area. The perceived relatively low level of government support is also surprising given the existence of many new government social procurement Indigenous procurement policies. However, this finding might indicate that implementation is yet to gain any real traction on the ground and there are several possible reasons for this. The results around specific construction industry barriers to entry by those respondents who had worked in the construction. Several questions that evoked a high mean response: The competitive nature of the construction industry (5.78); industry focus on low prices (5.22); awareness of Indigenous enterprises/social enterprises (5.06); and cost of entry (5.06).

Other significant barriers included: demanding clients (4.61) and; existing supply chains (4.17). Industry competitiveness and cost of entry also have the lowest standard deviation of 0.878 and 0.938 respectively indicating a high level of agreement among respondents. To investigate if there were any relationships between the responses, a Spearman rank correlation coefficient test was carried out. The strongest relation was between respondents’ ability to handle large work packages and their ability to achieve economies of scale (rs = 0.765, p = 0.000). In other words, an ability to achieve economies of scale was important to them being able to tender for the larger work packages which tend to occur in most large construction projects.

Following this, the next two strong relationships were between the perceived eagerness with which companies engaged Indigenous enterprises and being taken seriously by the industry (rs = 0.740, p = 0.000), and between respondents’ ability to tender and the difficulty with which they deal with construction industry regulations (rs = 0.716, p = 0.001). These results indicate that an understanding of industry regulations and protocols and the resources to be able to comply with them is clearly important to securing work in the construction industry. Finding individual clients that take Indigenous businesses seriously also seems critical to building greater trust across the entire industry.

It is useful to compare the results of this research to the recent findings of Loosemore and Higgon (2015) who investigated, through a number of in-depth case studies, external and internal barriers to entry for mainstream social enterprises that operate in the construction sector. External barriers identified in no particular order included: negative perceptions of social enterprises; rhetorical CSR policies that are not implemented; resistance to change; existing procurement practices; lack of engagement between social enterprises and construction; regulations; client silos; the fragmented nature of the construction industry; and construction industry culture. Internal challenges identified included: size and scope of activities; not having an effective strategy; communicating value-add; not being construction sector savvy; running a small business; resourcing; and forming effective and supportive partnerships to access resources and build scale.

Certainly, there are some significant overlaps with our results suggesting that there are a range of common problems facing Indigenous and non-Indigenous social businesses seeking to enter the construction industry. Securing finance, social capital and
business expertise to grow a business, the construction sector’s unique practices and culture, difficulties in breaking into existing supply chains, being undercut by competitors and a focus on price as the main employment criteria are common in both sets of results. However, our results add further to Loosemore and Higgon’s (2015) qualitative research by statistically showing the relative significance of these barriers for Indigenous enterprises showing policy-makers that they could especially benefit from start-up assistance to build their business in the form of finance, knowledge about how the construction industry works, early resourcing to overcome high costs of entry and opportunities to compete on a level playing field with industry incumbents. Our results also suggest that partnerships and joint ventures with clients who are genuinely committed to building Indigenous entrepreneurship (not necessarily within their own organisations) and with firms who are successfully operating in the sector will be crucial in addressing these barriers. It is also interesting to compare our results with mainstream social enterprise research. For example, Doherty et al (2014) shows that most social enterprises struggle to balance the needs of both beneficiaries and clients. This can easily lead to strategic diversions and mission creep and problems in finding an optimum balance between generation of commercial revenue and creation of social value. However, this issue was not identified as a problem by our respondents, probably because many were not set up as social enterprises but as pure for-profit businesses with a majority of Indigenous owners.

In terms of mainstream barriers to entry research, our findings also support Demsetz’s (1982) view that existing brand loyalty acts as a significant barrier to entry for new market entrants. It also supports Bain’s (1949) assertion that incumbent organisations will undertake hostile actions to dissuade new entrants from entering a market. Bates’ (1995) and Porter’s (2008) claim that accessing financial and physical capital and human resources acts as an entry barrier for new firms is also supported by our research. Our results also support Defourny and Nyssens (2008), who found that that social enterprises struggle to compete with for-profit companies. And it also supports Robinson’s (2006) finding that building social capital and networking is a major issue in securing work.

However, in contrast to Defourny and Nyssens’ (2008), government support does not seem to be a problem for Australian Indigenous enterprises and in contrast to Dean and McMullen’s (2007) work, there seems to be high awareness of them. Rather, the problem appears to be the implementation and industry take-up of these initiatives rather than the number of initiatives. In construction, our research also supports the work of de Valence (2003), who showed that the cost of investment for entry, access to capital, and intensity of competition are barriers to the construction industry. De Valence (2003) also proposed that the existing market power of incumbents can deter new entrants into the construction industry.

However, our research does not show that these barriers are peculiar to the construction industry, for Indigenous enterprises at least. Similarly, Warszawski (1996) and Cheah and Garvin (2004) also discuss financial aspects that may act as entry barriers to new firms into construction and this is also supported by our results. The responses regarding the competitive nature of the industry also support the work of Flanagan et al. (2007), Warszawski (1996), and those of de Valence (2012). Hardie and Newell (2011) and Cheah and Garvin (2004) who found that regulations within the construction industry had the potential to act as barriers to entry.
CONCLUSIONS

The aim of this paper was to explore the barriers to entry for Indigenous enterprises in the Australian construction sector. Through an online survey of 235 Indigenous enterprises which produced 33 usable responses, it has been shown that many of the barriers faced by Indigenous firms outside construction are also faced by the same firms within construction. An analysis between construction firms and non-construction firms revealed that respondents had been through similar experiences regarding general entry barriers. The main barriers were adjusting to unique industry cultures and practices, breaking into networks and building social capital, being undercut by industry incumbents and competitors, low price driving most procurement decisions and a perceived lack of trust in the ability of Indigenous business to deliver work to the same standards as existing subcontractors. The relatively few differences that did exist appear to relate to starting-up Indigenous businesses and then securing capital and finance to enable them to scale-up and tender for normal work packages at a competitive price.

REFERENCES


