THE CO-CREATION OF SOCIAL VALUE BETWEEN SOCIAL ENTERPRISES AND PRIVATE FIRMS IN THE CONSTRUCTION INDUSTRY

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This paper addresses the question of how and why social enterprises and private for profit firms collaborate to co-create social value in the construction industry and what institutional and organisational factors shape these practices. It does this using a documentary analysis and semi structured interviews with senior leaders of three construction organisations in the UK and Australia. Considering how collaborative practice is manifest in these arrangements, and the organisational and institutional factors that drive them, our findings suggest that the co-creation of social value through supply chain relationships in the construction industry is driven by commercial concerns which are in turn influenced by both industry and political institutional imperatives. Our findings point to differences in experience and opportunity for collaboration based on supply chain position and organisational scale. These have notable effects on the creation of social value and the legitimacy of different social benefit providers in an era of new public governance.

Keywords: cross-sector collaboration, social enterprise, social procurement, social value

INTRODUCTION

In response to growing social procurement policies and legislation in countries like the US, UK, Australia, South Africa and Europe, there is a growing body of research addressing the subject of social value creation in the construction industry (Burke and King 2015, Loosemore and Higgon 2015, Farag et al., 2016 and Petersen and Kadefors 2016). The aim of such policy and legislation is not only to require procurers of public and private construction, infrastructure and maintenance services and products to consider social value in their tender decisions, but to create a quasi-market to support the growth and development of third sector organisations such as social enterprises working in the construction industry (Barraket et al., 2016). With their Scottish community organisation roots (Pearce 2003), and recent growth in response to trends in New Public Governance that stress the potential of collaborative multi-sectoral responses to wicked social problems that involve new forms of partnership between government, business, third sector and community organisations (Kolko 2012, Osborne 2007).

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As the fast growing part of the third sector, social enterprises represent a small but increasingly important part of the economy and the construction industry is seen as major potential market through the social procurement of public sector construction and maintenance contracts (Loosemore 2016). While a universally agreed definition of social enterprise remains elusive, it is generally accepted to be a values-driven hybrid organisation that trades for a social purpose, using economic activities as a means to create social value in the community and which redirects the bulk of its profits to the community in which it works to support its social purpose (Kay et al., 2016). As Loosemore and Higgon (2015) and Petersen and Kadefors (2016) point out, the introduction of such organisations into the construction industry and the intermingling of institutional logics which this involves (Battilana and Lee, 2014), presents new challenges for the construction industry which are not yet understood, relating to management systems and changing professional roles and power structures in firms and supply chains. Responding to the need for more conceptual depth in social enterprise research (Grassl 2012), our approach is informed by neo-institutional theory, particularly sociological conceptions of institutionalism (Suchman, 1995) that are concerned with the (re)production of norms and practice through processes of isomorphism (DiMaggio and Powell, 1983). In doing so we address the relative absence of this theoretical approach from construction management literature (Bresnen 2017). As Huybrechts and Nicholls (2013) note, cross-organisational collaboration occurs at the interface between macro institutional trends and micro organisational practices. This paper thus seeks to contribute to the micro-foundations of institutional theory, responding to Powell and Colyvas’ (2008) call for a ‘micro-motor’ to complement macro-lines of institutional analysis. As they observe, “Institutions are sustained, altered and extinguished as they are enacted by individuals in concrete situations” (Powell and Colyvas, 2008: 276).

Our case study analysis particularly considers the institutional influences on what we refer to as ‘social value chain’ creation amongst social enterprises and private for profit firms. Institutional theory is useful for its emphasis on both formal and informal rules on policy outcomes (Lowndes, 2005). As stated above, existing analyses are overly focussed on macro level formal policies and new insights may emerge through an examination of how hidden informal organisational rules, norms and practices at a meso level operate in conjunction with formal rules in achieving greater social value chain creation (Helmke and Levitsky 2004). The aim of this paper is to explore the intersection between formal and informal rules and their enactment in relation to cross-sector collaborations involving social enterprise in the construction industry.

How cross-sector collaborations between purely commercial and independent social enterprises operate in this type of industry environment is unclear since social enterprises are historically under-represented and little research has been conducted into how they integrate into the industry’s strongly path-dependent supply chain relationships and practices (Loosemore and Higgon 2015, Peterson and Kadefors 2016). Based on elite interviews with senior leaders of three construction organisations in the UK and Australia involved in collaborative activity that includes social enterprises, we consider how collaborative practice is manifest in these arrangements, and the organisational and institutional factors that drive them. In so doing, we seek to respond to the limitations of functionally-driven cross-sector collaboration research identified by Huybrechts and Nicholls (2013), by addressing why and how organisations collaborate to create social value in the construction industry.
Cross Sector Collaboration and Social Enterprise

While cross-sector collaborations have disadvantages such as high transaction costs, dissatisfaction with other strategies has led to a search for innovative solutions in a number of fields which give primacy to this approach (Selsky et al., 2014). Management and entrepreneurship studies concerned with the mutuality of interests between business and society have reflected this emphasis on collaborative thinking and stimulated conceptions of ‘blended’ (Emerson, 2003) and ‘shared’ (Porter and Kramer, 2011) value. These concepts link firms’ competitive advantage to meeting social needs, through both intra and inter-organisational practices. However, with the corporation as their primary focus, these concepts have been less prevalent in explaining third sector agency in the co-production of social value.

The idea of cross-sector collaboration has been more central to the emerging concept of ‘collective impact’ (Kania and Kramer 2011) in management studies. Collective impact is based on the premise that most of today’s persistent social problems are too complex for a single organisation to resolve alone but require collaborative multidimensional, multi-sectoral and multi-organizational solutions. In policy studies, conceptions of network governance (Sørensen and Torfing, 2005) and new public governance (Osborne, 2006) also reflect this collaborative approach to wicked problems and have placed increasing emphasis on the role of private actors in generating public value (Bozeman and Johnson, 2015).

Cross-sector collaboration is presented in each of these literatures as a mechanism through which new forms of social or public value are created. While the nature and characteristics of collaboration are both underspecified and contested in the available literature (Keast and Mandell, 2013), we adopt Kaljunen et al.’s (2013) definition of cross-sector collaboration as a process where autonomous actors from fragmented sectoral systems negotiate to share power and resources, leverage core capabilities and create rules and structures governing their relationships with the purpose of addressing multifaceted social concerns to create and capture social value. In this paper, we draw on insights from both management and policy studies, to better understand the drivers and consequences of cross-sector collaborations involving social enterprises within a single industry context.

The small but growing literature on cross sector collaboration and partnerships involving social enterprises has examined partnership as resourcefulness behaviour (Shaw and Bruin, 2013), as opportunity recognition (Henry, 2015), and as the dialectic of social exchange (Di Domenico et al., 2009). Relatively few studies have examined the social impacts of such collaboration (Sakarya et al., 2012). To date, studies have focused on higher order collaborative efforts, including social alliances (Sakarya et al., 2012), joint ventures (Di Domenico et al., 2009; Henry, 2015), and new venture co-creation (Henry, 2015). While our focus here is on collaborations between social enterprises and private for profit firms, other studies tracing the emergence of partnerships in the context of new public governance (Carmel and Harlock, 2008) have examined the emergence of social enterprise-government alliances (Simmons, 2008).

The theoretical and empirical literature is almost universal in finding that the local responsiveness and community legitimacy of social enterprise is its central source of value in cross-sector collaborations (Henry, 2015). These studies variously find that the exchange value of corporations in such arrangements are their access to resources and market reach, and the market legitimacy they signify (Huybrechts and Nicholls, 2013). However, for the most part, there has been little intersection between the literature on
cross-sector collaboration and social enterprise and the wider literature on social entrepreneurship practice informed by institutional theory. An exception to this is Huybrechts and Nicholls’ (2013) single case study of the role of legitimacy in cross-sector collaboration between a fair trade social enterprise and a corporation in the UK. They found that organisational legitimacy - particularly practical and moral legitimacy - was a key driver of cross-sector partnership formation, and that industry and national context had a significant effect on shaping practice.

Building on this work, and responding to gaps in the literature to date, the study presented here takes social value chains as its conceptual starting point. Barraket et al., (2016) have described social value chains as the processes by which organisations seek to generate progressive social outcomes through the value chain. They have observed that this involves embedding collaborative activity related to social value creation in the routines of business operation, including supply chain decisions, customer interactions and operational practices. The social value chain concept closely reflects how commercial organisations in construction industry studies are looking for competitive advantage by collaborating with not for profit organisations, and their supply chains, to create social impact and how social enterprises are also seeking to scale-up by working with bigger businesses. Recognising the institutionalising effects of new public governance on social enterprise practice (Mason, 2012), we are particularly interested in whether and how institutional factors inform these collaborative activities. Heeding Huybrechts and Nicholls’ (2013) call for attention to context and recognising that social enterprises are diverse (Thompson and Doherty, 2006), we present a comparative analysis of activities in the UK and Australia located within a single industry, construction.

**METHOD**

Our study takes an international comparative approach, drawing on case experience in two national jurisdictions, the UK and Australia and in one industry, construction. As Loosemore and Higgon (2015) showed, both construction industries face rapidly growing social procurement imperatives and at the level of informal institutions very similar challenges in incorporating social enterprises into their supply chains due to the same procurement traditions and very similar established roles, relationships and cultures. However, we do acknowledge that at the level of formal rules, the UK has a demonstrably stronger history of central governmental public policy support for social enterprise development than does Australia (Lyons and Passey, 2006).

To investigate how and why social enterprises and private for profit firms collaborate in creating social value and what impact these formal and informal institutions have on collaborative cross-sector practices, a multiple case study approach was employed to ensure that we obtained perspectives from the across the entire construction social value chain. As Yin (2009) points out, case study research cultivate a close connection between theory and data and our three cases were chosen on the basis that they represent different governance structures and examples of organisations in different parts of the construction social value chain (See Table 1).

Data were collected by via semi-structured interviews with a senior representative of each case who were purposefully sampled on the basis of their ability to provide information-rich answers to questions about the nature of collaborative activities undertaken to generate social value. Interview data were complemented by documentary sources such as social impact reports, marketing information and annual reports. The interviews were undertaken face-to-face and informed by neo-institutional theory were guided by questions relating to: the kind of social value/social impact the organisation aimed to
generate; drivers of social value creation - commercial or otherwise; how the organisation generated this social value (forms of collaboration, with who, type of relationship); and barriers to collaboration - formal and informal/ internal and industry-related).

The interview and documentary data were analysed using Reissman’s (2008) approach to narrative analysis which involved inductively coding the data into separate statements, reflecting common themes articulated by the respondents. Given the exploratory nature of this research our results are presented as a narrative. Our intention is not to test the relationship between any independent and dependent variables but to present the results in a way which retains the full richness of insight contained in the stories of collaboration which the respondents told.

Table 1: Case study descriptions

<table>
<thead>
<tr>
<th>Governance</th>
<th>Description</th>
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<tbody>
<tr>
<td>Case One: Independent commercial building contractor</td>
<td>Case One is one of Australia’s largest international contractors, operating at the top of the construction social value chain. It works directly for major public sector and private sector clients, managing projects on their behalf and subcontracting the majority of up-front design and onsite work to its extensive supply chain of consultants, subcontractors and suppliers.</td>
</tr>
<tr>
<td>Case Two: Social enterprise owned by an independent commercial building contractor</td>
<td>Case Two is a medium sized UK social enterprise which is a commercial JV between a city council through the trading arm of a charity and a large urban regeneration firm. It tenders for general contracting construction work on the open market and acts as a subcontractor to larger developers including its parent company, a relationship which has proven important in the highly cyclical construction market.</td>
</tr>
<tr>
<td>Case Three: Independent social enterprise</td>
<td>Case Three is a small UK social enterprise which specialises in alleviating poverty through providing employment and training in the construction sector. It is an independent company established as part of the larger skills and training Group, which includes a charity and training organisation.</td>
</tr>
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RESULTS AND DISCUSSION

Social value creation purposes and practices
Creating employment and employment pathways for those highly disadvantaged in the labour market was the primary focus of social value creation within all three cases examined. While all identified clear substantive objectives related to their social purpose, the respondents also noted the shifting nature of their social value creation strategies. These shifts were typically described as a function of the shifting socio-economic needs of the communities in which they built. The construction sector is unique in that its production environment changes from project to project, which means that the socio-economic environment in which work takes places is constantly changing. Construction organisations’ clients and their corporate social responsibility priorities thus change from one building to the next and respondents reported a need to strategically respond to these changes in tenders in order to win projects.

All participants mentioned social procurement as a practice through which social value creation was enacted, although the nature and types of social procurement with which they were involved depended on their position in the construction supply chain and their organisational size. While Case One reported collaborating significantly with social
benefit organisations through joint ventures and alliances with large charities, it noted that it had not yet significantly engaged in social procurement in its subcontracting activities because suitable social benefit suppliers are simply not there to compete (in quality, reliability, cost and timeliness) with existing supply chain incumbents. In the absence of these social procurement opportunities, the organisation reflected that it was currently constrained from innovating in creating mechanisms and opportunities where it could use social procurement. In creating its own opportunities to use social procurement, in a market that doesn’t currently allow it, Case One has adopted the collective impact model as a philosophy with collaboration at its core. The challenge Case One described was in bringing together a highly fragmented and competitive construction supply chain with a highly fragmented and competitive employment services sector. This has involved creating solutions which broker relevant connections across the multiple interfaces that arise from such a structure. In all cases, opportunities for collaboration in social value creation was dependent on organisations’ ability to leverage its unique social capital.

Case Three reported having relatively fewer inter-organisational relationships upon which to draw, while Case One leveraged its long standing, broad and unique connections in establishing collaborative activities. Case Two identified mutual benefits flowing between it and its parent organisation in mobilising collaborative opportunities.

Drivers of social value chain creation and participation
Organisational factors driving social value chain practices identified by our participants included senior staff who were champions of social value creation, the breadth and accessibility of organisational networks, and the organisation’s core purposes. In Case Two, the social enterprise’s Managing Director was a former Regional Director in its commercial parent company and had chosen to resign from that position to grow the social enterprise, driven by his passion for providing employment opportunities for disadvantaged people. The social enterprise also provided certain commercial benefits to the parent, although the primary motive was to contribute back to local communities. In Case One, senior interest in social value creation was driven by both commercial imperatives and altruistic values associated with a history of connection with Indigenous employment and literacy and other social issues, formalised through its charitable foundation. These factors drove the corporation’s practices, both in terms of initiating cross-sector collaborations and selecting the social issues or demographic groups to which the corporation sought to respond. In Case Three, the smallest organisation, social value creation was driven directly by the passion of its founder who had established the social enterprise as a mechanism for extending the charity’s work and impact into the community.

Practices in social value chain creation and participation were also influenced by organisational scale and structural positions within the construction supply chain, according to our respondents. Our results suggest that the lower down the supply chain an organisation is, the less social procurement was used and the more direct employment solutions were used to generate social value. This is simply because the lower in the supply chain a firm resides, the fewer firms it has to procure from. Beyond procurement practices, structural positions affected organisations’ capacity and opportunities for co-production of social value. In Case Three, which was at the end of the construction supply chain, opportunities to initiate collaboration were reported as being largely unavailable. In both Cases Two and Three, profit margins were also relatively small at their positions in the supply chain, limiting what was possible in terms of sharing opportunities or managing transaction costs associated with genuine collaboration. Competitive advantage did appear to be a driver of emerging practice within Case One,
while Cases Two and Three were less able to identify commercial benefits that accrued to them from collaborative activities due to their positions in the construction supply chain.

Influence of social and commercial purpose on social value chain practices
As illustrated above, commercial purpose drove collaborative activities within all three of our cases. For the social enterprise respondents, the commercial value derived from collaboration was one means by which social value - in the form of local and cohort specific employment and local regeneration - was able to be realised. In Case One, there was evidence that senior leaders recognised the intrinsic value of collaborating with third sector providers for social purpose. However, not surprisingly, commercial considerations drove most practices in this organisation’s context. Corporate identity also seemed to influence organisational choices about collaboration partners, with this case organisation reporting working primarily with larger and well-established third sector agencies with arguably more commercially-consistent brands and cultures than smaller third sector organisations, social enterprises or minority suppliers.

Our findings suggest that the co-production of social value through supply chain relationships in the construction industry is largely driven by commercial concerns. These are, in turn, influenced by institutional factors, including both industry and political institutional issues. It is notable that the more active experience of social value co-creation amongst our social enterprise participants occurred within a nested business structure with direct structural and interpersonal relationships between companies’ staff and board members. With regard to public policy levers and their effects on customer demands for social value creation, we note some variation in experience. In our Australian case, federal policy targets to stimulate supplier diversity (Rogerson, 2012) appear to be having a direct effect on the commercial environment in which it operates. These are stimulating new requirements to demonstrate a social bottom line which are, in turn, driving corporate approaches to social value chain development through collaboration with third sector organisations, along with small to medium enterprises. Conversely, in the UK - where social procurement by governments is legislated but not mandated - our respondents saw limited effects of social procurement in their operating environments and limited competitive advantages in marketing their social bottom lines.

Our findings also suggest differences in experience and opportunity for collaboration based on supply chain position and organisational scale. While social value co-creation in the construction industry remains marginal and was viewed by all participants as, at most, emergent activity, it is notable that the case where such activity was most widely practiced was a large corporate firm operating at the top of the construction supply chain. This firm also sought stability in its social value co-creation, by maintaining a small number of scalable relationships with larger third sector organisations, particularly welfare agencies that had some social enterprise capabilities embedded in their wider operations. As significant institutional actors in market relationships driven by new public governance (Osborne, 2006), such firms are clearly now playing a role in delimiting the governable terrain (Carmel and Harlock, 2008) of third sector activity.

Further, respondents from all three cases suggested that smaller social enterprises are least likely and least able to initiate social value co-creation through supply chain collaboration, because of their resource constraints and their supply chain positions. These findings somewhat counter the characterisation in the literature of social enterprises as having a high degree of collaborative agency and being network-oriented in their opportunity creation behaviours (Di Domenico et al., 2010).
We find that organisational scale and supply chain position are significant determinants of social value chain creation amongst our sample. This is counter to Domenico et al.’s (2009) proposition that organisational aims and priorities are key modifying factors in social value co-creation opportunities and practices. Our findings are consistent with Maltz and Schein’s (2012) conclusions that shared value is best generated where there is capacity to do so, and that organisational capabilities such as supply chain expertise and social capital can be used in cultivating shared value. In a new public governance context, where market drivers of partnership and collaboration are influenced by social procurement agendas, we also find counter to the existing literature on social enterprise partnerships (Di Domenico et al., 2009; Haugh, 2007; Henry, 2015) that the exchange value of social benefit providers for corporate firms is less related to their local knowledge and legitimacy arising from community embeddedness and much more strongly related to their legitimacy as social service providers with governments and corporations. This exchange value thus favours larger welfare providers over smaller and more locally embedded social enterprises as active agents in social value chain creation.

CONCLUSIONS

This research suggests that social value chains in the construction industry are driven by commercial and institutional imperatives, as well as by organisational commitments to meet social missions. In private for profit contexts, customer demands to demonstrate a social bottom line and new business opportunities are the key drivers of practice. In social enterprise contexts, organisational subsistence and a desire to increase social value through supply chain interactions play a stronger role. While not generalizable to a wider population, our cases’ experiences suggest that the further down the supply chain organisations are positioned, the less they are able to collaborate with others through value chain creation. Our participants’ stories also suggest that it is those least able to collaborate that may benefit most from such collaboration in terms of maintaining organisational sustainability.

Our findings suggest that institutional factors do have direct influence on firm behaviour in social value creation. In the UK where social procurement is legislated but not mandated, participants experienced limited implementation or competitive advantage arising from social procurement policy. In Australia where narrow but firm targets have been established in public policy, there was greater emphasis on the role of public policy in driving firm choices with regard to social value chain decisions.

We recognise the limitations of this research, in our small sample and further comparative research is needed across countries and to understand further the important differences in opportunity for collaboration to co-create social value afforded by different supply chain positions.

REFERENCES


