

# MOTIVATIONS AND BARRIERS TO SOCIAL PROCUREMENT IN THE AUSTRALIAN CONSTRUCTION INDUSTRY

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Social procurement is an important requirement in many private and public sector construction contracts. To better understand the motivations and barriers to social procurement in the construction industry, semi-structured interviews were conducted with eight large developers, property managers and contractors in the Australian construction industry. The results indicate that social procurement in construction is currently compliance-driven, confined to low value and low risk activities and delivered mainly by existing industry incumbents who do not understand how to deliver social value, or by micro-organisations that do, but which suffer from a lack of scale and opportunity. Further research is needed into the development of new supply chain capacity to deliver social value and into strategies to resolve tensions from the conflicting objectives and institutional logistics which arise from the new cross-sector collaborations which social procurement brings to construction.

Keywords: community, social procurement, social value, third sector, social value chains

## INTRODUCTION

Social procurement involves “the acquisition of a range of assets and services, with the aim of intentionally creating social outcomes (both directly and indirectly)” (Furneaux and Barraket, 2014: 269). As Furneaux and Barraket (2014) point out, through social procurement initiatives, organisations 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. This social value can take many forms such as providing new training and employment opportunities to the unemployed and can translate to numerous impacts for wider society such as improved income, health and well-being and reduced crime, substance abuse and incarceration.

The political, economic, legislative and social drivers of social procurement aligning in many countries such as the UK, EU, Ireland, Australia, South Africa and Canada mean that it is becoming a more widespread tool of governments to meet their welfare responsibilities in the communities in which they operate (Bowen *et al.*, 2008, Villeneuve-Smith and Temple, 2015, Loosemore and Higgon 2015, Barraket *et al.*, 2016). Existing and developing social procurement policies, legislation and regulations such as the South Africa’s Preferential Procurement Policy Framework Act (2000) Preferential Procurement Regulations 2017, UK’s Public Services (Social Value) Act (2012),

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Australia's Commonwealth Indigenous Procurement Policy (Commonwealth of Australia 2015a) and various EU Directives on the coordination of procedures for the award of public works contracts which play a key role in the Europe 2020 Strategy (European Union 2014), are promoting socially responsible public procurement, requiring those tendering for public construction contracts to demonstrate they are creating 'social value' in the communities in which they will build, usually by providing employment and training for minority groups and business opportunities in construction supply chains for social benefit organisations such as local, small and minority businesses and social enterprises which employ those groups or are majority owned by them.

Given the construction industry's potential economic and social impact, the public procurement of its products and services is at the very centre of this trend, although research into social procurement in the construction industry is in its infancy. While there has been a considerable body of related research in construction such as corporate social responsibility (for example Murray and Dainty 2009, Loosemore and Lim 2017) and responsible sourcing (Upstill-Goddard *et al.*, 2012), the specific challenge of creating 'social value' through procurement has received scant attention. However, from the little research that has been undertaken, we do know that social benefit organisations such as social enterprises are under-represented in the construction industry, that the uptake of social procurement in the public sector remains low and there is little understanding and how traditional power structures, role, relationships and responsibilities will be affected by the emergence of a new third construction sector (Loosemore and Higgon 2015, Loosemore 2016, Burke and King 2016, Petersen and Kadefors 2016).

It is against this backdrop that the aim of this paper is to explore for the first time, the motivations and barriers to social procurement for major contractors in the construction industry.

## **DRIVERS OF SOCIAL PROCUREMENT IN CONSTRUCTION**

At the highest level, social procurement in the construction industry is being driven by fundamental shifts in social policy landscapes around the world which are themselves driven by paradigm shifts in welfare provision and trends towards New Public Governance (Varghese 2015, Barraket *et al.*, 2016). These represent a movement away from traditional welfare services delivered directly by governments towards partnerships with business and third sector organisations using collaborative mechanisms such as outcomes-based contracting, public-private partnerships and social procurement. Social procurement is also being driven by the realisation that many social challenges are 'wicked problems' that governments cannot solve alone (Commonwealth of Australia 2007) and by broadening conceptions of 'value for money' in the public sector which incorporate social and environmental considerations as well as costs in the procurement of government products or services (Tilt 2016).

The attractiveness and viability of social procurement as a relatively new mechanism to meet these new imperatives is also being driven by a growing and increasingly viable social enterprise sector, although there are currently a relatively small number of social enterprises operating in the construction industry (Loosemore and Higgon 2015). In Australia at the last estimation there were over 20,000 social enterprises (Barraket, 2010) while in the UK there were approximately 70,000 social enterprises providing employment for almost a million people and contributing £24 billion to the economy (Villeneuve-Smith and Temple, 2015). It is estimated that about 2% of these operate in construction, despite construction representing approximately 8-10% of GDP in most countries (Loosemore and Higgon 2015).

It is also claimed that private firms can benefit significantly from engaging in social procurement in the form of improved competitive advantage (with socially responsible clients); demonstrable corporate citizenship; improved community engagement and public relations; and positive reputation with communities, clients, shareholders, employees and other stakeholders (Loosemore and Higgon 2015, Barraket *et al.*, 2016, Flammer, 2015, Andayani and Atmini 2012).

Finally, perhaps the most significant driver of social procurement is the potential benefit it can deliver for the government and the communities which they serve. For example, in one instance of a social enterprise being employed to perform cleaning services on a public housing estate in Australia, Burkett (2010: 9) reported “less fighting, vandalism, drugs, and improved perception of estate residents from other Council residents.” Similarly, a recent review of the UK’s 2012 Social Value Act, cites an example of one social procurement initiative which provided work and shelter for homeless people which saved “£1,478,506 to the Department of Health in NHS and emergency costs, criminal justice savings to the Ministry of Justice of £778,435, and welfare savings of £1,252,030 to the Department of Work and Pensions” (Cabinet Office, 2015: 16).

It must be pointed out however, that while advocates of social procurement promote it as a powerful mechanism for social change, critics argue it is simply a rhetorical smoke-screen for dismantling the welfare state and for justifying government austerity programs which have made deep cuts to social welfare (Doherty *et al.*, 2014, Whelan 2012). Social procurement is also criticised for being a further step towards the outsourcing and privatisation of welfare, motivated by cost-cutting rather than delivering better quality services to communities (Alcock *et al.*, 2013). Furthermore, as Rose and Bulloch (2013) note, there is no empirical evidence to indicate that private firms, third sector organisations and communities are equipped to take-on these additional responsibilities and that the outcomes of social procurement are better than publically delivered services. Indeed, Barraket and Weissman (2009: 4) found that social procurement policies, when poorly designed and implemented, can lead to an “inefficient mix of production across the economy” by excluding efficient firms from the existing supply chain. The European Commission (2010) also found that a risk of prioritising spending on enhancing social outcomes could be a reduction in competition in the economy.

## **METHOD**

Data was collected using semi-structured interviews with eight senior managers with responsibility for social procurement in eight leading construction, property management and property development companies in Australia. We adopted this approach because while our initial research had identified some barriers and motivations to social procurement outside construction, there was little research within construction to guide our questions, so a fully structured interview with standardised questions was not possible. Furthermore, in order to build and broaden our conceptual understanding of this area into a construction context, it was important that the interviewer was able to discuss and raise issues as the interview progressed that may not have been considered in the mainstream social procurement literature outside construction, which is in itself in a formative state of early theory development (Grob and Benn 2014, Barraket *et al.*, 2016).

To qualify for inclusion in the sample, the contractors had to be completing large scale construction projects and government work, since governments are currently the primary driving force behind social procurement in Australia. It was therefore reasonable to assume that most of the social procurement activity would be occurring on public sector projects. Our approach to sampling our interviewees was purposeful and involved a

discussion with relevant people (usually starting with the Head of Procurement who was sent the interview questions in advance) until the best person could be identified to answer the interview questions. The resultant sample is shown in Table 1.

*Table 1: Sample Details*

Respondent	Role of Interviewee	Company Description	Approximate Turnover (AUD)
R1	General Manager	Multi-national Real Estate Services, Facilities Management and Project Management business	\$4.6 billion (client spend under management)
R2	Employee Relations Manager	Multi-national, Australia founded Construction Contractor	\$5 billion
R3	Assistant Development Manager	Multi-national, Australian founded Construction Contractor and Property Developer	\$600 million
R4	Central Procurement	Multi-national, United Kingdom founded Construction Contractor	\$5.4 billion
R5	Former General Manager	Multi-national, Australia founded Construction Contractor	\$12 billion
R6	Commercial Manager	Australian Construction Contractor	\$2.1 billion
R7	National Supply Chain Manager	Australian Property Development and Building Management	\$2.8 billion
R8	New Business Manager	Australian Construction Contractor	\$513 million

The interviews lasted approximately one hour and were conducted in the respondent's workplace. Open-ended questions were designed to collect narrative responses around: motivations for using social procurement (commercial, reputational, client, economic/competitive advantage, social, environmental); and barriers to social procurement (industry attitudes, cultures, large work packages, existing subcontractor relationships, resistance to change, competitiveness, social benefit organisational constraints etc.). The interviews were recorded and transcribed and the qualitative data analysed following Reissman's (2008) approach to narrative analysis which involved us analysing the thematic, structural and dialogic aspects of our interview data. The thematic analysis involved keeping the respondent stories intact and emphasising the words, phrases and themes used in the narrative over its structure, content and form. The structural analysis looked into the ways in which these narratives were structured, categorizing aspects of the respondent accounts guided by the research cited above which identified a range of motivations, cost and benefits associated with volunteering for each stakeholder group. In effect, these costs and benefits became our initial coding strategy. Dialogic analysis focused on 'performed' accounts and asking questions around power structures, role, relationships and responsibilities between actors in the social procurement process, an issue identified by Petersen and Kadefors (2016) and Barraket *et*

*al.*, (2016) as needing further investigation. True to the tradition of narrative analysis our results are also presented as a narrative because we wanted the results to retain the full richness of insight contained in the qualitative data we collected. Since, it is not possible to recount everything participants said in this paper. Instead we present the main themes emerging from the data using typical quotes and numerical analysis of themes in the data to illustrate these themes.

## **RESULTS AND DISCUSSION**

### **Drivers of social procurement**

Our results indicate that market factors are the main driver of social procurement in construction - perhaps not surprising given the legislative imperatives, such as the Federal Indigenous Procurement Policy (2015), which are creating significant social procurement markets in Australia at the moment (particularly for Indigenous cohorts).

The things that motivate us are business related. If we want to win a job, and a social objective is a requirement of that then we'll do it. For us and probably a lot of other builders, it's less about being a good social citizen and more about how we support our growth, business and our bottom line. It sounds selfish, but it's the reality of our business. The indigenous example is in part us wanting to be good social citizens but also about preparing our business for government work as part of our business plan.

Private clients barely featured in the interviews with contractors, although the two major property developers had other internal drivers revolving around general corporate social responsibility strategies which were more reflective of the 'investment mind-set' identified by Barraket and Weissman (2009). The results suggest that vertically integrated businesses which involve designing, constructing and operating facilities provide different motivations to engage with social procurement compared to contractors since such organisations remain in communities after the project is constructed which provides shared-value incentives to give back to the communities in which they were building. These do not exist in the temporary project-based nature of construction contracting businesses.

This is my personal belief and understanding, but [we] are motivated to doing good for the community first and foremost. We do acknowledge that we are proud of the good work that we do. That might set us apart from our competitors and this may produce commercial benefits down the track for us as a brand.

While there are clearly different drivers for contractors and developers, the majority of responses were fairly shallow, pragmatic and ultimately regulation and market-driven - certainly far more pragmatic than those revealed by Peterson and Kadefors (2016) in the Swedish construction industry.

Apart from one respondent, there was no consideration of the broader political and public governance trends which are driving social procurement which were discussed earlier in this paper and of the broader role of construction in building a stronger society and addressing disadvantage.

### **Barriers to social procurement in construction**

There are a number of different ways in which our respondents engaged with social procurement and the barriers were different in each case. For example, in directly purchasing social services from a non-profit organisation, the results support previous research by Loosemore and Higgon (2015) which found that there are clear costs and risks for construction firms of working with the social sector.

We did engage kids in an apprenticeship scheme through [charity name]. But to be honest I would say that was more of a hindrance to us than a benefit. They required a lot of supervision. They weren't able to work autonomously; you really had to watch them to make sure they did the right thing. I don't think they wanted to be there, probably more because someone had told them to be there. So yeah whilst that was us getting a perceived benefit through a social means it was really us providing work experience for those kids, more so than us receiving a benefit from their work.

These results also resonate with Barraket *et al.*'s (2016) observations around the challenges involved with the merging of different institutional logics in social procurement. This is also a challenge which Petersen and Kadefors (2016) also highlight in their preliminary research into construction social procurement in Sweden - arguing that this will result in new institutional configurations which are not yet understood. Other challenges highlighted in adopting this social procurement strategy included scepticism of working with social benefit organisations because they had "difficulty reporting and measuring" their social impact. This is important and supports Burkett's (2010: 48) assertion that "it is the management of the contract once it is awarded, and in particular how it is monitored and evaluated that defines whether or not social procurement is worth all the effort".

The use of social clauses in construction contracts to require existing supply chain incumbents to provide social value (such as training and employment opportunities to disadvantaged cohorts) was another common social procurement strategy employed by our respondents.

The fundamental thing to do, at the end of the day, is to insert it (social procurement) into the contracts. So we inserted social clauses into our subcontracts, which hadn't been done before....The single most important thing to do is embed it in contracts [...] then have people within the organisation who understand [the requirements] and support that discussion.

These results are consistent with the findings of Bonwick and Daniels (2014) who identified that most social procurement in Australia is being achieved through the use of contract clauses. However, it should also be noted that previous research has raised concerns about the capacity of existing construction supply chain partners to deliver on the social clause requirements - particularly as many only work on projects for short periods of time which prevent them providing sustainable training and employment opportunities for the social groups targeted by social clauses (Loosemore and Higgon 2015). Furthermore, research shows that as well as having well designed social clauses, it is critical to have people who understand and can communicate what social outcomes are required, why it is needed and how it will be monitored and enforced (Blee and Pidgeon 2014, Halloran 2016). This combination of contractual and interpersonal strategies is likely to be important in avoiding the compliance-based mentality which our research suggests is driving social procurement in construction at the moment.

In a third approach to social procurement, all respondents had directly procured construction products and services from social benefit organisations (mostly Indigenous businesses; charities and social enterprises). However, this did not always translate into meaningful collaboration and as a number of respondents note, there is often a challenge in integrating these organisations into the supply chain, rather than relying on them for tokenistic purchases only:

You can partner with social enterprises but it's hard to do during construction. It is much easier in a retail space, so for example towards the back end of the project we had retail pop-ups. Social enterprises and charities are at the back end and not during construction.

While Loosemore (2016a) identified a wide range of internal and external barriers which prevent integration into the construction supply chain, the most cited in our responses was the regulatory nature of the industry and the difficulties which these organisations have in securing the necessary licences and certifications to even prequalify to tender on construction projects. A number of respondents also talked about a lack of supply of credible organisations which were capable of undertaking meaningful construction work.

I would have very limited input on that to be honest. It's really not a big thing in our industry and I think it speaks to the high barriers for entry that we require such as insurances, resourcing, skills and experience, balance sheets. There are a lot of things that, when we are engaging a subcontractor we take into consideration.

As R5 noted, working effectively with social benefit organisations requires “a different way of thinking” and capacity-building initiatives which can help such organisations overcome the barriers identified above.

[When engaging with a social enterprise] the organisation has got to be prepared to mentor that social enterprise and bring them along the journey. You need to partner, it's not a set and forget thing.

The final type of social procurement strategy employed by our respondents was responsible sourcing from accredited social businesses (that is commercial for-profit businesses driven by social goals which make distribute profits to shareholders rather than the community). However, our results indicate that one of the main problems for companies employing this strategy was the lack of standards and certifications which can be used to reliably vet an organisation as socially responsible or not. A number of respondents discussed ISO Standards and various international indices such as Global Reporting Initiative (GRI) and Dow Jones Sustainability Index. However, they felt they were more about building quality and environment rather than achieving social requirements and that they were too onerous for the small businesses in their supply chain. In all, the results reflect the findings of Upstill-Goddard *et al.*, (2012) who show that the construction industry is yet to develop rigorous governance and certification frameworks to enable firms to fully engage with the idea of responsible sourcing.

## CONCLUSIONS

The aim of this paper was to explore the motivations driving social procurement in construction and the barriers preventing its implementation. Through semi-structured interviews with relevant people with responsibility for social procurement in eight major Australian contracting, property management and development organisations it has been found that social procurement is primarily market-driven and that these companies employ a range of strategies which are accompanied by unique barriers to implementation. This suggests that the quasi markets created for social value through legislation like the UK's Social Value (public Services) Act 2012 and the Indigenous Procurement Policy (2015) in Australia are crucial to the establishment of social procurement as a permanent practice in the construction industry. There appears to be little understanding of broader political trends driving this new variant of traditional procurement or of the important role that construction plays in addressing social disadvantage and inequity in the broader community. This suggests that firms are operating in an intellectual and contextual vacuum, doing what they are told but not really understanding why they are doing it. Every organisation in our sample had engaged a social benefit organisation at some time, and here the main challenges revolved around identifying appropriate and reliable organisations of sufficient scale to work on large construction projects. Social benefit organisations are widely seen as a risk and best

confined to low risk, low skilled, non-critical and off-site activities. The barriers facing these organisations in penetrating the industry are clearly significant and for contractors challenges remain in working across the differing institutional logics of the construction and social benefit sectors. In using social clauses to require existing supply chain incumbents to deliver social value the barriers largely revolve around the capacity of industry incumbents to do so and the absence of people who understand these requirements and the resources and expertise to monitor their implementation in practice. Finally, the barriers to responsible sourcing as a final common social procurement strategy mainly relate to the lack of certification and responsible sourcing frameworks which allow socially responsible businesses to be reliably identified. This makes any soft instruments such as codes of supply chain practice largely toothless and ineffective at the moment.

Further research is needed into the development of new supply chain capacity to deliver social value and into strategies to resolve tensions from the conflicting objectives and institutional logics which arise from the new cross-sector collaborations which social procurement brings to construction.

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