

# GENERATING SOCIAL VALUE THROUGH PUBLIC SECTOR CONSTRUCTION PROCUREMENT: A STUDY OF LOCAL AUTHORITIES AND SMES

Christopher Burke<sup>1</sup> and Andrew King

*School of Architecture, Design and the Built Environment, Nottingham Trent University, NG1 4BU, UK*

Difficult economic conditions exert additional pressure on government organisations to achieve more with less. The UK Government has redefined value for money, calling for Public Sector Organisations (PSOs) to practice the principles of sustainable procurement; whereby economic, environmental and social considerations form the selection criteria on tenders for public sector contracts. Support for this new approach has been reinforced by placing a duty of Best Value on Public Procurement Officers (PPOs) and more recently, the introduction of the Public Services (Social Value) Act 2012 (the Act). The research adopts a Grounded Theory (GT) approach, with nine unstructured and semi-structured interviews conducted with four local authorities, three construction Small and Medium Enterprises (SMEs) and two social value practitioners. The findings suggest there is a lack of adoption among procurers of public sector construction contracts, with up to 75% of local authorities not including reference to the Act or social value in their corporate procurement strategies. The SMEs involved in this study are at varied stages of development, with one organisation arguably demonstrating a sophisticated approach to social value. Importantly, the findings suggest that there is a lack of guidance and lack of prominence given to social value in tenders. This paper advances current knowledge in the field by providing a foundation for further research in a new area of study.

Keywords: social value, public procurement, SME.

## INTRODUCTION

The introduction of the Public Services (Social Value) Act 2012 (the Act) can change the way that Public Sector Organisations (PSOs) procure services, goods and works; with PSOs now required to consider economic, social and environmental wellbeing in connection with public sector contracts to achieve maximum value for money. This means that PSOs will be assessing bids beyond the lowest price to evaluate quality aspects when awarding contracts.

Obtaining value for money is the overriding factor that determines public procurement decisions. In recent years, questions over what constitutes value for money has stemmed from the economic downturn which placed unprecedented pressure on Public Procurement Officers (PPOs) and businesses, with stakeholders demanding increased transparency and accountability. Furthermore, leading economists, political figures and social scientists around the world have called for national progress measures which go beyond Gross Domestic Product (GDP); encompassing economic, social and environmental progress (Stiglitz *et al.*, 2013). This has struck a chord in the

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<sup>1</sup> christopher.burke2011@my.ntu.ac.uk

United Kingdom (UK), with the current government introducing National Wellbeing Measures and promoting the ideological theme of ‘the Big Society’ in the 2010 general election. There are two fundamental strands to the Big Society: a commitment to the free market, and the empowerment of communities. Furthermore, the notion of placing more power in communities led to the introduction of the Localism Act 2011, and subsequently; Local Enterprise Partnerships (LEPs), neighbourhood planning and devolving power from central government to local government authorities.

From a business perspective, stakeholder pressures can be attributed to current trends surrounding sustainability and Corporate Social Responsibility (CSR). Porter and Kramer (2011) suggest that businesses should be working towards Creating Shared Value (CSV), a new conception of capitalism where business is placed at the centre of meeting societies challenges. Milton Friedman famously criticised the idea that businesses should partake in solving society's wider issues, arguing that profit maximisation contributes to decreasing unemployment, and increasing wages, purchases, investments and taxes (Friedman, 1970). In contrast, Porter and Kramer (2011) believe that this approach, which has dominated management thinking throughout the 20th century, does little for communities which do not benefit from the profits a company creates from operating in that area. CSV has received widespread criticism from CSR professionals who argue that it just gives a current trend a new name (Junge, 2011). However, the significant contribution of CSV is that it has been the catalyst for a debate on the role of business in the 21st century, a debate which should not be excluded from businesses operating in the construction industry (Awale and Rowlinson, 2014).

Myers (2013) highlights that the construction industry is often identified as the first sector to require specific attention in addressing the three pillars of the sustainable agenda. The socio-economic impact of the construction industry is significant, as economic growth results in increased societal demands, including essential infrastructure such as housing, roads, bridges, water, electricity and telecommunications. The construction industry is also a major source of employment, accounting for 2.93 million jobs, equivalent to 10% of total UK employment (BIS, 2013). Therefore, it is clear that the construction industry can contribute to the UK Government's wider goals of sustainable development. However, sustainable development is often misinterpreted with environmental dimensions of sustainability, thereby overshadowing the social facets. That said, it is difficult to talk about one strand of sustainable development without considering its implications on the other two strands of the triple bottom line construct, with Brennan and Cotgrave (2014) likening it to a three legged stool.

#### *Corporate Social Responsibility*

Jones *et al.* (2006) carried out a study seeking to explore CSR strategies among 37 of the UK's leading construction companies, concluding that many of their CSR policies appear aspirational and lack verifiability. The majority of studies on CSR theory focus on large or multinational organisations, with conventional approaches to CSR predominately having been developed around them. Arguably, there should be a greater focus on Small and Medium Enterprises (SMEs) in construction; with SMEs accounting for a 72.4% of total UK construction turnover and constituting approximately 99% of firms (BIS, 2014). Moreover, there is a high degree of fragmentation in construction with responsibility and performance cascading down the supply chain (Brennan and Cotgrave, 2013). This is evidenced in an analysis carried

out by EC Harris, which has shown that on a typical £20-25million project, the main contractor will manage approximately 70 subcontracts (BIS, 2014).

### *Social Value*

Similar to the variety of definitions of ‘sustainability’, there is a lack of clarity in defining social value. In the context of the Act, social value can be broadly defined as:

‘The additional benefit to the community from a commissioning/procurement process over and above the direct purchasing of goods, services or outcomes.’ (NHS North West Commissioning Project, 2010)

The concept of social value is purposefully non-prescriptive within the Act, only requiring a ‘duty to consider’ the economic, environmental and social benefits which can be achieved through public procurement. A powerful element to the Act is that it applies at pre-procurement, asking PPOs to consider whether consultation with project stakeholders is required. Importantly, this includes consulting communities which have an interest in the finished building or scheme. As such, the Act takes account of the subjective nature of social value, driving PSOs to engage with communities to explore what they value. This is made more difficult by shifting priorities over time and between different members of the community (Fitton *et al.*, 2014).

Arguably, greater social value is created where PSOs take a more integrative approach to understanding the needs of the community, by taking account of the local nature of SMEs and their involvement in the communities they serve. This provides construction organisations with a dual role, whereby they can offer their own thoughts and ideas, possibly through early consultation with communities; thus gaining a competitive advantage when bidding for public sector contracts. In addition, scant literature exists surrounding the potential of participatory design processes which empower communities to alter their physical environment, taking considerations of social value beyond the construction process itself. Fitton and Guthrie (2014) support development in this area, stating that the social and environmental impacts of flood alleviation schemes should be just as important as the technical, commercial or operational considerations of the design. Successfully adopting this approach requires the construction industry to overcome the tendency to choose the option which offers lowest capital cost. However, the subjectivity of social and environmental outcomes makes it hard to evaluate the cost versus benefits in this scenario, something which may change as tools and methodologies for measuring social value are developed.

### *Measuring Social Value*

There is no standard ‘one size fits all’ method to measuring social impact (Wood and Leighton, 2010; Mulgan, 2011; Severn, 2014). Social Return on Investment (SROI) has become the favoured tool for the UK Government, due to its ability to quantify and communicate social value with monetary outcomes (Wood and Leighton, 2010). The immediate attraction here is the belief that SROI offers a transparent and accountable monetary value which can be used to compare the ‘worth’ of tenders.

Work by Daniel Fujiwara at SImetrica has led to the development of the Housing Associations Charitable Trust (HACT) Wellbeing Valuation assessment tool, which includes the largest set of methodologically consistent social value metrics produced to date (The SROI Network, 2015). HACT’s innovative tool aims to address the challenges of placing a monetary value on non-market qualities such as ‘confidence levels’ and ‘sense of belonging to the neighbourhood’ by using large data sets from national surveys.

Another tool limited to measuring local impact has been produced by the New Economics Foundation, called Local Multiplier 3 (LM3), which can be used to calculate the economic contribution of an organisation to a specific outcome. Essentially, LM3 measures three rounds of spend within the defined 'local' boundary. Organisations carrying out an LM3 need to first collate data from their income source (round one), calculate outgoings on employees and supply chain (round two), and record how round two distributes their spend (round three). The many diverse tools available results in fragmentation and confusion, therefore limiting their use and impact within the construction industry to date.

Pointing to emerging practices in Europe, a number of contractors in the Netherlands have recently implemented a Social Return Performance Ladder (referred to as PSOBouw), which has been developed exclusively for the construction industry. With participating companies including multinational contractors VolkerWessels, BAM and Heijmans, PSOBouw broadly aims to measure the social return of increasing employment for those who find it difficult to access the labour market.

## **METHODOLOGY**

A Grounded Theory (GT) methodology was adopted for this research to enable exploration of an under-researched area. GT was first introduced in the seminal text *The Discovery of Grounded Theory* (Glaser and Strauss, 1967) and allows the theory to emerge from the data. The work utilised theoretical sampling - interview participants were selected based on the developing theory.

Nine in-depth unstructured and semi-structured interviews were conducted with four local authorities, three construction SMEs and two social value practitioners over a four-month period in late 2014 and early 2015. The sample was broadly spread throughout England, with the exception of the three SME participants who were all based in the Midlands. The local authorities were all at an intermediate or advanced stage of embedding social value into their procurement decision-making processes. The three SME participants were all aware of social value through tendering for and delivering public sector work.

Unstructured interviews proved particularly useful in the early stages of the work, allowing the interview participants to lead the 'conversations with a purpose' (Burgess, 1984). Memos were used to lead the analytic work and fed into the evolving interview guides representing a move to a more semi-structured format. Similarly, the emergent nature of the open-ended semi-structured interviews allowed the interviewer to guide the interview with fluidity, thus allowing new areas of discussion to develop. Early topics of enquiry included the following:

- Understanding and awareness of social value;
- Perceptions of public procurement and barriers to procuring social value; and,
- Knowledge and perception of measurement tools (e.g. SROI and LM3).

Trustworthiness, credibility and transferability of the research drove the use of the GT layers of open, axial and selective coding based on fully transcribed interviews and detailed analytic memos. The thematic analysis of the textual data led to the construction of three central themes to be discussed in the results (see Figure 1).

To explore the awareness and adoption of social value across all local authorities in England, a search of published website data was carried out during the period 10th

February to 27th March 2015. The authorities' websites were searched for the following documents:

- The local authorities' latest publicly available corporate procurement strategy;
- A published social value policy; and
- A published social value toolkit.

The results from the documentary analysis were then quantified and used to supplement the data gathered in the interviews.

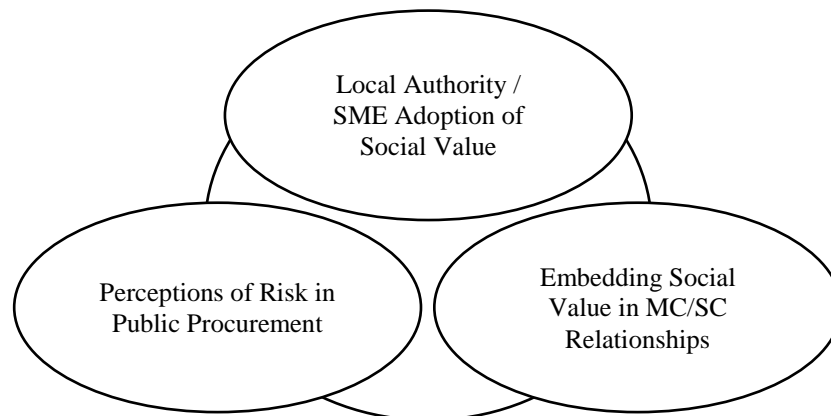


Figure 1: Central themes

## RESULTS

### *Adoption of Social Value*

The sample includes all 351 local authorities in England, with data collected in relation to whether the local authority: explicitly mentions social value and the Act within their latest available corporate procurement strategy; has a specific social value policy in place; or, has produced a social value toolkit. Social value policies reviewed typically summarised what social value means to the local authority, states their social value outcomes and outlines the scope of their overall approach. A social value toolkit covers these issues in significantly more detail, while also providing guidance for PPOs on precisely how they can procure social value outcomes.

The purpose of this pilot-study was to measure the adoption of social value among local authorities at a strategic level, with a binary yes or no methodology applied for simplicity in reporting the findings. It is important to recognise several limitations to the adopted approach. First, the data collection relies on local authorities' website data being up to date, which is often not the case within the small district authorities. Second, the simple yes or no categorisation is reliant on the author's interpretation where the indicated approach was ambiguous. Third, the sample only includes local authorities in England, thereby excluding 22 in Wales (the Act only applies in England and Wales). Furthermore, the selected sample does not consider any of the other PSOs which have to comply with European Union (EU) procurement rules.

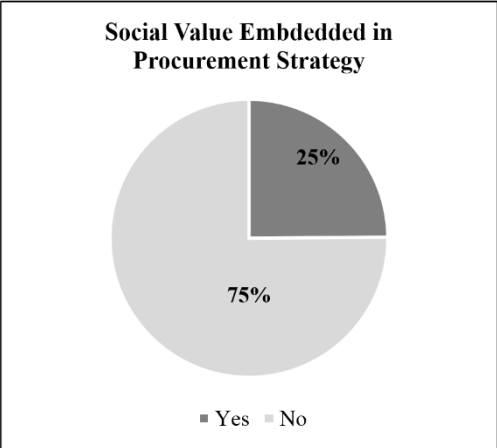


Figure 2: Local authorities with social value embedded in their procurement strategies.

The results indicate that 25% of local authorities have embedded social value in their corporate procurement strategies. Although this is not necessarily a fully accurate representation of adoption by local authorities and PPOs, the low percentage of local authorities implementing the Act at a strategic level echoes literature suggesting that many local authorities are yet to see the potential of embedding social value in procurement decisions (Cabinet Office, 2014). With up to 75% of local authorities not embedding social value in procurement strategies, and less than 10% having a specific social value policy or toolkit; this raises concerns that social value is not seriously considered in commissioning and procurement decision making across England.

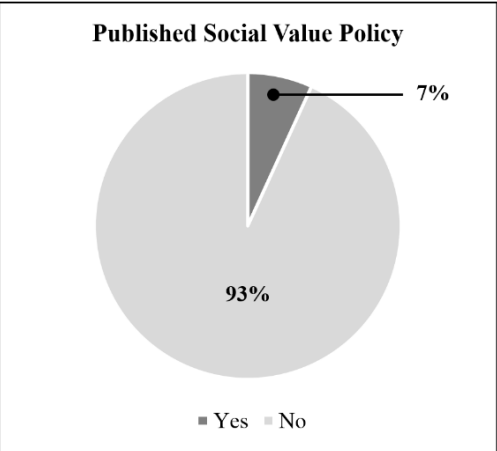


Figure 3: Local authorities with a published social value policy.

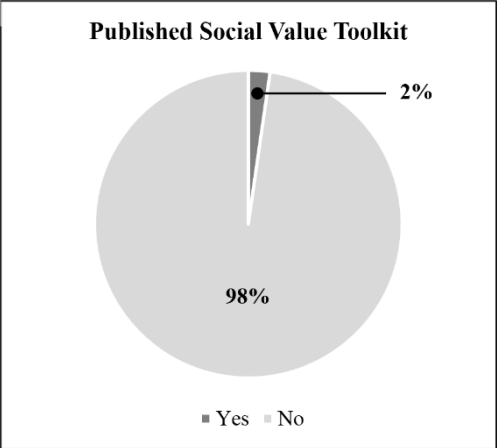


Figure 4: Local authorities with a published social value toolkit.

The four local authorities interviewed had sought to place social value at the centre of their procurement strategies, with some having taken this further with either a social value policy or toolkit. One participant, the Head of Procurement at a local authority, viewed their toolkit as important in raising awareness among SMEs, commenting:

*“[...] a lot don’t understand it [...] I think there is probably quite a big challenge, to try and educate and support providers [...] to get a better understanding of what we mean by the delivery of social, economic and community benefits.”*

A social value policy or toolkit can operate as a tool for providers to understand what their client wants to see in tender submissions by highlighting their strategic objectives. Although some local authorities, including those interviewed, are displaying good practice in this area, there is clearly still much variation in the way local authorities are applying these tools. This inconsistent practice can limit the success of SMEs when tendering for public sector contracts as they do not always have the time and resources to carry out extensive research for every project (Cabinet Office, 2015).

Moving to consider adoption by SMEs, awareness of social value and the Act is generally described as low (Battle, 2014). However, the three SMEs interviewed in this study point to the increasing importance of social value, with two of the three organisations currently in the early stages of adopting social value in their business activities. Drivers for adopting social value in their business practices included increasing their competitive advantage, improving the communities they operated within and to comply with clients' award criteria. For one participant, the Director of a roofing contractor, using social value to gain competitive advantage was a natural extension to their vision of operating a socially responsible business. This included increasing local expenditure through local employment and community involvement. The third organisation can be considered an exemplar model for adoption, displaying an advanced level of understanding in the social value they create. For example, this particular organisation is starting to engage with more sophisticated methods of measuring social value including the HACT Wellbeing Valuation tool and detailed approaches to SROI; having already evidenced their local impact using the LM3 assessment.

The SME participants have seen an increase in socially related questions in Pre-Qualification Questionnaires (PQQ) and Invitation to Tender (ITT) documents in recent years. The difficulties they experienced were mostly in relation to their ability to effectively communicate their plans to create social value when asked open-ended questions in tender documents. The respondents stated that there was often little guidance offered by PPOs, in addition to a sense that there was a ‘throw everything in’ ad-hoc approach to articulating social value outcomes. Moreover, it was clear this repeatedly led to an array of possible social outcomes, which arguably fail to respond to community needs.

It is unsurprising that SMEs are at different levels in understanding social value. In part, this is due to a lack of transparency in the evaluation of social outcomes and a corresponding deficiency in contract monitoring. As a result, many local authorities and providers are not learning from their social value-based activities. Crucially, this means that whilst some SMEs are developing innovative ways of creating social value, they may never be reviewed or appropriately rewarded.

### *Perceptions of Risk in Public Procurement*

Despite legal backing from EU legislation (2014/24/EC), European case law and the recently revised Public Regulations 2015, the fear of legal challenges may explain the lack of adoption when procuring social benefits, as one local authority makes clear:

*“[...] if you push the boundaries and try and deliver social value, but then you are perceived by unsuccessful bidders to give some suppliers an unfair advantage in doing so, then the risk of challenge exists [...]”*

This view aligns with previous studies that there is a fear of challenge resulting from the perceived lack of clarity on what is legally permissible (see Cabinet Office, 2015; Richardson, 2015). However, this threat appears minimal in light of the recent EU and domestic legislative changes which explicitly support procuring social and environmental benefits in contracts (Cook *et al.*, 2014). The ‘link to the subject matter’ precedent has emerged as the major legal principle for sustainability considerations in public procurement, as held in *Concordia Bus Finland Oy AB v. Helsingin Kaupunki* [2003]. Conclusively, award criteria need not be purely economic in nature, providing; it is linked to the subject matter of the contract, does not confer an unrestricted freedom of choice on the procuring authority, it is expressly mentioned in the contract documents or tender notice, it is not indirectly or directly discriminatory, and complies with the principles of community law.

### *Embedding Social Value in Main Contractor / Subcontractor Relationships*

The majority of main contractors have their own specific approaches to CSR and advertise the importance they give to operating a socially responsible business. However, the fragmented nature of the construction industry means that SMEs are often required to support their larger partners in meeting social requirements in contracts. This position was clarified by one local authority participant:

*“A lot of the larger contractors that we would be working with, they will pass it down through their supply chain [...] and it will be their contractors or subcontractors, they actually deliver on it.”*

SMEs tend to be enmeshed within communities and stand in a great position to deliver social value through the supply chain. However, there is a danger that SMEs are asked to deliver social outcomes on behalf of main contractors without a support framework which allows them to do so, as described by the following SME participant:

*“[...] they always ask us how many apprentices we’ve got and if we can take an apprentice on. But then I’ll say ‘yes, but give us an apprentice in roofing’, and they’ll say they can’t.”*

Although main contractors may have ambitious targets for social value articulated in tenders, the challenge can be turning the promises into reality. Whilst there are examples of main contractors having effective processes in place to ensure that social outcomes are delivered, many are still at the embryonic stage with an unplanned and ad-hoc approach which compromises performance on social value requirements.

## **CONCLUSIONS**

Whilst the Act has attracted widespread support and interest from both the public and private sector it is clearly still in the early stages of development. Adoption to date at a strategic level by local authorities has been inconsistent across the country as evidenced in the study. This is the first attempt to measure adoption of the Act across all local authorities in England, with previous surveys relying on a self-selecting



sample (Cabinet Office, 2015), or across a range of PSOs (Social Enterprise UK, 2014). On the basis of the publicly available information on local authorities' websites, the findings suggest that up to 75% have not included a reference to the Act or social value in their corporate procurement strategies. Future planned work includes a more detailed study of adoption by local authorities.

SMEs, who are often the organisations left to actually deliver social value outcomes, tend to be unaware of the Act and have little visibility of the wider social value picture they are helping to create. Moreover, progress is slow as the social value created is often not reviewed as part of contract monitoring and feedback. Those organisations pushing this agenda are beginning to benefit to a limited extent through competitive advantage over other less developed organisations, but progress is slow and often disproportionate to the time, cost and resource expended. The importance of SMEs in developing social value is clear as they are often rooted in the communities in which they operate, thus have a greater understanding of community needs and ability to multiply local expenditure.

The findings presented within this paper are intended to provide a foundation for further research in an area where scant literature exists. This study only uses a small sample and provides a snapshot of the attitudes towards social value across a varied range of local authorities, construction SMEs and wider practitioners. Extending the sample population to include large construction contractors, housing associations and wider stakeholders such as community members is required. Additionally, future research should explore how social value is communicated through the supply chain with a case study into individual local authorities' construction projects.

Further research into the whole-life potential of social value is needed to assist in maximising value for money. To mature, the construction industry needs to advance from traditional commercial and technical notions of value, to consider the impact of the built environment on physical and mental health, how the physical environment can improve social relationships, reduce crime, and improve overall wellbeing. Moreover, the design and construction process should be reconfigured to incorporate collaborative processes such as Inclusive Design and Participatory Design.

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