

The risks and opportunities of social procurement from a social enterprise perspective

This is the sixth in a series of regular fact sheets about recent 'social procurement research led by UTS.

This fact sheet summarises a variety of recent research projects which explored the risks and opportunities associated with social procurement from the perspectives of social enterprises.

The detailed publications in which this research has been published are listed at the bottom of this factsheet.

Please feel free to distribute this factsheet to anyone who may be interested.

Why the study

- Social procurement is a new collaborative policy mechanism which is being used by governments and socially responsible private clients to address their wider CSR objectives.
- These emerging policies seek to shift attention away from governments a provider of welfare to an enabler of such services by incentivising new collaborative arrangements between government, private, third sector and community organisations.
- There is little experience in the construction industry of how to work across these sectors to deliver social value to the communities in which it builds.
- There is virtually no research into how these new hybrid organisational arrangements work and what the perceived risks and opportunities are to all those organisations involved.
- Research outside the construction sector shows that while the potential opportunities of collaboration are theoretically enormous, collaborating across diverse sectors is risky and prone to failure.
- Potential risks include: disparate organisational systems, goals and logics, high transaction costs, poor communication and differing professional identities, cultures and languages, incentives and management practices.
- True collaboration is about a different way of thinking and behaving based on deep interpersonal relationships, supported by processes and mechanisms to facilitate systemic and transformational change. In a genuine collaboration members give up some part of themselves so that something new can be created.

Aim

- The aim of these various research projects has been to explore the risks and opportunities associated with social procurement from the perspectives of various stakeholders involved in implementing social procurement into the construction industry. These include: government agencies; social enterprises and other third-sector organisations; private businesses (contractors and subcontractors); private employment agencies and other support organisations; RTOs etc.

What we did

- Data was collected via interviews, focus groups, documentary and case study analysis of social enterprises operating in the construction industry.

Useful references to social enterprise in construction: Barraket J and Loosemore M (2018) Co-creating social value through cross-sector collaboration between social enterprises and the construction industry, *Construction Management and Economics*, 36:7, 394-408; Loosemore, M., Denny-Smith, G., Barraket, J., Keast, R., Chamberlain, D., Muir, K., Powell, A., Higgon, D. and Osborne, J. (2021), "Optimising social procurement policy outcomes through cross-sector collaboration in the Australian construction industry", *Engineering, Construction and Architectural Management*, Vol. 28 No. 7, pp. 1908-1928; Loosemore, M (2015) Building the third construction sector through social enterprise, *Construction Management and Economics*, Volume 33, Issue 9, 724-739; Loosemore, M and Higgon, D (2015) *Social enterprise in the construction industry: Building better communities*, Routledge, London.

What we found

- There was some uncertainty about whether new social procurement (SP) policies represented an opportunity or risk to social enterprises (SEs).
- The policies were seen as narrowly focussed (on Indigenous procurement) and politically unstable. This created a reluctance to invest on scaling-up on the back of the opportunities they present.
- Few SE had seen a major increase in business from social procurement in the construction sector.
- There was a sense that people were still learning how to navigate this space and that there was a need to educate themselves and potential clients about the nature and benefits of these requirements. This made it hard to formulise strategies around this.
- SP policies were seen by some as an important new door-opener for social enterprises and a way to open up opportunities for further work and sometimes spin-off businesses.
- They were also seen to benefit a wide range of cohorts (although some concerns were raised about an over-focus on Indigenous people and businesses at the exclusion of other cohort groups who also need support).
- Policy enforcement was seen as a problem (in terms of quality of jobs created and alignment will current and future skills needs of the industry)
- A number of respondents thought that mandating social procurement will not bring about sustained change attitudes towards SE. Bringing external private investor funding into the sector was seen as important in the long term to make it sustainable
- There was a perception that the terms social enterprise and social procurement were confusing for many clients. Helping clients to understand and meet compliance requirements was seen as an important service that social enterprises should offer. There is an important education role for SE to play in helping government roll out these policies
- Reducing the perceived risk of employing a SE in the construction industry was seen as important and there was recognition that this risk is heightened by the project-based nature of the social procurement requirements which means that the requirements multiply as a function of the number of projects a firm is involved in. This was leading to gaming of the system in some companies such as giving SE tokenistic contracts etc.
- A misalignment was perceived between the target areas of SP procurement and the skills needs of the industry.
- The importance of the SE label was raised by a number of respondents. SE certification was seen as useful in this respect but the rigour of the certification process was uncertain.
- However, the value of the SE label was uncertain for the majority and could even be a disadvantage. The new Victorian SE policy framework was seen as a useful mechanism to allow SE's to leverage that label.
- Ironically, there was a perceived need to emphasise the commercial aspects of what SE do rather than the social aspects since this could cause confusion and negativity in the market. Changing negative perceptions of SE ability to deliver efficiently and effectively and to the same safety and quality standards as incumbent subcontractors was seen as critical.
- A lack of social capital, an ability to form networks and getting in front of the right people was a common problem raised by our respondents. The role of intermediaries like Social Traders was seen as potentially useful but access to decision makers in employing organisations was seen as problematic.
- SEs tend to occupy the lower end of the supply chain where risks to industry incumbents and potential partners are very high. This means opportunities for collaboration are weak. SE's need to move up the value chain.
- The risks that social procurement policies pose for SE were seen to be low but largely revolved around: mandatory nature of policies, politics, cash flow, size of contracts, increased competition, learning to work with the private sector.

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- Construction-specific risks include: lack of experience in employing social procurement cohorts, boom and bust nature of work, safety risks, high stress project-based environment, lack of clarity around skills needs, quick staff turnover needs, large packages which make it hard to compete, union presence, government restructures and outsourcing of their maintenance/construction services, negative stereotypes of social enterprises. These risks were seen as especially high for work integrated social enterprises because of the nature of employment in the industry (skills, culture, existing networks, discrimination etc).
- There was a perception that it was difficult to sell apprenticeship or trainee labour into an industry where recruiting from labour hire companies is normalised ... because it is more flexible labour and allows firms to respond quickly to unplanned peaks and troughs of labour demand
- Measuring social impact was seen as problematic and there was some scepticism in trying to quantify it. There was also not a big demand for social enterprises to measure their impact from potential clients and when there was, there is a focus on hard \$ outputs not soft outcomes/impacts.

What this means

- The findings indicate that while the intent of social procurement policies is to encourage more supply chain diversity and collaboration between social enterprises, governments, private businesses and other types of not-for-profits, training providers and community organisation, this is easier said than done.
- There are significant opportunities and risks for social enterprises in engaging with the social procurement agenda.
- An understanding of the risks and opportunities of SP from the perspective of each stakeholder group is critical in understanding the types of strategies which need to be implemented to encourage more collaboration and maximise the social value these policies are designed to create.
- Given the range of organisations and sectors which need to collaborate to implement social procurement effectively, this requires new relationships, knowledge and competencies which are not traditionally part of the construction industry's skill set.