



# **Social procurement in the construction industry: challenges and realities**

Never Stand Still

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# Construction is a major focus of Social Procurement Policy

Spending on construction has a major positive social impact

- ❑ One of our largest industries (around 8-10% of GDP)
- ❑ One of our largest employers (over 1.10m people)
- ❑ Australia's largest youth employer (43% aged 15-24 compared to 38% for all industries)
- ❑ Predicted skills shortages (50% of all occupations in shortage in next 5 years)
- ❑ Significant infrastructure pipeline (around \$100 billion nationally)
- ❑ Governments typically spend a large proportion of revenue on infrastructure, construction and housing
- ❑ Large multiplier effect into the wider economy (\$1m spent in CI = \$3.7 m in wider economy = 9 jobs in construction + 37 jobs elsewhere)
- ❑ One of largest Indigenous employers/business areas
- ❑ Operates in our most marginalised and remote communities (acupuncture effect)
- ❑ Highly diverse (57% NESB and 40% born in non-English-speaking country)
- ❑ Offers many unskilled jobs
- ❑ Tolerant of disadvantage



# Well designed and built infrastructure and buildings create positive social impact



# The construction industry

## A tough place to work

- ❑ Project-based industry
  - ❑ Constantly changing teams moving between communities
- ❑ Overwhelmingly small companies
  - ❑ 60% are sole-traders (no employees)
  - ❑ 98.6% <20 employees
  - ❑ 1.3% are medium-sized (20-200 employees)
  - ❑ 0.10% are large (>200 employees)
- ❑ Employment
  - ❑ 65% work in trades (Subcontractors)
  - ❑ 26% in General Building (Main contractors)
  - ❑ 7% in heavy/civil engineering
  - ❑ 2.5% in professional services (architects, surveyors, engineers etc)
  - ❑ 89% professionals are male (98% in trades) compared to 54% across all industries
- ❑ Qualifications – 8% have degrees compared to 28% across all industries
- ❑ High levels of SHAM contracting (26-44% of all contractors) and corruption
- ❑ Highly commercial and cut-throat – lowest price wins, low margins, large cost and time pressures
- ❑ High risk – workplaces, materials, people
- ❑ Value is narrowly defined in mainly economic terms – social value is a mystery to most
- ❑ Community seen as a risk rather than an asset – Social Procurement is a new risk which will be managed similarly
- ❑ Risk shifting culture - including for social procurement risks
- ❑ Highly cyclical and high rates of bankruptcies (23% of all external administrations)
- ❑ Social and environmental record is widely considered to be poor



# Barriers to social procurement



## Existing procurement practices

- Lack of experience of social procurement
- Complex and bureaucratic procurement/tendering procedures placing an unfair cost burden on social benefit organisations
- Inconsistent procurement/tendering processes between different clients
- Large size of typical work packages on projects are beyond capacity of many social benefit organisations . Prevents them from breaking into existing supply chains and competing with industry incumbents.
- Narrow conceptions of value in the construction sector (overly focussed on price rather than value)

## Negative perceptions of social benefit organisations

- Lack of trust. Not being taken seriously by the construction sector.
- Perceptions that social benefit organisations can't handle large work packages.
- social benefit organisations tend to get given the smaller lower risk packages which prevents them achieving scale.
- Perceptions that social benefit organisations are charities and deliver low quality services.

## Rhetoric of CSR in the construction industry

- CSR being tokenistic and compliance-driven
- CSR cynicism creating a compliance mentality and tokenistic engagement with social enterprises.
- Lack connection and empathy with the community. They don't need to stay or leave a legacy.
- What is said at HO is often not implemented on site

## Resistance to change

- Unwillingness or inability to dislocate established supply chain relationships and procurement practices
- Long-established recruitment methods, sources and networks (old boys network). Hard to break into existing recruitment and supplier networks.

# Barriers to social procurement



Lack of engagement between social benefit organisations and construction.

- ❑ Clients who have had bad experiences of social benefit organisations
- ❑ Social benefit organisation - an unknown concept in the construction industry/market.
- ❑ A lack of experience, poor understanding and imagination of how the two sectors can mutually benefit each other.

Regulations

- ❑ Highly regulated nature of construction activity making social benefit organisations seem high-risk

Client silos

- ❑ Disconnect between well-intentioned Head Office initiatives and site priorities

Fragmented nature of the construction industry

- ❑ Project-based work leads to short-term thinking and short-term contracts which prevent stable work flows and employment opportunities
- ❑ Dealing with the tail end of the supply chain where there is generally little or no knowledge of social benefit organisations
- ❑ Industry fragmentation makes it hard to work across different organisations in a coordinated way.

Construction industry culture

- ❑ Commercial, macho, hard-nosed mindsets (social is intangible, soft and fluffy)
- ❑ Preconceived ideas about the ideal construction worker (able bodied males)
- ❑ Ingrained stigmas associated with disadvantaged groups which social benefit organisations employ

# Challenges for social benefit organisations

Not being construction sector savvy.

- ❑ Not understanding the unique characteristics, culture and processes of working in the construction industry.

Partnerships

- ❑ Not having strong partners who are prepared to share risk and help you grow and survive the inevitable hard times.
- ❑ Not having the networks to find out about potential projects early enough to plan

Running a small business

- ❑ Cash flows, recruiting quality staff, vulnerability to downturns etc. - compounded by having to balance profit with a social agenda.

Resourcing

- ❑ Getting good staff with the right attitude to work through the inevitable ups and downs of running a social enterprise.
- ❑ High staff turn-over. Not being able to offer staff a career path.
- ❑ Not being able to secure the necessary finance to establish and build the business and buy expensive capital equipment.
- ❑ Finding placements and jobs for problematic employees during a recession. Particularly with the growing abundance of cheap and highly skilled overseas labour.
- ❑ Managing employees with special needs.
- ❑ Spreading limited resources too thinly.



# Challenges for social benefit organisations



## Communicating value-add

- Not being able to measure and communicate social impact.
- Educating new potential clients what social benefit organisations do.
- Communicating that social benefit organisations can offer something innovative and different from traditional supplier organisations.

## Size and scope of activities

- Narrow revenue base. Relying on one stream of funding. Vulnerable.
- Not being large enough to compete with established subcontractors.

## Not having an effective strategy

- Not undertaking up-front planning and research and not developing a good evidence-based business model
- Not understanding the risks of running a social benefit organisation.
- Lack of focus (doing too much, no differentiation)
- Not being competitive with normal commercial businesses. Not delivering quality and reliable services at a competitive price.
- Taking-on contracts which are beyond capacity to deliver.
- Unresolved internal priorities, loyalties and conflicts between commercial and social goals.
- Poor governance



# Conclusion

A unique and innovative solution

## Westmead hospital redevelopment (Multiplex) – Connectivity Centre

<https://www.theconnectivitycentre.com.au/>



# Resources on social procurement in construction

## Books:

Raiden A, Loosemore M, King A and Gorse C (2019) *Social Value in Construction*, Routledge, London, UK.

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