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Socially responsible procurement: A service innovation for generating employment in construction

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# Socially responsible procurement

## A service innovation for generating employment in construction

Generating employment in construction

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### Abstract

**Purpose** – Socially responsible procurement (SRP) utilises government expenditure on construction procurement as a means of generating social value from construction activities. The paper proposes that SRP is a type of innovation delivering social value in the form of employment opportunities to local communities. The purpose of this paper is to investigate the use of SRP in Northern Ireland procurement and align the findings with existing literature.

**Design/methodology/approach** – A three-stage approach was employed, namely, first, a review of innovation and SRP literature; second, a survey of 50 Northern Ireland construction organisations to extract perceptions of SRP in practice; and third, qualitative analysis of the literature with the empirical insights.

**Findings** – Findings show that SRP is being driven by social legislation and being delivered by contractors as part of their contractual obligations. SRP represents a significant shift from standard construction practice which makes it challenging to implement using traditional processes and systems. It is found that SRP is generating social benefits through employment creation and the feedback from employees is largely positive. However, it is proposed that contractors need to adopt a more person-centric approach to the implementation of SRP to sustain the benefits being currently evidenced.

**Originality/value** – The study suggests that there is an urgent need for more holistic measurement of impacts and outcomes of SRP to ensure social targets are appropriate for the communities in which projects are being constructed.

**Keywords** Employment, Innovation, Social value, Construction contracts, Social clauses, Socially responsible procurement

**Paper type** Research paper

### Introduction

The use of public procurement in construction as a tool for creating social value is not new. Thai (2001) argued that there are two types of goals for public procurement: first, procuring goods and services, similar to the commercial goals of any profit-generating organisation, and second, non-procurement goals, creating socio-economic benefits such as alleviating poverty, supporting local markets, the inclusion of ethnic minorities and improving educational standards. Responsible procurement is enshrined in current EU law as “respect for Human rights” in the “fields of Environmental, Social and Labour Law” (Clause 18:2) (TSO, 2015) and drivers include social value legislation and policy, economic imperatives, stakeholder pressures and ethical influences (Worthington *et al.*, 2008). Socially responsible procurement (SRP) has its origins in a cross-section of literature including corporate social responsibility (Hughes, 2009; Zhao *et al.*, 2012; Frynas and Stephens, 2015; Loosemore and Lim, 2017), public procurement (McCrudden, 2004; Erridge and Hennigan, 2006; Thai and Piga, 2007; Walker and Brammer, 2009; Georghiou *et al.*, 2014), employability (Fugate *et al.*, 2004; Greasley *et al.*, 2005), skills shortages (Mackenzie *et al.*, 2000; Jones *et al.*, 2006), poverty and social deprivation (Watermeyer, 2000; MacFarlane, 2014) and social value (Erridge, 2005; Farag and McDermott, 2015; Burke and King, 2015). Following the Public (Social) Value Act (2012), aspirations towards increased use of public procurement to meet government employment objectives were adopted into the procurement practices of the Great Britain legislative assemblies (Blee and Pidgeon, 2014). In Northern Ireland,



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SRP legislation came into force in April 2016 for all public building contracts above £2m and civil engineering contracts above £4m. Requirements included the promotion of employment opportunities to the long-term unemployed (LTU), improved working conditions, ethical trade and social inclusion provision (NI Assembly, 2009). However, an over-reliance on regulatory oversight to deliver innovation often serves to stifle and constrain the outcomes intended (Moore, 1995; Koskela and Vrijhoef, 2001) and there are still significant challenges around enforcement of employment from socially disadvantaged groups and social inclusion (Jones *et al.*, 2006) and the potential for discrimination against non-national suppliers or target groups (McCrudden, 2004). Therefore, there is a disconnect between the drive for social innovation and the actual benefits SRP can provide for less advantaged in society. This gap in knowledge provides the basis for this paper.

### Literature review

It was primarily economists who undertook early studies on innovation such as Schumpeter (1930s–1940s), Schmookler (1950s) and Bowley (1960s). Schumpeter (1947) described innovation as, “an historic and irreversible change in the way of doing things” and also as, “creative destruction”, the development of something new which renders previous solutions redundant. Incremental innovation introduces relatively minor changes to an existing service, exploits the potential of the established process and often reinforces the dominance of established firms (Nelson and Winter, 1977). Radical innovation, on the other hand, is a transformational breakthrough in science or technology which often creates great difficulties for established firms and can be the basis for the redefinition of an entire industry (Dewar and Dutton, 1986). The *Oslo Manual* defined innovation as technical or organisational (OECD, 2005). Technical innovations are largely product innovations (Gann and Salter, 2000) whereas organisational innovations involve changes to a business or organisation, introduction of advanced management techniques or implementation of new corporate strategies (Lloyd-walker *et al.*, 2014). Slaughter (1998) revisited the innovation theories from general literature and transposed them into a model for construction innovation types classifying them as incremental, architectural, modular, system and radical ordered by: the extent to which an innovation deviates in function from standard practice; and the extent of integration of the innovation with other systems/processes.

### *Service innovation*

Service innovation is defined as a new way of delivering services often outside of the primary agent’s traditional area of expertise and encompasses both technical and organisational innovation (Miles, 2001; Parasuraman, 2010). Current examples of service innovation in construction include new methods of procurement (Blayse and Manley, 2004), performance measurement (Kagioglou *et al.*, 2001) and environmental management. These organisational innovations lend themselves to an industry which is largely process driven. However, the social nature of SRP is challenging that process-driven practice rather akin to the development of health and safety and workers welfare did to a previous generation of stakeholders (Lingard and Rowlinson, 2005). Construction is historically a transactional, product-orientated industry driven by the need to meet quantifiable requirements in terms of time, cost and quality. However, the requirement for SRP has required the industry to make a seismic shift towards more relational and service-oriented outcomes (Smyth *et al.*, 2016). The competencies required for service innovation include learning and adapting (Den Hertog *et al.*, 2010) and such attributes are not traditional competencies pursuant with people culture in construction (Egan, 1998). The adoption of SRP into construction will require a significant shift in practice to a more person-centric focus.

### *Social innovation*

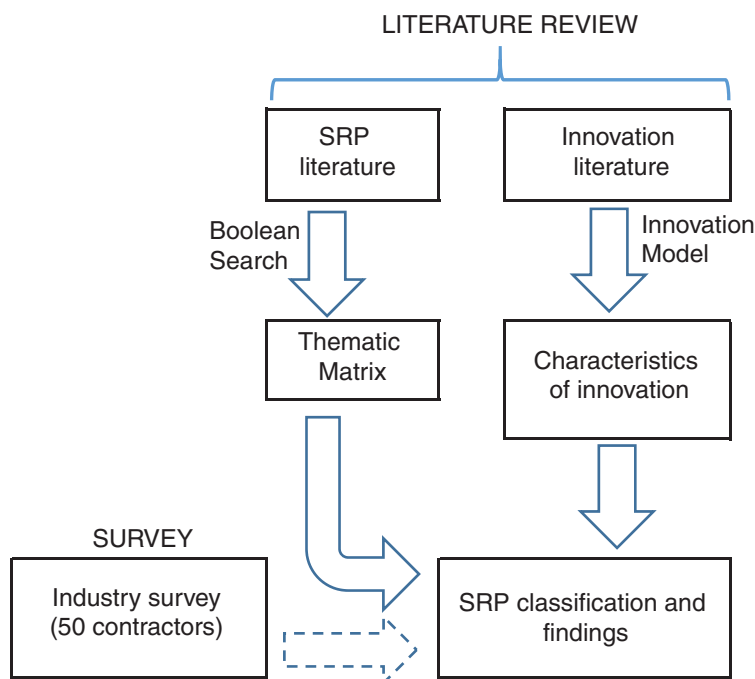
Social innovation is the process of developing and deploying initiatives to challenge established business norms in support of social progress (Mulgan, 2006). It often refers to innovative activities and programmes that are designed to meet a social need and are diffused through organisations whose primary objective is social reform (Nicholls and Murdock, 2012). Moore (1995) identified that legislative committees often seek to micromanage public sector operations by imposing specific restrictions on operational programs and therefore the opportunity for innovation is restricted. Kattel and Lember (2010) argued that the primary objective of government procurement is not social reform and government agencies should not be seen as direct implementers of social innovation. For this reason, contractors are being held responsible for embedding social value in the construction processes through initiatives such as SRP. Keegan and Turner (2002) identify that this will challenge the traditional business model of construction which is largely driven by the quantifiable metrics of time, cost and quality.

### **Methodology**

The study is carried out using a three-stage methodological approach, namely, a review of innovation and SRP-related literature to generate key themes and a survey of 50 Northern Ireland contractors to extract perceptions of SRP in practice and its effectiveness in delivering social benefit. The results are evaluated to identify gaps in knowledge between scholarly insights and current practice (Figure 1).

Stage 1: a review of the innovation literature is undertaken and an innovation model is developed. Simultaneously, a review of SRP-related literature is undertaken using a Boolean search of 107 SRP-related articles and thematic analysis to produce a thematic matrix.

Stage 2: using the key themes identified an industry survey is distributed to 50 Northern Ireland contractors to ascertain their perceptions to SRP and its effectiveness in delivering social value through construction contracts.



**Figure 1.**  
Research methodology

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Stage 3: the resultant survey data are analysed and qualitatively aligned with the innovation literature to define and classify SRP and identify gaps in knowledge between scholarly insights and current practice.

### *Stage 1 – innovation modelling*

In developing an innovation model, by which to define and classify SRP, the broad range of innovation definitions from the literature converge on five key characteristics of innovation, namely:

- Characteristic 1: the notion of something “new” and transformational (Freeman, 1974; Schumpeter, 1947; Ozorhon, 2012) – the broad range of innovation definitions put forward since the 1930s have all proposed the notion of something “new”, the implementation of which makes an “irrevocable transformation” to its environment (Urabe *et al.*, 1988).
- Characteristic 2: implementation that has the “ability to effect change” (Abernathy and Clark, 1985; Dosi, 1982; Ozorhon *et al.*, 2013) – Slaughter (1998) identified that innovation in construction has the ability to make substantive changes to standard practice.
- Characteristic 3: the “first use” of a new technology or one that is new to the user (Tatum, 1987; Gambatese and Hallowell, 2011) – innovation is defined as, “the first use of an idea by a new unit of adoption” (Pavitt and Rothwell, 1976).
- Characteristic 4: provides “derived benefits” to other parties (Dulaimi *et al.*, 2003; Manley and Mcfallan, 2006) – Afuah and Bahram (1995) identified that there are derived benefits for organisations and stakeholders involved in the implementation of an innovation.
- Characteristic 5: implementation involves an element of “associated risk” (Slaughter, 2000; Dodgson and Hinze, 2000) – Kline and Rosenberg (2010) proposed that since most innovations turn out as failures more attention needs to be paid to the evaluation of risk during implementation.

Innovation is classified according to two primary criteria, namely, the extent to which an innovation deviates in function from standard practice; and the extent of integration of the innovation with other systems/processes (Slaughter, 1998). The resultant innovation model comprises the five characteristics of an innovation and the two classification criteria.

### *Socially responsible procurement*

The review of SRP literature in this study focussed between 2000 and 2017, although the field has its roots earlier in areas of public procurement, social sustainability, employability and the evolution of corporate social responsibility (McCrudden, 2007). In line with previous scholarly approaches, keywords were produced to form Boolean phrases and used to search the literature (Carter, 2005; Hojmosse and Adrien-Kirby, 2012). The search was conducted on online journal databases, including EBSCO Business Source Premier, ISI Web of Knowledge, SSRN, Emerald and ProQuest. Each paper was reviewed for title, keyword and abstract to ensure that the content of the paper was appropriate for the analysis. The search technique yielded 107 articles including peer-reviewed academic articles, industry papers, reports and legislative briefings. A framework for the Boolean search was established and an exemplar section is set out in Figure 2.

Thematic analysis of the literature was undertaken in an inductive fashion (Laplume *et al.*, 2008). Evaluation techniques as recommended by Ryan and Bernard (2003) were used to identify repetitions, similarities and differences across studies. All identified articles were

EMPLOY\* or UNEMPLOY\* or LONG-TERM UNEMPLOY\* or COMMUN\* or  
 COMMUNITY BENEFITS or SKILL\* or SKILLS SHORTAGE or CONSTRUCT\* or  
 CONSTRUCTION SKILLS or CONSTRUCTION INDUSTRY or CONTRACT\* or CLIENT  
 or PUBLIC SECTOR CLIENT

Generating  
 employment in  
 construction

AND

PROCURE\* or PUBLIC PROCUREMENT or SUSTAINABLE PROCUREMENT or SOCIAL  
 PROCUREMENT or RESPONSIBLE PROCUREMENT or SOCIALLY RESPONSIBLE  
 PROCUREMENT or CORPORATE SOCIAL RESPONSIBILITY or CSR or SOCIAL  
 RESPONSIBILITY or SOCIAL VALUE or SOCIAL CLAUSE or PUBLIC VALUE

**Figure 2.**  
 Boolean search of  
 keywords from  
 selected literature

reviewed and independently agreed on the articles' main focus. The exact terminology used in an article was of secondary importance to the concept expressed. Common "expressions" were grouped according to the concept to which they referred (Ryan and Bernard, 2003, p. 95). For example, "socially responsible procurement" being expressed as "sustainable purchasing". The outputs were divided into key themes, namely, responsible purchasing, skills shortages, corporate social responsibility, public procurement, employability, construction stakeholders, social/public value, unemployment and poverty and measuring social value. The nine themes were not mutually exclusive. All 107 studies were analysed as directly and/or indirectly addressing one or more of these key themes and a thematic matrix was developed. A representative extract from the thematic matrix is shown in Table I.

### *Stage 2 – industry survey*

For the industry survey, contracting organisations are selected based on those being successfully awarded contracts by the Northern Ireland procurement agency, from April 2016 to present, which include contract clauses for employment of LTU persons (Strategic Investment Board, 2018). The contract clauses, called "Social Clauses" or "Targeted Recruitment and Training Clauses", obligate the contractor to create employment opportunities for targeted groups, namely, graduates, apprenticeships and the LTU, as part of their tendering commitments (Barraket and Weissman, 2009). New LTU entrants are recruited who are either over 25 years and have been unemployed for over 52 weeks, or under 25 years and unemployed for over 26 weeks. Targets for participant selection were based on the project value of five LTU persons/£1m project value. The geographical area was Northern Ireland and contracts were undertaken across a range of both public and private projects. Access to the participating organisations and point of contact was provided by the procurement agency.

The nine key themes identified in the SRP literature review were used to develop an industry survey. Sub-themes were identified and questions generated from each sub-theme. Additionally, a search was made of relevant national and European surveys on SRP such as the "Communities Count: The Four Steps to Unlocking Social Value" study (Social Enterprise UK, 2014) and the "Social Value Act Review" (Cabinet Office, 2015). Correlating questions were selected from the various surveys and duplicates removed. Where there were a number of questions looking at the same theme, a suitable question was selected by evaluating appropriateness of the question to the key theme, ability to benchmark and applicability to SRP objectives. Having identified specific survey questions an appropriate scaling strategy was developed. The survey was divided into three main sections.



significant constraint even though there was a concern regarding the “quality of work” being produced by the new recruits. Overall, these analyses indicated that four distinct factors were underlying employee responses and that these factors were moderately internally consistent (Table II).

The results of the industry survey were compared with the SRP literature on innovation. The findings are discussed below:

- (1) The notion of something new and transformational – SRP is a result of increasing transformation within the construction industry. It is increasingly used as a tool to achieve socio-economic goals (Thai and Piga, 2007). Barraket and Weissman (2009) proposed that, well-delivered, SRP is poised to maximise the construction industry’s significant buying power for social advantage and in doing so impact people’s lives. Transformation is a key characteristic of innovation; however, it can only be sustainable if all stakeholders in the delivery process are supported, encouraged and rewarded (Murphy *et al.*, 2015; MacFarlane, 2014). The survey results found that the majority of the respondents identified community benefits as the most positive outcome of SRP. Unlike its predecessor, social sustainability, which was perceived as intangible to measure (Dyllick and Hockerts, 2002), there is an increasing view that SRP has the capacity to be measured and the outcomes used to transform employees’ lives (TSO, 2015; Halloran, 2017). However, such transformation also brings challenges. Sourani and Sohail (2011) identified that such challenges include high capital costs, poor cultural acceptance, inconsistent legislation as well as insufficient research and development. Survey results confirmed that respondents did not consider their business gained financially through SRP and that the majority of respondents identified adverse financial implications as the most significant constraint of SRP to their organisation. This confirms the study of Eadie and Rafferty (2014) who identified that the perceived value for money of SRP practices was considered poor and a major obstacle to improving performance beyond legislative requirements. So, whilst there is a clear preference expressed for the transformational benefits of SRP this needs to be more fully embedded in construction organisations.
- (2) Ability to effect change to standard practice – contractors are currently engaged with SRP obligations as part of their tendering exercises for large socially responsible clients.

	Total	Group		<i>F</i> stat.	Sign.
		1	2		
<i>Benefits</i>					
Benefitting community – unemployment/poverty	1.900	1.667	2.133	0.547	0.014
Meeting client requirements	2.733	3.000	2.467	0.149	0.088
Employability – positive attitude of recruits	3.967	3.933	4.000	0.733	0.827
Addressing skills gap	4.133	4.333	3.933	0.041	0.510
Nurturing young talent	4.367	4.133	4.600	0.432	0.496
Minimal training required	4.700	5.067	4.333	0.189	0.102
Financial gain for company	5.000	5.133	4.867	1.000	0.827
<i>Constraints</i>					
Adverse financial implications	2.200	2.067	2.333	0.947	0.164
Workers are unreliable	2.833	2.867	2.800	0.955	0.334
Temporary workers – no long-term commitment	3.500	3.533	3.467	0.762	0.774
Additional training required	3.633	3.467	3.800	0.710	0.096
Quality of work is compromised	3.867	4.133	3.600	0.646	0.027
Workers not “job ready”	4.267	4.333	4.200	0.800	0.334
Requires additional business administration	4.933	4.867	5.000	0.864	0.164

## Generating employment in construction

**Table II.**  
Perception of industry response to SRP



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To show compliance and commitment they are required to submit a social policy statement and an employment plan outlining how they would meet the requirements to employ people from target groups (Erridge and Hennigan, 2006). Such changes to traditional construction practice have put a strain on contractor's resources and overheads. Erridge and Hennigan (2006) identified that the requirement to employ non-construction-related personnel involves significant training and associated recruitment costs. This is clearly supported in the study findings where respondents did not consider that training was an inconsequential factor in changes to standard practice and that there were significant concerns about quality of work produced and the lack of job-readiness of new workers. Watts *et al.* (2016) argued that such changes to standard practice, and emphasis on less historically economic performance indicators, are resulting in increased competition across contractors. However, survey respondents noted that such challenges have ironically "raised the bar" in terms of improving contractor performance and this has the potential to impact practice and drive forward improvement in the industry (Zhao *et al.*, 2012). Additionally, the survey results did not indicate that the additional business administration in itself was a significant constraint to the delivery of SRP.

- (3) The "first use" of a new process or one that is new to the user – McCrudden (2004) evidenced that SRP is not a new concept in terms of extracting social value from large purchasing operations. He cites examples dating back as far as the nineteenth century in Europe and North America where government contracting was used to address issues of racial inequality. However, in adopting SRP for the first time each contractor will face its own singular set of challenges. The literature shows that these will include challenges for management (Doane, 2005), site operations (Loosemore, 2016) as well as the motivation of existing personnel (Pryke, 2012). Survey results indicated a degree of resignation to concerns over "first use". One respondent noted that the bespoke nature of construction makes this a recurring feature of all projects and a potential hindrance to the systematic adoption of SRP across the industry.
- (4) Derived benefits for all stakeholders – in construction, derived benefits of SRP range from reputation benefits to increased work orders and staff motivation; however, the study found that contractors considered the benefits of SRP implementation must be viewed in the medium to long term. A number of respondents accepted the benefits of finding young talent through SRP and the opportunity this presents for training up new workers from an early level. This was offset by negative perceptions that temporary recruits lack long-term commitment. However, a number of respondents suggested that this is a failing of SRP policy rather than the recruits. One contractor noted that, as a small contractor, they would like to retain the new workers on a full-time contract; however, the SRP recruitment process requires a regular turnover of new recruits to meet targets.

The study found that the majority of the respondents suggested that SRP is positive for meeting client requirements. Watts *et al.* (2015) suggested that whilst contractors and clients are keen to espouse the benefits of SRP it cannot always be assumed that both sets of stakeholders share a common understanding of what SRP means and how it can be used to serve their vested interests. It is a challenge for contractors and clients to develop an understanding of the community context in which their projects operate. Recent studies have sought to shift the focus from the main construction stakeholders to the principle beneficiaries namely the new recruits (Bridgeman *et al.*, 2016). Such issues of stakeholder collaboration, integration and employability are crucial to the long-term success of SRP in construction.

- (5) Associated risk – an implicit consideration for any contractor employing someone under SRP will be how to ethically manage that person. The risks for those taken on as temporary employees must be identified and evaluated, as well as the impacts to the company. SRP has been challenged with issues regarding employee engagement and the way new employees are facilitated, trained-up and managed (Greasley *et al.*, 2005). The study findings identified concerns with the unreliability of workers as a significant constraint to SRP. Recent academic studies suggest that a major risk to engaging new recruits is a lack of contractor and client knowledge of the potential impacts and outcomes of these initiatives on workers (NICVA, 2013; Action Sustainability, 2017). Scant empirical studies have been carried out on the impacts and outcomes for the persons employed under SRP. The Centre for Economic Empowerment recently warned that “there needs to be more focus on the actual outcomes rather than the level of activity being generated by social clauses” (NICVA, 2013). Similarly, Koen *et al.* (2013) proposed that re-employment research should take a more person-centred approach to advance insights in this area. As in most paradigm shifts there will be risks associated with the implementation of SRP; however, the most significant risk for the construction industry is to continue implementing SRP solely in terms of policies and procedures and fail to align the insights with evidence-based person-centric outcomes.

## Discussion

An innovation is a new process or product that has the capacity to make irrevocable changes to its environment or the organisation into which it is adopted (Schumpeter, 1947). Innovation has the advantage of providing bespoke benefits for the stakeholders involved but conversely carries with it associated risks which often have a high propensity for failure (Ling, 2003). For the purposes of this study, SRP is defined as an organisational innovation in that it involves change to standard practice in construction as well as a process innovation in that it delivers social benefits through employment in the construction procurement process (Lloyd-walker *et al.*, 2014). Social innovation is the process of developing and deploying initiatives to challenge established business norms in support of social progress (Mulgan, 2006).

In this regard, the practice of generating social value from construction purchasing is primarily the responsibility of government clients implemented through the contractor via construction contracts. To do this service innovation is the preferred route for government procurement to deliver social innovation and the contractor is the vehicle through which to meet these goals. Service innovation is defined as a new way of delivering services often outside of the primary agent’s traditional area of expertise and this is the case for contractors who have historically not espoused social value outside of their obligations for employee health and safety. SRP is therefore a service innovation in its pursuit of delivering employment for the LTU, which again is traditionally outside the construction industry’s area of expertise. Hence, this study concludes that SRP functions as a service innovation delivering social innovation to the contract through regulatory and ethical pressures imposed on the contractor.

SRP represents a significant shift from standard contractor’s practice in a number of ways, for example, the creation of new roles within contracting organisations to deliver SRP such as community benefits manager. Also, the adaption of performance targets to measure social value and which is becoming an established KPI for large contracting organisations and which also requires the re-evaluation of the organisation’s financial modelling to accommodate costs on social value which is essentially viewed as a non-profit-making activity. Additionally, SRP has generated linkages with other construction processes in a construction organisation such as environmental management and health and safety.

## Conclusions

Government agencies and clients are increasingly advocating a move towards greater implementation of SRP in construction projects. However, there is a concern that contractors lack the mechanisms to effectively implement SRP. The problem being that SRP is perceived by contractors as a contractual obstacle rather than as a mechanism for social innovation. The demand for SRP has required the construction industry to make a significant shift towards more relational and service-oriented outcomes. This study found that to advance current practice, policy makers and contractors need to adopt a more person-centric approach to the design and implementation of social value activities. There is a need for holistic measurement of impacts and outcomes of SRP to ensure that the social value required is appropriate for the context and community in which projects are being constructed. The introduction of SRP has demonstrated that no longer is it acceptable to construct without cognisance to the social context: community, employees and wider supply chain. The challenge for contractors and policy makers is to understand the project context and ensure a bespoke solution rather than a standardised tool measured against project management metrics and targets.

The primary constraint to this is the construction industry's traditional inflexibility to innovation: flexibility in terms of financial fluidity, change management and cultural diversity. SRP has the potential for significant change in the industry. The complex nature of the construction procurement process means that radical change can only be sustainable if all stakeholders in the process are supported, encouraged and rewarded at every stage. Capturing employee participation and enhancing end-user experience is key for SRP to succeed.

With indications that the deployment of SRP is now accelerating, the probability is that SRP as a means to generating social value will prove to be significantly more "disruptive" than mainstream technical improvements in the construction industry. The risk for the wider construction industry, including government agencies, is continuing to develop SRP solely in terms of policies and procedures and failing to align these with practical evidence-based outcomes.

In terms of academic insights for further research the findings showed there is a clear need for more person-centric studies aligning SRP with the delivery of social value. Historically, this does not sit comfortably for construction-related research (Dainty, 2007) and will require the expansion of people-focussed studies using mixed and case study methods across longitudinal studies. Such research would inform the industry about the impacts and outcomes of SRP initiatives on the people directly affected, such as employees and sub-contractors, and help to identify more employee-focussed, experiential insights.

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