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CORPORATE SOCIAL RESPONSIBILITY IN BUILDING AND CONSTRUCTION INDUSTRY

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Abstract

The paper discusses corporate social responsibility relevant to preserving a healthy working environment in the Building and Construction Industry (BCI) in both large organisations and small-medium enterprises (SME). BCI large organisations take the form of corporation, while SME apply corporate entrepreneurship management style. In accordance with an increasing interest of dealing with business ethics, large organisations focus on providing an efficient working environment. In corporate entrepreneurship organisations, however, since project managers need to pay attention to stakeholders when dealing with a healthy external environment, an individual approach to social responsibility may have subjective connotation. The paper suggests in which direction ethical responsibilities of governance in both large and small BCI organizations should develop in order to be socially acceptable.

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INTRODUCTION

> "If we are to create a sustainable world – one in which we are accountable to the needs of all future generation and all living creatures – we must recognize that our present forms of agriculture, architecture, engineering, and technology are deeply flawed. To create a sustainable world we must transform these practices. We must infuse the design of products, buildings, and landscapes with a rich and detailed understanding of ecology" (Van der Ryan and Cowan, 1996, ix, cited from Pierce and Jameton, 2004)

In today's literature governance is often explained as corporate governance, or a system by which business corporations are directed and controlled (Westphal & Zajac, 1997; Meyer, 2000). More specifically, corporate governance is understood as a board of directors who represent shareholders. The directors' role is to attract financial and human capital and "perpetuate itself by generating long-term economic value for its shareholders, while respecting the interest of stakeholders and society as a whole" (Krakovsky, 2002). Corporate governance is also defined as a set of internal rules that indicates the distribution of rights and responsibilities among the management, the board, the shareholders, and other stakeholders (Petrovic-Lazarevic, 2003a).

Three theories support good governance practices. First, shareholders theory, or the Anglo-American model of governance, focuses primarily on the value amelioration of the shareholders. Second, stakeholder theory, or the Japanese-German model, is concentrated to welfare maximization of all parties affected by corporate decisions. In the Japanese-German model stakeholders can influence a decision-making process since they are central to the existence of any business, what cannot be the case in the the Anglo-American model. The Japanese-German model of corporate governance is based on highly concentrated holdings and voting powers, trust and relationship between managers and investors. In the Anglo-American model professional managers run corporations by tying their own interests with shareholders' interests and with a large monitoring role of institutional investors based on a strong framework of laws (Bhasa, 2004).

Third, countries in the transition model, although based on the Anglo-American model of corporate governance is specific by lack of legislations and consequently causing insufficient attraction to potential investors (Petrovic-Lazarevic, 2002). This model is applied in East European countries that have privatised their former state owned companies through a process of buying companies by managers and employees or a process of owning vouchers based on significant concessions approved by government. Both political preconditions and path dependency influence a good corporate governance system in these countries.

Political preconditions in transitional economies refer to excessive protection of employees; corruption and nepotism; underdeveloped capital markets; reluctance of shareholders to share information with employees related to the corporation financial success (Bhasa, 2004).

Path dependence relates to different governing processes in transitional societies influenced by rules that were applied in a pre-transition era (Bebchuk and Rye, 1999). These rules impose control structures in privatised companies. If a company decides to replace them with new rules, it may cause additional problems such as being in a so-called "vacuum period" of no rules imposed. In other words, after abandoning old rules, it may take a long time to start applying new rules because of long lasting political procedures that usually precede legislation processes (Bhasa, 2004).

Whatever model of governance is applied in a business, it assumes a certain social responsibility that is widely studied in a form of corporate social responsibility (CSR).

Wood' s (1991) defines CSR as a set of principles established by an organisation to meet social expectations for appropriate business behaviour and outcomes. In his opinion CSR can also be understood as an organization's consideration to accomplish social benefits along with the interests to gain and sustain organisational competitive advantage.

Hemingway and Maclagan's (2004) argue that CSR is related to the company's public accountability for both its financial performance and social and environmental performance. Snider, Hill and Martin (2003) state that CSR construct describes the relationship between business and society. Although opinion that companies social responsibility of business to be profitable by legal means prevails in today's literature, there is a widespread understanding that social responsibility should be more related to serve community and direct beneficiaries of the company (Kok, Weile, McKena, Brown, 2001). In this respect, McAdam and Leonard (2003) point out that CSR deals with employees, customers, suppliers, human rights and corporate sustainability, but it also should primarily satisfy ethical and environment considerations. Furthermore, a recent research has shown that today top global companies communicate to their stakeholders a commitment to socially responsible behaviour through espousing an ethical framework of their overall mission within society and comprehensive environmental policies. The environmental policies reveal concern for larger ecology while serving the needs of company's customers (Snider, Hill and Martin, 2003).

The paper explores CSR in the BCI organisations in preserving a healthy environment. After discussion on definitions of governance and CSR, part two of the paper presents characteristics of BCI and governance in both BCI large organisations and SME. Part three suggests how to improve the CSR role in BCI organisations related to their support to social-well being. Part four concludes the paper.

CSR IN BCI AT PRESENT

Governance in BCI distinguishes from the governance in other industries due to the characteristics of the industry itself. BCI has a specific physical nature of the product, structure of the industry and the organization of the building and construction process (Petrovic-Lazarevic& Djordjevic, 2002).

The product of BCI is mostly large and expensive and since it is located in a specific geographic area not generally transportable. Buildings and other structures are usually made to meet the requirements of each customer. More precisely, the process of building is known either as a bespoke or off-the peg process. The bespoke process is designed to meet special customer needs for public, commercial and industrial buildings. The off-the peg process, however, is based not only on erecting buildings for sale for housing, industrial and storage purposes, but also to some extent for educational, social and commercial purposes.

Three separate groups of people are involved in a building process: client, designer and contractor. In the beginning of a building process, the client looks for a designer to do the first phase of a project construction. A chosen designer nominates a tender for selection of equipment for the building work. After the completion and closing of the tender, the client has all the necessary documentation to apply for a bank loan. Then, with the approval of a loan, the financial construction of a project is closed. Having the equipment selected and the financial construction closed, the designer plans the principal activities of the building work. After that, a tender is created for contractors that usually consists of many separate firms. To compete, each contractor follows a legal bidding procedure. With the chosen contractor, the designer makes a detailed final plan of building work activities. The chosen contractor follows the established plan. Accordingly, the contractor cannot add, change, or reject any of the planned actions.

In the case of off-the-peg building, the contractor, who frequently manufactures the major components of a building, employs a designer. Whichever type of building is used the contractor is

largely the one who erects and assembles the products of other industries (Petrovic-Lazarevic, 2002).

The work system in BCI is based on projects. Each project consists of several organizations subcontractors that operate with its own objectives and pressures. In order to organise a building and construction process to function smoothly, the project manager has to control overall costs, time and quality of actions undertaken. Project management activity is temporary, but exposed to a constant pressure of time and cost constraints, competitive tendering and practice of awarding contracts to lowest bidder (Holmes Lingard, Yesilyurt and De Munk, 1999).

BCI firms consist of large organizations with usually over 20 employees and small to SME with 5 to 20 employees (Lin and Mills, 2001). Large organisations take form of corporation indicating that corporate governance is an applied management style (Westphal & Zajac, 1997; Meyer, 2000).

Until recently there was a common understanding that BCI SME firms do not have need for corporate governance. But with the growing pressure to implement innovation through creating new products and processes to be able to respond quickly to fast changing market demands, a need to have a new management style combined with corporate governance looks like an imperative (McGrath & MacMillan, 2000).

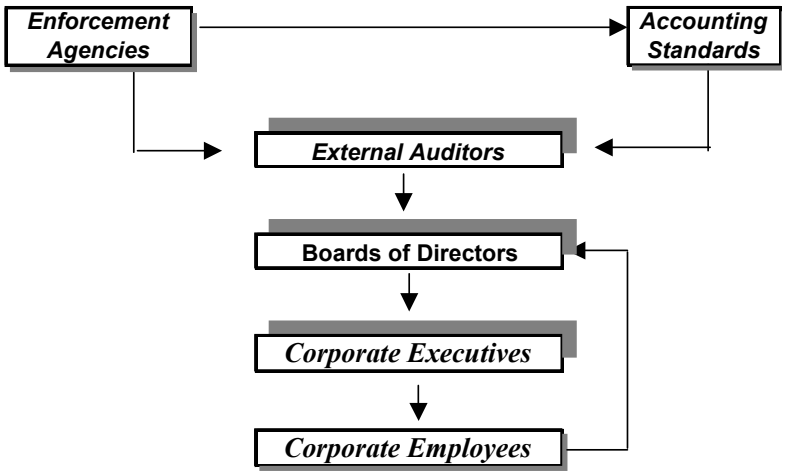
In order to remain competitive BCI organisations have to be highly innovative not only in providing their effective and efficient building and constructing service, but also in managing their business (Price and Newson, 2003). The latter becomes complicated since management of construction processes is rapidly changing. As a consequence, the industry is keen to achieve excellence in safety, cost, quality and value. With an increasing concern related to social integrity of corporations in their operations, management needs to fit its organisational capabilities and organisational culture for supporting healthy environment. That is, managers have to realize that business of their organisations can only prosper if there is a common knowledge of their organisations' high ethical and social responsibility to preserve healthy environment (Burnett, 1999).

The Current Models 0f Governance in BCI Large Organisations

According to O'Meara (2003) the majority of corporations today apply a corporate governance structure that allows key executives to jeopardise business ethics (See Figure 1). The structure consists of external auditors and corporate employees who influence decisions of boards of directors, while corporate executives receive instructions from boards of directors. Such structure points to complexity of providing business information and in particular its vulnerability in receiving financial reports from corporation's business units (Sama and Shoaf, 2003). In response to recent corporate scandals in the USA and Europe, a need to change external governance, legislation and regulatory mechanisms by enforcing, first of all, a code of ethics for corporate senior officers, and then adjusting organisational culture has appeared (Myers, 2003).

In BCI in particular, large companies have communication problems with their community. Accordingly, in presenting what organisations are and what they claim they do there is a great concern as to what extent organizational vision is perceived in external environment and how much it differs from official organisational aspirations (Petrovic-Lazarevic, 2003b). The situation looks more complicated from the global point of view since inter-stakeholders sometimes do impose goals that jeopardise regional and national values. For example, requirements to increase profit in some cases affect corporations' attempts to improve the communities in which they operate.

Figure 1: Corporate Governance Structure Source: Sama and Shoaf, 2003



Accordingly, a conflict appears in what organizational leaders understand as community requirements for corporations in treating employees, suppliers and customers without prejudice and acting ethically, and local perception of such activities. The conflict can significantly affect organizational competitive advantage.

Although many authors argue that organizational culture is the key to solve ethical problems underlying the role of leadership as a model for ethical reasoning, and companies do hire ethics consultants and apply ethics codes, there is no evidence of abandoning organizational unethical behaviour (McKendall, DeMarr, and Jones-Rikkers, 2002; Petrovic-Lazarevic, 2001; Victor and Cullen, 1988). In BCI, however, in accordance with an increasing interest of dealing with business ethics, large organisations focus on how to satisfy not only consumer and stakeholders' needs, but also provide an efficient working environment (Coutinho and de Macedo-Soares, 2003). It appears that corporate governance is in charge of social responsibility when it comes to preserve its external environment healthy. Indeed, Sama and Shoaf (2003) state that only top management can contribute to true ethical progress by communicating the value of ethics to its stakeholders and lower level managers, while outside auditors and the board of directors maintain a role in this process to attest the management integrity**.**

The Current Models of Governance In SME

SME governance relies mostly on manager-owners actions. Since manager-owners are contractors and subcontractors, their main concern is to respect time constraints and minimise costs. With a growing competition, small BCI organizations face necessity to search for innovations and explore a price premium or cost advantage (Hill and Jones, 2004). Such activities demand investments and, therefore, impose stakeholders' role as the key players in accomplishing BCI projects. Since the completion of BCI projects is sensitive to clients, users and public sector demands, it seems project managers should be more oriented towards a new management style that will significantly include satisfaction of the needs of stakeholders (Karlsen, 2002).

In SME the new management style, corporate entrepreneurship management, imposes a balance in between strategic innovation implementation needs and holding management accountable to the shareholders and financial control. According to Taylor (2003), by decreasing staff in head office and increasing of outsourcing activities, delegating more power to project managers, and training selective executive teams to act as entrepreneurs, the corporate entrepreneurship management will contribute to gaining organisational competitive advantage.

In a corporate entrepreneurship organisation in SME project manager is faced with a new task, which is to pay attention to stakeholders. This task is identified as stakeholder management. If not properly addressed in a project, stakeholder management can cause significant problems. For example, if project managers are not aware of main stakeholders; they may meet the goals with a completion of the project that were not intended by stakeholders (Meredith & Mantel, 2000). In addition, poor communication and inadequate financial support assigned to the project may cause slowing down of building and construction activities facing potential penalties.

To successfully apply the stakeholder management, Karlsen (2002) recommends the following steps to be undertaken: initial planning, identification, analysis, communication, action, and follow-up. Initial planning identifies the purpose of the stakeholder management process, and planning activities related to the organization of the process. Second step, stakeholders' identification, is based on interviews with experts and also brain storming in-group meetings. After that stakeholders should be classified into four categories: supportive (consultants and financial institutions), marginal, non-supportive and mixed blessing (clients, end users and line organization). The fourth step, communication, helps the project manager to find out who the stakeholders are and how thy can influence the project activities. In the action and follow-up step the project manager should encourage cooperation with both supportive stakeholders and mixed blessing stakeholders to cooperate with project management itself. Marginal stakeholders should be monitored to stop decisions that may have negative influence. Non-supportive stakeholders should be managed to reduce their influence on the project by keeping them satisfied at all times.

Although concerns for supporting and preserving healthy environment in SME in recent literature seem not to be of importance, keeping in mind that innovations application, and consequently, high competitive position of SME in the turbulent BCI market is dependent on attracting stakeholders – it seems it is an imperative to communicate the organizations' willingness to support healthy environment.

HOW TO IMPROVE CSR IN BCI

Large BCI Organisations

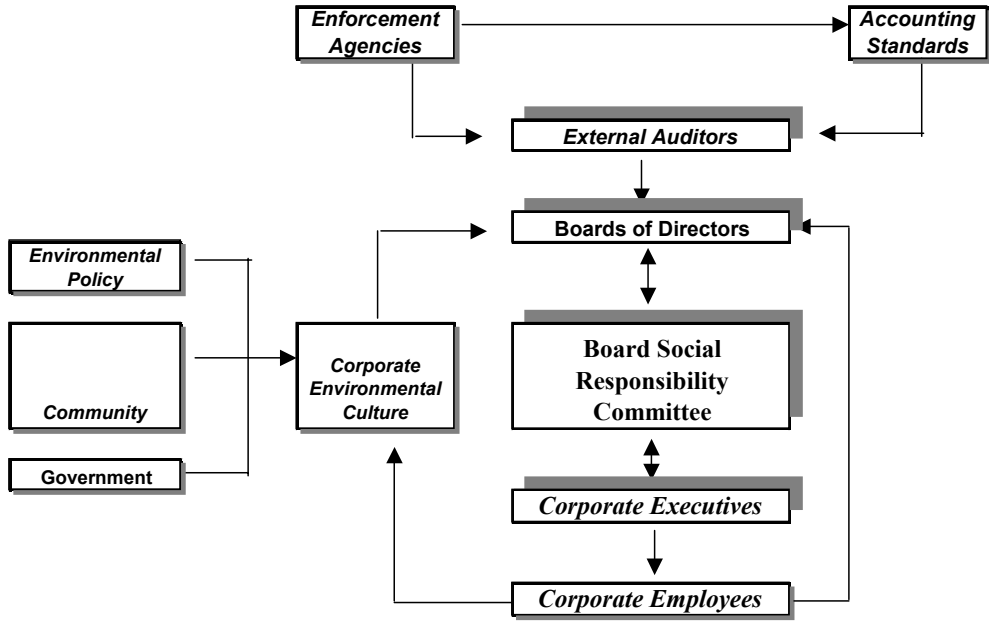
Since successful environmental policy has a positive impact on business activities creating opportunities to gain competitive advantage, we propose the following corporate governance structure for large BCI organizations irrespective of which of the three existing governance model applied (See Figure 2).

Compared to the structure widely applied in the BCI corporations, the new structure establishes a board social responsibility committee. The board will overview the role of corporate governance and, consequently, avoid a gap in between the vision of an organisation and its perception in a community. The board will also be able to overcome regional differences in values in BCI organizations working in different cultural environments by being responsible for all socially affected and related activities in organizational external environment. An image of an organization that cares for its environment will, no doubt, contribute to the organization to be better positioned among its clients and users compared to organisations that do not perform high social responsibility.

Szamosi and Tsolakis (2003) argue that top managers create corporate environmental culture as the sum of beliefs and values that reflect environmental awareness of an organization. According to their research findings, a large majority of world wide known organisations state that environmental issues are of extreme importance to remain good position at the global market. Hence, environmental leadership must be highlighted in an organizational strategy and be presented to all stakeholders. In other words, this indicates that the environmental policy should be part of organisational mission statement. Further to that, Jaques and Clement (1991) discuss that corporate governance's responsibility is to deal with environmental strategies. Zairi (2000)

suggests that a good image of an organization depends primarily on strong commitment of corporate and social governance to practicing optimal environmental policies.

Figure 2: Corporate Governance Structure



In the proposed corporate governance structure a corporate environmental culture is influenced by environmental policies, community and government regulations (See Figure 2). Environmental policies highlight a company's responsiveness to changing environmental conditions by social, political and legal influences. Community refers to organisational ethical issues that are highly understood and accepted by the locals. It does not mean that the company should be involved in solving all social problems, but only those that the company has caused and are related to its business operations and interests (Wood, 1991). Government role is to support the CSR with law, what may include a request to comply with the International Organisation for Standardization (ISO 14001 regulations.

The ISO 14000 includes: 14001 environmental management system (EMS), environmental auditing, environmental labelling, environmental performance evaluation and life-cycle assessment (ISO, 1996). The ISO 14001 EMS is a voluntary standard enabling organisations to control the impact of their environment (ISO, 2002: Lundan, 2004). The ISO 14001 provides 17 key elements of the EMS grouped into five areas: environmental policy, planning, implementation and operation, checking and corrective action, and management review . To apply the EMS certificate, the first key element is to comply with applicable environmentally related legislation and regulations and to implement a continual environmentally related improvement process in the organisation (ISO, 1996). Many companies that have introduced the EMS add on top of this requirement a goal setting and public reporting of emissions beyond legal requirements (Christini, Fetsko and Hendrickson, 2004). As such, they contribute to minimising a gap between community perception of their goals presented in a company's mission and a real meaning of it. The other interesting environmentally related key element comprises formal goals relevant to a company's environmental, legal and regulatory requirements. All key elements are subject to an annual review by top managers, which is an important commitment to guarantee the credibility and effectiveness of an organization's EMS. Accordingly, top managers' role is to communicate not only annual review to stakeholders and lower level managers but, also the value of ethics of the organisation. Looking at the suggested corporate governance structure in Figure 2 we realize that the elements that comprise corporate environmental culture in fact demonstrate crucial key

elements of the EMS. Further to that, the EMS requests significant financial support to be applied in an organisation (Zeng, Tam, Deng and Tam, 2003)

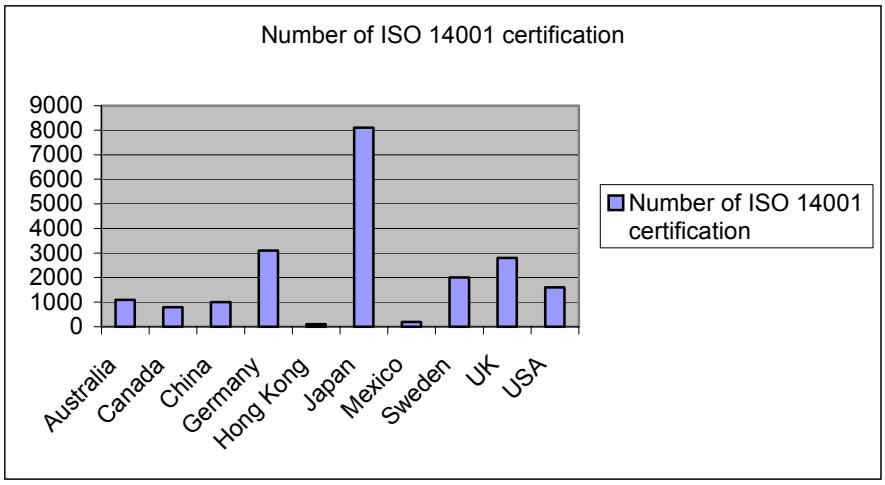
Within less than a decade BCI large organisations all around world have shown an interest to have comprehensive and certified EMS that improves regulatory compliance requirements of organisations, reduce liability and risk, harmful impacts to the environment, prevent or reduce pollution and waste, improve in site and project safety, improve relationship with stakeholders of which in particular: government agencies, community groups and investors, and establish a system for continued environmental improvement (Chrisitni, et al, 2004). Figure 3 points to the number of BCI organisations around the world that have received the ISO 14001 certification.

Obviously Japan is a leading country, followed by Germany and UK. Australia and Sweden have many companies undertaking the certification. East European countries in transition are not present.

According to recent research findings, Christini et al (2004) argue that companies that have applied EMS demonstrate improved efficiency, occupational health improvement and rise in market share. However, some companies face lack of both government and client support, expensive implementing costs and deteriorated relationship with subcontractors. To avoid such problems in UK, for example, a Construction Industry Research and Information Association provides guidance on implementing an ISO 14001 EMS based on average cost of project. In Australia in New South Wales, all construction projects over US$5.5 million must be based on EMS including subcontractors. Such projects must have EMS with assigned responsibilities, monitoring requirements, emergency plans and auditing procedures. In addition:

> "A measure of a construction firm's environmental impact whether it is based on number of jobsites, number of employees, total profits, or number of environmental requirements per jobsite should help a construction firm to determine how to implement an EMS and if pursuing ISO 14001 certification is worthwhile". (Christini et al, 2004:332).

Figure 3: Comparison of ISO 14001 certifications in BCI by country (Source: Christini et al, 2004).



In transitional countries large BCI organisations that have sufficient financial support still cannot apply the EMS because of the lack of legal system for effective environmental protection. As a consequence, Zeng et al (2004) recommend that governments of countries in transition should support training of top managers to arouse their environmental awareness.

SME BCI organisations

McAdam and Leonard (2003) suggest that BCI organisations, both small and large, should accept environmental quality standards ISO 14001 to develop CSR to preserving a healthy environment. However, since the successful application of EMS implies sufficient financial assets, it is unlikely it can be established in SME. The role of the project manager in applying the stakeholder management may lead to the extreme of either, neglecting entirely the CSR role to preserve and support healthy environment, or to supporting it. In particular, after successfully fulfilled corporate entrepreneurship organization's steps of initial planning, identification and analysis - project manager should approach only supportive stakeholders, since they influence project activities, and negotiate with them health environmental issues. As a consequence, depending on subjective judgments of the project manager to what extent is useful for the organisation to support healthy environment and wether supportive stakeholders are interested to improve social well-being, the activities may be undertaken in favour of environmental protection. But decisions made based on the project manager's subjective judgments point to vulnerability of en effective organisational commitment to a healthy environment.

Obviously, the unsolved problems in BCI SME are insufficient financial assets to apply ISO 14001 EMS, and environmental protection decisions' based on project managers' subjective judgments. We believe that a government can help either by imposing rules for environmental protection specifically for SME, organising, training for managers-owners on importance of protecting and supporting healthy environment, and providing financial help to apply ISO 14001 standards.

CONCLUSIONS

CSR relevant to preserving a healthy environment in BCI is of growing importance in both large and small organisations. At present the existing corporate governance structure creates problems that affect organisational competitiveness. The proposed new structure highlights the role of Board Social Responsibility Committee and in particular Corporate Environmental Culture influenced by environmental policy, community and government, or elements that constitute the essence of ISO 14001 EMS certificate. If a BCI organisation signs and follows ISO 14001 EMS series instructions the Board of Directors would have a clear message from a Corporate Environmental Culture Committee how to improve its working environment. On the other hand side, the community will be aware of the company's environmental policy measures undertaken to protect healthy environment, what will undoubtedly minimise a gap of a community perception of organisational goals and environmental official organisation aspirations. All these measures will significantly improve the organisational competitiveness.

SME are subject to insufficient financial assets to apply ISO 14001 EMS, purely subjective project managers' decisions relevant to preserving healthy environment, and wether or not to approach supportive stakeholders to help in this respect. That obviously prevents SME to play an active role in preserving healthy environment.

It appears that at present the leading role in supporting health environment is with CSR of large BCI organisations since they are in position to own the ISO 14001 EMS certificate, and therefore to serve as a leading model to other companies.

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