

# KEY ELEMENTS OF CSR STRATEGY - EVIDENCE FROM THE CONSTRUCTION AND ENGINEERING INDUSTRY

FLORENCE PHUA<sup>1i</sup> and MARTIN LOOSEMORE<sup>2</sup>

<sup>1</sup> SCHOOL OF CONSTRUCTION MANAGEMENT AND ENGINEERING, UNIVERSITY OF READING, READING, UNITED KINGDOM

<sup>2</sup> FACULTY OF THE BUILT ENVIRONMENT, UNIVERSITY OF NEW SOUTH WALES, SYDNEY, AUSTRALIA

Through multiple case studies of firms we argue that firms that have developed corporate responsibility strategies, albeit informally at first, do so by making intentional, informed and collective choices about CSR initiatives. More precisely, we point to the importance of considering corporate identity in making these choices and to the process of adaptive coordination, which includes both responding to and influencing the CSR environment. We conclude that CSR strategic landscape are determined more and more by the astute and careful management of a network of cooperative and competitive stakeholder interests which possess both tangible and intangible value to a firm.

*Keywords: corporate social responsibility, case study, strategy, isomorphism, stakeholders, identity*

## INTRODUCTION

Most management texts on firm strategy do not consider project-based industries like construction and there is a lack of empirical research on strategy in the construction and engineering sector (Langford and Male 2001, Cheah and Gavin 2004, Green et al. 2008). Often firms that have tried to formally conceive and implement formal strategy have done so with mixed success, seeing it as an artificial and non-value adding exercise. Hillebrandt and Cannon (1990) argued that because construction and engineering firms are labour intensive, strategic planning must have a large emergent dimension. Effective strategy therefore involves constant timely and balanced decision making that match firms' available resources and management competence/expertise with a constantly changing physical, economic, institutional, social and cultural factors that are associated with different projects over time. More recently Green et al.'s (2008) research found that a construction firm's strategy is more often emergent than pre-planned and shaped by unexpected opportunities and maverick behaviour rather than in response to any formal mechanism. Green et al. (2008) also found that while boards of directors may occasionally intervene with planned strategies, there was little evidence that formal strategic planning techniques were used or that they had much impact on enacted strategy. This is in line with research showing that one common characteristic of successful firms is that they all have both 'clear' and 'fuzzy' strategies to enable them to respond flexibly to unexpected opportunities (Hubbard et al 2002, Mintzberg, 1994).

Traditionally strategy is seen as a top-down planning function which follows rational strategic analysis in a linear sequential fashion and all information was presumed to be available for top management about a relatively stable external environment. It was claimed that by understanding this environment, it is possible to develop long-range plans based on the extrapolation of long-term trends (Porter 1980, 1985 1987). Hence, the essence of strategy is about making choices and trade-offs and about choosing to be different and defining how firms will be different, rather than trying to be all things to all people. A company without a strategy will try anything and attempt to beat its rivals at their own game, which eventually forces customers to choose between competing firms on the basis of price. This is unsustainable because it forces firms into price wars and destructive competition which undermines an industry's competitiveness and margins. This is indeed a recurring problem identified by many commentators in the construction and engineering industry and could imply an absence of strategy in firms generally. The alternative explanation is that few opportunities exist in the industry for strategic difference between firms, although this is unlikely in an industry as diverse, large and competitive as construction and engineering. In response to growing public concerns about the impact of business on the environment and society, one area which firms have recently sought to differentiate themselves in the construction industry is corporate social responsibility (CSR) (Murray and Dainty 2009). The aim of this paper is to explore this new business agenda by investigating the extent to which strategic convergence (industry isomorphism) exists within the industry through identifying what firms do in terms of CSR, understand why they choose to include CSR into their business, and how CSR is integrated into these firms.

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i. f.phua@reading.ac.uk

## CSR STRATEGY

As the concept of CSR gains traction across the business world, new ideas have emerged that question the adequacy of traditional business models to address a more socially and environmentally conscious business environment (Rumelt et al. 1994). In particular, it has been argued that traditional models of strategy neglect the critical role of social engagement and multiparty interactions in the strategic decision-making process and their implications for firm performance (Farjoun, 2002).

For instance, Pascale (1984) and Mintzberg (1994) have long recognised that although firms have a fundamental, long-term profit maximising strategy, they also have to pursue other conflicting goals and objectives which may lead to trade-offs between long-term and short-term performance. According to Pascale and Mintzberg, the best strategy comes from firms which are constantly responsive to their environment through the opportunistic, timely synthesis of ideas from all organisational levels rather than from a 'detached' or analytical top-down process.

This is especially pertinent when developing an effective CSR strategy since fast changing generational differences in attitudes, education and management approaches may render senior management less sensitive to changes in the CSR environment than junior level employees (Kotler and Lee 2005, Oury 2007). Yet according to Porter, despite the surge of interest in CSR, in most cases CSR strategy remains "too unfocused, too shotgun, too many supporting someone's pet project with no real connection to the business" (quoted in *The Economist*, 2008). It is not surprising therefore, that a recent survey in 2007 by the consulting firm McKinsey of CEOs participating in the UN Global Compact initiative found that a large gap exists between companies' CSR aspirations and their actions, indicating that despite the rhetoric, most companies have yet to effectively link CSR into their overall business strategy (Economist 2008). It would seem that while businesses are now much more aware of the need to appear to be good corporate citizens, they are much less clear about how to achieve this in a strategic sense, or indeed having a coherent strategy that incorporates the key elements of CSR to add sustained value to their business (Porter and Kramer, 2006; 2011).

## METHOD

To explore this apparent deficiency, a case study approach was used i) to investigate how different types of firms in the construction and engineering industries have sought to integrate CSR into their overall firm strategy, and ii) to understand the rationale behind their respective approach, iii) to appreciate the different ways in which CSR can evolve and develop within each firm. Eight leading firms from various parts of the construction and engineering supply chain were selected for this exercise. They were selected, not on the basis of their CSR record, but to represent the range of companies one finds in the construction and engineering supply chain. The case studies were drawn entirely from Australia and include multinationals like the Lend Lease Corporation, The GPT Group, Leighton Contractors Pty Ltd and Stockland, international designers like Arup and HASSELL, project management consultants like Crown Projects, medium sized family-owned builders like Kell and Rigby Ltd and suppliers like CONCENTRIC Asia Pacific Pty Ltd. See Table 1 for sample details.

Data were collected using semi structured interviews with Managing Directors/CEOs and senior CSR executives from each company. Where relevant, information from annual reports and other corporate documents were used to supplement the interview data. Some CSR strategies appeared to be quite early in development, limited and 'informal' while others were mature, complex and multidimensional. Readers are referred to the corporate web sites and annual reports of each company for the many details we have had to omit due to word-limit constraint. It is worth pointing out that the intention of the study is not to report the successes or otherwise of any particular CSR initiative or strategy, or to promote any firm-specific initiatives. Instead, the case studies were based on interviews focusing on the connection of CSR to firm strategy which are underpinned by twelve broad questions:

1. What are the drivers of CSR in your business?
2. Describe your CSR strategy?
3. Who was involved in the development of the strategy?
4. Is the board able to effectively support CSR?
5. What are the broader external barriers to adopting CSR?
6. What are the internal barriers to adopting CSR within your company?
7. How have you developed a CSR culture?
8. What are the main challenges in successfully implementing CSR strategy?
9. How is CSR ROI measured?

10. How are CSR successes reported?
11. How are CSR failures reported?
12. From a strategic viewpoint, what are the key determinants of CSR success?

These questions served as a guide and were not intended to restrict discussions but rather to facilitate interviewees to convey their experiences of CSR. In the analysis of this data, we have presented our results in a narrative rather than attempt to convert the data into some quantifiable code in order to capture more succinctly the richness of the data source. The narratives were cross-referenced with other sources of information to ensure accuracy insofar as we are able to do so. However, because of space restrictions we are unable to include the full narratives hereii. The narratives are written without biasing one firm's CSR approach vis-à-vis another. What was apparent was that despite the diverse range of CSR initiatives pursued by individual firms, and irrespective of their size, age, sector, track-record, etc. the findings revealed a set of key elements that underlie their CSR endeavours and experiences.

**Table 1: Case study firm details**

HASSELL	Founded in Australia in 1938 HASSELL is a single, privately owned international network of design studios which employs over 3000 people worldwide. A multidisciplinary design practice, it is structured around the key disciplines of architecture, interior design, landscape architecture and planning, with integrated sustainability and urban design capabilities.
Arup	Established in 1946 as a consulting engineering business in London, Arup has grown into an international consulting firm which is owned in trust for its employees. Employing over 10,000 people worldwide, Arup's wide ranging portfolio of projects is served by over ninety offices across Europe, North America, Africa, Australasia and South East Asia.
Lend Lease	Listed on the Australian Stock Exchange, Lend Lease is one of the largest international integrated property companies. Operating in more than 30 countries worldwide and employing over 10,000 people, Lend Lease offers multiple services across the entire design and construction project delivery process.
Stockland	Stockland was founded in 1952 and was listed on the Australian Stock Exchange (ASX) in 1957. Stockland is one of Australia's largest, most diversified property groups with assets at 30th June 2008 of over \$14.7 billion in Australia, UK and Europe.
GPT	GPT has been listed on the Australian Securities Exchange (ASX) since 1971, and is one of Australia's largest diversified listed property groups with assets of over \$13 billion in the retail, office and industrial/business park sectors. The Group is one of the top 100 ASX stocks by market capitalisation.
Leighton Contractors	Leighton Contractors Pty Ltd is one of Australia's largest construction and resource services groups and a subsidiary of Leighton Holdings Limited, a company listed on the Australian Stock Exchange, with around 37,000 employees, and its head office in Sydney. Founded in Victoria in 1949, Leighton Contractors has grown from a small, privately owned civil engineering firm to become a large diversified group, with interests in telecommunications, infrastructure investment, facility management and energy.
Kell and Rigby	Kell and Rigby (K&R) is one of Australia's oldest family owned businesses. Established in 1910, K&R is a fourth generation family-owned construction company which has offices in Sydney, Brisbane and Canberra. It has a functional structure which focuses on different market segments and over the last five years has completed over AU\$700m of construction projects in commercial, retail, residential, age care and education.
Concentric	CONCENTRIC Asia Pacific is a small to medium sized privately owned firm of consulting engineers and designers which is a provider of technology for 3D design, simulation, interactive training, virtual ergonomics, and visualisation to the construction and engineering industry and other industries such as car manufacturing, automotive, defence and mining etc.
Crown Project Services	Crown Project Services (CPS) is an independent project management consultancy with over 40 staff which provides services in project management, program management, advisory and auditing services and event management. CPS service a wide variety of industry sectors including: Commercial & Industrial; Tourism, Hospitality, Sporting & Leisure; Government, Education, Health & Justice and; Infrastructure, Ports, Rail, Green Technologies.

## DISCUSSION OF RESULTS

The social, political, institutional, and market-driven pressures for CSR are intensifying and firms in every sector of the industry are trying to respond or are responding strategically to this in their own way. The case studies reinforce this by demonstrating that firms

ii. Please refer to Loosemore and Phua (2010) for detailed narratives of case studies.

do indeed see CSR as having strategic benefits that can bring about certain tangible and desirable advantages to their businesses, even if these are not always formalised or officially articulated. In this regard, there is evidence of ongoing industry isomorphism towards CSR but it is still too early to draw any conclusion about its impact on overall industry performance in terms of the aspirational triple-bottom line of economic, societal and environmental improvements.

Far from jumping on the CSR bandwagon with the view that it is the solution for firms to do well, it seems that firms in this study do make intentional choices about CSR, have a truly good understanding of the specific business environment that they operate in, and the demands and implications that CSR initiatives may have on their resources. There is a strong sense that firms approach CSR in an essentially pragmatic rather than an ideological way, and this goes some way to dispelling much of the rhetoric surrounding the CSR agenda. The findings have shown clearly that each firm has their own interpretation of how and why CSR should be practiced and at what pace it should be implemented. In this context, there is a good degree of adaptation where some firms are more inclined to approach CSR from a compliance-based perspective while others appear more confident to incorporate discretionary approaches that go beyond meeting regulatory or statutory requirements. The fact that large firms generally have a more systematic and formal strategic approach to CSR compared to smaller SMEs which adopt a more informal, ad-hoc approach is not surprising as most SMEs do not yet seem to see the need for a formal CSR strategy – the kind that at least requires a change to the governance framework, reporting and auditing regime – as a prerequisite to gaining competitive advantage within the industry. Particularly for SMEs, their core day-to-day operations appeared to be largely unaffected by the CSR agenda, with many claiming that they have been practicing CSR in their own way without needing to label, formalise or market it as such. For large firms, CSR is regarded as an increasingly important aspect of their business, which is needed in response to a resource-constrained and regulated environment of more informed and empowered stakeholders. Many of these larger firms also see it as a way to exploit new business opportunities presented by challenges such as climate change and carbon trading. Hence, there is a wide scope for firms to be creative and innovative about how best to fit CSR into their respective businesses. Regardless of the particular type of CSR initiative/approach, there is evidence that the emergent and pre-planned components of CSR strategy are shaped and guided by the values, norms and belief systems that are inherent in each firm.

Because many of the real or perceived advantages of CSR are largely qualitative and firm-specific (reputation, financial, stakeholder engagement, cultural change, etc), it would be naive, if not misleading to suggest that one approach is more effective than another. What is consistent across the firms, however, is that there is genuine and widespread senior management commitment, leadership and support for the CSR agenda to gain traction in any meaningful way. This translates into varying degrees of cultural change which is important in redefining the roles and responsibilities of people within the firms in the context of how they allocate resources, engage with stakeholders, identify measurable targets, reward employees, etc.

Beyond focusing on their own firms, the interviewees in this study recognise that the increasing ‘connectedness’ and complexity in which businesses are carried out demands a more dynamic approach to engage and manage cooperative and competitive stakeholder interests. In other words, firms need to establish a common understanding and willingness to embed CSR across the entire construction and engineering supply chain. This remains a major challenge for the industry as a whole because maintaining the CSR momentum in a project-based environment requires the general commitment that extends beyond the goodwill, leadership and personal passion of a handful of people, which is currently the case. The firms in this study suggest that perhaps the most practical way forward is for them to become more astute in managing the network of stakeholder interests which possess both tangible and intangible value to the firm, and in doing so, develop a strong corporate identity that enhances the belief system and norms that are associated with CSR and which forms part of their core business culture.

## CONCLUSION

Within the limited range of case studies that are included in this study, there seems to be a clear indication that most of the firms interviewed associate CSR with the need to do or to be seen to do, in their own words, ‘the right thing’. From this duty-based (deontological) ethical philosophical stance, emerges a diverse range of CSR initiatives that are deemed by each firm to be best suited to their individual circumstances and conditions. However, significant overlap in certain areas such as better employment practices, increased philanthropic activities and community presence, also suggest that the field of CSR is in its early stages of development in the construction and engineering industry and firms are searching for ways to differentiate themselves in this space and to thereby derive competitive advantage. Importantly, the CSR approach adopted by firms in this study is determined by both the emergent and pre-planned components of corporate strategy that relies as much on taking advantage of market-, institutional-driven trends and

opportunities as it is on the need to enact a strong corporate identity that serves as a guiding principle for firms to effectively respond to and influence the broader CSR environment.

Finally, although there is as yet no definitive link between CSR and improved economic performance, firms in this study recognise that the business case for CSR may not lie entirely with its economic advantages but with its effectiveness through enhanced legitimacy of corporate activities in the longer-term. This could well be the key element to obtaining better returns in the future.

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