UNTANGLING RHETORIC AND REALITY IN THE CSR DEBATE: THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY IN EFFECTIVE BUSINESS STRATEGY

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While there is a strong moral case for corporate social responsibility (CSR), the business case for CSR is certainly not irrefutable. A better understanding of how to integrate CSR into business strategy is needed but with ever increasing momentum towards sustainability as a business driver, it is often difficult to untangle the rhetoric from reality in the CSR debate. Through an analysis of eight case studies of leading firms from throughout the construction supply chain who claim to engage in CSR, we explore how consulting and contracting firms in the construction and engineering industries integrate CSR into their business strategy. Findings point to an inherent caution of moving beyond compliance and to a risk-averse culture which adopts very narrow definitions of success. We conclude that until this culture changes or the industry is forced by clients or regulation to change, the idea of CSR will continue to mean achieving economic measures of success, with ecological goals a second regulated priority and social goals a distant third.

Keywords: corporate social responsibility, strategy, performance, culture, sustainability.

INTRODUCTION

The basic question driving the CSR debate is whether or not corporations should be socially responsible for the betterment of societies and if so, to what degree, why, and how? At one end of the spectrum, associated with Milton Friedman's (1962) enduring views, it is argued that the only social responsibility of firms is to grow profits and maximize the wealth of their shareholders. On the other hand, others argue that attributes such as trust, loyalty, honesty and fairness in economic transactions are necessary to business success and to an effective free market mechanism (Vranceanu 2007).

While the polarized views regarding CSR still remain, it has to some extent been diffused by Carroll's (1991) widely accepted notion that a firm has a hierarchy of responsibilities, starting with its economic responsibility to its shareholders followed by a duty to act within the legal framework drawn up by the government and judiciary; an ethical responsibility to do no harm to its stakeholders and finally, a

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discretionary responsibility to go further than basic requirements of shareholders, law and ethics. It is at the discretionary level that CSR is deemed to have the most potential to add strategic value to the company, and it is where proponents of CSR would argue to have the greatest long-term positive impact. CSR clearly involves a lot more than simply adopting the latest ISO standards, although in many firms in the construction and engineering industry this is the case (Petrovic-Lazarevic 2008), as it is with many other industries (Saha and Darnton 2005, Louisot 2009). For various reasons arising from the nature, maturity and characteristics of the construction industry and increasingly demanding corporate governance law and regulations, this so-called compliance CSR is often all that is required from firms to justify having a CSR agenda.

Currently, the growing volume of literature advocating and philosophizing the need for firms to adopt some form of CSR initiative is perpetuating a compliance approach to CSR since it is not matched by research on how firms should strategize it, as a means of achieving sustained competitive advantage. These relationships are not well understood and are often obscured by the value-laden, emotional and rhetorical nature of the CSR debate. Today, the corporate world is under enormous political pressure to be more socially responsible and the temptation is for firms to automatically and uncritically adopt supposedly universal and predetermined solutions without understanding risks and opportunities to their particular business. Conversely, there is the temptation for businesses to dismiss CSR altogether or engage, as many firms have done, in hollow and superficial attempts to buy a good CSR image (Saha and Darnton 2005). The aim of this paper is to address this issue by exploring how firms in the construction sector integrate CSR into business strategy and whether and how this translates into better business performance. We seek to untangle the rhetoric and reality of CSR, arguing that CSR's role in the evolution and implementation of effective strategy has been glossed-over by the often prescriptive and simplistic treatment which the subject has received.

THE BUSINESS CASE FOR CSR

Advocates of CSR will often point to the risks of ignoring what they argue is an inevitable and irreversible trends towards greater corporate accountability and responsibility. It is increasingly argued in the media that strong stakeholder relationships have the potential to differentiate a business, strengthening public perceptions of trust which can benefit both reputation and brand image (Vilanova *et al.* 2008). For example, a recent survey of business stakeholders in Australia pointed to significant economic benefits associated with positive public perceptions of CSR practices since 79% of respondents said they would pay more for products or services from a company that was committed to doing good. This market share advantage of CSR has been proposed in many other studies such as Hinkley (2002) which found that 84% of Americans said they would be willing to switch brands to a company associated with a good cause if price and quality were similar. More recently, the Business Council Of Australia's meta analysis of MORI and Harvard and Oxford Business Schools surveys of over 85,000 people in over 40 countries indicated that 90% of people believe a firm should have other social and environmental responsibilities beyond simply profit and that 60% take this into account when choosing what brand to buy (Business Council of Australia 2007). In addition to improved image, brand and reputation, there are other benefits which have been linked to CSR. These include reduce operating costs, reduced insurance premiums, avoiding regulatory non compliance, greater political clout, improved risk awareness, stronger stakeholder engagement, community relationships and increased community goodwill, avoidance of activism, increased cohesion within a workforce, attraction and retention of talented employees, strengthened partnerships with business partners, brand preference with target markets, enhanced employee well being, health and safety and satisfaction, greater productivity and profits and, lower long-term cost of capital. For example, in response to increasing community concerns over climate change the insurance industry is creating new insurance products with green policy terms at reduced premiums. Also, a recent study found that 70% of final year undergraduate students suggested that a company's ethical record was crucial when choosing an employer (Oury 2007). Kotler and Lee (2005) point to research which found that 55% of MBA students would accept lower wages to work for a company that believed in something (these also tended to be the higher achieving students), that 76% of these MBA students would be more likely to stay in a job that was related to a cause, that 78% are more likely to buy a product associated with a cause.. Finally, advocates of CSR also point to the capital raising benefits of appealing to the growing number of socially responsible investors and mainstream investors who want the apparent stability associated with these stocks (Macfarlane 2008). Therefore, it appears on the surface of it, that allocating resources that are instrumental to improving the firms' relationships with important stakeholders such as employees or customers can bring about significant financial benefits. For firms in the construction industry and in many other industries, the apparent differentiating importance of CSR has become highly alluring and many have jumped on the CSR bandwagon as a result.

THE RHETORIC OF CSR

It is easy to continue citing convincing examples about the attraction of CSR without citing the crucial caveats which many advocates and adopters of CSR dangerously neglect. CSR is certainly not risk free. For example, Association of Chartered Certified Accountants (2003) pointed out that there are significant potential costs associated with CSR for all stakeholders involved: more meetings, briefings and policy issues for company directors; increased reporting and disclosure costs for shareholders; increased training for managers and employees; greater interaction costs for communities and managers; greater short-term input costs for subcontractors and; suppliers and higher prices in the short-term for customers. Most importantly, while there seems to be a connection between CSR and business performance, the nature of the relationship is unclear and as yet unproven. Although there is no empirical evidence relating to the construction and engineering industry, the evidence between CSR and positive performance in other industries is highly variable with some studies showing a positive relationship, some showing a negative relationship, some showing U-shaped relationships and others showing no relationships at all (Barnett 2008). It remains the case that three decades of systematic research by numerous academics to investigate the relationship between CSR and financial performance of firms have yielded mixed findings.

According to Vilanova *et al.* (2008) the nature of this relationship for any firm is often dependent on how the four paradoxes of CSR are managed, namely; the strategy paradox; the stakeholder paradox, the accountability paradox and; the competitiveness paradox. The strategy paradox is that the broader the corporate mission and vision is, the easier it is to incorporate CSR but the more difficult and impractical it is to manage and measure its impact. The stakeholder paradox is that increasing the number of stakeholders effectively reduces the capacity to control and manage the stakeholder consultation and decision making process. The accountability paradox is that the more a company aims to be transparent and open with its stakeholders, the less able it is to communicate a coherent and central message about its vision. Finally, the competitiveness paradox is that embracing CSR can reduce certain competitive advantages, although it could strengthen other competitive factors. So one of the key issues in implementing CSR appears to be the tensions involved in integrating and embedding CSR vision and activities to the core of corporate practices. In other words, adopting CSR may generate goals, values and processes which directly conflict with deeply ingrained historical values and existing goals and practices. This issue was explored by Green (2009) who argued that Friedman's enterprise culture has profoundly undermined CSR in the UK construction industry. Green argues that this was used in the name of economic efficiency to deregulate the construction industry, incentivize self employment, destroy union activism and open up direct Labour Organizations to private competition. Green argues that while recent enthusiastically endorsed industry reforms such as Rethinking Construction, Accelerating Change and Respect for People have promoted dimensions of CSR, construction firm strategies are still commonly framed narrowly through an established enterprise culture which feeds into its instrumental need for profit-based strategies and tools.

If one accepts Green's analysis, then combined with a lack of real evidence to support the benefits of CSR in construction, there is a danger that firms are more likely to respond reactively rather than strategically when justifying CSR. This has indeed been the case in many industries and Heugens and Dentchev (2007) caution against it on numerous grounds. For example, if not understood and managed strategically, CSR can encourage non-productive spending which encourages free-rider behaviour among stakeholders; it can stretch organizational stakeholders beyond a manageable set; and create difficulties in measuring organizational success. Ironically, it can also result in reputational damage whereby firms lose legitimacy by associating themselves publically with certain good causes which they then fail to take seriously. For example, Saha and Darnton's (2005) analysis of the sustainability practices of a sample of local and multinational companies who portray strong CSR credentials across various sectors revealed considerable exploitation of the green label and rhetoric in firms' claims of being responsible citizens. Although the companies analysed expressed concern for the environment, the principle motivation for going green was a passive, reactive response to stakeholder and regulatory pressures and an opportunity to grow revenue, cut costs and improve their image.

METHOD

The above discussion reveals that while there is a strong moral case for CSR, the business case for CSR is not accepted by all and is certainly not irrefutable. The future role and development of CSR will require a better understanding of how to integrate CSR into business strategy and on a better understanding of the complex and dynamic relationship between business and society and the underlying forces driving the CSR debate. To this end we explored through eight case studies, how different types of firms in the construction and engineering industry have sought to integrate CSR into their corporate strategy. We selected the firms for our case studies, not on the basis of their CSR record, but to reflect the range one finds in the construction supply chain. We believe we achieved this but also recognize that the immaturity of CSR in construction makes it likely that we have not captured the multitude of CSR approaches adopted and that there is a lot more research needed in this area. The case studies included multinationals, international designers, project management consultants, medium sized family-owned builders and suppliers. Although these firms are drawn from an entirely Australian sample, they do not all have their global head office in Australia.

We collected our data using semi structured interviews with Managing Directors, CEOs and senior CSR executives and where relevant we also used information from annual reports and other corporate documents to supplement the interview data. The majority of what we report here is data from the interviews where we asked the following key questions which revolved specifically around the connection of CSR and strategy. This data was analysed using thematic analysis and our findings are presented in three firm categories (large developers; large consultants and SMEs) because our analysis showed that CSR in each category is driven by different imperatives.

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.

DISCUSSION OF RESULTS

Because of space constraints, we will be presenting a much summarized discussion of the interview results. To do this, we categorize our respondents into three categories: Large multinational developers, large multinational consultants and domestic firms in the construction supply chain. This categorization is based on our analysis which shows that the responses to the above questions differ significantly between these three groups.

Drivers of strategy

For the large developers the main drivers of CSR were new legislation, investors, competitors, employees, clients (particularly government), tenants, increasingly vocal communities and the emergence of new industry tools at a global and domestic level which enable them to measure and monitor progress against accepted goals. CSR is seen as a potential mechanism to achieve competitive advantage through increased trust and reputation with stakeholders. "Doing the right thing" was a common slogan used by our respondents and there is not much to differentiate the strategies of those firms we interviewed. While the term competitive advantage is used, the real argument being proposed in these firms is that CSR enables them to "future proof" their business by better managing risk, being more innovative and building more long-term value, resilience and longevity.

For the larger consultants the main drivers of CSR were their values and the personal commitment and vision of the owner(s). External regulatory pressures featured a less influential driver in large firms although the clients of large consultants are also increasingly requesting greater attention to environmental issues in particular. For large consultants, CSR is not a necessity (as in the case of large developers) but is seen as a potential source of competitive advantage and a way to exploit new business opportunities presented by challenges like climate change and carbon trading. It is also seen as a way of creating a formal framework for capturing, structuring and communicating what they had been doing in an ad hoc manner for many years.

For the smaller firms further down the supply chain, responsible strategy was seen as something that didn't need formalizing but as something which was inherent in a "family" or "tribal" business model which relied on intimate relationships with local communities and employees. It is argued that the drivers for responsible strategy have always been present in these small firms which are relatively insulated from the regulatory pressures which are driving the larger firms.

Describe your CSR strategy

For the large developers strategy is formally set out in an annual report with clearly defined objectives and measurable KPIs guided by globally established frameworks such as GRI. CSR typically depends on consistent procedures and systems which enable integration across business units (often with very different organizational and national cultures), building alliances through the supply chain and encouraging employees to abide by a clearly articulated set of core business values.

The larger consultants are in an earlier stage of CSR development than large developers although they recognize the potential benefits from doing so. Guided by more limited resources and a project-based culture, responsible CSR strategy is typically built around a relatively limited set of voluntary initiatives to help achieve a simple company vision and set of corporate goals. The key to CSR strategy for these firms is achieving focus, balance and scale – addressing emerging needs without compromising the future of the firm.

The CSR strategy of smaller firms is typically far more reactive than proactive. It is often driven by no clear objectives but by a response to ongoing relationships with causes or new opportunities which present themselves. They are likely to revolve around very few or even a single initiative and tend to develop in an organic and almost spontaneous rather than pre-planned and strategic fashion.

Who is involved in developing CSR strategy

For the large developers CSR strategy is typically driven by the board and a senior sustainability manager whose job it is to integrate sustainability into the business and lead a sustainability group or committee. This high level committee is in turn typically advised by steering and working groups led by specialist sustainability managers throughout the company.

The larger consultants tend to avoid complex hierarchical structures to drive responsible strategy but instead establish a board subcommittee or separate unit supported by sustainability working groups in each business unit led by sustainability coordinators.

For small firms the development of a responsible strategy is normally led by the personal motives and interests of the managing director. Employees are typically involved but not through any formal committee structure.

Barriers to CSR strategy

For the large developers the main barrier to developing a CSR strategy is established cultures and ways of working. There is also a need to address potential misunderstanding and confusion of what responsible strategy means for a large and diverse business. Another barrier is inevitable scepticism about hard benefits to the business and its bottom line and managing CSR in complex supply chains. Getting reliable data to support strategy is therefore a critical challenge which is not helped by the lack of regulatory guidance in this area.

For the larger consultants which operate a highly project-based environment, CSR strategy often depends on the goodwill of individual employees working outside the boundaries of individual projects. This can make it difficult to maintain momentum. Some clients can also represent a barrier since not all are willing to invest in something which may only produce a long term return or no apparent return at all.

For the smaller firms, formal CSR strategy is a highly risky process. CSR is often seen as an unaffordable long-term luxury in a cash-flow driven business. Another potential barrier is that CSR often requires a multidisciplinary approach which is often missing in a small business ensuring that partnerships and alliances with other small business with complementary skills is essential but often difficult to establish.

Building a CSR culture

For the large developers building a CSR culture is a gradual process because of the diversity and size of the organization that needs to be moved. This depends upon senior leaders not only leading by example but promoting the importance of responsible behaviour by incentivizing staff. Having a defined strategy underpinned by clear values and measurable objectives against which success can be measured is therefore important as is communicating that strategy to those who have to implement it. Since responsible strategy requires a change in behaviour, education of staff about the personal and organizational benefits of CSR is also critical.

For the large consultancies and smaller firms, culture change tends to occur more by osmosis and mentoring than by a structured process of performance management and monetary incentives. The greater intimacy of these firms, often engendered by their governance structure and size, makes it particularly important for staff to understand clearly what responsible behaviour means to their firm, how it specifically applies in their business and how it relates to the firm’s core values, which tend to be more internalized than in the larger firms.

The challenges and determinants of CSR success

For the large firms the main challenge is cultural change. This is best achieved when it is possible to demonstrate ROI which in turn requires clear measurable targets to be set which link directly to core business objectives and for performance to be measured against them. There has been far more progress in measuring environmental performance than social performance, largely because of the compliance imperative in this area. Another major challenge is establishing a common understanding and vision across a large number of people of what responsible strategy means for the organization and why it is important at an organizational and personal level.

For large consultants success ultimately depends on the personal vision and determination of the Managing Director or CEO. Also important is alignment with organizational values, understanding what it means for the business (and for business partners) and ensuring value-add – although developments in formally defining, measuring and reporting ROI are less developed than in larger firms.

For the smallest firms the main challenge is maintaining pragmatism and managing scope-creep. Responsible strategy is potentially a “bottomless pit” which can impose an insatiable demand on limited resources. Relative to larger firms, the human and financial investment can be enormous and there is a real danger that initiatives take on a life of their own and develop drivers beyond the core objectives of the founding firm. Another key challenge is educating clients about the merits of investing in what may be longer-term initiatives that may not produce obvious and immediate returns.

CONCLUSION

The aim of this paper was to explore the relationship between CSR and corporate strategy in the construction sector. The picture that emerges from our case study research is of an industry that is best moved by regulation and hard facts and figures which has begun on a path of engaging in CSR but which still has a long way to go. It is a compliance-driven industry that undoubtedly responds best to external regulation and is unlikely to move beyond the minimum without a clear business case. This is not to say that there is no discretionary or voluntary CSR in the industry. But there is inherent caution of moving beyond compliance and a risk-adversity culture which adopts very narrow (financial) definitions of success. Until this culture changes or the industry is forced by clients or regulation to change, the idea of CSR will continue to mean achieving economic measures of success, with ecological goals a second regulated priority and social goals a distant third. There is no sense that clients are driving change (indeed it seems the opposite is true) so regulation, in the short-term, is the most likely catalyst for change. To be fair, construction firms are not NGOs or not-for-profits set up to achieve social goals but are commercial organizations created to generate economic wealth for their owners ("money making machines" as one of our interviewees said). Being pragmatic, this inevitably means that to be taken seriously, CSR will need to satisfy this basic need first. So success will ultimately depend on our ability to understand and manage the complex nature of this relationship.

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