

## **Preliminary Research into Responsible Business Practices in Engineering Firms through an Analysis of Project Stakeholders**

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### **Abstract**

In recent years, responsible business has become an increasingly important management topic in the international business community. In 2010, the International Organization for Standardization, (ISO) has launched guidelines for social responsibility (ISO 26000) which are applicable to organizations in the public and private sectors, in developed and developing countries. Recent reports and references have considered the business case for CSR in the construction and engineering sectors. Key reasons include demand from key stakeholders; clients, investors and the media, that engineering and construction firms comply to social and environmental performance. Firms that develop social/environmental policies can provide a competitive and market advantage. Constructing Excellence assert that CSR policies and practices can secure strategic advantage through improved community goodwill, improved reputation, reducing costs by avoiding conflicts with community groups, and minimizing risks (related to project performance and corporate image/branding).

Firms from a range of industrial sectors, including engineering businesses, have been developing their own policies, strategies and CSR initiatives. This paper explores the approaches and application of responsible business practices in engineering firms through assessment of the key business and project stakeholders and uncovers some of the prime CSR issues, challenges and opportunities for CSR to become embedded in the culture of this important Industry.

### **Keywords**

Corporate social responsibility, stakeholder management, engineering, businesses

## **1. Introduction**

In 2010, the International Organization for Standardization, (ISO) has launched guidelines for social responsibility (ISO 26000) (<http://isotc.iso.org>). The ISO 26000 states (May 2010, Draft FDIS, N191) that “this International Standard is not a management system standard. It is not intended to be regulatory or contractual. Indeed there has been much argument as to whether implementation of CSR should be strictly legislated or whether there should be complete freedom for firms to develop their own policies”. The new guidelines are applicable to organizations in the public and private sectors, in developed and developing countries. The aim of the Standard is to provide guidance on translating principles into effective actions and refining best practices and disseminating the information worldwide. Indeed 80 countries have been involved in drawing up the standard

Firms from a range of industrial sectors, including engineering and development businesses, have been engaged in CSR activities. In Malaysia, for example, these firms have been recognized through the Prime Ministers CSR Awards since 2007. Petronas Berhad, Maxis Communication Bhd, and Malaysian Resources Corporation Berhad (MRCB) have all been involved in developing their own CSR strategies and initiatives ([www.anugerahcsrmlaysia.org](http://www.anugerahcsrmlaysia.org) 2010).

The aim of this paper is to explore the approaches and application of responsible business practices in engineering firms through assessment of the key business and project stakeholders and uncover some of the prime CSR issues, challenges and opportunities for CSR to become embedded in the culture of this important Industry

### **1.1 Defining CSR**

Corporate social responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance (Wood 1993), is a form of corporate self-regulation integrated into a business model.

While the term CSR may appear to be relatively new to the corporate world, the literature reveals that the evolution of the concept itself has taken place over several decades. The fact that the terminology itself has changed over this time also suggests that the meaning ascribed to concepts such as CSR will continue to evolve in tune with business, political and social developments. The impact of globalisation and mass communication also means that while definitions will reflect local situations, they will also be strongly influenced by global trends and changes in international law (Thomas and Nowak 2006).

Business for Social Responsibility (America’s largest organisation devoted to CSR) states that CSR is; Business decision making linked to ethical values, compliance with legal requirements, and respect for people, communities, and the environment around the world. (Aaronson 2003, p. 310)

The Prince of Wales Business Leaders Forum asserted that CSR was Open and transparent business practices that are based on ethical values and respect for employees, communities, and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders. (Aaronson 2003, p. 310)

The European Commission concluded that CSR was A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. (European Commission 2001, p. 5)

In their discussion about stakeholder approach, CSR and sustainability, Wheeler et al suggested that ‘Perhaps the problem has been that traditionally we have tended to take too narrow a view of each of these ideas. Stakeholder theory has never been just about social issues..., sustainability is not just about

environmental issues....And there is no necessary dichotomy between sustainability and profitability' (Wheeler, Colbert & Freeman 2003, p. 20). Conversely, Van Marrewijk has suggested that if CSR is too broadly defined, it will be 'too vague to be useful in academic debate or in corporate implementation'. (Van Marrewijk 2003) Perhaps the final comment should rest with Blyth, who has suggested that 'There is no one definition of what it takes to be a responsible corporate. The key is to have a rigorous process for identifying those responsibilities and fulfilling them. (Blyth 2005, p. 30)

## **2. Developments in CSR in Engineering & Eonstruction; The Clear Business Case**

One of the first academic papers to consider CSR issues in construction was Hamil's (1993) chapter 'Building on ethics: Ove Arup and corporate social responsibility'. Early work tended to focus on environmental issues, before broadening out to consider the concerns of general business stakeholders (Barthorpe et.al 2004). More recently, papers have examined ethical behavior within the built environment (Bowen et al 2007; Fox 2000; Liu et al 2004; Poon 2004; Sassi 2004; Suen et al 2007) and also engineering and environmental ethics (Wilcox and Theodore 1998). Other construction researchers have also given CSR attention as part of other studies (Barry 2003; Barthorpe et al 2004; Jones et al 2006; Rameezdeen 2007; Wilkinson et al 2004).

At an institutional level, interest in CSR in the engineering and construction industry has been increasing with publications from Constructing Excellence (2004) and The Chartered Insitute of Building (CIOB 2007).

Mike Murray and Andrew Dainty (2009), covered issues concerning the impact of construction on society, the business case for CSR in construction, community interaction, corruption and illegal practices, sustainability etc.

A number of reports and references have considered the business case for CSR in the construction industry. The stress the need for CSR in the Industry for a number of key reasons;

- Demand from key stakeholders; clients, investors and the media, that engineering and construction firms comply to social and environmental performance (Herridge 2003)
- Firms that develop social/environmental policies can provide a competitive and market advantage (CIRIA 2003).
- Constructing Excellence (2004) assert that CSR policies and practices can secure strategic advantage through improved community goodwill, improved reputation, reducing costs by avoiding conflicts with community groups, and minimizing risks (related to project performance and corporate image/branding).

The business case for CSR concerns risk management. Within CSR, there are a range of issues that can threaten the value and future health of the company. For example, the publicity around human rights abuses in the supply chain and the consequent interruptions to supply, environmental incidents such as pollution incidents or explosions leading to regulatory scrutiny, fines and damage to brand reputation (Baker 2006) .

Randles and Price (2009) indicate the following steps in integrating CSR throughout the construction business. Assess what level the firm is with regard to it's internal and external CSR. Appoint a champion who is high enough up the ladder to make the necessary decisions and be passionate about how CSR can improve the business. Assess who the key stakeholders are, what information they require and how the business affects them. Provide the CSR information in a transparent manner that is accessible to all stakeholders and shareholders. Admit where improvements can be made and show progression and intention to becoming a better corporate citizen.

### **3. Identifying & Engaging with Stakeholders**

#### **3.1 What are the Main Stakeholder Management Approaches?**

Stakeholder management plays an important part in the management of an organization and of a project (Cleland and Ireland, 2002) because stakeholders allow them to exist (Barkley and Saylor, 2001). This is the main reason that Stakeholder management and Project management are recognized as the two important issues (Jepsen and Eskerod, 2009) and the skilled project practitioners have been focusing on them, thereby coexisting (Achterkamp and Vos, 2008). Further, managing stakeholders is a critical success factor in managing projects (Nokes and Kelly, 2007) where “success” is used in the context of achieving something desirable with organizational requirements (Cleland and Ireland, 2002). Managing stakeholders refers to managing communications to satisfy the needs of, and resolve issues with, project stakeholders (Project Management, 2004). It is about relationships between an organization and its stakeholders. These relationships do impact on individuals and organizations both positively and negatively (Harris, 2010). Stakeholder management can be designed to encourage the use of proactive Project management for limiting stakeholder activities that might affect the project negatively; or to assist the project team’s ability in taking advantage of opportunities to encourage stakeholder support of project goals (Karlsen et al., 2008). Stakeholder management is important in projects and relatively stakeholders are being classified in several groups. On this aspect, there appears to be two main schools of thoughts explaining why Stakeholder management is important.

The first school of thought focuses on managing stakeholder to avoid their negative influence on project objectives and insists that it is a very important action because success of the project depends on all individuals, including several who do not report directly. Therefore, stakeholders must be managed in each undertaking to avoid any of their negative influences, especially those that could be opposed to the objectives (Cleland and Ireland, 2002). It therefore means that If the SM is not sufficiently taken into account, it can lead to unexpected problems and uncertainty caused by the stakeholders (Karlsen and Asem, 2002), and projects can be harmed by the actions of various stakeholders. When this occurs, the implementation of a strong Stakeholder management is necessary to increase the success factors (Sutterfield et al., 2006). There are some methodology and tools which have been developed to simplify the task of understanding the expectation of project stakeholders and minimize their negative impacts (Bourne, 2005). The power/interest model is commonly used (Bourne and Walker, 2005, Yang et al., 2009) to analyze the stakeholders impact in a project (Project Management, 2008). Underlining this perspective is the fact that Stakeholder management plays a role to mitigate negative influence stakeholders.

In contrast, the argument is that stakeholders are main part for the project execution and relatively they have rights, needs, and expectations that must be considered as well as not taken lightly (Buchholtz and Carroll, 2008). The second school of thought concentrates more on these aforementioned human sides of SM, and insists on managing the interactions between various parties. This idea is supported by the theory aligning PM with organizational strategy (Srivannaboon and Milosevic, 2007, Hörlesberger et al., 2007), and emphasizes on the relationship between project and stakeholders because of necessity of this relationship and benefits expected in a systematic framework. Further, it is generally accepted by practitioners as a unique approach to make project more successful. For instance, the PMBOK last edition emphasizes that PM is application of systematic approach to project deliverables to meet project objectives and stakeholder satisfaction (Project Management, 2008). Therefore, the project and its stakeholders can be viewed as a network in which the actors interact with each other and exchange information, resources, and results (Karlsen and Asem, 2002, Miloevi, 1989, Hörlesberger et al., 2007).

From this study it is understood that to sustain effectiveness, indeed, in order to effectively manage stakeholders, requires the project management to develop effective relationships with stakeholders and manage their influence in relation to the project requirements to ensure a successful outcome, never

before have these demands been more explored. Further, the impact of environmental factors on behavior is one of the most important issues in organizations (Dill, 1958). It is possible to build environments as systematic as interactive for all stakeholders and make systematic Stakeholder management to integrate executives' concerns about project strategy with the stakeholders' interests (Savage et al., 1991).

### **3.2 Project Stakeholder Management in Engineering Projects**

It is commonly accepted that a practical framework for managing engineering projects should be developed (Cleland and Ireland, 2002, Yang et al., 2009). It is necessary to verify, what the features of effective Stakeholder management are in the engineering projects. Based on the existing literature, these features should be expressive enough to be effective in identifying key players and making relationship among them (Chan and Chan, 2004, Yang et al., 2009). In stakeholder management the important issue is that neither project requirements nor stakeholder requirements are static (Pajunen, 2006), so the features must support all work disciplines throughout the project lifecycle (Cleland and Ireland, 2002, Takim, 2009, Yang et al., 2009). It is essential to build permanent relationships among the project team (Donaldson and Preston, 1995). They have rights, requirements, and expectations that must be identified and answered as much as possible (Buchholtz and Carroll, 2008). Giving equal opportunity and importance to all stakeholders is the best way to achieve success. The best way is make a systematic framework with effective relationship between project and its stakeholders (Aaltonen et al., 2008) which could be achieved through a Systematic Framework and not by subjective opinion of managers. The systematic Stakeholder management framework comes from the PM definition by PMBOK (2008) where project-requirements are involved and all stakeholder-requirements oriented throughout the project lifecycle.

## **4. Key CSR Issues for Engineering & Construction Project Stakeholders**

Freeman's (1984) study provides as integrated business and society model through the development of stakeholder theory. According to Moodley et.al (2008), the stakeholder model offers ethicists an approach to the business and society problems by identifying groups that have intrinsic value to the firm. The moral rights view indicates that stakeholders have rights including consultation and involvement in decision making. Ethical and responsible behavior is easier to integrate into an organization that has a stakeholder orientation.

Management in engineering needs to understand how much the stakeholder can actually affect the organization or project. Based on this, it then becomes possible to try to predict what the behavior of the stakeholders will be and how it will affect the goals and objectives. The business has to determine how its values correspond to or differ from those of the stakeholders. It has to determine if any risks arise out of this assessment and if ethical-oriented responses are needed.

Construction and engineering is now a global business which crosses a diverse range of moral, ethical and cultural boundaries. Transparency International's Annual Report (2005), focused on the main problems in terms of construction business ethics. The sector was judged to be highly corrupt, damaging to the environment and highly dangerous as a work place. Unethical behavior could be associated at all stages of the construction life-cycle.

### **4.1 What are the Global Ethical Issues?**

A number of international guidelines and codes have been developed including The Global Dullivan Princiles (Leon Sullivan Foundation, 1999)' The UN Global Compact (UN 2000), SA 8000 (SAI, 1997), Global Reporting Initiative (GRI, 2006), OECD Guidelines for Multi-nationals (OECD 2000), The Keidanren Harter for Ood Corporate Behaviour (Nippon Keidanren, 2004) and Principles of Global Corporate Responsibility (ECCR 2003).

Each of these sets of guidelines provide a framework for businesses to approach their corporate behaviour. The following table 1 shows Responsible/Ethical management areas and key CSR elements (adapted from Moodley, Smith & Preece 2008). The CSR elements have been grouped under corporate level and project level, to reflect where these will have most impact in the engineering business.

<b>Responsible/Ethical Management Areas</b>	<b>Key CSR elements to be addressed</b>
<b>Corporate Level</b>	
Accountability	Governance, Transparency, Disclosure, Ethical leadership
Business Conduct	Compliance with laws, corrupt practice, anti-competitive practice, political lobbying, buying influence, whistle blowing, integrity
Markets, clients & services/products	Fair dealings, honesty in marketing and advertising, integrity
Labour & human rights	Freedom of association and collective bargaining, eliminations of forced and compulsory labour, abolition of child labour, elimination of discrimination in the workplace
<b>Project Level</b>	
Supply chain	Integrity, cross-cultural issues
Environment	Compliance with codes, carbon footprint, pollution, waste, use of water, habitat destruction, impact on biodiversity, safety
Health and safety	Compliance with laws, duty of care, global health and safety codes, local practice and customs
Community	Charity, local causes, employment, damage to environment

### **5. Use of a Case Study to Identify and Analyse Stakeholders, The Responsibility/Ethical Management Areas of Concern & CSR Issues to Be Addressed**

The focus of this preliminary research is to consider the project level stakeholders, the responsible/ethical business management areas of concern and CSR issues likely to needed to be addressed.

<b>Stakeholders</b>	<b>Responsible/Ethical Areas</b>	<b>CSR Issues to be Addressed</b>
<b>Supply Chain (Local)</b>		
<b>Supply Chain (International)</b>		
<b>Staff</b>		
<b>Local Government</b>		
<b>Client</b>		
<b>Alliance partners</b>		
<b>Community groups</b>		
<b>General public</b>		
<b>Environmental groups</b>		

## 6. Conclusions

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