

# **“ETHICAL MANAGEMENT PRACTICE” AS A CSR TOOL TO ENSURE THE CORPORATE SUSTAINABILITY OF CONSTRUCTION INDUSTRY: A CONCEPTUAL REVIEW**

V. Somachandra<sup>1</sup>, K. Sylva<sup>2</sup>

<sup>1</sup>*Faculty of Construction, International College of Business and Technology*

<sup>2</sup>*Faculty of Engineering Management, University of Peradeniya*

## **Abstract**

Construction industry is one of the main contributors to the national economy in most countries with the industry metabolism of businesses including constructors, clients, material producers, professional service suppliers and construction enterprises, amongst others. In a largely diversified industry like construction, inter-organizational relationships grounded through ethical practice and behavior is of utmost importance to establish sustainable relationships. Nevertheless, globally, the construction industry has been reported as an industry with poor ethical performance due to corrupt practices, health and safety catastrophes and triggering damage to the environment. Thus, if the construction industry is not guided by a proper ethical framework, the damage it could do to the economy, society and ecosystem is unrecoverable. This study attempts to identify the nature of ethical management practices in construction industry and its stakeholders, through extant literature. Also it reveals the prevailing ethical issues of the industry related to its stakeholders. Further, this study identifies the costs of these unethical management practices along with the emerging need and paybacks of properly developed ethical framework to ensure the sustainability of the industry. Further research will aim to develop an ethical management framework for Sri Lankan construction industry in the light of this review. Mix methodology will be utilized, to achieve this objective. Critical unethical management practices of Sri Lankan construction industry stakeholders will be identified through a questionnaire based on Relative Importance Index. Recommendations to mitigate the identified critical unethical management practices will be formed through an interview survey with industry experts using content analysis method. Based on those inputs, an ethical management framework for Sri Lankan construction industry will be developed.

**Key Words:** Ethical Management Practice, Construction Industry, Sustainability

## **Introduction**

Construction is an interwoven industry in the sectors of economy, environment and society. Also it is a growing business entity with many stakeholders. Ethical conduct is a dominant success factor in the construction industry. Man-Fong Ho (2011), argues that since businesses are interacting with the broader society, managing ethics has been considered as a management discipline. Bommer et al (1987), describe ethical behavior as the behavior which is objectively and morally correct. In broad-spectrum, the construction industry has a poor ethical status due to corrupt practices, health and safety catastrophes and being careless towards the environment (Moodely et al 2008).

This study aims to explore the requirement of an ethical management practice for the construction industry to ensure the corporate sustainability through strengthening the corporate social responsibility. In order to achieve that a thorough literature review has been carried out. Further the findings of this study will lead to an empirical study to develop an ethical framework for the construction industry to ensure the corporate sustainability through the CSR viewpoint. Thereby, unethical management practices prevailing in Sri Lankan construction industry will be identified through a questionnaire survey. Using Relative Importance Index (RII), critical unethical management practices will be identified. In order to provide recommendations to mitigate the impact of those critical unethical management practices an expert survey will be carried out. Through a content analysis based on experts' views, an ethical framework for the Sri Lankan construction industry will be developed.

This paper mainly focused on exploring the requirement of an ethical management practice for the construction industry to ensure the corporate sustainability. Thus, this paper structured under six main sections, initially the nature of the construction industry is explained. Then, it would focus towards the construction business and its stakeholders. Next, an insight into the principle of ethical management practice has been provided. Thereafter, unethical practices in construction industry have been discussed along with the costs and impacts of such practices. Later, the importance and paybacks of having a proper ethical practice are explained and finally, the conclusions have been drawn.

### **Overview to the Construction Industry**

It has been reported that the construction industry makes a significant contribution to the national economy with the industry encircling a range of businesses including constructors, clients, material producers, professional services and construction enterprises, amongst others (Shen *et al*, 2010). Statistics from the Central Bank of Sri Lanka indicate that the Sri Lankan construction industry has contributed 6%–8% of the GDP on average during the last decade whereas a similar situation is observed for construction investment (Economic and Social Statistics of Sri Lanka, 2014).

Through the social viewpoint, the construction industry is a critical element of the labour market and contributes to generate high numbers of employment opportunities. As of 2009, the direct employment in the construction industry was 562,000 persons (Industry Report on Sri Lanka, 2011). Although it is a high-risk occupation, it has been reported that poor occupational safety is associated with enormous economic losses in construction enterprises in some countries. Statistics shows that fatal accidents to workers in construction companies are generally much higher than in any other industry where falls from height and the management of site transport and equipment are the main causes of fatalities (Jones *et al*, 2006).

Presently the construction industry has often criticized for having little regard for the environment, for being provoking with its clients and for being insensitive and hard-hearted toward the society (Barthorpe, 2010). The construction industry typically is associated with the consumption of large amounts of resources and energy. Research proves that over 50% of raw materials which are obtained from nature were used to construct various types of buildings and their auxiliary apparatus, and these buildings consume more than 40% of global energy in construction and operation (WBCSD, 2009). It was broadly reported that construction activities have significant adverse impacts towards the environment which typically comprise dust and gas emission, noise pollution, waste generation, misuse of water, land misuse and pollution (Tam *et al.*, 2006; Wu, 2008). Though considerable number of organizations have implemented international environmental management standard (EMS) ISO 14000 to improve their environmental performance, nevertheless, numerous construction enterprises have not shown, what might be considered, commensurate concern about the environmental issues (Tam *et al.*, 2006; Turk, 2009). As argued by Wu, (2008) the wastage of resources are still quite common in construction processes, and the efficiency of resource utilization is comparatively low in developing countries.

### **Construction Business and its Stakeholders**

Construction is a booming business (Beesley, 2012). In most of projects there will be a lot of stakeholders involve (Pampliega, 2013). According to Philips (2003), stakeholders are parties contributing to and/or being affected by a decision making process of a business. Fewings (2005), describes a stakeholder is anyone who has an interest in the process or outcome of a project. Further, a stakeholder is an organization or any group or individual who can affect or is affected by achieving the organization's objectives (Freeman 1984 cited Malkat and Byung-Gyoo, 2012).

In a typical construction project any or all of the following may be a stakeholder. The client, the principal contractor, designers, subcontractors, people employed in any capacity in the project, local authorities, the end users of the product, professional bodies, local residents, local business owners, politicians, environmental groups, and many more stakeholders could be there (www.designingbuildings.co.uk, 2014).

Stakeholders in construction industry can be classified into different categories. There will be direct stakeholders who associate or involve with the project directly such as client, project sponsor, project manager, members of the project team, technical and financial services providers, internal or external consultants, material and equipment suppliers, site personnel, contractors and subcontractors as well as end users. These parties are also known as internal stakeholders (Lester, 2006). Indirect stakeholders are those indirectly associated with the project, such as; internal managers of the organisation and support staff not directly involved in the project, national and local government, public utilities, licensing and inspecting organisations, technical institutions, professional bodies, and personal interest groups such as shareholders, labour unions and pressure groups, who are also known as external stakeholders (Lester, 2006). Moreover, there can be positive stakeholders who are likely to have a favourable impact on a project. Mostly they will be direct stakeholders. Further, there can be negative stakeholders those who are likely to have a detrimental impact on a project. Mostly this category tends to be people or organisations not directly involved in a project, but who are still affected by it in some way (www.designingbuildings.co.uk, 2014).

Stakeholder management is vital for the construction business since the success of the project is largely based on the effective management of its stakeholders. Ineffective management of stakeholders will lead to many consequences like failures in project completion, dissatisfaction of stakeholders, failures in competition, poor reputation and environmental, social and economic harm that could do by the project and many more. A good stakeholder management permits the organization to understand in a better way their stakeholders, manage in a better way their expectations, and improve the business opportunities.

There is a close relationship of stakeholder management to Corporate Social Responsibility. Enquist (2006) describes CSR as a voluntary social and environmental concern in the business transaction and the interactions with the stakeholders. The organizations accept that they have a social obligation that goes much further than their responsibilities with the shareholders.

Through CSR viewpoint the organizations recognize that they have a moral obligation with the stakeholders based on ethics, social and economic respect. The socially responsible organisations attempt to use the ethical behavior in an agreement with the stakeholders. However the nature of this moral responsibility and how it can be interpreted into actions and corporate behavior is less defined and researched. In other business areas, the corporate social responsibility is interpreted in precise actions demanded from society as for example cheap labor, fair trade, etc. However in the construction sector morality and ethical responsibility are less defined (Pampliega, 2013).

### **Ethical Management Practice**

There is no universal definition for ethical behavior (Bowen et al 2007 cited Man-Fong Ho, 2011). Further, discussions can be found on the difficulty of establishing substantive definitions for ethical behavior (Jones, 1980 cited Man-Fong Ho, 2011). In philosophy, different scholars defined ethical behavior in different manner. Jones (1991) reveals ethical behavior as the consistency of one's personal values with the commonly held values of the organization and society. Further describes it as the behavior that is acceptable by both legally and morally to the larger community. Ethical behavior is often measured by the degree of trustworthiness and integrity with which companies conduct business. A famous allegation "There is never a right way to do the wrong thing"; simply describing what ethics is all about.

Ethics has been developed over two sectors namely, professional and organizational. It has now been universally accepted that the concept of ethics valid in organizational level as well, since businesses exist not merely for the benefit of individuals, but businesses serve for the society in large spectrum and it meets the collective and individual needs (Vee and Skitmore, 2003). Decision making is one of the key elements in most business management processes, which should turn out to be ethical decisions or to have ethical implications or consequences (Bowen *et al*, 2007). Carrol 1996 (cited Bowen *et al*, 2007) stated that if an organization wants to control its ethical behavior they should focus in the contemplated action, behaviour or decision; norms or standards for comparison and the guiding principles of business ethics.

By nature construction is a multi-professional industry. Many professionals occupied in construction industry like architects, engineers, surveyors and project managers have ethical codes to uphold as befits their profession, as do organizations ([www.designingbuildings.co.uk](http://www.designingbuildings.co.uk), 2014). Profession is an occupation which requires both advanced study and mastery of a specialized body of knowledge and undertaken to promote, ensure or safeguard some matter that significantly affects others' well-being (Vee and Skitmore, 2003). Being a professional, it is crucial to act both lawfully and ethically since professionals admit into more social responsibilities (Fan and Fox, 2009). Professional ethics is tangled with practical concepts and prospects from the public, like competence, responsibility, and willingness to serve the public (HKEDC, 1996). Fan and Fox, (2009) argue that the fundamental ethical responsibilities of industry professionals involve with responsibility to the profession, colleagues, employers or clients; and public.

### **Unethical Practices and their Impact for Construction Industry**

Worldwide, the construction industry is ranked as the most fraudulent industry (Transparency International, 2005 cited Moodely *et al* 2008). Killion, (2014) stated that construction industry is one of the top for bribes which has given mostly for public employees for contracts and permits. Yet the construction industry plays a leading role in economic growth in many countries, the industry corrupted with a long list of ethical challenges related to behaviour including: bid shopping, payment games, lying, unreliable contractors, claims games (e.g. inflated claims, false claims), threats, conflict of interest, collusion, fraud, and professional negligence (Vee and Skitmore, 2003; Fan *et al.*, 2001a, b; FMI and CMAA, 2004; Bowen, Akintola, Robert and Edwards, 2007 cited Man-Fong Ho, 2011). The ethical lapses in the construction industry is ever increasing. Ethical misconduct is wasting resources of the society while harming the individuals significantly (Fan *et al.*, 2001a). At the highest end of this scope, corporate ethical misconduct led to damages, injuries or deaths of employees, consumers, or members of the general public (Transparency International, 2005 cited Man-Fong Ho, 2011). Further it has been reported that the corruption of construction industry is greater than any other sector of the economy and thus the public-at-large is demanding that construction practitioners and organisations act according to high ethical and moral standards (Transparency International, 2005 cited Man-Fong Ho, 2011).

A survey carried out in USA construction industry revealed 84% of the responding building owners, architects, A/E firms, construction managers, contractors and subcontractors had experienced, come across or witnessed construction industry-related unethical acts or transactions. The issues of professional ethics within the construction industry affect a wide spectrum of population (Abdul-Rahman *et al*, 2010). Every profession has their own interests from the project, which are usually deviate and conflicting in nature, lead to conflicting ethical standards and practices that may affect quality performance and transparency to client or customers (Abdul-Rahman *et al*, 2010).

According to the research carried out by Ray *et al.* (1999), in Australian construction industry, the key ethical reflection is related to the tendering process: for example, bid withdrawal, bid cutting, cover pricing, compensation of tendering costs, and collusion. Fan *et al.* (2001) explored the ethical conduct of quantity surveyors in the Hong Kong construction industry, and found out that the well experienced and older quantity surveyors trusted that interests of the general public are more important in decision making, where the younger quantity surveyors in the same industry focus more towards to the employer, self and client in their overall decision making. The study identified the five most critical unethical issues were bid shopping, change order games, payment games, unreliable contractors and claims games. Adnan *et al.*, (2012) found that the most common unethical conduct evidenced by the contractors are cover pricing, bid cutting, poor documentation, late and short payments, subcontractors' lack of safety ethics, unfair treatment of contractors in tender/final account negotiations, competitors' overstatement of capacity and qualifications to secure work, competitors' falsification of experience and qualifications and bureaucratic, government policy.

Reitz (1998), stated in his study the consequences of unethical behavior such as; rigidity in future negotiations, damaged relationship with the opponent, a sullied reputation and lost opportunities. Petrick and Quinn (1997), illustrated that unethical behavior can produce additional negative costs at personal, group, and organizational levels, such as: increasing customer dissatisfaction; decreasing

productivity and profitability; low morale and organizational cynicism in the workplace; increasing disregard for methods and procedures; a lack of cooperation as workplace fear and distrust mounts; projects over-run time and budget constraints; and increases in employee substance abuse and absenteeism.

According to Bowen *et al* (2007), organizations that regularly generating a negative ethical impact may meet a shrinking market for its services and refusal of public approval. Unethical practice can be seen in every phase of a construction project starting from planning and designing, pre-qualification and tendering, project execution and operation and maintenance. As a result of these unethical practices unnecessary, unsuitable, overlay complex components, overpriced or delayed projects would be generated (Hamzah *et al*, 2008).

Unethical practices provide long-lasting permanent damages to construction organizations like wasted tender expenses, tendering uncertainty, increased project costs, economic damage, blackmail, criminal prosecutions, fines, blacklisting and reputational risk (Adnan *et al*, 2012). Due to such unethical practices of project participants projects become “Sick” projects. Moreover, Rahman *et al*, (2007) argues that unethical behavior by the construction industry parties impacts the quality of projects and increased unethical behavior result in consequential decline in the quality of project performance.

### **Importance of Ethical Practice for Construction Industry**

Vee and Skitmore (2003), stated that “good ethical practice”, is a critical factor for organizational or business goals, which is extremely worth pursuing. Further, it has reported that any organization that wishes to survive and flourish must be in constant and dynamic interaction with the wider environment. It is common that business professionals have to deal with ethical problems when they engage in their professional activities (Fan *et al.*, 2001). Reason behind this is the realization that good ethics is good business. Hence, ethical decision making having a positive influence on profits. Another reason is the public pressure developed to perform ethically through the mandate of social responsibility (Dean, 1997). The impact of an individual’s direct and indirect views, opinions and behaviour directly affect the organization. Furthermore, personal judgement based on internal criterion systems reflect one’s true beliefs and values, which serves to act as a reflection of the organization’s image (Christabel and Vincent, 2003). In construction industry, inter-organizational relationships are increasingly becoming important. To develop sustainable relationships it is need to develop a high trust/high ethics base (Wood *et al*, 2002).

Worldwide, many efforts have been taken to enhance the ethical performances and integrity among the professionals in construction industry (Abdul-Rahman *et al*, 2010). The existence of an ethical code makes a difference to those occurrences of unethical behaviour (Mason, 2009). Bowen *et al*, (2007) argue that the existing situation could be improved by educating clients in respect of ethical behaviour in the course of construction project development where, the professional bodies have a responsibility to ensure that their fellows comply with their professional charter of ethics. Through the well-practiced professorial ethics, professionalism could be enhanced and thus eliminating the quality-related problems directly. Bowen *et al.* (2007) further emphasize that the requirement of a policy to safeguard the stakeholder trust and confidence in the professional practices of the construction industry. Abdul-Rahman *et al.* (2010) stated that one of the best ways to enhance professionalism is through leadership with leaders serving as role model for the staff. Furthermore, the scholars have stated that the governments or public agencies should enforce the existing laws and procedures and to set a standard code of ethics. Collective effort of each and every construction party to ensure the ethical performance of the industry is again having an utmost importance.

### **Relationship of Ethical Management Practices with CSR and Corporate Sustainability**

Dyllick and Hockerts, 2002 defines corporate sustainability as meeting the needs of a firm’s direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders. In order to meet this goal active contribution to maintain the organisations economic, environmental and social capital is important. On the path to achieve corporate sustainability the concept of Corporate Social Responsibility (CSR) was universally identified as an emerging component which encompasses corporate sustainability expression with business operations (Elkington, 1998). CSR has

defined in the ISO26000 as “the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behavior” (ISO, 2010). CSR express the corporate sustainability in terms of business case. Hence it has universally recognized as an essential component to achieve corporate sustainability from business perspective. Furthermore, CSR means the behavior of an organizations’ free will to comply with the ethical standards, against the purely economic or legal essentials (Jones, 1980; Carroll, 1999). Johnson and Scholes (2002) highlight that aspect, stating that: “corporate social responsibility is concerned with the ways in which an organization exceeds the minimum obligations to stakeholders specified through regulation and corporate governance”. CSR differ from the obedience to the law instead, it is about the moral obligation. Hence it is every organizations’ and professionals’ duty to protect the economy, society and environment through an ethical behavior.

### **Conclusion and Way Forward**

Construction industry is one of the industries that should be handled with due care for ethics. If not, the damage it can do will be magnifying due to the interwoven nature of that industry. Construction industry plays a vital role in the economic development, social development and eco-system of a country. To get the maximum benefits from this industry it is important to ensure the performance, productivity and the functionality. In this regards, upright ethical practice by the organizations and professionals is emerged. Professional bodies and government agencies play a crucial role in minimizing ethical dilemmas and lapses in the construction industry. Through this conceptual review study, it has aimed to understand the nature of the construction industry along with construction business and its stakeholders. Further to that, it has identified the ethical management principles, unethical practices of the construction industry and its impacts, importance of the ethical practices and its paybacks. Finally, the way that ethical behavior incorporates with the corporate social responsibility to ensure the corporate sustainability has been discussed. Thus, this research study provide light to many further research avenues like ethical framework for Sri Lankan Construction Industry, stakeholder ethics management towards sustainable construction industry and improvements in ethical performance in construction industry and more.

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