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Sustainable Business Development and the Integration of Economic, Environmental and Social Sustainability Issues into Corporate Strategies

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Abstract

This paper examines the corporate strategies frequently used within high performing construction companies in South Africa. It investigates whether these business strategies incorporate economic, environmental and social sustainability goals. The rationale for the study is based on scholars' view that business sustainability entails the incorporation of sustainable development objectives into a company's operational strategies. However, it is not known whether high performing construction companies in South Africa incorporate sustainable development objectives into their corporate strategies. A comprehensive literature review and desk study research of the profile of randomly selected high performing contractors listed in Grade 9 on the Construction Industry Development Board (cidb) Register of Contractors and on the Johannesburg Stock Exchange (JSE) was undertaken. This study reveals the corporate strategies used within this cohort of construction companies include high levels of sustainable development objectives. The research findings suggest that the corporate sustainability strategies common amongst high performing construction companies contain elements of economic, environmental and social sustainability goals with a focus on investment in internal human resources and "green" construction processes. Based on these findings, the paper concludes that the performance of high net worth construction companies in South Africa may be connected to their focus on the triple bottom line and the sustainable strategies delineated are relevant to the African business environment.

Keywords: Business development, Construction, Strategy, Sustainability, South Africa.

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1.0 INTRODUCTION

This paper examines the corporate strategies frequently used within large, high performing construction companies in South Africa. It explores whether these strategies incorporate economic, environmental and social sustainability goals. According to Dyllick and Hockerts (2002), at the business level sustainability is often equated with eco-efficiency, which misses several important criteria that firms have to satisfy if they want to become truly sustainable. Corporate sustainability can be defined as adopting business strategies that meets the needs of a firms direct and indirect stakeholders such as shareholders, clients, pressure groups, communities and so forth today, without compromising the firms' ability to meet the needs of future stakeholders as well by protecting, sustaining and enhancing the available human and natural resources (Dyllick and Hockerts, 2002; Deloitte and Touche, 1992). The green and sustainable trend has manifested in pressures from consumers, shareholders, employees, partners and government through regulations on companies to embrace more sustainable and green practices (Holliday, Schmidheiny and Watts, 2002).

Furthermore, there has been increased pressure to broaden the accountability of companies (and industry as a whole) beyond economic performance for shareholders, to sustainability performance for all stakeholders (Visser, 2002). According to Labuschagne et al. (2005), companies that compete globally are increasingly required to commit to and report on the overall sustainability performances of their operational initiatives. Scholars view that business sustainability entails the incorporation of the goals of sustainable development namely social equity, economic efficiency and environmental performance into a company's operational practices (Labuschagne, Brent and van Erck, 2005). According to Hockerts (1999), optimal decisions can only be made when economic, social and environmental consequences are taken into consideration. Towards this goal, firms have to maintain and grow their economic, social and environmental capital base, while contributing to sustainability in the political domain (Dyllick and Hockerts, 2002). A sustainable business can therefore be said to be an enterprise that has no negative impact on the global or local environment, community, society or economy – a business that strives to meet the triple bottom line of environmental, social and economic capital.

There is however a dearth of literature on the overall business sustainability of global high performing South African construction companies and whether they effectively address all aspects of sustainability at the operational and corporate level. This paper intends to fill this gap in knowledge by examining the corporate strategies frequently used by high performing construction companies in South Africa and whether these strategies incorporate economic, environmental and social sustainability objectives. This study is of importance because there is a need for construction companies in Africa to be sustainable so that the skills, capabilities and knowledge developed within these organisations would not be lost to future generations and also that these companies would carry out their operations profitably in ways which would impact on the growth and development of the African economy, provide employment including

social stability and reduce environmental impact. In addition, there is a need to develop a comprehensive framework of sustainability criteria that focus on operational practices in the construction sector and which can be used in assessing the sustainability performances of highly rated construction companies.

2.0 FACTORS DETERMINING CORPORATE SUSTAINABILITY

Literature and published studies (Hockerts, 1999; Dyllick and Hockerts, 2002; Labuschagne, et al., 2005; and Silvius and Schipper, 2010) categorize the determinants of corporate sustainability into three dimensions – namely Economic, Environmental and Social. See Figure 1.

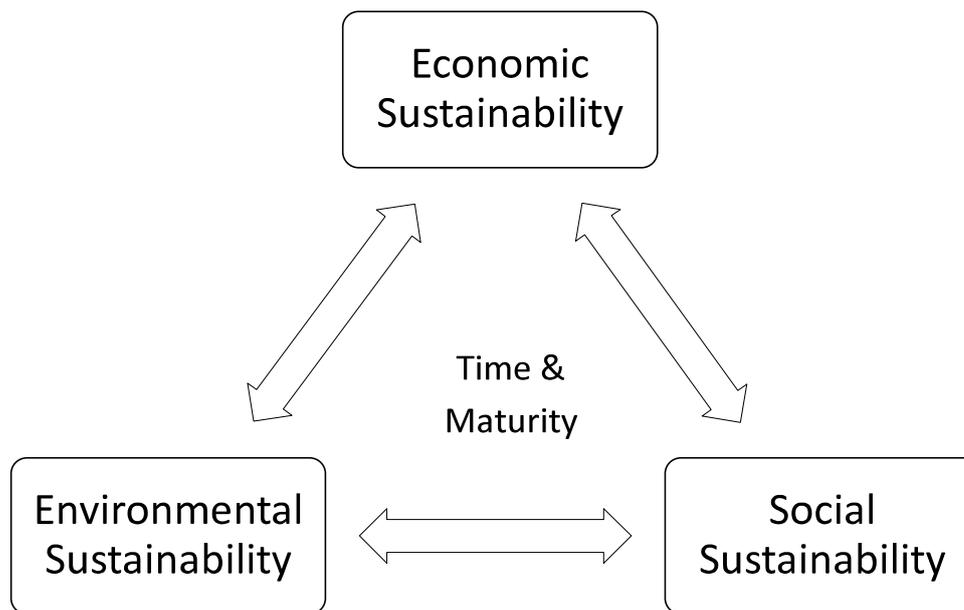


Figure 2: *Three Dimensions of Sustainability (After Hockerts, 1999; Dyllick and Hockerts, 2002; Labuschagne, et al., 2005; and Silvius and Schipper, 2010)*

According to Dyllick and Hockerts (2002) a single-minded focus on economic sustainability can succeed in the short run; however, in the long run, sustainability requires that all three dimensions be satisfied simultaneously. That is, in order to achieve long term sustainability, businesses would have to manage not only their economic capital, but also, their natural/environmental capital and social capital. The most important departure of the sustainability concept from orthodox management theory lies in its realization that economic sustainability alone is no sufficient condition for overall sustainability of a business (Gladwin, Kennelly and Krause, 1995). The time and maturity angle is added because of the view that corporate entities need to survive in order to be classified as sustainable and this can only be captured with the construct of time.

3.0 CRITERIA FOR ASSESSING THE TYPES OF CAPITAL WITHIN THE TRIPLE BOTTOM LINE OF CORPORATE SUSTAINABILITY

According to Dyllick and Hockerts (2002), corporate sustainability implies a much broader interpretation of the concept of capital than is used either normally by economists or ecologists. Three capitals – Economic, Social and Environmental – have different properties and therefore require different approaches. Therefore, In order to measure a company's level of economic, social and environmental sustainability practices, it is pertinent to establish the measures used in their assessment as shown in Figure 2.

3.1 Economic Sustainability Criteria

According to Dyllick and Hockerts (2002), economically sustainable companies guarantee at any time cash flow sufficient to ensure liquidity, while producing a persistent above average return to their shareholders. A business must at all times maintain its own economic health and viability. Companies survive on the long term through their ability to be profitable, unviable businesses can make no contribution to the economic systems on a local, national or global level (Bickham, 2002). Dyllick and Hockerts (2002) aver that a company ceases to exist when no more economic capital is left, but that in reality, a company would become unsustainable long before. The measures of economic sustainability suggested by Labuschagne and van Erck, (2005) are as follows:

3.1.1 Financial Health

The criterion entails those aspects assessing the internal financial stability of a company and includes financial sub-criteria such as profitability, liquidity and solvency. The requirement to maintain the capital basis is commonplace in the business realm. It is broadly accepted as a precondition of successful and responsible management.

3.1.2 Economic Performance

The company's value as perceived by shareholders, top management, and government. Includes sub-criteria such as market share, profitability, return on investment, contribution to gross domestic product (GDP), market share performance and so forth.

3.1.3 Potential Financial Benefits

Under this criterion, financial benefits other than profits are assessed. For example national and/or international subsidies based on environmental, social, and technological improvements due to business initiatives – projects that are potentially eligible for clean development mechanism (CDM) funding under Kyoto Protocol.

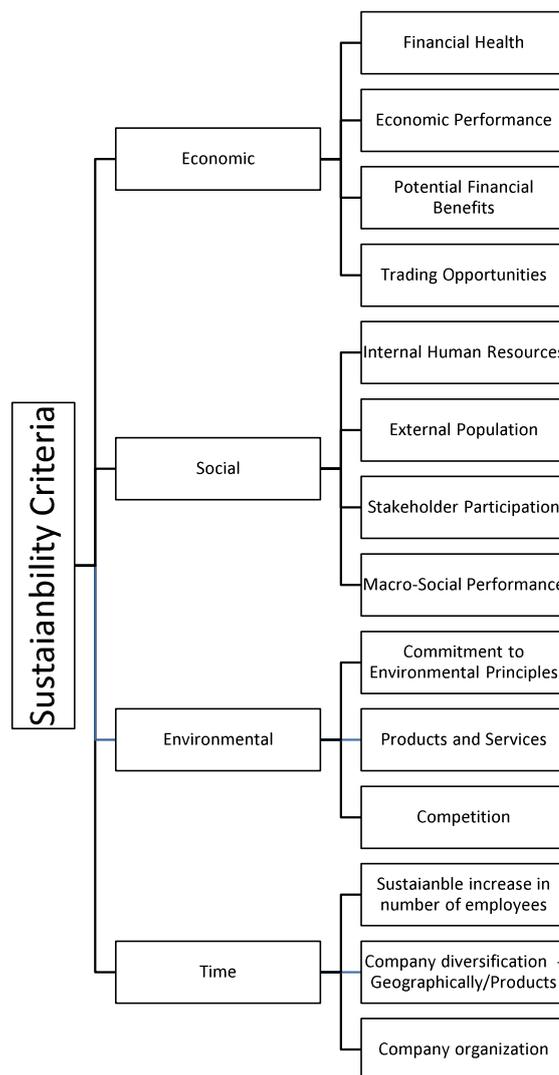


Figure 3: Criteria for measuring dimensions of Economic, Social and Environmental Sustainability and Time (After Labuschagne, Brent, van Erck, 2005; Dyllick and Hockerts, 2002; and Silvius and Schipper, 2010)

3.1.4 Trading Opportunities

The criterion assesses the vulnerability of the company's trade network as well as the risks it is exposed to by the network it is embedded in. It is assessed by considering the number of national and international companies in the subject company's trade network.

3.2 Social Sustainability Criteria

Businesses are increasingly paying more attention to the social dimension of sustainable development, mainly due to an unexpected shift in stakeholder pressures from environmental - to social-related concerns (Holliday, Schmidheiny and Watts, 2002). Organizations that give back to the community, whether through employees volunteering their time or charitable donations are often considered to be socially sustainable. In order for a business to be truly sustainable, it should sustain not only the necessary environmental resources, but also its social resources including employees, customers (the community), and its reputation. Socially sustainable companies add value to the communities within which they operate by increasing the human capital of individual partners as well as furthering the societal capital of these communities (Dyllick and Hockerts, 2002). The companies manage social capital in such a way that stakeholders can understand their motives and can broadly agree with the company's value system.

According to Dyllick and Hockerts (2002) there are two different types of social capital: human capital and societal capital. Human capital is concerned primarily with aspects such as skills, motivation and loyalty of employees and business partners, while societal capital on the other hand includes the quality of public services such as a good educational system, infrastructure or a culture supportive of entrepreneurship. Since the aim of the framework is to evaluate the sustainability performances of operational initiatives, the social dimension of the proposed framework is concerned with the company's impacts on the social systems in which it operates, as well as the company's relationship with its various stakeholders. Littig and Griebler (2005) view that social sustainability is given, if work within a society and the related institutional arrangements – satisfy an extended set of human needs; and are shaped in a way that nature and its reproductive capabilities are presented over a period of time and the normative claims of social justice, human dignity and participation are fulfilled – this view is fitted more to a society. The following criteria for measuring social sustainability focusing more on the corporate institution as proposed by Labuschangne, et al. (2005) are used in the study:

3.2.1 Internal Human Resources

This focuses on the company's social responsibility towards its workforce and consists of four sub-criteria namely - Employment Stability: impact of work opportunities and fairness of compensation; Employment practices: Gender and racial equity, instituted disciplinary processes; Health and Safety: Provision and welfare; Capacity Development: Research and Development, Career development and training.

3.2.2 External Population

The impact of the company's operation on the community in which it operates i.e., communities within the close vicinity of any company's operations. The criterion consists of the following

three sub-criteria: Human capital: employment, education and health care; Productive capital: housing service infrastructure – water and electricity, sewage and waste services, roads etc.; Community capital: effect of an operational initiative on the social and institutional relationships and networks of trust, reciprocity.

3.2.3 Stakeholder Participation

This measures the relationship between a company and its internal and external stakeholders. The criterion is divided into two sub-criteria, namely: Information provision: the quality and quantity of information shared with stakeholders are measured; Stakeholder influence: Stakeholders participation is said to have really succeeded if the stakeholder's opinion is known throughout the company. Stakeholders are empowered through information distribution.

3.2.4 Macro-Social Performance

This measures the impact of the company operations on the economic and environmental systems of the region or nation in which it is based. The criterion is divided into two sub-criteria, namely: Socio-economic performance: external economic impacts of the company's business initiatives – GDP, taxes etc. and trading opportunities; and Socio-environmental performance: which considers the contribution of the company's operational initiative to the improvement of the environment for the society or a community at regional and national levels.

3.3 Environmental Sustainability

According to Dunmade (2002), concern for the environment is fast becoming part of our culture with reports of increasing environmental problems, such as the greenhouse effect, depletion of the ozone layer, acidification, landscape degradation, eutrophication, winter and summer smog among others. A major initiative of sustainable businesses is to eliminate or decrease the impact made on the environment by their processes for example the act of going paperless, conserving materials through re-manufacturing, converting harmful gasses into clean energy, generating greener power, and improving fuel economy (Hart, 2008). Sustainable businesses also look at inputs to determine what processes are harmful to the environment and try to find green alternatives that can function at the same or better level and preferably at a lower cost (Schmidheiny, 1992; DeSimone and Popoff, 2000). According to Dyllick and Hockerts (2002) ecologically sustainable companies use only natural resources that are consumed at a rate below the natural reproduction, or at a rate below the development of substitutes; they do not cause emissions that accumulate in the environment at a rate beyond the capacity of the natural system to absorb and assimilate these emissions; and do not engage in activity that degrades the ecosystem. The criteria for measuring environmental sustainability used in the study are as follows:

3.3.1 Commitment to Environmental Principles

This criterion assesses the company's commitment to environmental principles in its business operations: contribution to regional air quality; impacts on the quality and quantity of water, land resources, land-usage and transformation; and level of contribution to the depletion of non-renewable mineral and energy resources (Gupta, 1995).

3.3.2 Products and Services

This measures the ability of the company to supply environmentally friendly products or services that replaces demand for non-green products and/or services (Menon and Menon, 1997).

3.3.3 Competitiveness

This demonstrates that the company is greener than the traditional competition (Gupta, 1995).

3.4 Time Related Sustainability

This shows that the company has grown sustainably over time. This can be measured through the development and maintenance of a strong and committed workforce; company diversification geographically across at least two different locations and differentiation into more than one service and/or product area. That a company has grown sustainably overtime can also be demonstrated by the fact that leadership of the company spans across two steps of command/hierarchy, subordinates are given responsibility and authority to take decisions and the fact that opportunities are available via a growth path for employees to achieve their goals and aspirations in the company.

4.0 RESEARCH METHODS

The study sought to find out whether the business strategies published by high performing publicly listed construction companies on the Johannesburg Stock Exchange and also listed in Grade 9 on the cidb Contractors register incorporate economic, environmental and social sustainability principles. The study examines whether these strategies demonstrate that the large construction businesses strive to meet the triple bottom line of environmental, social and economic capital. Desk study research of five randomly selected high performing publicly listed construction companies on the Johannesburg Stock Exchange and also listed in Grade 9 on the cidb Contractors register was undertaken. Desk research entails using data collected for different purposes, possibly analysing it in other ways to produce fresh understanding (Fellows and Liu, 2008). The limitations of this approach may be as a result of the way data was collected. The sustainability criteria were assessed based on statements outlined in the companies profiles on a 3-point Likert scale where 3 = high (explicitly stated); 2 = average

(implied) and 1 = poor (not stated/available). The data obtained were analysed descriptively in both tables and words.

5.0 RESULTS AND DISCUSSIONS

Table 1 presents the data collected on Economic, Social and Environmental sustainability criteria for five major high performing publically listed construction companies in South Africa.

Table 1 shows that generally, all the companies have explicitly outlined their economic, social and environmental sustainability objectives in their company profile (at an average rating of 2.6 on a 3.0 scale). In addition, it shows that the companies laid more emphasis on their environmental sustainability objectives than on their social and financial objectives in order of explicitness. Visual inspection of Table 1 also reveals that the companies were more explicit in the ways they presented their financial health; economic performance (ROI); investment in people; and implementing programmes and policies to minimise the adverse effects of their operations on the environment than other sustainability criteria especially non-acknowledgement of the facts that there might be other potential benefits from building “green” which could impact on their financial performance. It also emerged that Company A’s corporate strategies were the least in addressing the triple bottom line sustainability goals.

Data collected shows that the companies investigated strive to meet the triple bottom line sustainability goals through their highlighted corporate strategies. That these companies have grown sustainably, survived and matured over time is demonstrated by the fact that the leadership of the companies spans over many steps of command/hierarchy, with some of the companies having more than 25 directors and over 5000 employees. All the companies also have in place well formulated succession plans and growth paths. However, although these construction companies have grown overtime (some established over a 100 years ago) into large thriving organisations with regional branches and international subsidiaries, the data collected suggests that the companies do not seem to pay enough attention to potential financial benefits from building “green” from which more income can be generated. The companies effectively address all aspects of sustainability at the operations and corporate level except for acknowledging that there are financial benefits other than the more obvious trading profits which can be derived from “green” building practices and which should be explored.

Table 7: Construction Company Triple Bottom Line Sustainability Assessment

Companies Sustainability Criteria	A	B	C	D	E	Mean Average
Economic						
Financial Health (Liquidity/Solvency)	3	3	3	3	3	3.0
Economic Performance (ROI)	3	3	3	3	3	3.0
Trading opportunities/trade network (Level of Risk Exposure)	2	2	3	3	3	2.6
Potential Financial Benefits from building "green"	1	1	1	1	1	1.0
Mean Average Economic Sustainability Criteria	2.3	2.3	2.5	2.5	2.5	2.4
Social Sustainability						
Internal human resources (employment stability)	3	3	3	3	3	3.0
External population: job creation; education, health care	2	3	3	3	3	2.8
Stakeholders' participation (knowledge within the company)	1	3	3	3	3	2.6
Macro-Social Performance (impact on the economy (GDP) & environment)	2	2	3	N/A	N/A	2.3
Mean Average Social Sustainability Criteria	2.0	2.8	3.0	3.0	3.0	2.8
Environmental Sustainability						
Products/services (replaces demands for non-green products/services)	3	3	3	3	3	3.0
Commitment to environment principles in its business operations	2	3	3	3	3	2.8
Competitiveness (Greener than traditional construction)	2	3	3	3	3	2.8
Mean Average Environmental Sustainability Criteria	2.3	3.0	3.0	3.0	3.0	2.9
Mean Average Sustainability Criteria per Company	2.2	2.6	2.8	2.8	2.8	2.6

Key: *N/A* (Not available); 3 = High (stated explicitly in company profile); 2 = Average (implied); and 1 = Poor (Not stated).

6.0 CONCLUSION

The research examines the corporate sustainability strategies frequently used within high performing listed South African global construction companies. The aim of the paper is to contribute to the discussion on corporate sustainability in the context of the construction sector and using indicators of sustainability in assessing whether construction companies incorporate sustainable objectives in their strategies. The study established that the sustainability strategies used by high performing construction companies listed on the Johannesburg Stock Exchange meet the triple bottom line of economic, social and environmental capital and that the construction companies do not seem to focus on the potential benefits which could have been accrued from building "green" component of economic sustainability. The paper concludes that

although large high performing South African construction companies incorporate sustainable development objectives into their corporate strategies there is still room for improvement in the sustainable development and performance of construction companies in line with established sustainability indicators.

The paper recommends that the sustainability framework and criteria adapted from previous studies and used in this research can be used as a basis for evaluation of the sustainability development objectives of construction companies and as a quick guide for clients in project procurement and contract award. The sustainability framework developed would also assist the management of construction companies in expressing sustainability objectives and strategies in concrete operational terms. However, there is a need for further studies using a larger sample size and more objective methods of measurement to validate the results of this study and to establish the relevance of the framework criteria for construction company sustainability assessment. Also, further studies would be required to analyse the link between environmental and social sustainability and a firm's profitability (economic sustainability). Is there a business case for the Emerging Contractor Development programmes instituted as an operating condition for established contractors by the government in South Africa? In addition there should be studies into the time dimension of sustainability - does sustainability equate to growth? It would also be interesting to know whether the sustainability objectives set out by these companies in their profiles are actually practised and also whether there is a relationship between the level of sustainability goals instituted and corporate performance.

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