

# CRITICAL FACTORS OF CORPORATE SOCIAL RESPONSIBILITY IN SRI LANKAN CONSTRUCTION INDUSTRY

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**Abstract:** Corporate Social Responsibility (CSR) is more significant criteria for any kind of business entity, especially which has significant impact towards the natural as well as built environment. Therefore do the right thing and do it in a right way is much more important for the wellbeing of the particular business and the affecting parties from that business as well.

Since the impact of construction industry towards the economy, environment and society is significant than the other industries, it is important to have a systematic approach to ensure the Corporate Social Responsibility. When turning into Sri Lanka, presently Construction Industry risen up with the awaken development of the country. Thus the need of realistic CSR performance evaluating system which fits with the Sri Lankan construction industry to develop the sustainability is becoming a critical issue that should address with care. Even though there are several CSR indicator systems available for worldwide their possibility of adapting to Sri Lankan construction industry, in a practical and realistic manner, had not yet verified. Therefore through this paper, it was aimed to identify the criticality of CSR performance factors in Sri Lankan construction sector.

Comprehensive literature review had been carried out to investigate the available CSR performance factors to the construction industry in worldwide. Through a detailed questionnaire survey, industry experts' opinion for applicability and criticality of the obtained CSR performance factors relevant to Sri Lankan construction industry had been verified. Among twenty nine CSR performance factors under eight key stakeholders' twenty four critical factors were identified.

Through this research it will provide guidance for the CSR implementation and will be provide a scientific performance evaluation guideline to assess the construction enterprises attainment towards the sustainable development.

**Keywords:** Corporate Social Responsibility; Indicator System; Construction Industry; Sri Lanka.

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## 1. Introduction

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) discussing more into detail when arguing that companies should not only focus on enhancing its value through maximizing profit and outcome but concentrate on environmental and social issues equally.

Currently there is neither a universally agreed definition of CSR nor a commonly accepted explanation of what exactly it relates to (Heijden et al., 2010). Many international organizations had defined CSR as follows. CSR is 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 behaviour" (ISO, 2010). Business for Social Responsibility (BSR) defines CSR as "the business operations meet or exceed social

expectations of industrial and commercial institutions in the ethical, legal, commercial and public areas" (BSR, 2008). CSR is defined by the World Business Council for Sustainable Development (WBCSD) as "corporate commitment to contribute to sustainable economic development, employees and their families, local communities and the whole society in order to improve their quality of life" (WBCSD, 2000). According to Zhen et al, 2012 the basic idea of CSR is to focus at how business integrates stakeholders' interests and social values, to combine the relation between organization and society. To achieve that CSR considers the economic, social and environmental performance of the organization itself.

## 2. Overview to CSR Status in Construction Industry

It has been documented 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. The ongoing progress and expansion of construction enterprises, however, is ever more associated with a number of sustainable development challenges, involving various economic, environmental and social issues (Shenet al, 2010).

Through the social viewpoint, the construction industry is a critical element of the labour market and contributes to generate high numbers of employment opportunities, 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 (Joneset al, 2006). For illustration, research conducted in UK by the Health and Safety Executive (HSE) has reported that construction site loss due to occupational accidents and health damage (including schedule delays, absenteeism, the loss of health and insurance costs, etc.) accounts for approximately 8.5% of project costs (Qu, 2007).

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. For example, in the UK, 420 million tonnes of resources used in construction industry per year, and wastage rate is 10%. Whereas, in China, water consumption is 30 percent higher than the developed countries, steel consumption 10-25 percent higher, and cement usage is 80 kg more per cubic meters on average during construction. The construction industry contributes to 40% of total amount of waste in China, reaching 300 million tonnes in 2010 (Wang et al, 2010). The existing building stock accounts for 30% of total energy consumption and 25% of greenhouse gas emission in China (CCIA, 2010; CHI, 2010).

Due to aforementioned significant adverse impacts Construction ventures have become increasingly targeted by governments and environmentalists to manage their performance based on new societal demands driven by the goals of sustainable development (Teo and Loosemore, 2003). Moreover, currently, the competition in construction markets is becoming ever more intensive (Zhao et al, 2009a). Therefore, with rising heights of competition, construction companies are considering CSR as a means to boost their corporate image and to achieve a competitive advantage. In the construction industry, corporate social responsibility (CSR) is increasingly valued as one factor that will contribute to business sustainable development. Even though, construction enterprises typically develop CSR reports as one way to maintain a positive corporate image. There is a growing body of research which considers the effectiveness of CSR. However, understanding what CSR means to the construction industry, and how to practice it, is limited. (Zhen et al., 2012).

### **3. Overview to Sri Lankan Construction Industry**

According to the statistics from Central Bank of Sri Lanka 25.6% growth rate can be seen in the Construction Sector in the year 2013(b) (Economic and Social Statistics of Sri Lanka, 2014). 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. On average, construction investment in Sri Lanka during the last decade accounted for 16% of the GDP (Ramachandra et al, 2013).

As of 2009, the direct employment in the construction industry was 562,000 persons. This included four categories of employees: professional, technical, crafts, and machine operators. Almost 97 percent of total persons employed were males with 75 percent falling in the 25-45 age – group. 52per cent were with experience of less than five years. In Sri Lanka, employment in the construction industry has experienced an increase of 40 percent during the years 2005 to 2009 as compared to 15.3 percent increase in total employment (Industry Report on Sri Lanka, 2011).

The key entities that undertake construction work are registered contractors of the Institute of Construction Training & Development (ICTAD), international contractors, and unregistered informal contractors (Industry Report on Sri Lanka, 2011). Several awards are issuing through Construction Industry Development Authority (CIDA) like Construction Performance for Civil Engineering Projects, Green Construction Award and Award for Construction Excellence. But for any of the awarding criteria they are not consider about the CSR performances of that particular construction organisation.

#### 4. Research Design

Research was designed to identify its objectives through an industry-wide questionnaire survey. The survey sample was selected randomly (using simple sampling methods). The contact list of leading consultants (Architects, Engineers and Quantity Surveyors) was obtained from the yellow pages of the telephone directory and from respective professional institutions. Opinion survey had carried out with fifteen experts in the industry who are having more than five years' experience in the construction field, in order to identify the key CSR issues that needs close concentration for Sri Lanka.

The questionnaire was developed into two sections. In section one, the profile of the respondent was identified. In section two, criticality of the CSR performance issues related to Sri Lankan construction industry was identified. A five point "likert" scale where 1 presents "Not critical at all", 3 indicate "Neutral" and 5 present "Very critical" was used to solicit the judgments. Mean ranking method, standard deviation and T-Test and Relative Importance Index (RII) were used as the descriptive statistical tools in this research study.

#### 5. Discussion

Through the literature survey eight key stake holders were identified as employees, customers, shareholders, suppliers and partners, environment and resources, local community, government and competitors. Environment and resource is not considered as a stakeholder, but it will be treated as an agency to stimulate the changes in the construction industry moving to socially responsible practice. Twenty Nine CSR performance factors were identified under the above identified key stake holders. Those are listed in the Table 1 along with the T-test value and RII.

Stake Holder	CSR Performance Factor	P Value	Significance	RII	Rank
Employees	Occupational health and safety of employees	0.99	0.0104	0.92	2
	Legal Working hours and rest time	0.99	0.0098	0.85	5
	Wages and welfare	0.99	0.0078	0.87	4
	Staff Employment	0.98	0.0179	0.88	3
	Education and training	0.99	0.0101	0.84	6
	Freedom of association and bargaining	0.98	0.0179	0.69	8
	Harmonious labor/management relationship	0.96	0.0380	0.71	7
	Human rights measures	0.99	0.0109	0.93	1
Shareholders	Shareholder legal revenues	0.99	0.0078	0.87	1
	Accurate disclosure of corporate status and development prospects	0.98	0.0198	0.81	2
	Decision-making participation	0.92	0.0827	0.76	4
	Shareholder relationship management system	0.99	0.0066	0.79	3
	Quality and safety of construction product	0.99	0.0109	0.93	1
Customers	Customer satisfaction	0.99	0.0080	0.84	3
	Customer service culture	0.98	0.0179	0.88	2
	Innovation and development	0.99	0.0080	0.76	4
	Disclosure of true performance information of the company	0.99	0.0080	0.84	3
	Maintain an appropriate partner relationship	0.98	0.0179	0.88	1
Supplier & Partner					

<b>Government</b>	Enhance communication with partners/supplier	0.98	0.0179	0.88	1	management relationship and freedom of association and bargaining is again important factors which contributes for the betterment of the construction industry.
	Promote CSR performance of partners and suppliers	0.98	0.0198	0.81	2	
	Pay tax	0.99	0.0104	2	1	
	Obey the requirements of laws and policy	0.99	0.0099	0.88	2	
	Provide employment opportunities	0.99	0.0078	0.87	3	
<b>Environment &amp; Resources</b>	Conservation of energy and resources	0.99	0.0109	0.93	2	Shareholders –Shareholders are type of off-site stake holders. It is the duty of that particular construction firm to maintain and generate profits in order to maximise the shareholders’ profits. Therefore it was identified as the first important factor ‘Shareholders legal revenue’. Providing proper disclosure regarding the firm’s financial performance and the sustainability performance for the shareholders’ was identified as the second important factor since accountability and transparency are key factors in business world. Proper relationship management is again raised as third important factor since being responsible for them is important. Shareholders participation in decision making process of firm’s corporate activities and in major decisions identified as the fourth critical factor in related to the Sri Lankan construction industry.
	Environment protection	0.99	0.0148	0.96	1	
<b>Community</b>	Project impact on community	0.99	0.0104	0.92	1	Shareholders participation in decision making process of firm’s corporate activities and in major decisions identified as the fourth critical factor in related to the Sri Lankan construction industry.
	Build harmonious community	0.98	0.0179	0.88	2	
<b>Competitors</b>	Operation ethically	0.99	0.0109	0.93	1	Shareholders participation in decision making process of firm’s corporate activities and in major decisions identified as the fourth critical factor in related to the Sri Lankan construction industry.
	Fair competition	0.99	0.0109	0.93	1	

**Employees** – It is a common truth that construction industry is one of the main category which provides direct employment to a large number of people in Sri Lanka and due to that ‘employees’ become one of the most important stakeholder in the construction industry. Almost everyone is likely to be interested in enjoying their rights. During the survey it was came into light that major concern of the experts were raised up into first place ‘Human Rights’. Due to the complexity of the industry it is important to keep the focus to ensure human rights while achieving project goals. No point of achieving senseless project goals while beating down its employees. Since the risk of the construction industry is very high, occupational health and safety of employees had been identified as the second leading CSR performance factor. Meantime it was identified ‘Staff Employment’ as the third important CSR performance factor for Sri Lankan construction industry. Social justice which is featured with liberty, equality and fairness, is a key component in CSR (Godfrey and Hatch, 2007). Wages and welfare had raised into fourth place where legal working hours and rest time raised into fifth place. Standard wage criteria, proper welfare facilities, legal working hours and standard rest times should be implemented in order to make a healthy working environment in the construction industry. Availability of avenues for career development is another important factor that employees look into. Harmonious labour –

**Customers** – Client is the main customer of construction industry. The way that a firm treat to its clients is one of the main measure that deviate from its competitors. On the other hand it will influence greatly to sustain in the industry. ‘Quality and safety of construction project’ had been identified as the first ranked CSR performance factor since quality and safety of the project is always adding value for the clients’ investment. Level of service that the firm supply even after the construction of the project is another most important factor since the client is very much keen on the construction maintenance and post construction service. Quality of the project, safety of the project, level of customer service, innovation and development of new concepts and disclosure of true performance information has a direct influence for the customer satisfaction.

**Suppliers and partners** – Creating a sound supply chain relationship is a must in the construction industry. For that maintaining appropriate partner relationship and enhancing the communication is equally important. According to respondents it was identified both those factors with equal importance. ‘Promote CSR performance of partners and suppliers’ is generally understood as integral to develop CSR since there is a pressure to ensure that suppliers’ and partners’ are meeting their social, environmental responsibilities.

**Government** – Since the construction industry of Sri Lanka is one of the main contributor for the country’s GDP it is utmost important to maintain the integrity towards the government. Paying required tax payments according to the legislatives, abide by laws and provide as much as employment opportunities is integral to develop that integrity.

**Environment and Resources** – Construction activities have significant impacts on both the natural and the built environment through energy and resource use and extraction, the production of waste materials, pollution, impacts on the landscape and the creation of new buildings and infrastructure (Shen et al, 2007). Since construction industry and its activities having a direct impact towards the environment, environment protection and conservation of energy and resources are inherent factors in a CSR agenda.

**Community** – When consider about the impacts of a construction project for the community, main two communities can be identified. Those are local communities in which the project located and future communities created by construction project. When carrying out a project it is must to taking into account the community environmental protection. Meantime it is again important to consider about the community development in order to build harmonious community.

**Competitors** – Competitors also stakeholders of a construction company. Operate and behave in an ethical manner respecting the rights and dignity of other individuals is utmost important to create good market condition. Respondents also given an equal importance to ethical operation and fair competition.

CSR Performance Factor	RII	Rank
Environment protection	0.960	1
Human rights measures	0.933	2
Quality and safety of construction product	0.933	2
Conservation of energy and resources	0.933	2
Operation ethically	0.933	2
Fair competition	0.933	2
Occupational health and safety of employees	0.920	3
Pay tax	0.920	3
Project impact on community	0.920	3
Staff Employment	0.880	4
Customer service culture	0.880	4

Maintain an appropriate partner relationship	0.880	4
Enhance communication with partners/supplier	0.880	4
Obey the requirements of laws and policy	0.880	4
Build harmonious community	0.880	4
Wages and welfare	0.867	5
Shareholder legal revenues	0.867	5
Provide employment opportunities	0.867	5
Legal Working hours and rest time	0.853	6
Education and training	0.840	7
Customer satisfaction	0.840	7
Disclosure of true performance information of the company	0.840	7
Accurate disclosure of corporate status and development prospects	0.813	8
Promote CSR performance of partners and suppliers	0.813	8
Shareholder relationship management system	0.787	9
Decision-making participation	0.760	10
Innovation and development	0.760	10
Harmonious labor/management relationship	0.707	11
Freedom of association and bargaining	0.693	12

When consider about the total ranking of CSR performance factors during the opinion survey, total twenty nine factors were ranked only for twelve ranking positions. Among all these factors ‘Environmental Protection’ is identified as the top critical factor. ‘Human rights measures’, ‘Quality and safety of construction product’, ‘Conservation of energy and resources’, ‘Operation ethically’, ‘Fair competition’ had identified as the second critical factor. ‘Occupational health and safety of employees’, ‘Pay tax’, ‘Project impact on community’ had been identified as third critical factor where ‘Staff Employment’, ‘Customer service culture’, ‘Maintain an appropriate partner relationship’, ‘Enhance communication with partners/supplier’, ‘Obey the requirements of laws and policy’, ‘Build harmonious community’ laid in the fourth criticality rank. ‘Wages and welfare’, ‘Shareholder legal revenues’, ‘Provide employment opportunities’ ranked in the fifth critical level where ‘Legal Working hours and rest time’ laid in sixth rank. ‘Education and training’, ‘Customer satisfaction’, ‘Disclosure of true

performance information of the company' were ranked as seventh critical factor where 'Accurate disclosure of corporate status and development prospects', 'Promote CSR performance of partners and suppliers' were ranked in eighth critical factor. 'Shareholder relationship management system' ranked in ninth level where 'Decision-making participation', 'Innovation and development' tenth level. 'Harmonious labour/management relationship' laid in eleventh rank where 'Freedom of association and bargaining' laid in the twelfth rank.

## 6. Conclusion

The research revealed that, the criticality of corporate social responsibility performance factors with regards to the Sri Lankan construction industry. Twenty Nine factors were tested and among them Twenty Four factors are shown as significant to Sri Lankan construction industry, which means that those Twenty Four factors having a great impact towards developing CSR performance in Sri Lankan construction industry. These factors were identified under eight stakeholders including employees, shareholders, customers, suppliers and partners, government, environment and resources, community and competitors. Further, these findings will create a new avenue for those who interest in developing a framework for corporate social responsibility in Sri Lankan construction industry.

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