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CHARACTERISING THE RELATIONSHIP BETWEEN RESPONSIBLE SOURCING AND ORGANISATIONAL REPUTATION IN CONSTRUCTION FIRMS

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Abstract. Responsible Sourcing (RS), the ethical management of sustainability issues through the construction supply chain, first achieved national prominence in the UK 2008 Strategy for Sustainable Construction. This set a target for 25% of all construction products to be sourced from schemes recognized for RS by 2012. The Building Research Establishment (BRE) published a framework standard, BES 6001, in 2009 to enable construction firms to certify their products as responsibly sourced to help achieve this target; since then, 80 BES 6001 certificates have been issued to around 40 companies in the UK. RS has its roots in the corporate social responsibility (CSR) agenda and, although it has become a distinct focus within procurement and sustainability management practices in some firms, it is still an under-theorised concept; understanding the role it plays in relation to an organisation’s reputation is a subject area that is noticeably absent from the literature. Although it has been suggested that robust links between the broader CSR agenda and corporate reputation are yet to be established, there is evidence that reputational protection is a key driver for an organisation to engage with RS. Based on a critical review of the literature, this paper aims to stimulate debate on the characteristics of organisational reputation in construction firms and understand the relationship between RS and reputation. It takes into account internal and external stakeholders’ perspectives and the extent to which focussing on protecting reputation can or should take precedence over bottom-line benefits.

1 INTRODUCTION

Sustainability has, in recent years, become a core focus of the construction industry. When compared with other sectors however, the industry has struggled to implement sustainability principles (Glass 2011). Furthermore, the industry has been identified as one of particularly high social and environmental impact, given the life-cycle of its operations (Murray and Dainty, 2009), its high proportion of greenhouse gas (GHG) emissions (Greenwood et al.
2011) and its role in providing employment for c.3 million people in the UK (Equality and Human Rights Commission, 2010). As a result, Sev (2009) and Hawkins and McKittrick (2012) have suggested that construction is important in the context of the three pillars of sustainability; i.e. environmental impacts, impacts upon society and its economic significance. Following recognition that the sustainability performance of the sector was wanting, the Strategy for Sustainable Construction (HM Government, 2008) was developed to bridge the gap between actual and desired industry performance. Within the strategy, a number of commitments were agreed between industry and government, with overarching targets. One of these targets, under the Materials heading, was for the industry to source 25% of materials from schemes recognised for responsible sourcing (RS) by 2012. However, understanding and awareness of responsible sourcing is somewhat lacking (Glass et al. 2012).

Many construction organisations have already achieved certification to the Building Research Establishment (BRE) developed framework standard for responsible sourcing, BES 6001 (BRE, 2009). Furthermore, the BRE Environmental Assessment Method (BREEAM) awards credits under the Materials section for RS, which obliges some construction organisations to engage with RS, in response to clients’ demands to achieve these credits. Similarly, credits for RS of materials are also available in the Code for Sustainable Homes, and the Civil Engineering Environmental Quality Assessment Scheme, CEEQUAL. RS has its roots in the broad and ever-growing corporate social responsibility (CSR) agenda, within which current debates consider CSR to be a form of corporate philanthropy, or a means of generating revenue (Murray and Dainty, 2009). Currently, opinion is rather divided on this and this debate can be similarly attributed to RS. Although there is an expanding body of research on RS, mainly through the Action Programme for Responsible Sourcing (APRES; APRES, 2013) network, an Engineering and Physical Sciences Research Council (EPSRC) funded research project, there is a noticeable absence of literature which considers RS as representing corporate philanthropy; one of the key agendas being the link with corporate reputation. RS is inexorably linked to reputational theory, given that one dimension of organisational behaviour is striving to be seen to have a positive impact upon society and the environment and hence good relationships with stakeholders. Ensuring that they also maintain a good reputation is seen as key to their success as a business, and given the current widespread focus on sustainability issues, engaging with sustainability and showing a proactive approach to it is seen as a key means of maintaining a positive reputation.

This paper critically reviews the concepts of reputational theory and behaviour, and through a thorough review of the literature and by use of examples, the links between reputation and CSR will be discussed. Furthermore, this link will be considered in the context of the RS agenda, given its focus upon ethical issues, as well as those affecting the environment and society. This is a timely contribution to the literature, given that the RS agenda is becoming increasingly important for the construction industry and strong links between RS and CSR have already been established (Upstill-Goddard et al. 2012).

2 ORGANISATIONAL BEHAVIOUR: A MORAL ISSUE?

Organisational behaviour and the relative importance of reputation within a company are arguably influenced by the individuals that make up the organisation. Successful introduction of sustainability principles – which can be considered as an organisational innovation – depends on employees’ attitudes and support. This point is made by Thomas and Lamm (2012) who also suggest that organisational efforts to develop strategies to support
sustainability would benefit from an increased understanding of attitudes that contribute to the legitimacy of sustainability. Large and multinational organisations are often found in the public spotlight and operations are scrutinised by consumers, competitors and the media; ensuring that they only appear in the public eye for the right reasons has become a key part of doing business. Previous research (Freeman 1984; Orlitzky et al. 2003; Porter and Kramer 2003) has established that stakeholders value sustainability; while this may resonate with the attitudes of the organisation, it does not always translate into practice. Traditional methods of engaging with sustainability have focused upon environmental issues, such as reducing waste or energy, whereas organisations should take a broader view of sustainability, addressing economic and social aspects holistically. It could be argued that many companies are engaged with environmental issues due to heightened public awareness. For example, many companies are reporting carbon footprints at organisational and product level. The major societal focus on carbon in recent years is a key driver behind this; many individuals and companies have some awareness of carbon and how it contributes to climate change. Essentially, this comes down to the organisation’s perception of risk, and what it considers high and low risk issues. For instance, it could be suggested that the carbon issue has become one of higher risk and so therefore organisations are more likely to identify it as a high risk issue affecting the business. Many of the aforementioned issues however, such as waste, carbon and energy, largely concern environmental impacts. Of equal importance, but of much less frequent consideration are social issues, such as ensuring fair labour practices and the effect that organisations have on local communities. Maintaining high social standards is a key risk issue as consumers and customers are increasingly considering ethics when making purchasing decisions.

There have been numerous examples of this company exposure in other sectors; Nike were exposed in the mid-1990’s for use of child labour and sweatshops in Asian manufacturing sites, and Primark were exposed in the UK press as recently as 2009 for alleged use of illegal immigrants and poor working conditions at one of its UK suppliers (McDougall, 2009). This links directly to the concept of reputation; in the case of Nike, sales were reported to have fallen by 8% from 1998 to 1999 and stock fell by 15% (Wazir, 2001). Such exposure affects a significant number of consumers; Nike-branded apparel is popular on a global scale and linking the production of this to unethical treatment of workers and low levels of pay can cause consumers to deem ownership of such apparel as a statement of support or lack of care for such situations; they then seek out alternative companies to avoid being linked with such unethical practices. The underlying premise is that transparency should be key; an open, honest approach to how a company conducts its operations is more likely to resonate in a positive way with society. Doorey (2011) suggests that transparency can provoke learning and positive change within the organisation and that introducing some form of mandatory reporting for organisations might cause management within the company to focus on improving performance in areas such as ethics, thus reducing the likelihood of being exposed in the way that Nike and Primark were. Further to this, a high level of corporate social and environmental performance is often regarded as a potential source of competitive advantage (Thomas and Lamm, 2012). Similarly, a recent documentary looked at the human rights and ethical issues associated with the mining of coltan and cassiterite in the Democratic Republic of Congo (DRC). These metals are used in the production of mobile phones. The issues raised in this documentary should resonate with the vast majority of consumers, given that in 2011, global mobile phone subscriptions reportedly rose to c.6bn (McQueeney, 2012). The
documentary highlighted that ownership of a mobile phone, and sustained consumer demand for the latest upgrades and models is funding a war in DRC. There is currently relatively low awareness around these ‘conflict minerals’ however, and, unlike the case with Nike, it is unlikely that mobile phone companies will see a fall in consumer demand for new mobile phones. Worryingly, the documentary found little evidence that mobile phone companies were taking any action.

Of comparably low awareness are ethical issues within the construction supply chain. Many raw materials, such as natural stone or sand from quarries for example, have been found to be of high risk for exhibiting similar human rights and ethical issues. Vee and Skitmore (2003) find that 84% of respondents to a survey consider good ethical practice as a key organisational goal, and that 93% agree that organisational ethics should be driven by personal ethics. Clearly, the construction industry has a degree of ethical behaviour in place, but due to the high social risk that many construction materials exhibit, it is interesting to determine whether incidents of poor ethical behaviour exist. Ciliberti et al. (2008) find that companies in the developed world use various different strategies and tools to address CSR issues within their supply chains, such as management strategies for compliance and awareness-raising. For example, one of the major UK natural stone suppliers discovered on a routine visit to its suppliers’ sites in Asia that, nearby, young children were actively working on site with no use of personal protective equipment (PPE). In this case, the company worked with local agencies to raise awareness and provide new PPE. Although the company addressed this issue largely due to morals, there is an argument that the company could have walked away from that particular supplier and opted to source its materials from elsewhere. While working and health and safety conditions were clearly in need of improvement, it is valid to suggest that without the UK company’s custom, the supplier would suffer reduced business or not remain in business, which could impact in other negative ways, such as through causing employees to lose their jobs. Although in developed countries working conditions such as these would be deemed unethical, in many developing countries where poverty is commonplace, working in such conditions is actually preferable as it still provides a basic income, whereas the alternative may be a life of poverty in large cities.

It follows that companies that experience such ‘success stories’ would strive to publish such issues through case study reporting; a suitable means of which could be through corporate sustainability reporting. Indeed this form of disclosure arises from the social theory that the organisation owes a duty to society (Reynolds and Yuthas, 2007). A recent survey (Kiron et al. 2012) reported that 70% of respondents felt that sustainability is important to their organisation and that it is necessary in order to appear competitive. The same survey also found that on the management agenda, sustainability ranks only eighth in importance. Morality and legitimacy can be linked to reputation, as high morals on the part of the organisation should have a positive effect on corporate image. Deephouse and Carter (2005) suggest organisational legitimacy is emphasised by social acceptance that results from adherence to social norms and expectations. In other words, legitimacy can be linked to ethical and moral norms, as these are influenced by society. They also infer that organisational reputation is a relative measure, as it considers a comparison between two or more organisations. This would appear to suggest that engaging with sustainability could increase an organisation’s legitimacy, but an organisation’s reputation would only increase provided that competitors of that company did not engage with the same level of sustainability. This would also imply that an organisation cannot have a reputation in the
absence of other organisations, but can be seen as being a legitimate organisation. Perhaps, in that case, it should be argued that sustainability increases an organisation’s legitimacy, as it enables the firm to be seen to be taking a positive approach to eradicating environmental and social issues within the supply chain. Society creates pressures for organisations to adopt sustainability practices (Caprar and Neville, 2012) and so an organisation that does not actively engage with sustainability may well be viewed as being less legitimate, and hence, may suffer a poorer reputation as other organisations and competitors do.

However, despite this apparent link, corporate reputation is often considered as a particularly key intangible asset of organisations (Roberts and Dowling, 2002; Hillenbrand and Money, 2009). Linking to the work by Deephouse and Carter (2005), Bromley (2002) indicates that reputation is a concept ‘held in the minds of stakeholders’. Previous studies have considered the stakeholder dimension as being entirely homogenous with regard to corporate responsibility expectations (Hillenbrand and Money, 2009), which presents a number of issues when considering corporate reputation, particularly in the context of Bromley’s (2002) indication. Stakeholders cannot be regarded simply as homogenous entities due to the variety of complex social interactions that they experience which influence individuals’ perceptions of an organisation. Thus morals and perceptions of social good are individual-level considerations and should be considered as such when considering reputation. This perhaps highlights the reason why a number of researchers have struggled to link CSR and reputation.

3 RESPONSIBLE SOURCING: A REPUTATIONAL INSURANCE POLICY?

3.1 Responsible sourcing and corporate social responsibility

Responsible sourcing (RS) of materials is the management of sustainability issues through the construction supply chain, often from an ethical perspective (Glass et al. 2011). It has become a defined area of interest in the construction industry since the Strategy for Sustainable Construction (HM Government, 2008) was published in 2008, which set a target for 25% of construction materials to come from schemes recognised for RS by 2012. The commitment to such a target led to the publication of the Building Research Establishment (BRE) standard BES 6001 (BRE, 2009), which provides a framework for construction organisations to gain RS certification for product(s). At the time of writing, around 80 certificates had been awarded to 40 companies. The standard covers many issues, grouped into three main sections: organisational management requirements, supply chain management requirements and environmental and social requirements. Certification to BES 6001 (BRE, 2009) is particularly sought after, as it provides a company with the knowledge that constituent materials have been sourced from suppliers where traceability and transparency can be proved. It not only evidences proactive consideration of the ethical issues in its supply chain, but also that it is tackling the wider sustainable agenda through implementation of suitable quality, environmental and health and safety management systems.

However, Glass et al. (2011) highlighted that knowledge and awareness of RS is relatively low and hence there is an absence of a focused research agenda. Furthermore, RS is neither mandatory nor embraced outside of the UK (Glass, 2012) and so there has been little to no consideration of the agenda on an international scale, which further impedes its uptake due to the international nature of many supply chains. Furthermore, Upstill-Goddard et al., (2012) suggest that five key problems exist within the RS agenda, namely its under-emphasis within
the construction industry, low levels of awareness and understanding, the issue of risk with regard to a company’s products, asymmetry and its potential to be considered as a form of corporate philanthropy. This final point often leads to its relegation to a secondary priority until it is demanded by clients. Klassen and Vereecke (2012) do, however, indicate that many multinational companies are beginning to actively monitor ethical issues in their supply chains and so it appears that at least some of the principles of RS are being applied. RS is part of the broader corporate social responsibility (CSR) agenda, which lends itself to many different interpretations due to a lack of a commonly accepted definition for CSR. It has been argued that the construction sector is one to which the greatest level of attention should be devoted, due to the significance of its operations and as a provider of employment (Murray and Dainty, 2009). Currently, CSR is seen from two key perspectives; as a revenue opportunity, or a form of corporate philanthropy. Much of the CSR literature considers morality and legitimacy; Upstill-Goddard et al. (2012) suggest that businesses should engage with it for moral reasons alone. Indeed certification to BES 6001 could be seen as philanthropy, as it shows the organisation possesses high morals and ethical values. Likewise, it can also be seen as a means of increasing revenue, as society is more likely to purchase products from companies with higher ethical values. It is also true that often, construction supply chains are relatively straightforward, and so enacting RS principles throughout these supply chains should be a relatively easy process, when compared with other high-technology sectors, for example. However, the construction supply chain still relies on sourcing some material from outside the UK, and as such, construction organisations can become part of global networks, and hence depend upon other members of the same network for knowledge and resources (Christopher and Gaudenzi, 2009).

It appears therefore that there are a number of benefits for an organisation in engaging with the sustainability agenda, although Caprar and Neville (2012) highlight that, despite the fact that these organisations are often subject to the same institutional pressures, some organisations implement sustainability in their activities, yet others do not.

3.2 Linking responsible sourcing to reputation

It has already been established that the responsible sourcing (RS) agenda sits within the corporate social responsibility (CSR) movement (Upstill-Goddard et al. 2012). Many past studies have sought, but struggled, to link CSR with high level of reputation (Hillenbrand and Money, 2009). Good reputation management is of high importance for organisations due to the increasing complexity of the social environments in which they operate where ever-more demanding standards are used to evaluate organisational performance (Bahr et al. 2010). As discussed, poor handling of social, ethical and environmental issues can have detrimental effects on corporate reputation. The examples given are just a few of the incidents that have occurred and have or could result in a reduced corporate reputation. Linking RS to reputation thus becomes complex due to its relatively recent emergence as a concept. Glass et al. (2012) present findings from two industrial surveys which considered, among others, the current scope of RS, drivers, benefits and barriers for engaging, and the future for RS within the construction industry. Within this survey, 50% of respondents believed that RS is important for the company brand; a key driver for influencing stakeholder perceptions of that firm. Furthermore, 67% of respondents stated that adopting a proactive approach to implementing RS would have a positive effect on the company. Fundamentally, RS introduces a high degree of transparency and traceability with regard to materials; the Global Reporting
Initiative (GRI; 2010) highlight the importance of transparency in gaining customer trust. The degree of customer and stakeholder trust determines the legitimacy of an organisation, and hence can impact significantly upon corporate reputation. For instance, CSR has been defined as ‘reputation insurance’ (Unerman, 2008) so being able to evidence that the firm is involved with the CSR agenda can act as a means of suppressing issues that may arise. In the case of an organisation that operates an environmental management system (EMS), for example, it may be eligible to have reduced fines if it can prove that an EMS was in operation at the time of an environmental incident. This could be argued to derive directly from an improved reputation that that firm may have received due to the environmental commitment that an EMS evidences. Similarly, engaging with RS should act as a form of insurance, if the organisation is subjected to ethical or social exposés, as certification should demonstrate organisational commitment to ethics and transparency. For example, Marks and Spencer’s Plan A programme (Marks and Spencer, 2010) have set a number of targets round many of the principles of RS, such as reducing energy consumption, committing to zero operational and construction waste to landfill and embedding social equality in its supply chain by helping clothing suppliers pay a fair living wage in manufacturing countries, such as Bangladesh and India. Such targets are applicable to both Marks and Spencer’s retail and property programmes and the recently constructed Cheshire Oaks Eco Store has won awards for its sustainability, with the store recognised as one of the largest sustainable retail stores globally (Marks and Spencer, 2013). This example highlights a client with RS well embedded in its processes and the reputational benefits that can flow from such an approach.

3.3 Reputation in the context of business priorities

Managing reputation has been suggested in preceding sections to be important for the firm, and for construction organisations, the RS agenda provides a means for them to demonstrate the importance that is given to social and environmental issues. However, it must also be considered that certification to the RS framework standard BES 6001 (BRE, 2009) can cost an organisation thousands of pounds. This may represent a significant challenge for smaller companies, which often struggle to provide adequate financial and other resources to implementation (Upstill-Goddard et al. 2012). Often, legislative demands take precedence over the corporate social responsibility (CSR) agenda as many CSR activities remain voluntary. It is also significant to add that many small and medium sized firms (SME) require a short-term pay back on investments, but large investments in sustainability certification schemes may be ‘paid back’ over a period of years. It therefore becomes considerably more difficult for an SME to manage its reputation, as the priority for any business is to make profit, especially so for an SME, given its limited resources. In the case of larger organisations however, there are considerably more resources available to devote to CSR schemes, and hence, there may be more scope to devote resources to reputation management. CSR activities such as publishing sustainability reports increase the reputation of the firm, as they directly report to stakeholders the actions that a firm is taking, to ensure that it is seen to be a considerate organisation. Working to improve corporate reputation by engaging in CSR should in the long term increase profits; indeed Du et al. (2010) argue that engaging in CSR can generate positive attitudes among stakeholders and in the long term improve corporate image and relationships with stakeholders. Yet the relatively low awareness of CSR among stakeholders impedes the realisation of the business benefits, which would suggest that there
is currently a mismatch between CSR and gaining a return on the investment in these activities. This, however, is an area that warrants further research.

4 CONCLUSIONS

This review paper has demonstrated that an inherent relationship exists between corporate reputation and responsible sourcing (RS). The move of the construction industry towards considering RS on projects and in sourcing of materials for manufacture of construction products is a relatively recent development, and as such we have highlighted that a focused research agenda is lacking; although the APRES network (APRES, 2013) has sought to address this and has hosted to date two successful conferences aiming to stimulate debate and thinking on an RS agenda. Given the past experiences of a number of organisations from other sectors, the construction industry can learn much from the results of the exposés of companies such as Nike. Construction is a sector of high social and environmental impact and thus it is important that construction organisations ‘insure’ themselves against unethical or irresponsible practices being unearthed in their supply chains. Specifically, due to the traceability requirements within BES 6001 (BRE, 2009), organisations can be assured that constituent materials are sourced from locations where the environment, the supply chain and health and safety have all been assessed and deemed satisfactory. However, RS does not presently make provisions for chain of custody (especially important for more complex supply chains) or materials that are procured by the organisation, but do not form part of the final product, such as personal protective equipment (PPE).

Reputation management, however, requires time and financial resources to enact within the firm, much like the CSR agenda. Implementation and documentation of RS principles within the organisation, such that they are of an appropriate standard to enable certification, is a time and cost intensive process. However, given the argument that a firm’s reputation is dependent upon the presence of other firms, engaging with RS may not necessarily improve a firm’s reputation, but it will improve its legitimacy because transparency and accountability has increased. A legitimate organisation can stand alone, as the literature has suggested, but the degree of this is influenced by the social acceptance that results from adherence to social norms and expectations (Deephouse and Carter, 2005). Equally, reputation is a relative measure and so engaging with RS would only improve the reputation of that firm should its direct competitors not achieve certification. It has been derived from this review, that although very little literature considers the link between CSR and reputation, there is a clear relationship between them, and future research should explore this in greater detail.

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