

STAKEHOLDERS

Full Paper

SOCIAL RESPONSIBILITY, SUSTAINABILITY AND THE TRIPLE BOTTOM LINE: BRINGING BUILDING STAKEHOLDERS BACK IN

The research described in this paper was carried out by the Australian Cooperative Research Centre for Construction Innovation.

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ABSTRACT

This is a brief CRC CI 2001-011-C background paper supporting the project's social and environmental research focus. This paper takes the view that buildings are generally not sustainable – rarely are they built to last or are maintained in a way that reflects the evolving physical and social demands exerted on their sites. To discover why sustainability has not been a high priority in the past, this paper explores the importance of power and the role of the market in the built environment. This bolsters our understanding of the emerging notion of social responsibility in terms of construction, management and usage of buildings, and the increasingly influential role of stakeholders. Essentially what we are starting to see as this new paradigm of social responsibility emerges is power being dispersed. This is establishing beachheads of sustainability, understood as a suite of goals and ideas designed to steer change in a direction that benefits rather than further compromises stakeholders and their built environment both now and in the future.

Identifying and measuring social responsibility and sustainability helps builders and managers accumulate more of it. This is where triple bottom line (TBL) evaluation frameworks based on innovative benchmarking is proving useful. TBL explicitly advance the social and environmental dimensions of an entity, while implicitly asserting that these aspects rank equally with the traditional bottom line – financial profit. If embraced industry-wide and reinforced by regulation, or in Australia's case, by increased self-regulation, a triple bottom line evaluation framework is likely to have profound impacts on the way we construct and use the built environment, empowering stakeholders, and making cities more pleasurable, workable, and durable.

Keywords: buildings; sustainability; social responsibility; triple bottom line; power; stakeholders

INTRODUCTION

Hall and Pfeiffer convincingly argue that the hardware in which we live is increasingly becoming less attuned to our needs, wants and wishes. They observe that:

“[b]uildings in cities are always public because they create the communal environment; they are part of neighbourhoods and the physical basis for social networks. The ‘hardware city’ of infrastructure and buildings is interrelated with the ‘software city’ of habits, traditions, networks, markets and social relationships. Social change therefore cannot but demonstrate itself in a change of the built city.”¹

This conception of the modern city is central to the arguments developed in this paper. Indeed, sustainable cities are all about human compatibility with the built environment. Emerging from the social and environmental sciences, ‘sustainable development’ was one of the most prominent buzzwords of the late 20th C. Many conferences and literally dozens if not hundreds of volumes have been devoted to understanding its meaning and application. I make no attempt to build on this extensive work here, but I would like to use these conceptions in a ‘micro’ approach to urban studies. It is recognised that there has been much valuable work done on developing Sustainability Indicators (SIs) for cities². At a finer scale there has also been significant work done on environmental benchmarking of buildings. However, there has been comparatively less research undertaken on measuring the social dimensions of buildings, notwithstanding the existence of statistically-based social databanks for buildings and the post-occupancy evaluation movement.³ This has stalled the development of sustainable buildings, or at best deflected the importance of social criteria by privileging economic and environmental concerns. As this paper points out at some length, it makes little sense to talk about sustainable cities if we have no agenda in place to build, manage and invest in socially as well as environmentally sustainable buildings.

Achieving sustainable buildings is a complex, multi-faceted task that relies heavily on the ‘institutional’ environment, or more simply, the ‘rules of the game’. A sustainable urban agenda is *instrumental* in its focus, meaning that distinct outcomes are pursued, essentially by means of a strategy that combines agency and ideas. In more material terms, this strategy is defined by process, policy and practice. Furthermore, the aim of making cities more sustainable is dependant on supporting organisational, regulative, and normative structures. A clear understanding of what these structures look like will help us with our discussions in this paper.

Urban sustainability hinges on organisational structure because it implies the existence of constructs that are inseparable from the institutions that make up society, with some types of arrangements promoting enduring economic, social and environmental well-being better than others.⁴ Organisations populate the terrain and provide the actors that give formal rules and informal constraints meaning and expression. And because there are expectations that organisations will exist and

¹ Peter Hall and Ulrich Pfeiffer (2000) *Urban Future 21: A Global Agenda for Twenty-First Century Cities*, (E & FN Spon: London), p.98.

² See for example the ICLEI website, Global Cities 21 @Indicators, at <http://www.iclei.org/cities21/c21ind.htm>

³ See for example the Probe post-occupancy series of 20 individual building studies carried out from 1997-2002 and available at: www.usablebuildings.co.uk

⁴ Paul Greenfield and Tor Hundloe (2000) ‘The Environmental Bottom Line: A Keynote Address to the QELA Conference’, 11-13 May, in conference proceedings, Sustainability – Reality or Fantasy: the triple bottom line, p.5, 2000.

grow, they provide the important 'organic' basis to human interaction and social inclusiveness.

And it is regulation that provides the framework for civil behaviour. Well-policed regulation maintains standards in the built environment where community pressure is insufficient, non-existent or antagonistic. It is often local authorities who are continually introducing new laws and revising old ones to reflect their various agendas. However, it can also emanate from the very top. The European Energy Performance of Buildings Directive (EPD) for instance requires all member states to legislate national laws by the beginning of 2006, with regulations to be tightened at least every five years thereafter. The EPD has been drafted to meet Europe's Kyoto commitment to reduce greenhouse gas emissions, and buildings have been singled out because it is the largest source of CO₂ emissions, accounting for more than 40% of energy consumption. Moreover, the EPD covers new as well as existing buildings, and in part stipulates the compulsory designation and display of an energy label. This is likely to impact the property market in a similar way to the labeling of energy ratings on white goods.⁵

While regulation is disciplinary in nature, relies on surveillance techniques, and is instigated from the top-down, self-regulation more strongly reflects the normative structures of society. These structures are arguably the more important vehicle of sustainability, particularly in Australia's case. The emergence of 'green building' performance codes for instance are a clear indication that self-regulation has an important role to play in the built environment – sustainable development agenda. While green codes target environmental criteria, they also implicitly raise broader questions about social responsibility. This paves the way for the 'socialising' of economics and the modification of corporate behaviour through institutional pressure and the locking in of informal constraints. We will explore these ideas in more detail shortly. For now though, it is important to emphasise that greater self-regulation obliges developers and investors to compete for the 'moral high-ground', and thereby avoid unwanted transaction costs associated with social irresponsibility.

A TRIPLE BOTTOM LINE FOR BUILDINGS

There are few frameworks for implementing and controlling self-regulation in the property and construction industries. Highly regulated building codes abound, but these have a limited reach in terms of social and environmental criteria. They specify acceptable standards and take accessibility and certain safety issues fairly seriously, but there're limited by the universal and minimalist approaches used to draft them. On the other hand, 'triple bottom line' (TBL) reporting is aimed at achieving best practice targets, which to date are seldom extended beyond corporate activities. And just as indicators for sustainable cities have little meaning for individual buildings, measures used in the business context fail to translate to the built environment. This is not to say that broad-brushed attempts have not been made at the neighbourhood and city levels.⁶ Nevertheless, the obvious hesitancy in embracing TBL frameworks

⁵ Robert Cohen and Bill Bordass (2003) 'Property needs sustainability', *Building Services Journal*, Sept. Available at: www.usablebuildings.co.uk

⁶ A lot of this work has been carried out in Europe and particularly the UK. See for example New Economics Foundation (1998) *Communities Count! A step-by-step guide to community sustainability indicators*, (New Economics Foundation: London); and London First Sustainability Unit (2001) *A 'Triple Bottom Line' for London: An index of London's Sustainability*, (London First Sustainability Unit: London).

for buildings highlights the need to develop indicator sets tailored specifically to property.⁷

The major obstacle to selecting for social responsibility in new or existing buildings is the widespread expectation amongst investors of acquiring the highest possible capital growth and returns potential. The problem is that there is an enduring perception that social responsibility comes at a greater cost and a lesser return. However, new evidence suggests that socially responsible properties can yield higher capital growth returns than the competition, especially over the longer term. For instance, research undertaken at the Rocky Mountain Institute and the U.S. Department of Energy shows that green building designs can result in sustained increased returns of 3 to 15%.⁸

There is no denying that social, and particularly environmental measures often come at an added cost. Nevertheless, these can be recovered in commercial buildings once rents are adjusted to account for savings on capital expenses, increased productivity and improved employee recruitment and retention. Usually this will be a delayed recovery in a new building because rents are invariably offered at the market rate. The perceived tenancy benefits of green credentials speed up the leasing period, and rental increases are factored in during the rent review process, once capital expenditure savings and tenancy satisfaction is proven.⁹ This also has implications for the capitalised market value of the property.

Because of its currency as a self-governing strategy for good corporate citizens, many businesses appear to be taking TBL seriously. It is proving to be a flexible tool to build reputations and bolster stocks of goodwill. And it's not all self-indulgent reporting. Research indicates that those that are committed to TBL processes were starting to make changes, even if this was just in the way they thought about their business.¹⁰ However, with the release of an Australian Conservation Foundation corporate report concluding that the country's top 50 companies failed to improve their environmental performance in 2003, the greening of Australian business may have stalled.¹¹

While it is not inconceivable that an adverse TBL report could impact on a firm's stock price, it is highly unlikely that a company will actually cast itself in a bad light by self-reporting negatively about its operations. This underscores the need for objectivity in the TBL process. And this is not a prohibitively expensive thing to do for

⁷ See Philip Kimmet (2003) 'Socially Responsible Public Administration and the CBD', paper presented at the Vision 2020, IPAA conference, Griffith University, Brisbane, November 26, available at http://www.gu.edu.au/school/gbs/ppp/ipaa/ipaa_papers.htm; also Sarah Sayce and Louise Ellison (2003) 'Integrating sustainability into the appraisal of property worth: identifying appropriate indicators of sustainability', paper presented at the ARE and UEA conference, August 21-3, Skye, Scotland.

⁸ Go to <http://www.bsr.org/BSRResources/IssueBriefDetail.cfm?DocumentID=449>

⁹ These assertions were confirmed in personal communication by Chris Kinder of FPD Savills, managing agent of the William Buck Building (120 Edward St.), currently Brisbane's 'greenest' new office high rise. Kinder claims that the building's environmental benefits contributed to a rapid (12 month) lease-up period, and the attraction of high quality tenants. He also claims that energy savings are likely to be factored into the first round of rent reviews. A more detailed discussion of the financial returns of green buildings is undertaken in the paper by Terry Boyd and Philip Kimmet, 'Innovative Benchmarks for Built Asset Performance – The Triple Bottom Line Approach', which is also being presented at this conference. See also Greg Kats et. al. (2003) 'The Costs and Financial Benefits of Green Buildings: A Report to California's Sustainable Building Task Force,' unpublished.

¹⁰ C. Deegan, C., M. Rankin and P. Voght (2000) 'Firms' Disclosure Reactions to Major Social Incidents: Australian Evidence', *Accounting Forum*, 2000, 24:1, pp.101-30.

¹¹ ACF (2004) *Corp Rate: An Assessment of Australia's Top 50 Listed Companies in 2003*.

a building. A TBL assessment could actually be added on to a standard property appraisal, which in essence is a single bottom line (economic) assessment.¹² Before we start discussing how it can be done though, let us first position the whole notion of 'socialising' economics in a built, institutionally complex, environment.

A TRIPLE BOTTOM LINE ONTOLOGY

To understand the way things are planned, built and operated, we must first realise the pivotal nature of power and how it is distributed. Or more plainly, we must view the built environment as a political construct, and as an expression of prestige and advantage. As power has a tendency to concentrate, so development left to itself increasingly reflects the 'profit-making' desires of the few who control it. In order to socialise development then and make it responsible to those who are affected by it – the stakeholders – it is necessary to redistribute power.¹³ We conclude from this assertion that "it is the mitigation of power that is central to the idea of being held publicly accountable or socially responsible".¹⁴

Organisations, regulations and norms, the same structures responsible for sustainability, are also the agents of power redistribution. Principal institutions illustrating a supportive organisational structure include a rigorous and independent media, freedom to organise, and a representative, open and transparent system of government. A regulative structure that can facilitate power redistribution depends on an independent judiciary supported by appropriate and effective law enforcement agencies. Finally, the normative environment must promote a respect for the rule of law, and sensitivity to economic, cultural, religious, ethnic, gender and age differences. These structures do not enshrine the principles of social responsibility or sustainability, but they do provide the right conditions for progressive learning, and the development of a pluralist, dynamic, cosmopolitan, well-educated, enabled and participative society.

In advanced democratically governed economies we see much evidence of power leaking to the community. The growth and sophistication of civil society is a clear demonstration of this. Nevertheless, there is more that can be done to siphon power from profit-centred developers and managers for the social responsibility cause. The attempt here to articulate a clear and well thought through analysis of social responsibility in the context of power in the city is as good a place as any to start. What's needed though are institutions that build social responsibility by doing what institutions do best – mobilising "collective action in control, liberation, and expansion of individual action".¹⁵ And the types of institutions that appear to be most effective in doing this are normatively supported, narrowly defined 'carrot and stick' rules disseminated and administrated by industry-backed bodies working within well-defined frameworks. Such industry generated guidelines, which are increasingly being developed by organisations ranging from stock exchanges to many types of

¹² See Philip Kimmert and Terry Boyd (2004) 'An Institutional Understanding of Triple Bottom Line Evaluations and the use of Social and Environmental Metrics', paper presented at the PRRES conference, Bangkok, January 25-8.

¹³ A.G. Papandreu (1972) *Paternalistic Capitalism*, (The University of Minnesota Press: Minnesota), cited in Frank Stilwell (1974) *Australian Urban and Regional Development*, (Australian and New Zealand Book Co: Brookvale, NSW), p.194.

¹⁴ P. Kimmert (2003) 'Socially Responsible Commercial Property Entities and the Allocation of Cultural Space', paper presented at paper presented at the International Association for the Study of Common Property 2nd Pacific Regional Meeting, Brisbane, September 7-9, p.2. To be posted at <http://www.iascp.org>

¹⁵ John R. Commons (1959) *Institutional Economics: Its Place in Political Economy*, University of Wisconsin Press: Madison, p.5.

professional guilds and councils, has the potential to significantly reform thinking about the way buildings are conceived, built and used.

Assuming that social planning is an outcome of power redistribution, and that this has traditionally been the vestige of the state, how then are we to understand the apparent emergence of corporations as exemplars of the 'social conscience'? According to Rhodes what we are seeing is the "hollowing out of the state", with corporations taking over many of the roles of government.¹⁶ In practice, this equates to the maintenance of state structure, while civil society increasingly takes on the activities traditionally carried out by the state.¹⁷ And this is fuelling the 'competition state', as 'distributive states' are losing their autonomous policy-making capacity.¹⁸

What we appear to be seeing then in the modern industrial complex is the increasing domination of corporate-sponsored utilitarianism within a context of robust civil society. This perspective casts doubt on ideas that corporations are instigating the move to prioritise people over profits, and points out that the reach of the community is invading the corporate arena in ways that the state is no longer able to do. It holds to Adam Smith's 'self-interested' precepts in the suggestion that the corporate world is proselytising the existence of more than one – financial – bottom line, because it is in the best interests of business to do so. And it is in the corporate interest because the market, which is the centre of its universe, is firmly situated within the domain of civil society. So from this view, TBL is very much a market construct, and any attempt to understand the contemporary market in advanced Western economies should therefore include a TBL component.

Having established the need for TBL, we can now try to single out the factors shaping what the framework looks like with a view to tailoring a package specifically for the built environment. If TBL is geared toward the market as I have suggested, then we can assume that the market determines the form that it takes. However, the market doesn't do this directly, but through its emerging institutional agents. Historically, government articulated the rules governing corporate behaviour, but with the growth of institutions, industry representative bodies have increasingly taken on that role. This self-censorship is punctuated by talk about the need for good corporate governance, up-to-date social policy, and environmental sensitivity. Such rules, which in essence embody institutions, are being mutually reinforced by community expectation and expressed by an increasing number of stakeholders. So in fact what we are seeing along with the proliferation of property institutions is an increasing recognition of stakeholders who are actively seeking to reduce impacts on their own interests. Acting on stakeholder input is in this sense the essence of social responsibility demonstrated in the built environment. And a TBL framework for built assets driven by property institutions is arguably providing a way forward for systematically building social responsibility in the broader community.

CONCLUSION

This paper has not set out to discuss what is and isn't sustainable in the built environment, nor has it attempted to blueprint a method for measuring sustainability. What it has done instead is explored the increasing interest in achieving sustainability in buildings, and tracked the changes that have taken place that has

¹⁶ R.A.W. Rhodes (1994) 'The hollowing-out of the state: the changing nature of public service in Britain', *Political Quarterly* 65, No.2, pp.138-51.

¹⁷ Ibid.

¹⁸ Philip G. Cerny (1990) 'Globalization and other stories: the search for a new paradigm for international relations', *International Journal* 51, No.4, p.635. See also Cerny (1990) *The Changing Architecture of Politics: Structure, Agency and the Future of the State* (London: Sage), chap. 8.

brought us to this point. The market traditionally has functioned as a profit-maximising mechanism, so mapping a possible transformation to a multiple objective property exchange system is arguably a worthwhile thing to do. While it's clearly early days, and it's possible that this transition may begin to stall or even reverse, investors and assessors should heed the message that there are new demands being exerted on property in terms of social responsibility performance expectations. And it appears inevitable that these essentially social and environmental demands will increasingly influence the financial aspects of owning and operating buildings.

Understanding who is pushing the property sustainability agenda and why, and the broader implications for appraisals, is essential background to benchmark development discussed elsewhere. Such benchmarks can encourage best practice performance, leading to buildings becoming more socially and environmentally responsible. In the UK and elsewhere, these positive changes in the built environment are being reinforced by regulation. In Australia, the agenda appears to be driven by the property industry's own market-sensitive institutions. Either way, the triple bottom line approach to measuring buildings is likely to have a profound impact on the way we construct and manage the built environment, bringing stakeholders back in to built environment thinking.

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