

Continual Covid-19 Impact and Business Sustainable Development —The Case of CEMEX

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Abstract: No doubt the Covid-19 pandemic has raged through the whole world and caused tremendous damage to almost all aspects of human society. In order to protect people from being infected, measures have been taken to control the movement of people in many countries, which reduced the frequency of commercial activities and resulted in the great recession of economy. In this article, based on the stakeholder theory and the management theories of enterprise, we attempt to comprehend how Covid-19 has influenced the construction industry corporations' economic and social activities. Through the analysis of financial report of CEMEX and its non-profit activities about Corporate Social Responsibility, we aim to provide reference for enterprises' environmental management and offer some advice to help promote their sustainable development.

1. Introduction

The outbreak of this pandemic has not only led to a worldwide health emergency, but has also led to a significant slowdown in the global economy. International trade and investment, manufacturing industries' chains, tourism industry and other import industries are all disrupted to some extent. The sustainable development of global economy will be impact deeply and negatively by this unintended crisis.

Based on the related report's forecast, the economic growth of the whole world will slow down from 6.0 percent of 2021 to 3.2 percent of 2022 and 2.7 percent of 2023 respectively, as shown in Table 1. Just as it has been predicted in July 2022 by World Economy Organization in its recent report, the rate of global economic growth in 2022 slow down, while that is not the case in 2023, actually, the forecast of global economic growth rate in 2023 has already been written down by 0.2 percent (Table 1). Compared to the average level (3.6 percent) of the past two decades, this forecast is way too much lower. In the 2022's forecast of global economy, World Economy Organization has expressed a less positive opinion about the outlook in 2023 of most economies worldwide. Statistically, except during the global financial crisis in 2008 and recent outbreak of pandemic in the past three years, the forecast of economic growth for 2023 has been regarded as the lowest level since the beginning of 21st century. The United States, EU and China, which consist of more than

60 percent of the whole world’s GDP, will all slow down apparently during 2022 and 2023, compared to the original forecast made in April and July [1].

Table 1: World economic outlook projections

	2021	Projections		Difference from July 2022 WEO Update		Difference from April 2022 WEO	
		2022	2023	2022	2023	2022	2023
World Output	6.0	3.2	2.7	0.0	-0.2	-0.4	-0.9
China	8.1	3.2	4.4	-0.1	-0.2	-1.2	-0.7
Euro Area	5.2	3.1	0.5	0.5	-0.7	0.3	-1.8
United States	5.7	1.6	1.0	-0.7	0.0	-2.1	-1.3

It has been stated by many countries’ governments that construction which plays a key role in defending pandemic should keep running on this special occasion, because construction industry can not only ensure the normal function of communication and transportation systems but also make great contributions to the whole healthcare infrastructure, and that is indispensable. In view of the high contagious character of this virus, it would be better not to lose control of the movement of labours, but considering the workplace’s speciality of construction industry such as high mobility of personnel, independent outdoor working areas, strict security system and etc, construction industry should be placed on the list of low risk of transmission industries.

There is a leading company aiming at producing best building materials in MEXICO such as ready-mix concrete, cement, and its name is CEMEX. CEMEX is not only a building materials producer but also a Urbanization Solutions service provider. CEMEX has come a long way, it takes CEMEX more than a hundred years to become one of the world’s biggest and the most famous companies. Its advanced technology, efficient management system, and environment-friendly products make it a wonderful instance to help scholars to analyze the pandemic’s impact on enterprises’ operating activities and sustainable development.

Therefore, the paper is organized as follows. Some of the most prominent theories and researches related to the management of corporations will be present in the next section. Section 3 presents some introductory facts about CEMEX, including a brief elaboration of financial performance, stakeholder management and environment management and its sustainability development after the COVID-19 pandemic burst. The results and conclusion are given in Section 4.

2. Literature Review

Speaking of the Stakeholder theory, it was put forward by Professor R. Edward Freeman in 1984 for the first time, in the meanwhile, Professor Freeman also pointed out that shareholders’ benefits were not the only ones that managers should be responsible for, actually, "any group or individual that can influence or being influenced by the achievement of the firm's objectives" should be included in manager’s consideration. Rickard Garvare & Peter Johansson not only put forward a framework of stakeholder management but also enrich the research about the relationship between organizational sustainability and global sustainability [2], they also designed a model to discuss the impact of stakeholder-oriented management on the organizational and global sustainability, this model was also applicable to distinguishing the difference between the organizational and global sustainability or analysing companies’ regular operation. By utilizing “Stakeholder theory”, Dr Levent Altinay & Samantha Miles designed a framework to explain how decisions were made regarding international franchising agreements [3]. They decided to take an international hotel

company as an example. The research results stressed that it was of great significance to deal with the cultural conflicts between franchise and franchisor. Joanna Kitchen put forward a 'Business Models for Sustainability' commercial model that emphasized using stakeholder as orientation in management [4]. Therefore, Joanna actually suggested that 'Stakeholder Theory' put forward by Professor Freeman in 1984 could be used to regulate sustainable development.

Stakeholder is "an individual, groups, or organizations who may influence, be influenced by, or perceive themselves to be influenced by a decision, activity, or outcome of a project" [5]; Project stakeholder Management is "The processes required to identify the people, groups, or organizations that could impact or be impacted by the project, to analyze stakeholder expectations and their impact on the project, and to develop appropriate management strategies for effectively engaging stakeholders in project decisions and execution" [5]; The existing stakeholder literature put forward various framework and definitions of stakeholders from different perspectives, one of which referred that stakeholder was "any organization and individual entity that may influence or be influenced by a company's achievement goals" [6]. This classical concept was particularly significant for that it emphasized the mutual relationship between the company and its stakeholders. However, this definition also had its limitations, for example, it was too wide to clarify what kind of relationship existed between a company and its stakeholders, besides, it did not take into account if the statement of stakeholders were legally right or not. As a matter of fact, Freeman's definition contained two types of stakeholders: strategic and ethical [7]. According to Donaldson's definition of stakeholders, he referred stakeholders as any individuals or organizations that claimed interests in other companies or organizations, which suggested that every stakeholder was valuable and should be equally treated [8].

3. Case Analysis

3.1. Financial Performance

Although the outbreak of pandemic posed great challenges, thanks to the managers' quick response and a series of strategic measures such as digitalization initiative, CEMEX still achieved positive growth compare to the last year. Sales, operating EBITDA and free cash flow were all higher than the past. The results of CEMEX's financial and operational report analysis are as follows:

Compared to the same periods in 2019, consolidated net sales rise to US\$13 billion, 1% higher after adjusting for foreign exchange fluctuations. Although the pandemic disrupted its regular operations, CEMEX still achieved the rapid growth of cement' volumes, which entirely compensated the decreasing volumes of ready-mix and aggregates. The ratio of COGS (Cost of goods sales) to net sales was pretty much at the same level as the entire year. Due to the positive effect of energy prices' decrease, the negative effect of cement's rising prices was compensated. Because of its cost reduction strategies, the ratio of operating expenses to net sales of CEMEX also declined from 22.6% in 2019 to 21.9% in 2020, the lowest level recorded in history. Operating EBITDA rise by 3% to US\$ 2.5 billion in 2020 compared to the last year, while for the entire year, it actually rise by 7% on a like-to-like basis, to a great extent, this big growth was attributable to rising market prices and cost savings measures present in its Operation Resilience program. Operating EBITDA rise from 18.1% in 2019 to 19.0% in 2020 margin, increasing by 0.9 percentage. Due to the negative impact of CEMEX's interest rate swap, US\$ 16.1 million was present in its financial instruments items in 2020. Considering US\$ 1.5 billion impairment of goodwill and assets taken in the third quarter and severance payments, other expenses, net, for the year in total were US\$1.8 billion in 2020. According to CEMEX's financial report, CEMEX achieved controlling

interest net income (loss) of US\$ 1.5 billion in 2020, while its net income in 2019 was US\$ 143 million. The decrease of net income resulted from US\$ 1.5 billion impairment of goodwill and assets. The total amount of debt and perpetual notes declined by 5% to US\$11.1 billion at the end of 2020. As shown in Table 2.

Table 2: Financial highlights in millions of us dollars

	Net sales	Operating earnings before other expenses, net	Operating EBITDA	Controlling interest net income	Free cash flow after maintenance capital expenditures
2019	13,130	1,333	2,378	143	695
2020	12,970	1,343	2,460	(1,467)	959

In order to cope with the challenges posed by the pandemic to its operations, CEMEX published ‘Operation Resilience’ strategy in September 2020 and also present its goal to promote EBITDA growth for the following three years. With those measures taken, CEMEX was able to enhance its profit by providing better products portfolio and maintain its vertical mode as well as leading position in building materials industry, moreover, it also helpful for CEMEX to concentrate on its core business such as cement, ready-mix, aggregates, and urbanization solutions. All in all, ‘Operation Resilience’ program brighten CEMEX’s future.

3.2. Stakeholder Management

Generally speaking, stakeholders include several groups summarized as follows: employees, Customers, Shareholders, Investors, and Analysts, Communities, Suppliers, NGOs and Academic Institutions, Governments and Policy Makers, Business Associations. They can be classified into several aspects shown in Figure 1.

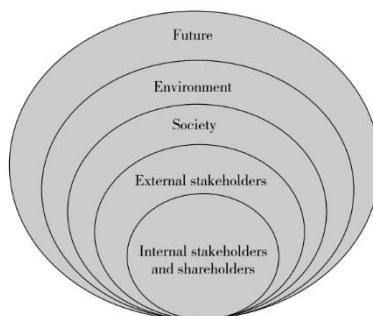


Figure 1: Stakeholders of the organization.

The usual methods to distinguish the classification of stakeholders are as follows (see Figure 2):

(1) Internal VS. external

We usually refer an organization’s personnel such as employees as internal stakeholders, while refer an organization’s customers or suppliers outside that organization as external stakeholders. However, with the modern organizations being more and more complex, this classification method gets less proper to use, because an organization’s employees may also be its subcontractors and its suppliers may also be its subsidiaries.

(2) Voluntary VS. involuntary

If stakeholders such as employees have rights to decide whether to become an organization’s stakeholder or not, they can be seen as voluntary stakeholders, however, if stakeholders such as local society or the environment do not have rights to decide whether to become an organization’s stakeholder or not, they can be seen as involuntary stakeholders.

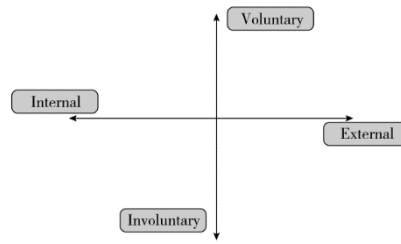


Figure 2: Dimensions of stakeholders.

In view of the complexity of construction industry, building strict systems is indispensable in order to complete programs timely and effectively. Failing to manage stakeholders efficiently could lead to much trouble such as unbalanced resources allocation, ambiguous responsibility definition, ineffective communication and budget overruns [9]. Actually, around the world, there has been a really disappointing stakeholder management history for the past decades [10], almost every recorded project that was delivered to the final customers was subject to criticism [11]. Researches have present a great deal of issues of stakeholder management about construction programs, including ambiguous management goals, inadequate engagement of stakeholders, unidentified beneficiaries, poor communication systems and etc [12]. Thus, it is necessary for construction project team leaders to learn the essence of stakeholder management [13].

There are four aspects (involve, collaborate, consult, and inform) incorporated in stakeholder management just as shown in Figure 3.

Importance Level of impact	High	Keep satisfied Interest protected (Involved)	Key players Maintain good relation (Collaborate)
	Low	Minimal Effort (Inform)	Keep Informed Monitor (Consult)
		Low	High
		Influence Probability of impact	

Figure 3: Levels of stakeholder management.

3.3. Communication Mechanisms with Its Stakeholders

Even disrupted suddenly by the outbreak of pandemic, CEMEX still figured out new approaches to keep being interactive with its stakeholders, for example, because of the quarantine policy, offline engagement activities were no longer proper, so CEMEX started turning to digital platforms, by using advanced information and communication technology, CEMEX was able to make quick response to its stakeholders' questions, assessing the materiality of their interest claims, then deliver the most important issues to the management teams, by this way, CEMEX could normally manage stakeholders during the pandemic crisis. Just like the 'CEMEX GO' project that CEMEX pushed out in 2017, it helped CEMEX continually provide services for its stakeholders even during the pandemic. As an efficient digital platform, 'CEMEX GO' took advantage of its convenient information and communication infrastructure to quickly reacting to the stakeholders' claim, laying the foundation for CEMEX's stakeholder management. Under the circumstance of flourish digital

economy, it is required that the pace of digitalization of interaction between downstream customers and upstream suppliers must be accelerated. CEMEX has made great achievements regarding digitalization, it will keep innovating creative solutions to expand its boundary ability. Anyway, ‘CEMEX GO’ has played key role in assisting the company to keep providing great products for customers and supporting its stakeholder management.

3.4. Environmental Management

3.4.1. CEMEX Environmental Management System

CEMEX is making commitment to running its business without influencing the local community and trying to protect the environment. To ensure this goal fully exercised indeed, CEMEX also pushed its ‘Environmental Management System (EMS)’ initiative being implemented around the whole world. By incorporating and integrating several key standards such environment impact assessment and enhancement, stakeholder engagement and feedbacks as well as quick response mechanism, this ‘EMS’ strategy will certainly improvement CEMEX’s ability of environment management. And till 2020, CEMEX has realized 97% of facilities deployment, which lived up to its own environment management standards. Moreover, CEMEX has established its own environment management teams in charge of the management and audits of all operating locations.

3.4.2. CEMEX Air Emissions Management

The Air Emissions can be summarized as follows: Across the whole process of cement production, sulfur compounds (SO_x) and nitrogen oxides (NO_x) are the main emissions that have extremely bad impact, besides, dioxins, furans, volatile organic compounds, and heavy metals that were released in small amount are the minor emissions

The tools that can be used to monitor the air emissions include the followings: First, Continuous Emissions Monitoring System (CEMS) can make sure that the emissions pollution are under control and compliant with relevant regulations. Second, Online Visualization Tool: in order to enhance the kilns’ abilities to supervise emissions and assist management teams to assess the impact of emissions, CEMEX in 2020 initiated a new industry-benchmark online tool.

3.4.3. Sustainability at CEMEX

In view of the challenges that social sustainable development is confronting, CEMEX has incorporated sustainable development into its commercial blueprint, and subsequently, would keep pushing the implementation of sustainable development being integrated in its regular operations and decision-making process, which helps CEMEX focus on its stakeholder-related issues.

Around sustainable development pillar, three goals, including environmental, social and governance, have been set, based on which dozens of relevant items are being placed on the list of development priorities, just as shown in figure 4, so it suggests that CEMEX is combining the social troubling issues with the stakeholder’s value creation together and making essential progress.

Concretely, at CEMEX, the implementation of sustainability model is pushed by the Board of Directors at first, and then roll out across the whole company. There are several board members and one secretary in the Sustainability Committee, and the Committee’s work is supported by its Corporate Sustainability function that is responsible for the CEO and a member of the Executive Committee. The committee members usually hold meeting every three months to discuss, evaluate the result of CEMEX’s sustainability work, besides, they are also in charge of the following work: first, making sure sustainability is inserted in CEMEX’s short-run and long-run initiatives; second, supporting the Board’s work relevant to the strategies and implementations that concerned with the

company's sustainable development; third, evaluating the usefulness of sustainability strategies and the development of practices; four, offering instructions to the CEO and Executive Committee on significant strategic sustainability decisions. Moreover, CEMEX can also carry out its strategies in all businesses worldwide with the help of Global Sustainability Functional Network.

In conclusion, the internal and external stakeholders' enquiry and monitoring compel the development of sustainability model and make the sustainability model what it is. CEMEX's work is worth a deep thinking and referencing.

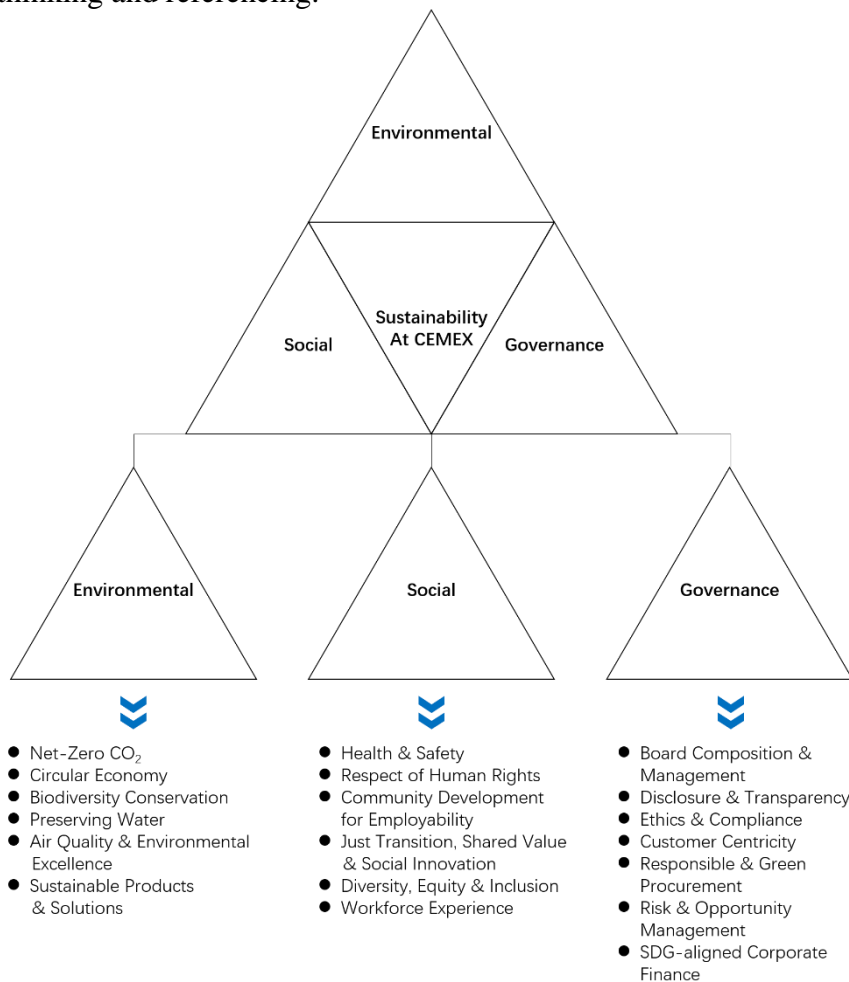


Figure 4: Sustainability model.

4. Conclusion

Now we are gradually moving into the post-pandemic era, though there are still a few countries having trouble curbing the spread of virus, with more and more people receiving vaccines, the world will finally return to normal. There is no doubt that Covid-19 has deeply changed human society, and its legacy will continue to change this world. When and how the world economy is going to be revived are still uncertain, so it is imperative for enterprises to think about next move. From CEMEX, we can get some inspiration. First, as a multinational company, it is of great significance to develop a useful mythology to cope with complicated relationships with different groups of stakeholders, especially on those special occasions like period of pandemic spreading. There is an obvious trend that digitalized platforms will become more and more prevailing than ever before, so multinational companies have to grab the opportunities to construct their own

digitalized system and online communities so that they can build stronger relationship with their stakeholders. Second, since low-carbon economy is advocated more often today, environment as a special stakeholder should be incorporated into enterprises' concerns, especially for those pollution-related companies. Moreover, sustainability is the most meaningful way of doing business, so embedding sustainability in company's strategy is necessary.

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