



منتدى الحوكمة
GOVERNANCE FORUM
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GOVERNANCE IN CONSTRUCTION SECTOR

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INTRODUCTION

Imagine a construction company/contractor at its worst, led by an owner solely driven by the pursuit of quick financial gains. This company submits unrealistically low proposals, employs workers lacking proper documentation or current certifications, bypasses safety checks, opts for inexpensive, low-quality materials, and aggravates the community by causing damages to environment and disruptions in neighborhood streets.

INTRODUCTION

While such a contractor might yield a modest profit for a few projects, their practices are not sustainable for long-term success. It's highly unlikely that anyone would consider doing business with them more than once.

Clearly, what makes a construction company “successful” is more than the final number on the balance sheet.

...That's where ESG in construction comes in.

INTRODUCTION

Construction Project Life Cycle:

1. Day (-1): Design and Tendering Stage
2. Day (1): Construction Phase
3. Day (2): Closing-out and Handing-over
4. Day (3): Dispute Resolution

So, what is
ESG in
construction
?



ESG MEANS:

Environmental



Greenhouse gas emissions	Water consumption	Waste management	Resource management
Mineral extraction	Materials	Resource efficiency	Recycling

Social



Diversity and social inclusion	Health and well-being	Legacy planning
Community impact and integration	Education and skills	Emergency response planning

Governance



Strategies	Policies	Constitution of governing body	Procurement
Sales	Supply chain management	Stakeholder engagement	Diversity, equality, and ethics

DEFINITION

Governance refers to the framework of rules, relationships, systems, and processes by which an organization is directed, controlled, and achieves its objectives.

IMPORTANCE

It is the compass that guides the company towards transparency, accountability, and ethical practices.

Just as blueprints are necessary for constructing a building, a robust governance framework is vital for the sustainable growth and reputation of a construction company.

KEY PRINCIPLES OF GOVERNANCE

1. Establishing a clear governance framework

Developing a robust governance framework is like creating a blueprint for success. It involves identifying the company's objectives and values, setting up policies and procedures, and defining the decision-making processes. This framework should reflect the unique challenges and requirements of the construction industry.

KEY PRINCIPLES OF GOVERNANCE

Important Aspects of establishing governance framework:

- a. **Ensure compliance with legal and regulatory requirements** – by incorporating these requirements into the governance framework, companies can mitigate legal risks and ensure responsible and sustainable practices.
- b. **Risk management** – by implementing robust project management practices, conducting thorough risk assessments at each project phase, and regularly monitoring and updating risk management plans.

KEY PRINCIPLES OF GOVERNANCE

2. Defining roles and responsibilities of board members and executives

In a construction company, the division of roles and responsibilities is like assigning specific tasks to skilled workers at a construction site. Clearly defining the roles and responsibilities of board members, executives, and management ensures efficient decision-taking, accountability, and effective oversight of company operations.

KEY PRINCIPLES OF GOVERNANCE

Important Aspect of defining roles and responsibilities:

Consider expertise and industry knowledge – by ensuring that board members possess the necessary skills and experience, companies can benefit from informed decision-making and strategic guidance and can foster a culture of accountability and effective leadership.

KEY PRINCIPLES OF GOVERNANCE

3. Implementing ethical practices and codes of conduct

Just as safety helmets and harnesses protect workers at a construction site, ethical practices and codes of conduct protect a company's integrity. Construction companies must establish and enforce ethical guidelines that promote integrity, honesty, and fairness in all business operations.

KEY PRINCIPLES OF GOVERNANCE

Important Aspects of Implementing ethical practices and codes of conduct:

- a. **Ensuring transparency and fairness in procurement processes** – by implementing fair and transparent procurement practices, companies can prevent conflicts of interest, corruption, and favoritism.
- b. **Prioritizing workplace safety and provide a safe working environment for their employees** - by prioritizing safety, companies not only protect their employees but also enhance their reputation and build trust with clients and stakeholders.

STRATEGIES FOR EFFECTIVE GOVERNANCE

1. Developing a strong board of directors with diverse expertise in the construction industry

In the construction industry, the board of directors can be considered as the brain of an organization. It guides and makes critical decisions. To ensure effective governance, it is essential to have a board composed of individuals with diverse expertise and experience in the construction field. This brings different perspectives to the table and enhances decision-making.

STRATEGIES FOR EFFECTIVE GOVERNANCE

2. Implementing regular board meetings and reporting mechanisms for effective decision-making

Regular board meetings in construction companies are like checkpoints throughout a construction project. They allow for discussions, updates, and decision-making. By implementing regular board meetings and reporting mechanisms, construction companies foster effective communication, collaboration, and timely decision-making, ensuring the company stays on track.

STRATEGIES FOR EFFECTIVE GOVERNANCE

3. Ensuring transparency and accountability through financial reporting and auditing processes in construction companies

Financial reporting and auditing processes in construction companies are like a spotlight that illuminates the company's financial health and performance. By promoting transparency and accountability through these processes, construction companies build trust among stakeholders and mitigate any potential risks or irregularities.

CHALLENGES AND STRATEGIES FOR OVERCOMING THEM

CHALLENGE	SOLUTION
1. Corruption & Bribery	Establish and apply reliable codes of conduct, implement anti-corruption policies, and encourage an open-book and transparent work culture.

CHALLENGES AND STRATEGIES FOR OVERCOMING THEM

CHALLENGE	SOLUTION
2. Risks in ensuring compliance with regulatory requirements	Identifying potential risks and staying up-to-date with industry regulations, construction companies can proactively manage risks and ensure compliance, safeguarding the company and its stakeholders.

CHALLENGES AND STRATEGIES FOR OVERCOMING THEM

CHALLENGE	SOLUTION
3. Issues of succession planning and leadership transition	Implementing robust succession plans, mentorship and training programs, and invest in leadership development. These practices help maintaining continuity and preventing gaps in governance during leadership transitions.

CASE STUDY – PROJECT AUDIT

1. Project Audit Milestones:

- a. Tender Stage Audit (Updated legislations and codes)
- b. Construction Phase Audit(s) (The Four Days Principal)
- c. Triggered Audits (Preventive, Corrective, From RCM)

2. Project Audit Levels:

- a. Corporate Level (C&D Levels)
- b. Operations Level (M.&Sr. Levels)

CASE STUDY – PROJECT AUDIT

3. The Processes:

- a. Engineering (Design, Construction, Specialties...etc.)
- b. Selection of Auditors (ATL, PM, ...etc.)
- c. Sampling Criteria
- D. What to do with side findings ?

4. Deliverables of Project Audit :

- a. Periodical with follow-up
- b. Final and closed
- c. Final with follow-up

CONCLUSION

Managing governance in a construction company requires understanding its importance, implementing key principles, and overcoming industry-specific challenges.

By establishing a strong framework, defining roles and responsibilities, and promoting ethical practices, construction companies can build a solid foundation for success.

Remember, just as a well-constructed building stands the test of time, excellent governance ensures the long-term growth and reputation of a construction company.

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THANK YOU

