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THE ROLE OF ETHICS IN CORPORATE GOVERNANCE IN BUILDING AND CONSTRUCTION INDUSTRY

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Abstract

This role of ethics in corporate governance in the Building and Construction Industry (BCI) has recently attracted considerable attention and consequently research on international and national level. The aim of the paper is firstly to point to the role of ethics in corporate governance in both large and small organisations in the BCI in Australia. Secondly, the paper suggests in what direction governance should further develop in order that the Australian BCI can remain globally competitive.

THE ROLE OF ETHICS IN CORPORATE GOVERNANCE IN BUILDING AND CONSTRUCTION INDUSTRY

INTRODUCTION

In today's literature, governance is often explained as corporate governance, or a system by which business corporations are directed and controlled. More specifically, corporate governance is understood as a board of directors who represent shareholders. Corporate governance is also defined as a set of internal rules that indicates the distribution of rights and responsibilities among the management, the board, the shareholders, and other stakeholders [8].

Contemporary Organisational Culture literature argues that the major role of leadership is in defining the organisation' values and visions [2]. Consequently, the manager, having capabilities for reasoning and forming values is responsible for organisational culture, or symbols and slogans, stories, rites and ceremonies, values, norms and beliefs. By understanding ethics as guiding beliefs, standards, or ideals about whether certain acts are good or bad in the business of an organization, we can comprehend that ethics is influenced by a corporate culture.

Governance in the BCI is distinguished from the governance in other industries due to characteristics of the industry itself. Specific to BCI is physical nature of the product, the structure of the industry and the organization of the building and construction process [8].

The product of BCI is mostly large and expensive and since it is located in a specific geographic area, not generally transportable. Buildings and other structures are usually made to meet the requirements of each customer.

Three separate groups of people: client, designer and contractor are involved in a building process based on projects. Each project involves several organizations who are subcontractors that operate with their own objectives and pressures. A project manager is in charge of overall costs, time and quality of actions undertaken.

BCI firms consist of large organizations with usually over 20 employees and small to medium enterprises (SME) with less than 20 employees. Large organisations take the form of a corporation indicating that corporate governance is an applied management style.

Until recently there was a common understanding that BCI SME do not have need for corporate governance. But, with the growing pressure to implement innovation through creating new products and processes to be able to respond quickly to fast changing market demands, a need to have a new management style combined with corporate governance appears to be an imperative [4].

The aim of this paper is to point to the role of ethics in corporate governance in BCI today. The paper provides an analysis of current governance and ethical issues in two types of BCI organizations: large and SME. Then it is argued that if large BCI organisations establish a board social responsibility committee and SME incorporate corporate entrepreneurship management, they would sustain their competitive advantage. Paper ends with concluding remarks.

THE CURRENT MODELS OF GOVERNANCE AND ETHICAL ISSUES

Australian BCI corporations are turning towards a global market facing corporate abuses like any other internationally oriented industry. In this situation, corporate governance current structure allows key executives to propel fraud. Figure 1 illustrates present corporate governance structure. Such a structure points to the complexity of providing business information and in particular its vulnerability in receiving financial reports from foreign acquisitions [10]. In response to recent

corporate scandals in the USA and Europe, a need has arisen to change external governance, legislation and regulatory mechanisms by enforcing, first of all, a code of ethics for corporate senior officers, and then adjusting organisational culture [7].

According to Purcell [9] in presenting what organisations are and what they claim they do, there is a great concern as to what extent organisational vision with outlined ethical principles is perceived in the external environment and how much it differs from official organisational aspirations. The situation looks more complicated from the global point of view since inter-stakeholders sometimes do impose goals that jeopardise regional and national values. For example, requirements to increase profit in some cases affect corporations' attempts to improve the communities in which they operate.

Figure 1: Corporate Governance Structure Source: Sama and Shoaf [10]
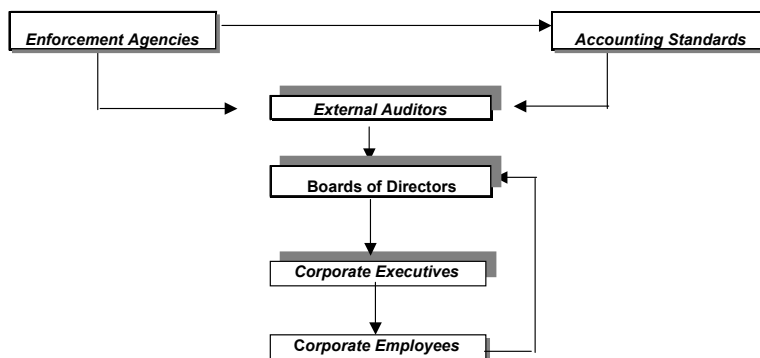
Accordingly, a conflict appears in what organizational leaders understand as community requirements for corporations in treating employees, suppliers and customers without prejudice and acting ethically, and local perception of such activities. The conflict can significantly affect organizational competitive advantage.

Although many authors argue that organizational culture is the key to solving ethical problems underlying the role of leadership as a model for ethical reasoning, and companies do hire ethics consultants and apply ethics codes, there is no evidence of abandoning organizational unethical behaviour [5]. In BCI, however, in accordance with an increasing interest in dealing with business ethics, large organisations focus on how to satisfy not only consumer and stakeholders' needs, but also provide an efficient working environment [1].

Therefore, corporate governance in BCI should be in charge of social responsibility when it comes to the external environment. For example, although modern buildings represent an extraordinary achievement of industrialized civilization by making life easier to many users, their construction causes massive side effects such as deforestation, air and water pollution, and the risk of global warming. Accordingly, Sama and Shoaf [10] state that only top management can contribute to true ethical progress by communicating the value of ethics to its stakeholders and lower level managers. In addition, outside auditors and the board of directors of social committee maintain a role in this process to attest the management integrity. Wood et al [12] argue that communication is equally important from both lower and upper levels of management in order to build trust and achieve higher ethical values and higher ethical management.

In contrast to governance in large BCI organisations, SME governance relies mostly on manager-owners actions. Manager-owners, being either contractors or subcontractors, are concerned to respect time constraints and minimise costs in order to gain and sustain competitive advantage [6].

With growing competition, small BCI organizations face the necessity to search for innovations and explore a price premium or cost advantage. Such activities demand investments and, therefore, impose the role of stakeholders as the key players in accomplishing BCI projects. Since completion of BCI projects is sensitive to clients, users and public sector demands, it seems that manager-owners in a role of project managers should be more oriented towards a new management style that will significantly include satisfaction of the needs of stakeholders [3].

## HOW TO IMPROVE ETHICS IN BCI CORPORATE GOVERNANCE

In both large and small BCI organizations the role of stakeholders becomes crucial in improving governance.

According to recent research, a large majority of internationally significant organisations state that a focus on environmental issues is of extreme importance if they are to retain a good position in the global market [11]. Hence, environmental leadership must be highlighted in an organization's strategy and be presented to all stakeholders. Further to that, Zairi [13] argues that the responsibility of corporate governance is to deal with environmental strategies and create an image of strong commitment to practicing optimal environmental policies.

Since a successful environmental policy has a positive impact on business activities, we propose the corporate governance structure for large BCI organizations as shown in Figure 2.

In order to balance the interest of all stakeholders a board social responsibility committee should be established in large BCI organizations (See Figure 2). The board will overview the role of corporate governance and, consequently, avoid a gap between its vision with highlighted ethical principles of an organisation and the perception of the organisation within the community. An image of an organization that cares for its environment will, no doubt, contribute to the organization being better positioned among its clients and users compared to organisations that do not reflect high social responsibility.

Figure 2: Improved Corporate Governance Structure
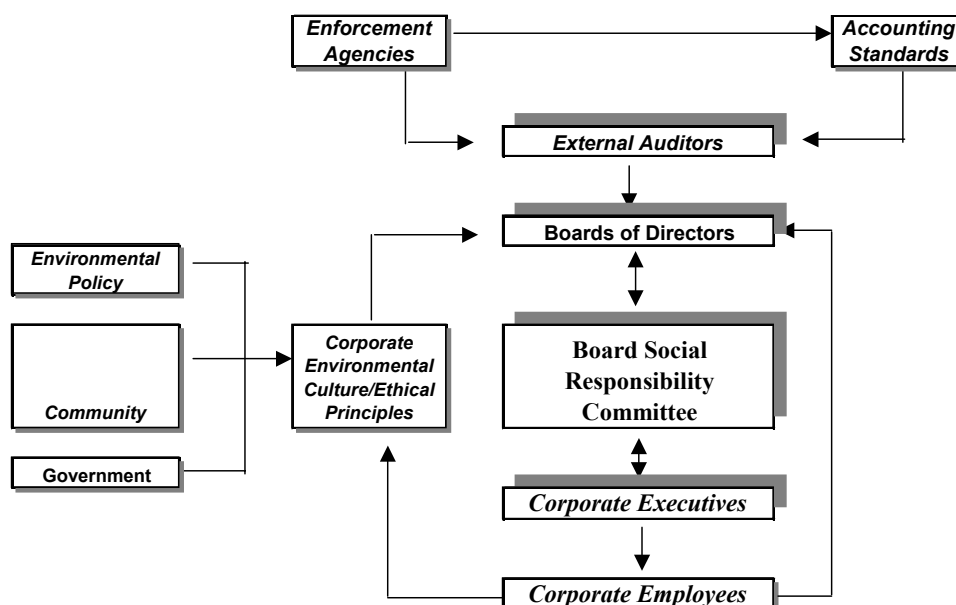
In SME the new management style, corporate entrepreneurship management, should impose a balance in between strategic innovation implementation needs and holding management accountable to the shareholders, financial control, and end users of their products. We believe that such responsibility contributes to improving the environment and, if the community where the organisation operates is aware of it, it will minimise the gap between what the organisation claims is wiling to achieve in its vision and ethical principles with what it does in reality.

CONCLUSIONS

If large BCI organisations establish a board social responsibility committee to overview to what extent both corporate executives and corporate governance follow their organization vision which incorporates an outline of its ethical principles, most likely the community perception of the organisation's care for its environment will contribute to organisational distinctive competency. On the other hand, if SME follow the recommended process of corporate entrepreneurship management, they would achieve a balance between strategic innovation implementation needs and management accountability to the shareholders and end users of their products.

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