


Chapter 3

ESG in Construction Risk Management: A Strategic Roadmap for Controlling Risks and Maximizing Profits


Konstantina Ragazou

University of Western Macedonia, Greece

Ioannis Passas

 <https://orcid.org/0000-0002-1261-2878>
Hellenic Mediterranean University, Greece

Alexandros Garefalakis

 <https://orcid.org/0000-0001-7980-3743>
Hellenic Mediterranean University, Greece

Constantin Zopounidis

Technical University of Crete, Greece & Audencia Business School, France

ABSTRACT

ESG refers to environmental, social, and governance in the construction sector and can contribute to the sustainability of the companies in the construction sector. This indicates that while planning and developing a project from beginning to end, all ESG risks should be properly considered. ESG risk management and reporting are particularly significant in the construction sector. A strong ESG approach may improve supply chain efficiency, minimize health and safety concerns, reduce emissions, and encourage effective investment. Managing ESG risks is a great way for businesses engaged in the construction sector to attract investors and boost senior management expectations. This chapter aims to illustrate how a construction

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ESG in Construction Risk Management

company may mitigate the risks faced within the use of ESG risk management. Findings illustrate that strategies based on ESG risk management can help companies in the construction sector to protect the environment and society and create long-term value for their business.

INTRODUCTION

ESG broadly refers to analyzing a company's environmental, social, and governance policies, their effects, and the company's advancement compared to benchmarks. Risk management is a function of an ESG program. The performance of a company's ESG initiatives is being monitored by a wide range of stakeholders, including communities, consumers, workers, and government organizations. For instance, ESG data, such as ESG scores or ratings, may be used by lenders and investors to evaluate a company's risk exposure and potential future financial performance. To make informed advocacy and purchasing decisions, communities and consumers may be interested in learning about a company's environmental and social policies (DasGupta, 2022; Sabbaghi, 2022).

Thus, components of the environmental, social, and corporate governance (ESG) agenda have been and will continue to be a high priority for the construction business due to health and safety concerns and the industry's strong reliance on labor. Similar to this, governance has long been a hot subject in the industry due to the scale and complexity of contracts, competitive bidding procedures, and the necessity to interact with both public and private parties as well as to avoid bribery, corruption, and anticompetitive activity (Binhadab et al., 2021; Jha, 2019). All industries are focusing on the environmental issue, but buildings and construction cause 39%¹ of the world's carbon emissions. Thus, contractors must prioritize these business-critical environmental and carbon reduction measures. In the construction sector, which, like many industries, is continuing to strengthen its emphasis on ESG and convey the implications to stakeholders, these areas now represent the main pillars of their ESG agendas. Because their value in terms of growth and risk management has increased, the focus has shifted from conventional philanthropy and employee volunteerism to encouraging a more comprehensive integration of these subjects in business strategy. Corporate risk management and strategic business imperatives are increasingly supported by effective ESG programs (Baldi & Pandimiglio, 2022).

Including ESG considerations in corporate decision-making is sound risk management, regardless of the size of the business and sector. Every firm deals with a range of ESG-related problems, some of which have the potential to be significant and harm a company's finances or image. The likelihood of an ESG-related event or scandal is also enhanced for any firm that ignores environmental, social, and

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