

PROFITABLE ETHICAL RECRUITMENT

How basic labour standards can spur growth in the GCC engineering and construction industry

This report on profitable ethical recruitment lays out a conceptual framework for promoting and enhancing the viability of ethical labour recruitment in the Engineering and Construction industry in Gulf Cooperation Council (GCC) countries. Insights are drawn from a review and synthesis of evidence to date and interviews with stakeholders working in and knowledgeable about the industry. It articulates the rationale for Small and Medium-Size Construction Firms (SMCs) within the E&C industry to take up ethical recruitment practices. The report aims to support a diverse range of actors - including government, international organisations, industry groups and civil society - working with the private sector to promote ethical labour standards.

This report is part of the *Be Compliant* package and is accompanied by two products aimed at the private sector. These tools are designed to promote critical reflection by decision-makers in SMCs as well as the private sector more generally. They are: 1) an engaging two page pull-out highlighting commercial arguments for ethical recruitment and 2) an online interactive tool that models ethical investments and gains. Collectively, the two tools comprise the *Be Compliant* package, which seeks to directly motivate SMCs to engage with recruitment and management techniques that improve both their bottom line and employee welfare.

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ACRONYMS

BIM	Building Information Modelling
CSR	Corporate Social Responsibility
E&C	Engineering and Construction
ESG	Environment, Social and Governance
GFEMS	Global Fund to End Modern Slavery
HSE	Health, Safety and Environment
ILO	International Labour Organization
MNC	Multinational Corporation
NGO	Non-Governmental Organisation
SASB	Sustainability Accounting Standards Board
SMC	Small- or Medium-sized Construction Firm
TERA	The Ethical Recruitment Agency
UAE	United Arab Emirates
UN	United Nations
UNEP	United Nations Environment Programme

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INTRODUCTION

There are serious ethical problems with the way many Engineering and Construction (E&C) companies recruit low wage migrant workers in Gulf Cooperation Council (GCC) countries.¹ Most E&C employees – from managers to operational staff – either do not recognise the issue or do not have a toolkit to address it.

The adoption of ethical work practices at an industrial scale depends on a convincing and practicable case for change being made to private sector stakeholders. The Global Fund to End Modern Slavery (GFEMS) asked Seefar and The Ethical Recruitment Agency (TERA) to respond to this challenge. Seefar and TERA produced three outputs:

1. This report, which provides an evidence-based analysis of the commercial arguments for ethical recruitment, and is aimed at supporting the efforts of governmental and non-governmental stakeholders involved in promoting ethical recruitment in the private sector.
2. A two-page graphic pull-out aimed at alerting private sector stakeholders to the key commercial arguments for ethical recruitment.
3. An online, interactive assessment tool aimed at helping private sector stakeholders to model the costs and benefits of investments in systems that bring financial and ethical gains.

Change will accelerate when private sector stakeholders agree that treating workers fairly presents commercial advantages.

Insights from 12 interviews conducted in May 2020 with E&C industry professionals and experts in the UAE, Qatar, Europe and United States, as well as a deep review of industry, third sector and academic publications and data,² formed the basis of these outputs.

History has shown enforcement alone is unlikely to end trends of modern slavery in E&C. Change will occur at scale when unethical labour practices become unprofitable;³ it will accelerate when private sector stakeholders agree that treating workers fairly presents commercial advantages. The study concludes that current trends in the E&C industry present an opportunity to convince SMCs that urgent change to reform certain unethical practices is in their best interests. It concludes by explicating this argument for a cross-cutting group of government and non-government stakeholders engaged in promoting ethical recruitment practices.

¹ [Mixed Migration Centre. "Quarterly Migration Update: Middle East." 2019.](#)

² Interviews were off-the-record to encourage industry participation. The desk review used the Seefar Evidence Review Approach (SERA), which screens sources for quality and relevance.

³ [Global Fund to End Modern Slavery.](#)

How to use this report

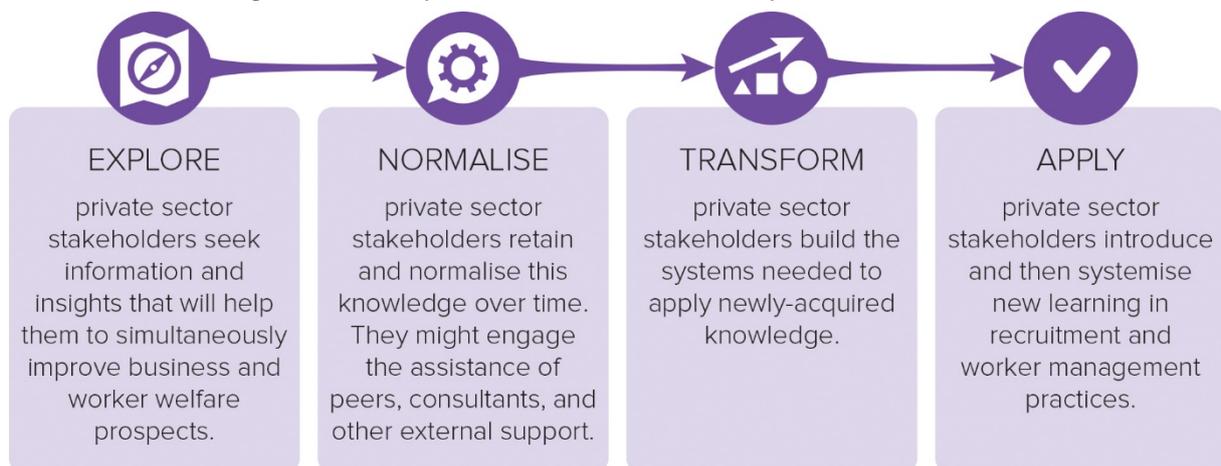
This report aims to provide salient arguments for why adopting ethical recruitment and worker welfare practices is in private sector stakeholders' own interests. It responds to interviewees' views that evidence on the benefits of ethical recruitment is thin and usually not written in accessible language. Stakeholders working on improving employment practices in E&C may find the contents useful. Findings also help to guide the funding of tools that can be embraced by the business community and make a real difference to worker welfare.

Four sections make up the report: [‘Tools to Support Small & Medium Construction Firms in the E&C industry’](#) provides more detail on the two standalone products targeting the private sector. [‘A Framework for Engaging Business on Ethical Recruitment’](#) then outlines the core commercial arguments. [‘Three Pathways to Better Business’](#) aims to provide ethical recruitment advocates with guidance on how to engage with the private sector in business terms, specifically by proposing changes to the construction firm's systems and process that have potential to pay off in financial and labour standard terms. [‘Going Forward’](#) concludes the report with talking points and strategic steps that advocates can take to raise demand for migrant worker welfare, based on the Dhaka Principles for Migration with Dignity.

TOOLS TO SUPPORT SMALL & MEDIUM CONSTRUCTION FIRMS IN THE E&C INDUSTRY

To change the E&C status quo, supporters of ethical recruitment must both enable and persuade employers to alter their practices over four key stages (Figure 1).⁴

Figure 1. The adoption of more efficient, ethical practices in business



The growing number of MNCs (Multinational Corporations) using supply chain audit services and rising membership in advocate-sponsored initiatives like Building Responsibly⁵ and the Leadership Group for Responsible Recruitment⁶ show a recognition of the need to adapt to what is rapidly becoming the new normal. Despite this intent to address labour concerns in their supply chains, and a relatively greater capacity for learning and innovation than their subcontractors, MNCs increasingly find themselves mired in the second stage (Normalise). Transition to the third stage (Transform) is more difficult as MNCs struggle to change behaviours in clients, government and down the value chain.

However, small and medium construction firms (SMCs)⁷ are behind the curve.

Industry experts explain that SMCs in GCC countries are less willing to engage with the first stage (Explore) because the pay-off between time invested and outcomes is often ill-defined and a reluctance to open business models up to scrutiny to potentially hostile actors. As a result, important efforts by UN agencies, NGOs and specialist social impact

⁴ Adapted from 'process-based' theories of organisational learning as examined in [Darwish, Tamer et al. "Organizational Learning of Absorptive Capacity and Innovation: Does Leadership Matter?" 2018.](#)

⁵ [Building Responsibly.](#)

⁶ [Leadership Group for Responsible Recruitment. Institute for Human Rights and Business.](#)

⁷ Definitions for small and medium enterprises (SMEs) and consequently SMCs vary. UAE defines SMEs as "any enterprise which meets the thresholds of employee headcount and turnover in their sector", typically less than 200-250 employees and a turnover less than 250 million Dirham (approximately USD 6.8 million). [Government of Dubai, and Dubai SME. "The State of Small and Medium Enterprises \(SMEs\) in Dubai." 2019.](#)

consultancies to build awareness (Explore) and capacity (Normalise) can struggle to move beyond the pilot stage.

It is becoming more difficult for SMCs to ignore the issue entirely. The new anti-slavery vigour of some MNCs, investors and governments is beginning to pass down the supply chain to smaller contractors. While the report aims to help advocates for ethical recruitment in civil society and the international community to accelerate the uptake of ethical practices within the private sector, the tools are aimed at private sector stakeholders themselves.

Key Terms:

Prime contractor refers to the business that signs contracts directly with the client ordering the work, then seeks suppliers and other subcontractors to fulfil specific project needs. MNCs usually assume the position of prime contractor.

Subcontractor or supplier provides labour, materials or both to prime contractors. Subcontractors also rely on their own suppliers and subcontractors, creating a **supply chain**. SMCs usually assume the position of subcontractor or supplier.

Recruitment agencies are companies specialised in sourcing labour, typically from abroad, on behalf of employers. **Placement or manpower agencies** also provide labour to employers but are also clients of recruitment agencies.

Tool 1: A two-page graphic pull-out on the opportunities and challenges of recruiting ethically

Changing business practices means convincing management, human resources, and procurement professionals to change processes and attitudes. “Be Compliant, Stay in Business” is a short, highly visual handout available in English and Arabic. **It aims to call attention to the changing business environment and sets out the initial, practical steps private sector stakeholders should take towards ethical recruitment to ensure they are not left behind.** Its format is simple and direct, in response to feedback that existing tools are often too long and complex.⁸

The tool targets managers and operational staff in SMCs who may have deprioritised or dismissed ethical recruitment as a corporate social responsibility (CSR) concern, as well as internal champions of ethical recruitment in MNCs who may struggle to be heard within their own organisations. Over time, this tool can assist outsiders in communicating with business; a step towards a common language of ethical recruitment between private sector stakeholders, government and civil society.

⁸ KII 8, Employee of Large Construction Enterprise, London.

Tool 2: An online interactive tool estimating costs and return on investment of worker welfare and productivity systems

A major challenge is convincing SMC managers that research and analysis can significantly improve business performance. A secondary challenge is persuading the same group to engage meaningfully with the practical considerations of improving business processes in a manner that reduces costs or increases revenue and improves worker welfare. Risk-adverse SMC managers do not always grasp the power that analysis of their business process can have to improve their productivity and profitability and they may instead be more comfortable conducting business as they always have.

The interactive online tool responds to these challenges by clearly presenting the longer-term financial benefits of short-term investments in compliant recruitment systems. Users enter estimates of the size of an average project in budgetary and human effort terms. The financial return on investment is calculated using estimates from the literature of the likely return when investing in systems that improve productivity, reduce error and associated rework costs, and drive down recruitment costs through retention of existing staff. Other benefits that are more difficult to quantify, including the avoidance of worker disputes and strategic litigation, and access to more lucrative contracts or finance options, are presented in qualitative terms.

As an easy-to-access and data-driven tool, the online tool can inspire SMCs to take analytical tools more seriously when making strategic business decisions, including decision making on recruitment practices. Second, it aims to bring an abstract debate on business theory and workers' rights back down to business fundamentals of cost and return on investment.

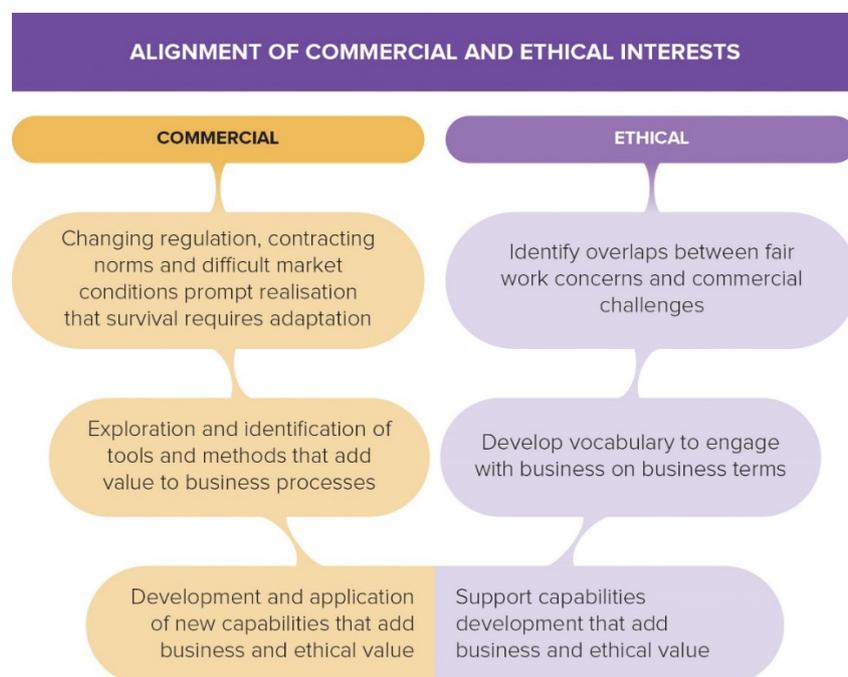
Learn more about these tools at ethicalrecruitmentagency.com

A FRAMEWORK FOR ENGAGING BUSINESS ON ETHICAL RECRUITMENT

Previous attempts to make the case for ethical recruitment have not prompted a shift at scale to ethical practice. Studies argue the moral and legal justifications for respecting workers' rights,⁹ the reputational risks of scandal,¹⁰ and the high impact but low likelihood of being targeted in strategic litigation.¹¹ Others focus on the development of regulation and enforcement mechanisms.¹² Few lead with the commercial rewards available to businesses that improve their labour practices. The sources that do are often light on evidence¹³ or speak in a language that alienates business or investors.¹⁴

This section establishes a framework for discussing synergies between private sector interests in profitability and other stakeholders' interests in advancing ethical recruitment. Subsequent sections offer a more detailed exploration of the evidence.

Figure 2. How do business stakeholders' commercial interests and the objectives of fair work advocates complement each other?



⁹ Amnesty International. "The Dark Side of Migration." 2013; and Human Rights Watch. "World Report 2020: Rights Trends in United Arab Emirates." 2019.

¹⁰ Verité and Manpower Group. "An Ethical Framework for Cross-Border Labor Recruitment." 2012.

¹¹ Human Trafficking Pro Bono Legal Center and The Freedom Fund. "Ending Impunity, Securing Justice."

¹² Engineers Against Poverty. "Protecting the Wages of Migrant Construction Workers." 2019.

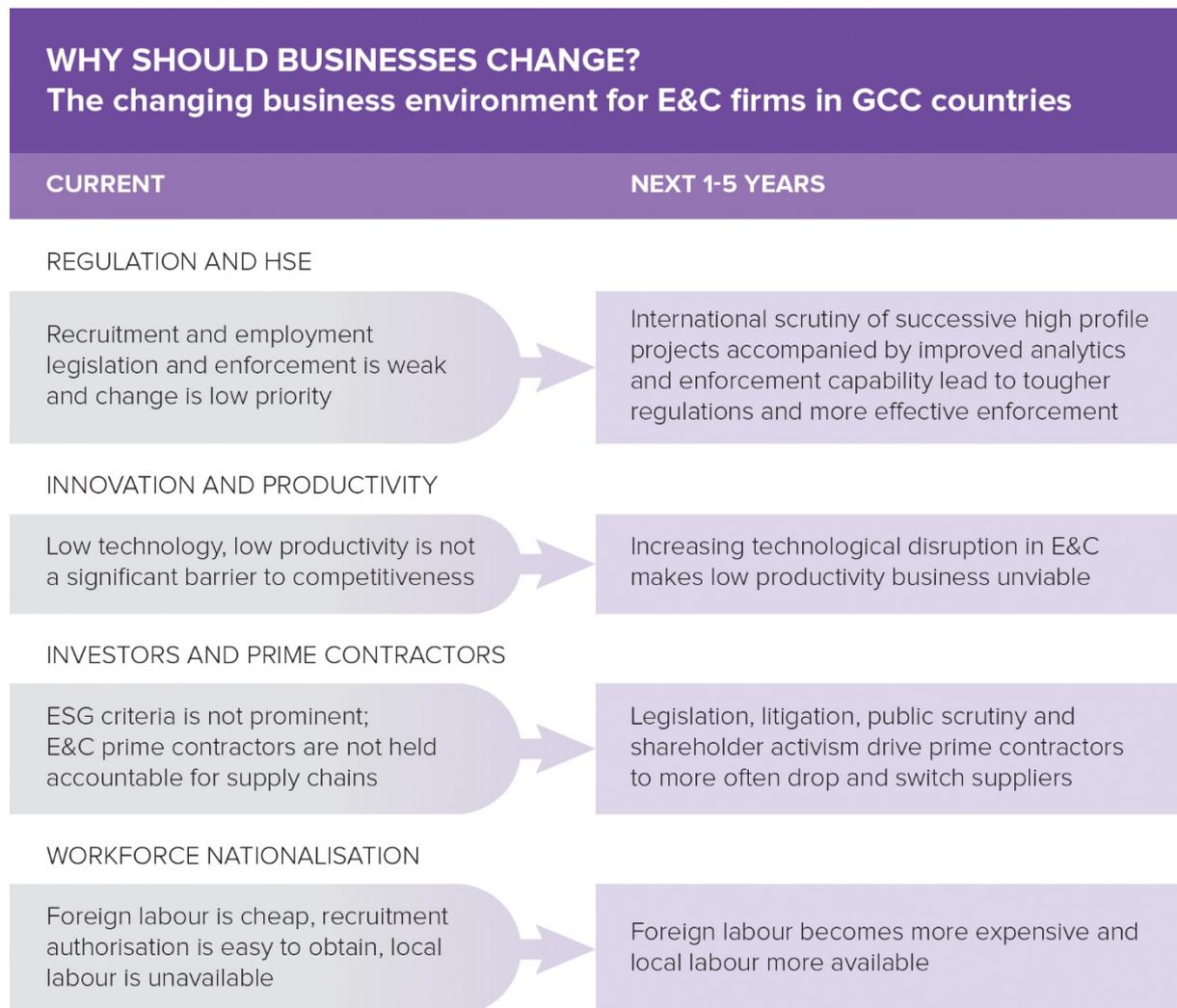
¹³ IOM. "The Business Case for Ethical Recruitment and Supply Chain Management." 2017; Building Responsibly. "Brief: Business Case for Engineering and Construction Companies." 2018; ILO. "Guidance Tool: For Construction Companies in the Middle East," 2019; and ILO. "Promoting the Business Case for Ethical Recruitment." 2018. And Taylor and Issara. "Developing a Financially Viable Ethical Recruitment Model." 2018.

¹⁴ KII 4, Employee of Large Construction Enterprise, Dubai. See also "Investors have no use for reports aimed at NGOs". Eccles and Klimenko. "The Investor Revolution." 2019.

Research shows how advocates can use tough market conditions – often the excuse for inaction – as the basis for a compelling commercial argument for change (Figure 2).

Diminished margins and fierce competition – escalated by tenders being postponed due to COVID-19 – will reduce the competitiveness of low productivity and low technology businesses. Private sector stakeholders will need to embrace disruptive technologies and new construction methods to survive (Figure 3).

Figure 3. How changes in the business environment provide opportunities and threats for E&C businesses



SMCs will benefit from building strong relationships with MNCs, whose repeat business and upstream investments can speed knowledge and technology transfer and build mutual, longer-term stability in E&C's usually volatile environment for cash flow and pricing.

Businesses tempted to respond to financial challenges by reducing work and living conditions for employees beyond ethical and legal minimums may secure short-term survival but carry the risk of doing so at the cost of longer-term competitiveness.

In response to intensifying investor and public attention on Environment, Social and Governance (ESG),¹⁵ prime contractors will escalate due diligence. Up to a quarter (25%) of global investor funds are now held by ESG-conscious investors.¹⁶ Key informants working for MNCs were already telling subcontractors to reform labour practices or lose contracts.¹⁷

Some SMCs already claim that robust human resource policies are paying dividends by reducing resources spent on recruitment,¹⁸ addressing worker grievances or managing strikes.¹⁹

The rights of low-wage workers in GCC countries are set to expand as regulatory agencies use technology to improve enforcement, from closer monitoring of conditions to increasingly sophisticated wage protection systems. Better data will also improve responsiveness and insight into pervasive Health, Safety and Environmental (HSE)

Industry analysts note that as E&C overcomes its aversion to innovation, private sector stakeholders that invest in change will pull further away from those that do not.

Integrated HR systems and improved allocation of the workforce

Short-term E&C projects have tended to mean short-term relationships between employers and employees. That in turn has discouraged many companies from investing in their relationship with their workforce, and in the HR systems which would help companies get the most out of their workforce in the long term. Interviewees note how by creating a HR data management system that allowed project managers to retain workers between projects, as well as permitting the creation of worker welfare committees that give workers' influence over their living and work conditions, Vinci and its Qatari subsidiary QDVC were able save a significant amount in time and financial resources that would otherwise have been spent on new recruitment.

Source: interview with consultant on sustainability in the E&C industry.

¹⁵ What ESG indicators investors consider 'material': [Sustainability Accounting Standards Board. "SASB Materiality Map."](#)

¹⁶ [Eccles and Klimenko. 2019.](#)

¹⁷ KII 4, Employee of Large Construction Enterprise, UAE.

¹⁸ KII 6, Sustainability Consultant.

¹⁹ KII 8, Employee of Large Construction Enterprise, UK.

issues while crises, such as COVID-19, continue to expose the precarity of low wage workers. Moreover, as GCC governments continue to pursue labour force nationalisation policies, the low wages and sometimes poor conditions that make foreign workers significantly cheaper than local workers may increasingly be seen as creating unfair competition.

Industry analysts note that as E&C overcomes its aversion to innovation, businesses that invest in change will pull further away from those that do not. Opportunities to create leaner, more competitive businesses come from automation and modelling technologies that can substantially cut costs associated with project delays resulting from bad planning. Projects that use more prefabricated materials and tools can substantially reduce time on site and associated personnel costs.²⁰ While disruption such as this can be daunting, with the right kind of support even smaller contractors can remain competitive and thrive.

²⁰ Discussed further later in the report. See also: [KPMG. "Future-Ready Index: Leaders and Followers in the Engineering & Construction Industry."](#) and [McKinsey Global Institute. "Reinventing Construction." 2017.](#)

THREE PATHS TO BETTER BUSINESS

Large segments of the E&C industry are resistant to adopting new systems and technology²¹ that have been integral to the professionalisation of other industries. Resistance to change is partly a symptom of the non-professionalised, family-led nature of many GCC E&C businesses. This is demonstrated in the focus on cost over value in tendering processes and non-optimal decisions on the reinvestment of profits.²²

Partly due to this, productivity growth across the industry has been negligible (1% per year over the last two decades compared to 2.8% in the world economy²³), enabling businesses to continue to compete without investing in new systems and technology. Whereas the UAE may once have offered even badly-run businesses returns, project margins of 20-25% have fallen closer to 4-7%,²⁴ making productivity gains or material savings a significant advantage.

Industries like manufacturing have opened up to innovative business practices that boost productivity and labour conditions - from the integration of technology to mainstreaming of modern management techniques - that create structure for more transparency and ethical practices. Their example (and their success) offers a blueprint for progressive-thinking private sector stakeholders within E&C.

Even where private sector stakeholders accept the fundamental need to adapt, achieving long-term cultural change is another challenge. The management of E&C businesses large and small need to be clear and consistent on the language and content of the message on change to ethical practices. One MNC executive likened this to the process of “baking in” health and safety expectations to all dealings with subcontractors.²⁵

Despite its challenges, E&C is nonetheless projected to grow.²⁶ The most competitive E&C business will drive this growth. There is ample opportunity for private sector stakeholders to invest in core business functions²⁷ that improve project margins, primarily through more efficient operations, and working conditions, as envisaged in the Dhaka Principles for Migration with Dignity.²⁸ For businesses that successfully achieve

Resistance to change is partly a symptom of the family-led nature of E&C, seen in a focus on cost over value in tendering processes and reinvestment of profits.

²¹ [McKinsey, 2018.](#)

²² [The 2018 MEED Construction Survey found](#) “getting people to behave differently” joint first with “low contracting margins” as the reasons GCC E&C private sector stakeholders resist innovation.

²³ [McKinsey Global Institute. “Reinventing Construction.” February 2017.](#)

²⁴ [“Bhatia. “Dubai Contractors Urge Selectivity as Margin Values Drop.” August 2018.](#)

²⁵ KII 8, Employee of Large Construction Enterprise, United Kingdom.

²⁶ Likely to be worth USD 14 trillion globally by 2025. [McKinsey Global Institute, 2017.](#)

²⁷ Adapted from [KPMG, 2019.](#)

²⁸ [Institute for Human Rights and Business. “Dhaka Principles for Migration with Dignity.” 2011.](#)

the two, there is also the prospect of favourable access to better paying clients and, separately, more favourable access to finance.

Focusing on profit and loss will almost always gain more traction with business than moral arguments for better treatment. Three types of change can benefit business performance and worker welfare alike:

1. Systems and Innovation

In addition to unpredictable labour and materials costs, E&C analysts cite poor site coordination and supervision, incompetent contractors, and inefficient administration²⁹ as reasons why projects have losses.³⁰ Procurement managers come under pressure to save costs wherever possible, leaving little appetite for greater expenditure in areas that would improve worker welfare such as recruitment and training, wages, and workers' accommodation or amenities -- even where these promise to improve the business' own efficiency and effectiveness.

The solution to these issues lies in the development of systems able to anticipate and mitigate a project's financial risks.

Figure 4. Changes to systems and innovation boost business and address Dhaka Principles 3, 5, 7 and 8



Inadequate attention to site management in large MNCs

A lack of managerial attention to the organisation of site teams breeds inefficiency. It was common in one large UAE construction firm to see “labourers in groups, doing little to nothing for hours on end.” There were no invitations, incentives or systems for site managers to develop more efficient approaches: “The senior project manager allocates each activity a budget and that’s it.”

Source: Interview with site-based employee of UAE MNC.

²⁹ Boon Hui et al. “Criticality of Construction Industry Problems in Developing Countries.” 2019.

³⁰ For example, a company bidding for a five-year project might build in a 5% margin, only to see that eaten away in years 2 and 3 as material costs rise. Galaev. “Why Are Construction Profit Margins So Low?” 2018.

Trusted suppliers take on new importance

An MNC with a large portfolio of direct contract awards in the UAE dedicated time and resources to compliance in its supply chain. It adopted a strategy of capacity-building to help suppliers meet labour standards. Suppliers who respond positively are likely to be rewarded with a steady stream of contracts.

Source: Interview with employee of UAE-based MNC

Investment in long-term relationships with clients and suppliers can make the flows of revenue, materials and labour more predictable, allowing managers to be more confident about committing cash to investments with a real but less obvious impact on profits, namely management efficiency and worker conditions.

SMCs that integrate sustainability initiatives into their core operations will be in a better position to fund projects and growth. First, a survey of banks and finance institutes in the UAE signals that lenders in the region are following global trends in integrating ESG concerns into their lending criteria. Second, E&C MNCs are increasingly likely to award subcontracts to SMCs that can demonstrate systems capable of monitoring and mitigating these ESG concerns.

Procurement and business development

Private sector stakeholders frequently focus on reducing labour costs to the minimum, especially when they are unable to mitigate rising material costs.³¹ This dynamic means that many turn down the opportunity to work with compliant recruiters that quote the real costs of recruitment. Instead, businesses continue a trend of passing costs onto recruitment agencies and migrant workers themselves.³² The "employer pays" principle is among the most well-known face of ethical recruitment advocacy in the region and is widely accepted as a minimum standard among MNCs and regional governments.³³ Private sector stakeholders that flout this principle and its associated regulations risk losing out on more lucrative, higher profile contracts and, increasingly, the heavy costs of worker disputes.

More holistic approaches can increase businesses' longer-term viability – particularly among stakeholders that aspire to ethical practice but struggle to keep costs competitive. The following practices have potential to benefit businesses, as well as improve conditions for migrant labourers.

1. **Reduced price volatility.** MNCs and SMCs can offset the higher upfront costs of lawful operation by seeking stable relationships with legitimate, transparent

³¹ [Segall and Labowitz. "Making Workers Pay." 2017.](#)

³² See, for example, [IHRB. "The Leadership Group for Responsible Recruitment." 2020](#)

³³ [Segall and Labowitz. "Making Workers Pay." 2017.](#)

labour and materials suppliers. Fully transparent pricing structures leave less room for unexpected fluctuations and permit more realistic and stable cost estimates in project bids. Additionally, employers that are used to paying zero fees in the recruitment process³⁴ are at risk of sudden shocks to their business model when “employer pays” principles become more firmly embedded in the markets in which they operate.³⁵

2. **Accurate cost estimates and reduced waste with BIM.** Private sector stakeholders can respond to the rising costs of materials through better planning. The application of Building Information Modelling (BIM) can more accurately estimate costs and reduce waste. In GCC countries, use of BIM is in its nascent stages with broader adoption expected in 2020-21.³⁶ This reduces pressure on procurement departments to maintain the artificially low costs of labour.
3. **Talent retention and stronger supplier relationships with better managed procurement staff.** Procurement officers are often “under so much pressure to save money, they’ll do anything to save their jobs.”³⁷ For example, introducing non-financial, sustainability-led performance incentives to procurement offices can pay off for the business in strengthened client–supplier relationships and engaged employees.³⁸

How can MNCs encourage professionalism of supply chains?

The manufacturing industry has shown what is possible by investing in supplier relationships. In 2000, Toyota provided six month training courses to suppliers in its cutting edge lean manufacturing techniques. For one beneficiary, US-based DeWys Manufacturing, shop lead times reduced 60% over a seven year period.

Source: [The Fabricator, Professionalism in precision sheet metal manufacturing. February 2014.](#)

Clients, and the industry as a whole, stand to benefit from greater transparency and compliance. The risk of being undercut by non-compliant competitors means that companies frequently submit bids at or below cost in the hope of recouping the costs

³⁴ The practice of avoiding recruitment costs and passing them on to workers, via recruitment agents, is widespread. See [Segall and Labowitz. 2017.](#)

³⁵ Our conversations with UAE-based prime contractors suggest that in the next 1-2 years their patience with rule flouting will run out, forcing suppliers to adapt at their own cost or lose contracts. This echoes Andrew Forrest (Walk Free Foundation and Fortescue) who gave suppliers a short period to reform then “barbecued” those that did not comply. See [Crates and The Chartered Institute of Building. “Construction and the Modern Slavery Act.” 2018.](#)

³⁶ The UAE BIM Association is already supporting the standardization of BIM practices and measures to include SMCs. See [Big Project Middle East: The Business of Construction. “Creating a BIM Mandate.” 2020.](#)

³⁷ Contractor interviewed in above study.

³⁸ [Henisz et al. “A Framework for Understanding How ESG Links to Value Creation.” 2019.](#)

Unblocking procurement could free up resources

“Having numerous competitors producing work packages, undertaking detailed estimates [sees...] 90% of the activity, the cost and the value, lost to the industry.” A change in procurement practice “where contractors bid for a known requirement would enable [clients to incorporate] ...life-cycle cost management in the [bid] design process.”

Source: Fulford & Standing: Construction Industry Productivity and the Potential for Collaborative Practice.

through maintenance and repairs – an incentive structure that does not ultimately bring value for the client and could introduce significant risks.³⁹

Non-compliant businesses are successful because most tenders are still awarded on a low-cost technical compliance basis⁴⁰ where the cheapest bids meeting minimum standards win. These minimum standards tend not to identify red flags that might signal unethical practice, such as a failure to account for the professional fees of recruiting agents.

Clients could achieve more for their money while helping compliant businesses to succeed if they adapt procurement processes to focus on value over cost. Some clients might benefit from capacity-building support to achieve this.

Independent of client-side changes, contracting businesses stand to gain from choosing contracts and business relationships on a best value basis, which takes into account payment reliability and project performance, instead of lowest cost basis. Best value supply relationships are a crucial advantage in an industry where payment delays frequently disrupt work. Over the longer term, established relationships with credible brands can attract contracts, talent, and financial support. MNCs and SMCs bidding on a best value basis have more incentive to invest in a workforce and technology able to deliver quality work that may increase costs to the client in the short-term but ultimately reduces life-time costs and saves the client money.

Sustainability and CSR

Analysts have often mistakenly viewed GCC countries as uninterested in CSR, but over the last five to ten years GCC financial institutions, government, and private sector

³⁹ Fulford and Standing. “Construction Industry Productivity and the Potential for Collaborative Practice.” 2014. And Mashreq, and Middle East Business Intelligence. “Recommendations for Change from the UAE Construction Industry Think Tank.” 2019.

⁴⁰ Crates and The Chartered Institute of Building. “Building a Fairer System.” 2016.

stakeholders have increasingly recognised the strategic importance in building reputation, retaining skilled employees and reducing operational risk.⁴¹

Strategically integrating material ESG indicators into business plans can improve financial performance and open access to new contracts and sources of finance. Beyond the impact investing market, worth around \$500 billion,⁴² the globe's biggest investors are now integrating material ESG indicators into firm valuations.⁴³ Sustainable investment is estimated at \$30 trillion.⁴⁴ Still, business executives tend to underestimate the proportion of shares held by ESG-conscious investors (in one survey, executives guessed 5% against the true figure of 25%).⁴⁵ Lower awareness may result in ESG factors receiving less priority in decision making over internal resource allocation.

Material ESG factors increase scrutiny on professional HR management

Fund managers are increasingly assessing the ESG-readiness of businesses on the development of robust compliance systems in procurement and human resources management. Businesses that do not invest in these systems will lose out on investment to those who do.

Source: Eccles & Klimenko "The Investor Revolution." May 2019

The commercial benefits of sustainable practices depend on integration with core business functions. Standalone initiatives do not last and do not address inefficiencies in revenue-generating operations.⁴⁶ Businesses with sustainability officers already among their staff will gain most from these professionals when their insights systematically influence commercial operations.⁴⁷

Regulation and compliance

Regulation and the risks of penalties and litigation should register with decision makers as an immediate concern. Lawmakers and regulators have focused significant attention on E&C supply chains in the last five years. International driving forces include the 2015 UK Modern Slavery Act's Transparency in Supply Chains provision and high-profile litigation, such as US company Signal International settling trafficking cases for \$12 million in the same year.⁴⁸

⁴¹ Al-Reyaysa et al. "[The Management of Corporate Social Responsibility through Projects.](#)" 2019.

⁴² [KPMG. 2020.](#)

⁴³ For general discussion, see: [Eccles and Klimenko. 2019.](#) For a systemised look at how investors seek to apply ESG indicators of 'material relevance' to investment decisions, see the "[SASB Materiality Map.](#)"

⁴⁴ [UNEP. "Fiduciary Duty in the 21st Century." 2019.](#)

⁴⁵ [Eccles and Klimenko. 2019.](#)

⁴⁶ [Crates and The Chartered Institute of Building. 2018.](#)

⁴⁷ KII 4, Employee of Large Construction Enterprise, Dubai.

⁴⁸ [Human Trafficking Pro Bono Legal Center and The Freedom Fund. "Ending Impunity, Securing Justice." 2015.](#)

The incorporation of ESG factors into the legal duties of company directors has also made sustainability a higher priority for business leaders. Emerging legislation in the EU, US, UK, Australia, South Africa, Korea, Canada, and others, require company directors to pay attention to ESG factors that materially affect the value of the business.

In GCC countries, a series of high-profile projects from the Qatar World Cup, Dubai's Expo 2020, New York University's Abu Dhabi campus and Saudi Arabia's diversification drive have kept construction regulation high on the agenda. Employment law continues to work in employers' favour vis-à-vis migrant workers. However, evolving regulation across GCC countries puts into question the SMC private sector stakeholders' assumption that low wage workers do not have rights, or means to assert those rights, and that international trends in regulation do not apply to local operators like them (see text box on the following page).

Evidence is thin on the effectiveness of regulations. For example, national authorities do not make sanctions data public. Yet media statements from respective labour ministries are indicative of the intent. For example, a spokesperson for the UAE Ministry of Human Resources and Emiratisation promised companies trying to evade the UAE's wage protection system would be dealt with "severely."⁴⁹ Workers' legal victories also illustrate a changing tide,⁵⁰ even if effective systems should largely preclude the need for litigation.

⁴⁹ [Farooqui. "How Companies Circumvent Government-Backed Wage Protection System to Cheat Workers." 2018.](#)

⁵⁰ For example, Actco General Contracting's recent loss against workers over unpaid wages. [The National. "Dubai Construction Workers Win Court Case over Unpaid Wages." 2019.](#)

Expanding labour regulation and enforcement in GCC countries

Wages - In 2015, Kuwait and Qatar joined the UAE (2009), Saudi Arabia (2013) and Oman (2014) in implementing a national Wage Protection System. Bahrain is likely to follow in 2020. These systems have proven effective in reducing, though not eliminating, the arbitrary withholding of salaries. In 2019, Qatar introduced a new minimum wage applicable to all labour sectors, a first for the region.

Labour mobility – Through a trio of decrees in 2015 the UAE sought to standardise labour contracts and reinforce employees' right to change employer without losing their permission to work. Saudi Arabia permitted new legislation mostly strengthening employee rights, including encouragement of employers to allow workers to form welfare committees and financial incentives for employees to blow the whistle on bad practice. Qatar's commitment to protect labour mobility rights should come into force in 2020.

Enforcement – In the UAE, between 2017 and 2018 Dubai introduced a raft of measures to simplify labour dispute processes, including provision for collective action by workers. Abu Dhabi saw labour disputes drop dramatically in the same period, apparently linked to a multilingual awareness campaign on worker rights. Saudi Arabia's reopening to Bangladeshi migrant labour reaffirmed rules stating that employers should pay all recruitment costs. It later introduced an electronic case management system to boost its contract enforcement capabilities.

2. People

E&C private sector stakeholders rely on their workforce above all else. Who businesses employ, how they recruit, and how effective they are in training and managing the workforce are key determinants of success.

Not coincidentally, this is also the value proposition of compliant ethical recruiters. Better human resource management can bring business gains through increased productivity, lower *overall* recruitment costs through worker retention, and decreased incidence of human error leading to delay penalties and accidents.

Productivity

Training for on-site managers and the use of software-based smart management tools can substantially increase hourly output per employee, ultimately boosting margins on each project and overall profitability. For years, managers have accepted the low productivity of foreign construction workers as a given, offset on project balance sheets

by the low wages they are paid.⁵¹ However a large body of literature now points to areas where the cost of investing in the workforce would be offset by productivity gains.

Healthy workers are more productive.

Sick days reduce productivity and can be reduced with welfare monitoring and relatively low-cost preventative interventions.⁵² Private sector stakeholders would also gain from better management of heat exhaustion risks. Fieldwork in Qatar found that poor planning of work patterns meant that workers required to work during the hottest part of the day took ad hoc breaks and were unproductive for nearly seven out of 12 hours per shift in order to mitigate the effects of the heat.⁵³ Recruiters that treat workers' health as a box checking exercise put employers in a lose-lose situation: spending money on a bureaucratic exercise with no improvement in the quality and efficiency of their workforce.

Figure 5. Changes to systems and innovation boost business and address Dhaka Principles 1, 2, 4, 5, 7, 8, 10



SMCs know that good people management improves productivity

Contractors interviewed for one study in the UAE outlined the importance of well-trained supervisors and work-life balance as the two most important factors affecting productivity. In a separate study into the Saudi Arabian construction industry, contractors ranked 'unskilled workers and poor labour productivity' as the second leading cause of time waste. In interviews for this study, the managing director of one GCC SMC with around 20 employees acknowledged the benefits of staff retention, specifically in improved quality of work and reduced recruitment costs. He asserted that his most effective employee was a migrant worker who had worked with him for over a decade.

⁵¹ Han et al. "Critical Issues and Possible Solutions for Motivating Foreign Construction Workers." 2008.

⁵² Oude et al. "A Worksite Prevention Program for Construction Workers. 2010.

⁵³ Fame Laboratory. "Assessment of Occupational Heat Strain and Mitigation Strategies in Qatar." 2019.

Motivated workers are more productive.

Motivation is adversely affected by payment delays, rework, lack of financial incentives, incompetent supervisors, and a shortage of materials on site.⁵⁴ Studies examining the influence of working conditions in factories find small increases in productivity among better treated workers: ethically recruited Nepali workers in Jordan's garment industry were more likely to say they had zero days of absence in the past month and more likely meet production targets.⁵⁵ They were also more likely to say they intended to remain in the job. Among ethically managed workers in garment factories in Bangladesh and India, efficiency increased 18% and 26% respectively.⁵⁶

Better managed workers are more

productive. Ethically recruited workers arrive understanding their working and living arrangements, are suitably matched to their occupation based on their pre-existing skills and, thanks to pre-departure training, are more likely to understand expectations, and communicate effectively with managers.⁵⁷

Retention

Higher retention rates reduce the frequency with which private sector stakeholders need to recruit new staff; reduce dependence on (more expensive) manpower agencies; reduce induction training needs; and – as team members work together for longer periods – lead to more effective on-site communication and teamwork, which itself links to higher productivity and fewer accidents on site.

Better trained workers are more productive

“Most of the new labourers are inexperienced and not ready to start work. The supervisor needs to train the labourers in how things are done in the Middle East to overcome the challenges and produce results. Do not expect that the labourer will become productive immediately. You need to consider the learning curve.”

Source: Qatari employer cited in Lakew Buli, “Strategies for Improving Labor Productivity in Construction Companies,” 2017.

Employers offering poor working and living conditions may see workers leave and recruitment costs rise.

⁵⁴ Karkas Abdulaziz and Radosavljevic Milan. 2013.

⁵⁵ ILO. “Workers at a Garment Factory in Sahab Industrial Zone, Jordan, September 2017.” 2019.

⁵⁶ Impactt and Rajesh Bheda Consulting. 2013.

⁵⁷ This study on migrant workers at the 2010 Shanghai Expo 2010 found “ethically recruited [workers] arrive with training and are better prepared, understand their role and better able to communicate with site supervisors. This all leads to increased productivity.” Ling et al. “Strategies for Managing Migrant Construction Workers from China, India, and the Philippines.” 2013.

As regulatory reforms across GCC countries permit ever more workers to freely switch employers,⁵⁸ businesses offering comparatively poor living and working conditions may see workers leave more frequently, resulting in a rise in recruitment costs.⁵⁹

Human error

Mistakes on construction sites can have catastrophic consequences for those involved. The causes are the subject of a sustained agency–structure debate: to what extent is the worker versus their conditions responsible for accidents?⁶⁰ These complexities aside, HSE incidents can typically be traced in the first instance to human error and poor hazard identification skills.⁶¹

When employers engage legally compliant and ethical recruiters, they are more likely to receive workers who have the required skills and experience and who arrive having received an adequate briefing and training on the job. Trained workers are more aware of occupational hazards, lowering the risk of error and accident. Emerging research links other attributes, including employee engagement (satisfaction, loyalty) and inter-project learning, with reduced accident risk.⁶²

Reporting in GCC countries continues to lag behind international standards.⁶³ The ILO aggregates economically relevant HSE data from 112 countries. GCC countries are not among them.⁶⁴ Nevertheless, studies indicate that GCC accident rates are comparatively high amongst rich economies: in 2013, 0.5 of every 100,000 workers (across industries) died in the United Kingdom. Workers died at five to seven times that rate in Kuwait (2.3/100,000 workers), UAE (2.8), Saudi Arabia (3.4), Qatar (3.5), Oman (3.6), and Bahrain (4.9).⁶⁵ Exact numbers and breakdown between industries are not available. However, studies indicate that construction fatalities contribute significantly.⁶⁶

Relatively cheap interventions that boost HSE outcomes include training during recruitment and attention to patterns of worker fatigue and incidents.

⁵⁸ ILO. "Annual Progress Report on the Technical Cooperation Programme Agreed between the Government of Qatar and the ILO." 2019.

⁵⁹ Adekunle et al. "Factors Affecting Workforce Turnover in the Construction Sector: A Systematic Review." 2020.

⁶⁰ Harvey et al.. "Beyond ConCA: Rethinking Causality and Construction Accidents." 2018.

⁶¹ Shafiq and Muneeb. 2020.

⁶² Harvey et al. 2018.

⁶³ Umar et al. "Briefing: Status of Occupational Safety and Health in GCC Construction." 2019.

⁶⁴ For example ILO. "Data Explorer: Days Lost Due to Occupational Injury with Temporary Incapacity for Work by Sex and Migrant Status - Annual."

⁶⁵ The United States performs worse than the UAE and Kuwait, with 3.1 deaths per 100,000 workers. Where reporting figures are not available (all GCC countries), the study estimated using various methods. See [Kharel, "The Global Epidemic of Occupational Injuries: Counts, Costs, Operations." 2016.](#)

⁶⁶ For example, 47% of Saudi Arabia's 2018 occupational injuries came from construction. In Oman, 3,500 construction workers required medical treatment in 2014 alone. [Shafiq, Muhammad, and Muneeb Afzal, 2020.](#)

The inability to understand the economic cost of lax HSE standards is a limiting factor for private sector stakeholders interested in boosting their competitiveness. Reducing the prevalence of non-fatal injury specifically reduces costs related to:⁶⁷

- Medical treatment. In Kuwait, Qatar, Oman and the UAE, employers are liable for the medical costs of work-related injury (whereas social insurance covers this in Saudi Arabia and Bahrain).
- Wages during temporary disablement. Workers in all GCC countries should receive 100% of their pre-injury wage for at least six months.
- Delays owing to accident investigations and costs of resulting penalties.
- Reputational damage of the worst offenders and exclusion from tendering or contracts.

For total and permanent disability or fatality, the employer is liable for costs in line with pre-incident wages, ranging from approximately USD7,000 (UAE) to USD55,000 (Qatar).⁶⁸

For business, there are clear financial incentives to reducing the incidence of occupational injury. There is certainly scope for governments to improve standards. Tighter regulations and government-led multilingual safety awareness campaigns⁶⁹ are two of the ways they have done this. However, proactive approaches to HSE can pay off significantly. Relatively cheap interventions include training during recruitment and attention to patterns linking worker fatigue, poor communication and HSE incidents, along with relevant mitigation measures.

3. Data

The foundations of the business case for ethical recruitment is data. Private sector stakeholders that understand and engage honestly with their own operations will quickly find ways to improve business performance, with worker welfare improving as a by-product.

Many businesses miss opportunities to apply analytical techniques that would enable them to:

1. Forecast staffing and material needs more accurately to save procurement costs and increase tendering competitiveness.⁷⁰

⁶⁷ All from [Kharel. 2016.](#)

⁶⁸ [Kharel. 2016.](#)

⁶⁹ [Loney et al. "Lost in Translation? Challenges and Opportunities for Raising Health and Safety Awareness among a Multinational Workforce in the United Arab Emirates." 2012.](#)

⁷⁰ [Ramos. "The Master Guide to Construction Bidding." 2017.](#)

1. Forecast cash flow and financing needs to avoid penalties associated with delays. One survey found negative cash flow delayed projects 30% to 70% of the time.⁷¹
2. Collect data and probe links between the human causes and financial costs of HSE incidents.
3. Analyse workforce performance to understand why, on average, SMCs are 40% less productive than larger businesses.

SMCs can also make huge gains in their efficiency due to improved planning using data from their own historical projects. Although big data approaches may seem out of scope for SMCs, widely available software (such as Microsoft Excel) and business managers with an understanding of basic financial planning and analysis can assist SMCs with analysing their data and increasing their efficiency significantly.

More expensive approaches, such as big data analytics, can do the above with more precision and give companies or entire sectors a significant competitive advantage.⁷² Donors who support industry analytics would likely generate both goodwill and compelling evidence for more ethical operations.

There is an important role for more traditional research too. Current research paradigms mean that research from industry perspectives, management consultancy, labour sociology, economics, and sustainability interact with ethical recruitment infrequently. Donors might find unexpected and positive results by funding a more broadly interdisciplinary research agenda that can blend business and ethical concerns more evenly.

⁷¹ Al-Joburi et al., "Analyzing the Impact of Negative Cash Flow on Construction Performance in the Dubai Area." 2012.

⁷² Bilal et al. *Big Data in the Construction Industry: A Review of Present Status, Opportunities, and Future Trends.* 2016.

GOING FORWARD

The sum of the arguments in this study is that **proactive changes on the part of private sector stakeholders can improve worker welfare outcomes *and* add value to business outputs and productivity** more rapidly and effectively than enforcement alone.

Ethical recruitment practices will reach scale in the GCC region when a critical mass of compliant private sector stakeholders adopt ethical practices that isolate non-compliant peers. To achieve this critical mass, advocates of ethical recruitment will need to take the argument directly to the private sector and prepare themselves for inevitable pushback.

Based on the report's research, some of the likely areas of private sector hesitation are summarised in the tables on the following pages, together with counterarguments rooted in commercial reasoning. Recommendations for tools that donors, international bodies, and governments could develop or support to help accelerate the agenda for change follow.

Dhaka Principle: No fees charged to migrant workers

Non-compliant business claim:	<ul style="list-style-type: none"> • Paying recruitment fees is unaffordable. • Competing with businesses that do not pay fees is impossible.
Commercial counterarguments:	<ul style="list-style-type: none"> • Productivity gains from motivated workforce. • Increased importance of worker retention. • Wider access to contracting opportunities from reliable clients. • Wider access to finance, spread higher upfront costs. • Clients and agencies awarding contracts are increasingly discerning; becoming a reliable partner may result in a steady stream of work over the long term.
Tools for donors, civil society and others promoting ethical recruitment	<ul style="list-style-type: none"> • Digital support to monitor and measure worker welfare and productivity. • Staffing forecast tools to avoid over-hiring and to seek optimal minimum productive workforce. • Support to access tools such as BIM to better plan projects, more accurately predict costs and minimise materials waste. • Financial planning advice, including inter-project accounting methods to show cumulative benefits across projects of a retained, productive workforce. • Guidance on access to alternative sources of finance to support cash flow or invest in technology. • Expand sustainability criteria and checks in tendering processes. • Release data on companies disqualified from bidding on sustainability grounds. • Whistleblowing systems with financial rewards for compliant companies who encounter non-compliance.

Dhaka Principle: All migrant worker contracts are clear and transparent

Non-compliant business claim:	<ul style="list-style-type: none"> • Employers cannot control the actions of recruitment agencies. • There are not enough ethical recruitment agents that can deliver at the pace and scale required.
Commercial counterarguments:	<ul style="list-style-type: none"> • Recruitment agencies follow employers' lead. • Digital tools now exist to verify contracts before departure. • Easier to retain well-informed workers whose work and living conditions on arrival match expectations.
Tools for donors, civil society and others promoting ethical recruitment	<ul style="list-style-type: none"> • Subsidise digital contracting mechanisms/fund a free-to-use platform. • Support expressly ethical recruitment agencies. • Intensify and publicise sanctioning mechanisms for non-compliance.

Dhaka Principle: Working and living conditions are safe and decent

<p>Non-compliant business claim:</p>	<ul style="list-style-type: none"> • It does not make business sense to improve working or living conditions that already meet minimum legal requirements. • Worker retention is not a concern for employers of low wage workers. • There are no links between better conditions and retention, or better conditions and productivity. • Most value is added to my business by skilled workers.
<p>Commercial counterarguments:</p>	<ul style="list-style-type: none"> • Worker retention matters more as labour laws place fewer restrictions on worker mobility. • Retaining workers is likely much less costly than the costs associated with recruiting new workers to fill those positions. • Closer attention to welfare–productivity links can bring win-wins. Healthy workers take less sick leave and are more productive. Poor management of heat exhaustion risks can see workers spend up to 60% of the shift unproductive – in addition to obvious exposure to health risks. • The highest margins (labour costs versus output) are on low wage workers, suggesting careful attention should be paid by business managers to this segment. Improving retention and productivity incrementally of low wage earners could result in significant improvements on margin and profitability • Strategic litigation targeting labour abuse cases committed by SMCs and MNCs in the E&C industry is increasing and being targeted in litigation can be reputationally and financially catastrophic.
<p>Tools for donors, civil society and others promoting ethical recruitment</p>	<ul style="list-style-type: none"> • Data and analysis assistance to quantify risk and costs of delays owing to poor performance, accidents, other reasons. • Credible, authority-led communications campaign on the impact of new laws. • Pre-departure training to ensure ethically recruited candidates arrive with accurate expectations and are therefore more motivated. They arrive with more appropriate task-oriented and communication skills.

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PROFITABLE ETHICAL RECRUITMENT

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