

Five forces analysis of carillion construction



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Carillion Construction is the building division of *Carillion PLC*, the Wolverhampton —based building and services company, founded in 1999 (Carillion, 2014a). The organisation’s overall portfolio covers services, maintenance and infrastructural support, (through *Carillion Rail*), civil engineering, and construction (Carillion, 2014a). Although based in the UK, *Carillion* also operates internationally, undertaking construction contracts in Canada, the Caribbean, and the Middle East (Carillion, 2014a). *Carillion Construction’s* core business lies in the construction and/or refurbishment of large public and private projects, including hospitals, hotels, theatres, sport facilities, and major transport hubs (Carillion, 2014a).

Competition from existing firms

As Brandenburger (2002) points out, the five forces competitive model as envisaged by Porter is well adapted for situations where a large business is competing in a market with a small number of other incumbents. In this respect, it may be argued that the most substantial commercial threat to *Carillion’s* business is that posed by existing incumbents in the construction market. For example, the company’s attempts to expand its market share through a merger with its rival *Balfour Beatty* were thwarted when the latter rejected a £3bn deal in September 2014 (Plummer et al., 2014). Under the UK’s takeover rules, *Carillion* cannot now initiate another bid until February 2015, effectively blocking its strategy of creating a dominant UK firm with a workforce of 80, 000 (Massoudi et al., 2014). This means that *Carillion* must now compete within the existing field of market incumbents, including *John Laing PLC* and *AMEC PLC* (Hoovers, 2014). In HR terms this implies ongoing uncertainty over job descriptions and incomes for employees (Brooks, 2003).

The Threat of Substitutes

In literal terms, there is not currently a substitute for *Carillion's* products in the sense envisaged by Porter (1980), since neither infrastructure nor buildings can be supplanted by alternative offerings. In this respect, *Carillion* is safe from this kind of pressure for the time being; changes could however occur, if for example environmental pressures enforced radical changes in transport policy (Carbon Trust, 2005). As Porter (1980, p. 51) cautions regarding sustainable competitive advantage ' Virtually any advantage can be replicated sooner or later'.

Pressure from Consumers

Carillion's consumers comprise both public and private organisations; since the 2008-9 financial crash, demand from both sectors has weakened; as the *Financial Times* cautioned at the time of the crash, ' With sharp falls in private sector construction currently and anticipated falls in public sector construction in the medium term, it is unlikely that even the large contractors will be isolated from the downturn...' (Hammond, 2009, p. 1). In the case of public contracts in particular, *Carillion* faces a high degree of pressure arising from operating standards and safety; it was, for example, fined by the UK Health and Safety Executive in 2013 for safety breaches during a road construction project (BBC, 2013).

However, *Carillion* has a generally favourable relationship with the UK government, which has to be considered one of its main consumers; Philip Green, the company's non-executive director, is an advisor to the current Prime Minister David Cameron on corporate responsibility issues (Massoudi et al., 2014). This is significant, because *Carillion*, in keeping with industry

standards, is under increasing pressure from regulators over issues such as solid waste disposal (Napier, 2013). Building site waste represents the highest single source of solid waste going to landfill, constituting between 25 and 40 per cent of the overall waste stream (Napier, 2013). In some European states, the proportion is as high as 60 per cent (Institute of Civil Engineers 1995). Correspondingly, the European Union now stipulates that all future buildings should be designed for disassembly, with arrangements for the training of staff in place; as it explains, 'The cost of deconstruction is higher than that of demolition due to the labour intensive nature of deconstruction. Public grants may therefore be necessary to trigger the momentum towards the implementation of the...directive and face these additional costs' (European Commission, 2011, p. 107). Building waste must now be sorted into separate materials, for which different procedures apply; for example, asphalt concrete has to be broken up and recycled; unused concrete must be broken down to a granular size of 100mm and either crushed or re-used for sub-foundations (EPA, 2007; European Union, 2013). Meticulous records have to be kept regarding these processes (EPA 2007). To support this initiative, the UK government has reduced the availability of landfill disposal; the remaining sites charge gate fees of between £90 and £135 for every ton of building waste (European Commission, 2011).

Equally important for an international contractor such as *Carillion Construction*, is the fact that these types of arrangements are also being established in other markets, such as the Middle East and China (Al-Sabbagh et al., 2012; AME, 2013; Hu et al., 2010). To meet these kinds of pressures from consumers, *Carillion* has to ensure that both value management and

end of life play an integral part in its value proposition. In HRM terms, this suggests that *Carillion* has to carefully manage the changes in job descriptions and contingent psychological contracts as the roles of employees change (Brooks, 2003).

Pressure from Suppliers

In *Carillion's* business context, the term suppliers implies an eclectic range of partners and stakeholders encompassing employees, raw materials providers, utilities and service providers, companies supplying fixed capital and plant, finance and credit providers, certification and insurance providers, trade and industry associations, and planning bodies. All of these partners and stakeholders are suppliers in the sense that they provide either goods or services without which *Carillion* cannot carry out its business. Consequently, the pressure from *Carillion's* suppliers currently varies considerably. Raw materials costs are on average rising, despite variable demand; energy costs are variable in the short and medium term, but a longitudinal analysis would show that they are rising overall. Finance costs are relatively low due to the historically low interest rates in the UK and elsewhere, however this has to be balanced against the higher charges made for business accounts, and the relative scarcity of investment capital in the current environment (Massoudi et al., 2014). Overall, the suppliers in the weakest bargaining position are employees and other potential suppliers of labour, including sub-contracting organisations (Massoudi et al., 2014). The depressed state of the construction sector and general stagnation in wages suggests that *Carillion* can maintain wage stability in its own favour, at least for the present (Unattributed, *The Economist*, 2013). Unsurprisingly, *Carillion* has

established its own extensive internal legal department; this has now grown to meet demand from external clients in the industry, such as *Blue Circle Industries PLC* (Lacity et al., 2014).

New Entrants

In the construction industry generally, the barriers to entry (in terms of costs and complexity) are high; moreover, the margins in construction as a whole are small (compared to other industries) (Hammond, 2009). It may therefore take some time before a new entrant can achieve profitability, exposing it to risks contingent on its liquidity. Since 2009, the number of contracts available to UK construction companies has diminished by 15 per cent, another factor that makes the current environment hostile to new entrants (Hammond, 2009).

Stakeholder Analysis

Carillion's current CSR position suggests that it has a proactive and largely successful stakeholder management process in place, at least in terms of managing public relations. It manages pressure from consumers and environmental groups through the establishment of its 2020 sustainability strategy, taking close account of advice from its independent advisors (Carillion, 2014b). These include Dame Julia Cleverdon of the *Prince's Charities* and Jonathan Porrit of the *Forum for the Future* (Carillion, 2014b). This effort is also used to co-opt *Carillion* employees into the overall sustainability effort; as Cleverdon reports, 'The engagement of employees in the sustainability journey has been particularly exciting this year...illustrating the critical importance of employees in the front line, developing innovative and ingenious solutions' (Carillion, 2014b, p. 1). Meanwhile the views of

Porritt suggest the limits of *Carillion's* stakeholder and CSR effort; as he puts it, the current efforts are still insufficient; ' If all of *Carillion's* endeavours were to be multiplied a thousand-fold, across the economy as a whole, that equally clearly wouldn't be enough. We shouldn't go on asking companies like *Carillion* simply to do more and more every year; we should really be working out how best to change the system' (*Carillion*, 2014b, p. 1). What this suggests is that *Carillion's* stakeholder positioning stops short of the optimum development as theoretically outlined in Arnstein's ladder model (Lopez, 2009). In the eight steps of this model, stakeholders are gradually moved from the first stage (manipulation) to the second (therapy), both of which imply non-participation in the organisation's decision-making (Lopez, 2009). The subsequent stages are informing, consultation, and placation, all of which imply an inherent tokenism (Lopez, 2009). Only by reaching the sixth step does the stakeholder achieve genuine partnership, whilst delegated power is usually granted to those to reach the seventh (Lopez, 2009). Full citizen control is only achieved by those who reach the eighth and final stage (Lopez 2009). The point here is that *Carillion's* current stakeholder management effort does not imply that the latter has been achieved, either in terms of consumers, or internal stakeholders such as employees.

This situation may be illustrated through reference to the activities of Philip Green, a non-executive director at the firm (Massoudi et al., 2014). Green's previous experience covers a lot of industries where environmental and social issues are paramount, such as water provider *United Utilities*, shipping company *Royal P&O Nedloyd*, the news group *Reuters* and logistics firm *DHL*

in Europe and Africa (Massoudi et al., 2014). Green is well established in the global charitable and NGO sphere; he founded the joint British-South African charity group *Hope Through Action*, which supports disadvantaged groups through sport (Massoudi et al., 2014). Green is also chairman of *Sentebale*, the charity set up by Prince Harry to assist young people living in Lesoto (Massoudi et al., 2014). These activities culminated in Green being awarded the CBE, and being appointed as an adviser to Prime Minister David Cameron on CSR affairs (Massoudi et al., 2014). The significance of Green’s overall contribution to stakeholder engagement at *Carillion* should not be underestimated; as Schwartz et al. (2012, p. 24) have argued, directors, executives, and managers must be aware of their ‘ Personal theoretical CSR position and how this may be affecting their business decisions on behalf of the firm or its shareholders’. However, Green’s position also suggests that stakeholder management at *Carillion* remains firmly under the control of the executives, with little prospect of citizen input in the manner identified by Arnstein (Lopez, 2009). The impact on employees’ motivation also needs to be considered here; the latter can derive considerable intrinsic (i. e. intangible) rewards from contributing to CSR management, and this cannot occur without meaningful input (Brooks, 2003).

3. Reflective Journal

Week 1

Curiosity

The experience of initially researching the topic reinforced an understanding of the value of this process, as well as its complexity. Investigating a topic

comprehensively and holistically could also be a creative process, demanding insight from the researcher.

Decision-making

The corollary to the above was that the importance of decision-making was also emphasised; the resources (e. g. of time) available for research are usually finite, so the researcher must identify the most relevant and productive areas for study.

Week 2

This phase of the work illustrated the fact that a research approach could be a highly personal experience, that was difficult to externalise and/or share with others. Abstracting this issue across other contexts, it was realised that other skills could be required, such as the ability to motivate others and/or manage their performance.

Week 3

Experiences in week three suggested the importance of developing collaborative skills that could augment the conventional academic study experience, for example team-building skills, communication, and delegation.

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