POWER AND PERCEPTIONS IN BUSINESS DEVELOPMENT: THE CASE OF A MAJOR CONTRACTOR AND DESIGN CONSULTANCIES IN CIVIL ENGINEERING INFLUENCER AND REFERRAL MARKETS

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Relationship marketing has become more prevalent in construction over recent years through both strategic intent and informal tactics. This research is part of a two-year programme examining the application of relationship marketing and management within a major contractor. The paper reports the findings on the relationships between the contractor and design consultancies. The findings are analysed according to four dimensions of power. The first dimension is the overall market power of contractors compared with consultants, especially where contractors have financial leverage and where consultants are subcontractors. The second dimension is power derived from the status accorded to professions and their disciples compared with contractors. The third dimension concerns the specific power consultants and contractors apply in transactions during project stages. The fourth dimension is the lack of awareness and power business development managers have in leveraging relationship value in relation to consultants and internally through systems to link with project management. These four dimensions are also analysed in terms of the perceptions key personnel hold that constrain relationship building between contractors and consultants. The findings arise from a combination of action research in the contractor organization and observation conducted through semi-structured interviews with the ten leading design consultancies in the contractor’s market and with their business development managers. The paper concludes with an evaluation of the findings in terms of relationship marketing theory, particularly drawing upon influencer and referral markets within the IMP six markets model, to assess constraints experienced in developing relationship marketing derived from perceptions and power.

Keywords: business development, customer, influencer market, market power, referral market, relationship marketing.

INTRODUCTION

During the last 20 years there has been a shift from transactional marketing practices to a relationship marketing and management approach. Relationships play a large role

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in the way firms offer products and services to their customers, and shape their growth strategy. However, relationships except with clients have been largely off the radar of marketing and business development teams until recently.

The aim of this paper is to address the implementation of relationship marketing in a major civil engineering contractor, particularly the relationship strength with major referrers/influencers, namely design consultancies in civil engineering (CE) markets. The top ten design consultancies have been selected by highest fees for 2008 in three CE markets. Their perceptions of how relationships with contractors are initiated and developed, the extent of similarities and differences between business development practices, and brand awareness and satisfaction are examined. In addition, four dimensions of power are examined in relation to relationship building and development. The CE business in VINCI Construction UK (VCUK) provides the specific research context.

This paper anchors the empirical examination in the marketing literature and organizational behaviour concerning power relations. The research methods combine observation and action research.

**BACKGROUND AND LITERATURE REVIEW**

Relationship marketing (RM) concepts have been slowly applied in construction over the last 15 years ago (Chambers et al., 2009). Developed for intangible services, and RM is particularly pertinent to customer orientated business-to-business (B2B) relationships (Berry, 1983; Gronroos, 2000) to provide tailored products and services to increase customer satisfaction, repeat business, hence turnover and profit.

Gordon (1998) defines relationship marketing as, “the ongoing process of identifying and creating new value with individual customers and sharing the benefits from this over a lifetime of association” (Gordon, 1998: 9). Ford et al. (2003) state that for RM analysis and investment in relationships is required together with a clear view of the value that is added to the service or the product. Smyth (2000) states that client satisfaction is the main idea of RM, which aims at making loyal customers and increase repeat orders, providing the supplier with high profit margins and continuous workload.

![Figure 1: Key stakeholder markets (adapted from Christopher et al., 2002)](image_url)

As industries grow and become more complex, organizations no longer just compete with others, but also with the networks to which competitors belong. Future success therefore also depends upon relationships developed with stakeholders and network contacts. Any company having an interest or can influence operations and development of an enterprise is considered a stakeholder. For this research the IMP...
six markets model is used. It consists of customer, internal, supplier/alliance, recruitment, influence and referral markets. Enterprises determine the market most relevant to improving their performance and develop strong relationships accordingly. Two of the six stakeholder markets – referral and influencer markets – are the main focus of this research, exploring how these two stakeholder markets operate and how they can be understood and managed by a major contractor for CE project to secure and add value to its services. Such relationships are claimed to increase customer retention and acquire new customers in targeted markets share (Keki and Smyth, 2009).

Construction design team members are significant as both referrers and influencers. Companies can develop marketing plans to build and develop relationships with this group. RM informs this process, yet is affected by organizational power. Power is described as, "the potential to influence others successfully" (Greenberg and Baron, 2003: 443) and Robbins (2003) comments it is important to understand aspects of power in practice, "to use that knowledge to help your organization" (Robbins, 2003: 365). Concepts of power relevant to this present paper are position power and legitimate power. Legitimate power derives from the authority of the position a person has in one organization or one organization has in a network. As French and Raven comment, "legitimate power in formal organizations is largely a relationship between departments rather than persons" (1958: 83). Position power plays a vital role in the type of relationships that people and organizations form. Sometimes other types of power such as withholding valuable information, the capacity to provide rewards or add value to an organization may be important in the way B2B relationships are shaped. Expert knowledge of design consultancies is dependent on their behaviour and professional status that such organizations develop. Dependency between two organizations is an aspect of power, as resources and scarcity form the level of dependency and the power that one party has over the other (Robbins, 2003), yet are valuable in the market. Power relations also change during stages of product or service provision. In the construction industry the levels of power consultants and contractors have at certain stages influences their behaviour and relationships.

METHOD

This research examines the development and power in contractor-design consultant relationships using a combination of action research and observation through a survey conducted with the major ten design consultancies in the UK CE market. The CE part of VINCI Construction UK (VCUK) provides the specific focus. The research was facilitated through a Knowledge Transfer Partnership (KTP) partly funded by government. A KTP Associate appointed by UCL works with VCUK on developing RM in general and referral and influencer markets in particular (cf. Christopher et al., 2006). The research methods combine action research (Dunnette, 1976) conducted by the KTP Associate in VCUK as empirical case study work (cf. Eisenhardt, 1989). Observation through an in depth survey conducted amongst the top ten design consultancies across the key CE sectors: Rail, Highways and Energy.

There were several methodological issues. The KTP gave privileged access to the data sources within VCUK and via the company access to the design consultants. Whilst the interviews were conducted using methods of observation, responses may have been affected by the means of access as the semi-structured interview questions were designed to serve both academic and company purposes. In addition, several semi-structured interviews initiated new relationships and were followed up within VCUK.
The present research is from a single case study focus, giving insight into RM in construction and providing empirical evidence about referral and influencer markets. In parallel, Business Development (BD) practices of contractor and design consultants are described and analyzed using RM and through the four power dimensions that shape behaviours and relationships.

FINDINGS AND ANALYSIS

VCUK was created in January 2009 following the merger of the CE businesses of Norwest Holst (NWH) and Taylor Woodrow (TW). NWH has been part of VINCI SA since 1991. TW was acquired in September 2008 by the UK branch of VINCI SA, namely VINCI PLC. Initial focus was on internal market (see Figure 1), and subsequently the referral and influencer markets (Keki and Smyth, 2009).

VCUK states its vision to "exceed the expectations of all stakeholders”. This is communicated across the company and to customers and stakeholders. Company values are described as: “Professionalism, Respect, Openness, Fairness, Innovation, Teamwork and Safety” (Keki and Smyth, 2009 and Marketing Plan 2009). Communication ‘Road Shows’ were run in May 2009, and again in June 2010, to reinforce the company vision and values in everyday work practices. RM is strongly linked to the values.

The survey of the major UK design consultancies was conducted between September and December 2009. The particular focus was Rail, Highways and Energy CE markets. The selection of the consultancies was based upon a published list in the NCE journal of the top 10 consultancies according to their fees for the previous 3 years up to 2008. The selection of the interviewees was based upon their job level, which could be described as influential from a corporate point of view (e.g. CEOs or MDs). Their responses about RM issues have been analyzed according to the dimensions of power in comparison with internal research.

Overall market power is based on the principles of position power and also legitimate power with regards to organizational behaviour. Contractors have a strong resource power and position power in the market in terms of financial resources, number of employees and overall size. VCUK is part of VINCI SA, a French contractor and concessionaire with 161,750 staff and revenue in 2009 of €31.93bn compared with one global US consultant group employing 55,000 people and revenue of nearly $11bn (c.€8.92 bn). The top UK design consultancy operating in Rail, Highways and Energy, employs 16,000 people across the globe and has revenue of £1.5bn (c.€1.82 bn). VCUK and most major contractors have more overall market power whether employed directly on design and build contracts or acting as client representatives. Some contractors tend to behave in an adversarial, aggressive way. As one participant said they acted with “a jobbing (transactional) attitude”. A CEO of a major multidisciplinary consultancy stated:

Contractors tend to be quite aggressive when dealing with consultants and their behaviour is not consistent but is varying enormously from project to project. The main result from their behaviour is that they treat consultants as a part of their SC (supply chain).

Their financial strength and high personnel numbers provides contractors the power to try to push down design consultant margins. A "master-servant relationship" exists and was cited by all participants, thus, consultants are hired and treated as subcontractors and relationships tend to become adversarial as conflict arises and is
reinforced by contractor power. A participant of a major design consultancy commented that without conflict the first steps for deep understanding, collaboration and long-term relationships develop. However, in some cases cultures between the organizations are incompatible and strategies unaligned, providing the ground for considerable conflict on time and financial resources that injures relationships.

The client has most market power and has the power to influence (legitimate power) contractor operations and control resource utilization plus design quality.

**Second dimension of power: power derived from professional status**

Professional status is formed through reputation of a company in the market that is operating, from its expert personnel, its knowledge base and also its talent. The ‘product’ design consultancies sell is the designs they produce which is the result of expertise of their staff and sometimes the charisma. The wealth of a design consultancy is the intellectual capital of staff and human capital that help form the social capital. The intellectual capital is embodied in the designs and reflects back onto the ‘knowledge pool’ and reputation of the consultancy, forms of social capital that are not always appreciated by contractors. One Group Director of a major consultancy stated.

> They also need to understand the interaction between design and construction process. Design is not a commodity or something separate from the construction process. Design requires encapsulating the concept and articulating it to something that is defined. In general we usually do not get the recognition to the difficulty of our role. We have to deliver something that is efficient/ effective and also economic to build.

The majority of the survey participants are considered experts, their previous experience and practice performance forming good reputations and brand names. The power design organizations are employing on behalf of clients is based on excellent track records, reputations and with charismatic people that help justify the high fees levels required to produce high quality design, interviewees mentioning they are not offering cheapest prices because they are offering a premium design services. The chairman of one of the top design consultancies stated.

> Better relationship is when a contractor can understand the totality of services that we are offering; the maximum value that they can get from this project and not instead asking for a minimum price. It is all about the total installed cost, to get value out of the total installed cost- sometimes requires paying more (contractor side) and work harder (consultant’s side) to have the best build-ability/efficiency. This helps minimizing material costs, and in fact actually paying less.

The trust generated by these organizations ‘allows’ them to ask and get paid high fees, in some cases significantly higher than small niche design consultancies. Large multi-disciplinary design consultancies provide clients the certainty of resource availability and ability to cross-manage operations across disciplines.

However, these aspects of the second power dimension are frequently questioned by contractors. One foothold provided by these design consultancies is failure to provide consistency of personnel between similar type of projects and in the long-term.

This second dimension feeds into the first dimension of power, helping to restrain a master-servant relationship developing. The third dimension of power is being influenced by expert power being exerted in the sense that Design consultancies
frequently use this second dimension to behave arrogantly, reinforced by power derived by being employed directly by clients, which feeds the third power dimension.

**Third dimension of power: transaction power**

This type of power derives from the different project stages. Usually a design consultant is employed directly by the client to provide design services and possibly help also the client to select the most suitable contractor to build a project. In these cases, consultants have the possibility to form better and more stable relationships with ultimate clients and operate at arm’s length from contractors. Design consultants can act as referrers and influencers in contractor selection. They have considerable transactional power over contractors in the early stages in the form of reward power or coercive power where clients are dissuaded from short-listing or selecting certain contractors. Sometimes as stated in French and Raven (1958), “The use of coercive power should reduce the legitimate power” (French and Raven, 1958: 84). Design consultants have certain times the power to influence the outcome of pre-qualification process by either making a positive recommendation or sharing negative comments, in both cases depending on previous experience and long-term relationships with certain contractors. As one participant, Leader of Infrastructure London Group and UK member of board, comments, traditional contracts seem to work better as consultant and contractor are not seeing each other as one having more power than the other, and therefore a dialogue and shared understanding can be developed leading to a win-win outcome. On a DandB contract conflict may arise more easily as a contractor exercises power over the other, sometimes in aggressive and transactional ways, thus rendering the relationships less harmonious and perhaps acrimonious. As the Group Managing Director of a major consultancy stated.

> When things are going the wrong way, then a positive differentiator is how you handle them and start to agree how are both parties are going to fix them and resolve the conflict. This also helps trust to be built and also having an open-transparent discussion; with also space for constructive criticism, but avoid having a blame culture.

Whilst individual contracts are discrete transactions, relationships and reputations carry across projects and contracts.

VCUK is considered a major contractor in CE markets. Technical expertise in building projects and track record are sometimes taken for granted by design consultants, exacerbated by a lack of service differentiation amongst many competitors. Relationships can differentiate one contractor from the others in general and via referral and influencer markets. Interviewees gave examples of previous experience with contractors where they made informal word of mouth referrals, which coupled with general market reputation and direct client experience increased possibilities of being on the short list and indirectly the strike rate. VCUK has increased its strike rate through RM with clients (Keki and Smyth 2009) and is trying to do so in referral and influencer markets too.

Contractors employed at later stages on a traditional type of contract have less power in terms of making changes to the design or having control of the design quality and build ability of the final design. They have more power concerning (opportunistically) using the terms of the contract and power of being the incumbent party. This type of contract in some cases does not allow relationships to develop further as contractors and consultants sometimes work defensively, that is in their silos, hence levels of mutual understanding and collaboration are low.
Contractors and consultants tend to overlook that whilst individual contracts are discrete transactions, relationships and reputations carry across projects and contracts – part of the task orientation in projects (Handy 1997; Pryke and Smyth 2006) working rather than the customer focus of RM.

**Fourth dimension of power: lack of power and awareness of business development (BD)**

Internal politics in contractor organizations are the reason for lack of power to make certain decisions and promises with design consultants at BD stage (Chambers et al. 2009). Internal power relationships are a hindrance in design consultants and contractors. This inhibits BD managers exercising authority and making promises, which constrains trust building, hence relationship development. Contractor BD managers have been historically unable to anchor certain issues and make promises to consultants in forming collaborative practices, partnerships and delivery of technical content. Miscommunication and information asymmetry between different departments in the contractor’s organization are one problem and the dislocation between BD and execution is another problem. Yet, it is in the BD stages that greater value can potentially built into relationships and into projects for the long- and short-term. A long-term view is initially necessary to develop deep understanding of each other’s organizations; strategies and internal politics. This helps facilitate value leverage, for example through cross-functional working, having access to key people across all job levels and to be able to indentify key decision makers or influencers.

One of the design consultant interviewees mentioned that being able to have access to at least one board member and various people across all levels at one contracting organization has helped them enormously not only to strengthen their relationship with them but also shape their approach, and win projects as a team. People from VCUK have commented that sometimes being aware of a consultant’s internal politics and structure gives them the advantage of addressing the key decision makers and/or information holders and approaching them accordingly in a responsible way.

The way relationships are initiated and developed between consultant sand contractors are dependent upon different dimensions of power at different stages and also on the awareness of contractors of the power that consultants hold, and vice versa. The contractor can form responsible relationships that are based on understanding the consultant’s organization, long-term strategy and internal politics in order to acquire the maximum benefits that RM can give, supported by cultural fit and awareness of cultural differences.

**CONCLUSIONS AND RECOMMENDATIONS**

The construction industry in the UK is slowly starting to move away from its pure transactional character. Efforts to innovate and improve service experience offer clients informal collaboration and potentially offer formal or informal collaboration in supply chains too. Contractors have tended to direct RM upstream to client organizations. As the industry is shaping now, contractors there is opportunity to realize the power that referrer and influencer organizations have and their effects upon contractor strike rates. Assessing and managing power relations are important. It not always been adequately addressed in RM when trying to build relationships.

This paper reviewed the importance of understanding different dimensions of power that play a vital role between contractors and design consultants. Design consultants are considered as key referrers and influencers in the CE market. The ability of the contractor to understand them, form relationships with them and ideally influence
them will give the contractor a strong competitive advantage. The links between relationship development and power was explored through observation and semi-structured interviews with design consultants. The KTP, imposing an in-depth case study and action research, has provided the vehicle for the research and has indicated how VCUK is developing its RM strategy.

VCUK’s CE division is applying an RM strategy. Implementation is in the early stages, especially in referral and influencer markets and a long-term view being taken. There are behavioural issues, especially due to the cultural differences between consultants and contractors, and issues regarding the importance of referral and influence markets in relation to power being exercised or claimed by both parties. The findings strongly suggest that BD and execution functions need to focus on the power design consultants have in shaping future business and how these can be influenced by forming strong relationships with them over the long-term.

It is acknowledged that this research focuses on one contractor organization and therefore generalizing conclusions for other organizations would be inappropriate. However, it is expected that similar problems are posed for many contracting companies in a largely undifferentiated construction industry. In summary and in line with the broader management and marketing literature, RM will foster more referrals and increase customer retention and acquisition, especially by taking account of power relationships and types of power between design consultants and contractors.

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