

CROSS-BORDER HOLDINGS IN THE UK CONSTRUCTION INDUSTRY: THE INFLUENCE ON MICRO-ENTERPRISES AND ENTREPRENEURS

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The UK construction industry relies on micro-enterprises to deliver project objectives. These micro-enterprises contain less than ten souls and operate within a paradigm that is shaped by the large enterprises. This paper describes the underlying structural format of the UK construction industry and the impact of cross-border holdings within large enterprises upon the micro's. Discussion is given to the reliance placed upon micro enterprises to deliver objectives set by the large enterprises. Major projects delivered in today's construction environment wittingly and unwittingly place a significant reliance upon a number of the micro-enterprises for overall project success. The UK construction industry harbours a dichotomy that hinders full implementation of a number of significant initiatives. The business objectives of micro-enterprises differ from those of the main/principal contractors and as a result of these differences, the initiatives driven by the main/principal contractor are at best diluted by the time it reaches the micro-enterprise, and at worst, totally negated.

Keywords: cross-border holdings, human resources, micro-enterprises, objectives.

INTRODUCTION

The critical role of Micro-enterprises (MEs) in economic development and structural changes cannot be under-estimated. MEs are an important connecting link in the economy and to customers. Therefore, they are essential for the functioning of the broad construction economy and the local supply of people. Indeed, the very numbers in employment within ME's shows the potential for connectivity. MEs have not only an important role in the construction economy, but also in society, and are at the nucleus of what Lindbeck (2003), defines as the 'European Social Model' The argument is put forward that owner-managers of the micro-enterprises are, in general, more interested in the long-term development of their local economy, whilst large organizations with shareholders and management, are primarily concerned with short-term profit and boosting turnover that facilitates longer-term objectives (Greenbank, 2001). MEs are generally more responsive and responsible towards their employees and have a greater degree of integration with the local society. The connectivity ensures that they play a stabilizing role in society, providing a simple bridge-building function between workers and those who may be perceived as the capital/equity owners.

Building a healthy and sustained economy

Societies seeking a healthy and sustainable economy (and appropriate social development) must strike a balance between structural changes and dynamism, on the one side, and a certain degree of confidence for the players in the economy on the

other. Operating in parallel to this, economic societies require a sustainable combination of both short-term market efficiencies and favorable conditions for the longer-term investments in capital, qualifications and infrastructure. The construction industry often plays a pivotal role in societal manipulation and as such the human resources within the industry are subject to a dynamism not often found in other industries (Hillebrandt, 2000).

For this reason, the prevailing institutional settings and regulatory frameworks play an essential part in facilitating the capacity to modernize an economy and to stabilize society. MEs are perhaps more directly affected by economic and social tensions and are therefore much more responsive to changes in society than medium-large enterprises and capital owners.

The UK structural paradigm

Micro-enterprises account for over 95% of the total for all private sector businesses in the UK economy, with over 69% of these enterprises having only one individual. They contribute some £447,770 Million to the national economy and employ over 6.5 Million people (NSO, 2002). Table 1 shows the general UK industrial picture for the number of enterprises, employment and turnover in the private sector by size of enterprise. The significance of these contributions provides a powerful argument for the drive to have them treated as a separate and specific entity within policy formulation and implementation.

Table 1: Number of UK enterprises, employment and turnover in the private sector by size of enterprise (Source: National Statistics Office, 2002)

	Number of Enterprises	% of All	Employment (000s)	% of All	Turnover (£m)	As %
All Industries						
All enterprises	3,746,340		22,622		2,112,013	
With no employees	2,596,395		2,888		152,383	
Employers with						
1-4	747,655	Micro=	2,230	Micro =	172,637	Micro =
5-9	200,320	3544370	1,436	6554	122,750	447770
10-19	112,695	=94.6%	1,570	=29%	148,725	=21%
20-49	54,845		1,686		168,840	
50-99	18,130		1,255		141,269	
100-199	7,905		1,104		135,171	
200-249	1,620		362		42,791	
250-499	3,245		1,128		157,237	
500 or more	3,530		8,964		870,211	

When considering a single industrial sector such as construction, then the significance and direct impact of the MEs is evident. Table 2 illustrates the clear dichotomy found within the UK construction industry i.e. a very large percentage of the enterprises are micro, with only a relatively small percentage fitting within the broader classification of small-to-large.

Table 2: Specific UK construction industry data (NSO, 2002)

Construction	Number of Enterprises	As a % of all Enterprises	Employment (000s)	As a % of all Employment	Turnover (£ Million)	As a % of Turnover
All enterprises	691,800		1,666		136,927	
With no employees	571,455		602		25,546	
Employers with 1-4	85,445	Micro Total =	244	Micro Total =	19,406	Micro Total =
5-9	18,415	675315	130	976000	10,659	55611
10-19	9,895	=97.6%	135	=58.6%	11,834	=40.6%
20-49	4,535		136		12,900	
50-99	1,200		81		9,333	
100-199	470		64		10,628	
200-249	80		18		1,958	
250-499	165		58		7,202	
500 or more	140		200		27,460	

The Micro-enterprises as a distinct construction industry cohort

The current trend of including micro construction enterprises within the cohort known as Small to Medium Enterprises (SMEs), prima facie, does them a great injustice. SMEs are generally seen as enterprises employing up to 249, and large enterprises where there are >250 employees, have characteristics which clearly differentiate them from micros (Greenbank, 2001). Policy makers have at best assumed that the micro-enterprise context is not unique and therefore can be embraced within the term 'Small and Medium' sized enterprise. The Bolton Committee (way back in 1971), saw the key characteristics of a small firm as being: that it is an independent business, managed by its owner or part-owners and having a small market share. Also, Bolton perceived size as being relevant to sector, i.e. a firm of a given size could be small in relation to one sector; whereas a firm of similar dimensions in another sector could be considered large. Thus micro as a definition bridges many gaps and brings about resolution of pertinent issues.

The micro-enterprise paradigm is different from that found affecting other organizations i.e. their perception of societal forces varies, economic priorities are different, and the individual's drivers assume a high degree of pre-potency. This contextualised environment directly affects the micro-enterprise's objectives. The less formalized and more personal management practices in micro-enterprises mark them out as being distinct from their relatively larger counterparts (EC, 96).

Within the broad construction paradigm, a number of industry reviews (some general and some specific) e.g. Banwell, 1964; Latham, 1994; Egan, 1998 and, Fairclough 2002, undertaken with the premise of informing the development of management education and learning have, on the face of it, ignored the micro-enterprise. These reviews have been used to drive policy decisions and initiatives that have been implemented within the UK construction industry. These approaches having been adopted are then driven down from the large enterprises through to mediums, small and ultimately, to the micros; with what can be perceived as a relatively low degree of success.

Cross-border linkages within the large enterprises

Europe's Top 300 (Building, 2003) shows the operating and profit values for the major contractors and material produced for the EU. When the linkages between these top players is analysed it becomes apparent that there are a number of underlying business frameworks which provide support and impetus for the top players (linkages are outlined in Figure 1).

Name of Organization (Construction)	Legal & General (Major Shareholder)	Standard Life (Major Shareholder)	Schroder Investments (Major Shareholder)	Hoare Govett Ltd (Broker)	Freshfields Bruckhaus Deringer (Solicitor)
Kier Group	✓	✓			
McCarthy & Stone	✓	✓			
Carrillion	✓		✓		
Taylor Woodrow	✓	✓	✓		
Hanson plc	✓			✓	
Crest Nicholson plc		✓	✓		
Aggregate Industries		✓			✓
Balfour Beatty		✓	✓	✓	
George Wimpey			✓	✓	✓
Bovis Homes			✓	✓	✓
Low & Bonner			✓	✓	✓
John Laing plc			✓		✓
Costain plc				✓	✓
Westbury Homes				✓	✓

Figure 1: Construction organizations with cross-border linkages to Institutions

The principal solicitor to 50% of the organizations is Freshfields Bruckhaus Deringer, and at the same time Hoare Govett also acts as Brokers to 50% of the major players. Schroders are a significant investor within 57% of the large enterprises. Five of these large enterprises share a common bond: they utilize at least two out of the Investor/Broker/Solicitor trinity (Schroder, Hoare Govett, Freshfields). These close relationships foster stability and also provide opportunities that micro-enterprises could only dream of.

Objectives of the micro-enterprises

Profit maximization may be seen as the key objective of any micro-enterprise. The issue becomes blurred when we move from what may be perceived as the true entrepreneurial micro-enterprise i.e. the sole trader, towards those which may be classed as the more general micro-enterprises i.e. they have an owner-manager and a number of employees. Schumpeter (1909) sees the entrepreneur as achieving hedonism through defined business objectives. Whereas Greenbank (2001) suggests that the range of owner-manager objectives found within micro-enterprises tend to fall within a more complex tri-axial framework i.e. those that are personal economic, those personal non-economic and those, which are business. The underlying presumption is that the owner-manager of the micro-enterprise is the sole driving force and that a single dimension of entrepreneurship prevails. Audretsch *et al.* (1999) rightly suggest that entrepreneurship is complex and multi-faceted. The range of interacting facets expounded over the ages is indicated in Table 3.

Table 3: The many facets of entrepreneurship

Writer	Facet	Influence
Cantillon (circa 1730)	Control	Self-employment Uncertainty management
Baptiste (1816)	Unification	Production capabilities Capital management
Knight (1921)	Forecasting	Market dynamics Leadership and management
Schumpeter (1934)	Innovation	Market shaping Resource utilization
Penrose (1936)	Opportunism	Economic exploitation
Kirzner (1979)		Arbitrage
Leibenstein (1968)	Creation	Delivery of desired outputs
Gartner (1988)		New entities

In essence, entrepreneurship is viewed as a specific function involving the exploitation of opportunities, which exist within a market. Such exploitation being closely associated with the direction and/or combination of productive inputs. Entrepreneurs are perceived as bearing risk while pursuing opportunities, and often bring about, or shape, creative and innovative actions. These innovative actions include the development of cross-border holdings.

Table 4: Entrepreneurship drivers and modifiers

Writer	Facet	Influence	Intrapreneur influence
Cantillon (circa 1730)	Control	Self-employment Uncertainty management	The intrapreneur influences the micro-enterprise through the Inland Revenue(CIS). Contract certainty mitigates uncertainty
Baptiste (1816)	Unification	Production capabilities Capital management	Intrapreneur develops programmes which shape the micro-enterprise production schedules. Main contractor provides much of the capital intensive elements.
Knight (1921)	Forecasting	Market dynamics Leadership and management	Connectivity shapes market response. Contingent upon number of employees.
Schumpeter (1934)	Innovation	Market shaping Resource utilization	Micro-enterprises may be reactive. Contingent upon the project.
Penrose (1936) Kirzner (1979)	Opportunism	Economic exploitation Arbitrage	Micro's scale allows responsiveness to economic changes; which is exploited by the intrapreneur.
Leibenstein (1968) Gartner (1988)	Creation	Delivery of desired outputs New entities	Intrapreneurs have leverage. Essential. Freedom of movement into and out of the industry.

In addition, entrepreneurs undertake a managerial role, but routine management of an ongoing operation is not considered, per se, to be entrepreneurship. In this sense entrepreneurial activity is fleeting. An individual may perform an entrepreneurial function in creating an organization, but later is relegated to the role of managing it without performing an entrepreneurial role. Under this paradigm, many micro-enterprise owners may fall out with the category of entrepreneurs. The real anomaly

arises when we consider individuals within organizations (i.e. non-founders). They can be classified as entrepreneurs since they pursue the exploitation of opportunities along with several of the other facets. Intrapreneurship may then also be considered as a form entrepreneurship. As such these intrapreneurs see the micro-enterprises as becoming subservient and change the style of the entrepreneurs operating within the micros. Table 4 highlights areas where changes occur and are operationalized by the micros.

The dichotomy

There are many underlying questions within the structural and operating format of the industry. Given that many of the large enterprises have intrapreneurs operating, then the underlying ethos is presupposed as being one that should facilitate the operation of the true micro-enterprises. This however does not appear to be the case in practice. The micro-enterprise is used as the mechanism by which large enterprise objectives are attained, sacrificing some or all of the micro-enterprise's objectives.

The large enterprise have a wealth of human resources to call upon in terms of accessing skills and abilities which they may tap into some or all of the full range of entrepreneurship facets as shown in Table 4. The micro-enterprise does not have the luxury of such a diverse human resource pool, and therefore is somewhat starved of the full entrepreneurship competence range.

The large enterprise is able to utilize a broad range of connections (cross-border) to deal with and manage the facets shown in Table 4. These linkages provide avenues for the large enterprise to, at least mitigate, and at best, offset, negative aspects arising from the facets e.g. uncertainty is managed through access to capital sources which the micro cannot tap into; production is managed through shaping the underlying market and its needs; this drive controls many market dynamics; the cross-border links provide the vehicle which facilitate arbitrage; the facility to survive market oscillations allows the large enterprise to deliver on a consistent basis.

CONCLUSIONS

The cross-border linkages are used by the large enterprise to bring about stability and foster intrapreneurship. This engenders, within the large enterprise, the development of intrapreneurs who actively seek to achieve the broadest possible range of enterprise objectives. These objectives are superimposed on the micro-enterprise and bring about a diminution of the prevailing entrepreneurship within the micro-enterprise.

Within the UK construction industry the emphasis is placed upon securing micro-enterprise input as de facto intrapreneurs even though they are prima facie entrepreneurs. The micro-enterprises are used as buffers and controls for attainment of the large enterprise objectives, at the cost of the micro-enterprise's development. The micro-enterprises are de facto the sharp end and yet are not fully appreciated by the large enterprises.

The issue of supply chain management within the construction industry, and in particular the management of contract interfaces, still leaves much to be desired. Recognition of the role played by micro-enterprises is in its infancy given that much of the sub-contracting that takes place dilutes their voice and perception of their role.

Research is required which addresses the issue of why all micro-enterprises do not metamorphose into large enterprises.

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