

Compete & Collaborate

What is
success in
a connected
world?*

Engineering & Construction summary

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The PricewaterhouseCoopers 11th Annual Global CEO Survey – ‘Compete & Collaborate’ – examines the impact of an increasingly connected world on the way companies work, grow, deal with risk and, ultimately, achieve business success. We focus on collaboration this year because achieving the correct balance between this emerging business model and traditional management discipline is a key to leveraging results in the connected world.

The survey divides into two main sections with special attention in each to the key enablers and barriers to success:

- Section 1 – The business environment: Business confidence, M&A, global risks, and climate change
- Section 2 – The impact on business models: People and change, collaborative business networks, and regulations

In addition to providing the analysis of the views of 1,150 CEOs, each section includes the personal views of individual CEOs who provide their perspective on how their organisations are meeting the challenges and addressing the opportunities of a connected world. In this Sector Summary, we look specifically at how Engineering & Construction CEOs view and are addressing these challenges and how their views compare and contrast with CEOs across all industries.

Full findings of the PricewaterhouseCoopers 11th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

The business environment

Executives in the industry report fairly high levels of confidence; overall 94% of E&C CEOs are somewhat or very confident of achieving revenue growth over the next 12 months, while 56% of E&C CEOs are very confident. This trend reflects a continuing global boom in the construction industry.

However, CEOs did express concern about some threats to this potential growth. More than half of executives (54%) view the scarcity of natural resources as a potential threat, compared to about 42% of CEOs across industries. Around the same number (53%) also see the security of the supply chain as an area for concern. This undoubtedly reflects skills shortages in the sector and concern over the ability of specialist contractors to deliver.

E&C industry executives are looking to expand their global footprint – 28% cite geographic expansion as the main opportunity to grow their business over the next 12 months, compared to 19% of executives across all industries.

We are likely to see more cross-border M&A in the sector; only 25% of E&C executives report having completed a cross-border merger or acquisition in the past 12 months, but 46% are planning such a deal for the next 12 months. The preferred location for future M&A is North America (36%), followed closely by Eastern (32%) and Western (32%) Europe. Fewer than a quarter (23%) of E&C executives are planning cross-border M&A in Asia, compared to 37% of CEOs across all industries, continuing a trend we noted in last year’s survey and reflecting tough contracting conditions and greater restrictions on overseas players in markets like China.

The built environment in many developed countries contributes substantially to carbon emissions, often representing close to 50% of all emissions. The potential for improvement is significant and will surely create many opportunities for the industry. E&C executives report a noticeably more optimistic view of climate change than peers in other sectors. CEOs are less likely to be concerned that climate change issues will negatively impact business growth than executives across all industries. E&C CEOs are also much more likely to see a positive side to climate change – more than half (53%) believe that climate change will benefit their business economically, compared to only 28% of CEOs across all industries.

In addition to the impact on ‘new build’ projects, construction firms are likely to benefit in particular from refurbishing existing buildings to increase energy efficiency. Damage caused by the increasing frequency of severe weather events is also forecast to provide short-term spurts in market activity. While much of the opportunity will be driven by regulation and client demand, the most successful contractors will be leading the agenda and innovating their processes. The ‘whole life costing’ view will increasingly be more important than just build cost, and the ability to capture and report on non-financial sustainability measures will gain in importance as well.

Collaborative business networks: Opportunistic & Systematic

E&C projects depend upon a collaborative business model. Contractors and sub-contractors in a wide variety of skilled trades must work together in order to ensure an on-time and on-budget project.

New technologies are transforming the way these networks operate. Project extranets and other IT support systems are helping increase transparency and co-operation by providing an electronic network linking together various participants in a construction project. Such networks have the potential to reinvent the way the construction industry operates, and may contribute to a reduction in mistakes and disputes, the biggest causes of waste and inefficiency in construction.

Executives in the industry are somewhat less likely to view their networks as effective at enhancing reputation or brand than peers in other industries, and also less likely to believe they help in accessing new markets or customers. They are also less apt to view their networks as effective at increasing innovation in the company.

Regulations: Public & Private

The E&C industry faces a number of complex regulatory issues. Health, safety and environment regulations are a fact of life in an industry where the primary workplace – the construction site – poses a number of dangers.

Smart contractors are focusing on the real business opportunities created by the sustainability agenda

Key issues on the mind of the E&C CEO

How do the views of E&C CEOs compare with those of their peers from other industries?

	E&C	Across Industries
Business environment		
Anticipate revenue growth over the next 12 months	94%	90%
Think that climate change will benefit their business economically	53%	28%
Think that climate change will benefit their business intangibly	43%	29%
Regulations: Public & Private		
Disagree that their government has reduced the regulatory burden on corporations	71%	57%
Disagree that their government is creating a business-friendly environment	52%	40%
People and change: Strategy & Execution		
Concerned that lack of availability of key skills could threaten future business growth	71%	61%
Believe that their ability to access and retain key talent is their main source of competitive advantage in achieving growth	29%	17%
Use the acquisition of other companies as a means of acquiring critical expertise/addressing talent shortages	52%	42%
Agree that management spends enough time on people issues during periods of strategic change	44%	60%

Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

Governments and government entities are also key customers of the industry, and government projects are often subject to strict scrutiny. Furthermore, the growing trend to build and maintain infrastructure projects using public-private partnerships means that the industry will be increasingly subject to a myriad of government regulation and scrutiny.

So perhaps it is not surprising that E&C respondents were more likely to respond in the negative when asked if their current government had reduced the regulatory burden on corporations – 71% disagreed or strongly disagreed, compared to 57% of respondents across all industries. And more than half (52%) also disagreed that their government is creating a business-friendly environment, compared to 40% of executives across all industries.

People and change: Strategy & Execution

Executives of E&C companies are keenly aware of the importance of the people agenda to their future growth. E&C companies are more likely to see their ability to access and retain key talent as the main source of competitive advantage in achieving growth. More than 70% are concerned that the lack of availability of key skills could threaten future business growth.

E&C CEOs are ready to take action to ensure that they have access to employees with the right skills. Respondents in this sector are more likely to view acquiring other companies to obtain critical expertise

as an effective means of addressing talent shortages – more than half (52%) cite this strategy, compared to 42% of CEOs across all industries.

Currently, only 37% of E&C CEOs rate global experience as critical to their organisations, compared to 55% of executives across all industries. As companies expand their geographic reach, they will face new challenges in terms of ensuring that they are able to get the right people in place on projects in diverse locations. We anticipate that global experience and managing international mobility will become increasingly important for the industry. Executives who do rate global experience as critical are not finding suitable candidates – 76% of these E&C respondents report experiencing difficulty recruiting people with global experience, compared to 65% of respondents across all industries.

Construction work is often perceived as dirty and dangerous; some contractors are addressing this issue by looking to modernise processes on site and to try and carry out more work off-site in a safer factory environment. The use of pre-fabricated components such as stairs and walls is also increasing. In time, the proportion of construction work requiring hard physical labour will probably decrease, and new skill sets will be required. Construction companies need to strategise how to take advantage of this changing environment to make their workplaces safer and more desirable to skilled employees.

Focusing on people issues is also a key factor for success in periods of strategic change. E&C executives believe that management needs to devote more time to ensuring these factors are adequately addressed – less than half (44%) agree that management spends enough time on people issues during periods of strategic change, compared with 60% of executives overall.

Looking forward

Construction companies are facing a period of major change. PricewaterhouseCoopers' Global Engineering & Construction Leader Jonathan Hook sums up the situation: 'The survey results reinforce what we are seeing ourselves in practice. It is still a boom time for construction, despite recent uncertainty in financial markets. There will be increasing numbers of cross-border transactions and smart contractors are focusing on the real business opportunities created by the sustainability agenda.'

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This summary provides a sampling of some findings within the Engineering & Construction sector. Full findings of the PricewaterhouseCoopers 11th Annual Global CEO Survey are available at www.pwc.com/ceosurvey

For additional information regarding PricewaterhouseCoopers' Engineering & Construction sector practice, please visit www.pwc.com/e&c