Business Ethics: Analysis Of Carillion Experience

Introduction and key information

This report will be documenting the downfall of Carillion in addition to the effects it had to both itself as an entity and another outsider, furthermore, there will be recommendations made on alternative choices that Carillion could have explored.

Carillion collapsed under a pile of debt, this stemmed from multiple bank refusals to lend the construction giant further funding, therefore casting doubt on major projects. 15 January 2018 Carillon entered compulsory liquidation, additionally, their pension deficit was one of the greatest among the FTSE companies (Mor et al., 2019). Carillion has 13 different benefit schemes for 27,000 members, as reported in the house of commons library (Mor et al., 2019).

There were profit warnings, however, Carillion made the informed decision to continue with its operations ‘’ Carillion’s growing net debt appeared to be of little concern to the board until the company was in dire straits. Keith Cochrane, non-executive director from July 2015 until becoming interim Chief Executive in July 2017, described net debt and the pension deficit as “lesser concerns” in 2015’’ (Publications.parliament.UK, 2019).

Due to the collapse of Carillion, major public projects that were left incomplete, most publicized, Royal Liverpool Hospital and the Midland Metropolitan Hospital, as analyzed (Rogers, 2019) there were 420 public sector contracts in operation when it collapsed, it further lost £234M on unsuccessful jobs among the hospitals there were prisons and The Aberdeen Road.

Moreover, ‘’Carillion relied on its suppliers to provide materials, services, and support across its contracts, but treated them with contempt.’’ (Publications.parliament.UK, 2019).’’ While the Official Receiver collects claims and tots up invoices, trade bodies warn Carillion used 30,000 sub-contractors, many of which will go to the wall.’’ (Ft.com, 2019)

Ethics that apply to the Process

In the case of Carillion, there were a few ethical objections exhibited by Carillion throughout their lifetime, Carillion as mentioned had issues for a significant period of time, however, it continued to secure contracts along with debt, ‘’the agency argument of Milton Friendman (1970) ...he calls ‘’the doctrine of social responsibility’’ (Linstead et al., 2004).

Profit maximation conveyed the impression of being one of the main objectives for Carillion, the continuance of projects in addition to the acceptance of new projects in hope of future profits may have influence decisions that were made, this then leading to the incompletion of major public sector structures.

In addition, there were signs of psychological egoism in terms of those in managerial positions, actions were taken out of self-interest, stemming from auditors signing off Carillion as financially healthy a few months prior to its downfall, ‘’ Corporate culture does not emerge overnight. The chronic lack of accountability and professionalism now evident in Carillion’s governance were

failures years in the making.

The board was either negligently ignorant of the rotten culture at Carillion or complicit in it''(Publications.parliament.UK, 2019). Legal-moral ‘if its legal it’s ok’ (Bowie 1988) is also demonstrated by the inability to pay suppliers in a timely manner, in addition to the build-up of credit to many of its suppliers.

Are there ethics that apply to the outcomes?

As seen, multiple ethical objections were in play with Carillion, therefore in the end led to its inevitable demise and forced liquidation. Various stakeholders felt the impact of Carillion’s choices, ‘’Following…. the collapse of Carillon, it left 200 schools uncertain of how it's catering’’ in addition ‘’ As it stands, as a result of the company going into liquidation, 8,216 jobs have been saved, but 1,458 have been made redundant.’’(Education Business, 2019) , Pension Protection Fund.

Conclusion and Recommendations

After much review of Carillion’s actions in addition to its demise, its business model was unsustainable therefore no surprise it entered liquidation, Carillion lacked focus on other aspects of its business besides profit maximization and monopolizing, purchases from its many suppliers were bankrolled by its ever-increasing debt. All this stemmed from Carillion’s figureheads and the self-assurance and overconfidence in its success even has it got exceedingly out of control,

Furthermore, with its extension to international territory in addition to debt Carillion became progressively reckless with its quest for business growth.

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