

CRISIS OR CHALLENGE? THOUGHTS ABOUT INTERNATIONAL CONSTRUCTION-INDUSTRY RECOVERY STRATEGIES

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Within only a few months the international economy has faced a truly slow-down, and in certain areas even a kind of break-down. Looking backwards about ca. two years ago, hardly anyone would have expected a so sudden impact on the (fragile?) world economy as it is in these days. However, only facing it from the negative point will not just help the economy, and only facing it from the positive point will not help the economy, too. But what should one think of all these developments now? This discussion-paper tries to discuss some aspects of specific the construction industry, being part of this global (down?)turn, just to help in finding solutions for a way to recovery. Not as 'the' solution, but merely as 'a thought' on what could be learnt from the near past, and to serve as a possible pro-active 'outlook' to a (new) bright future of construction industry.

KEYWORDS: challenge, construction, crisis, culture, thoughts.

INTRODUCTION

During the writing of this discussion-paper in the spring of 2009, the global crisis still exists on a broad scale: On the one hand e.g. construction-companies going bankrupt, banks taken over by governments, merging of companies left, banks unwilling or unable to lent capital to the markets, etc.; and on the other hand growing web-based businesses because of the globalizing markets and increase of broadband-connections, decrease of interest rates towards historical low levels, etc.

So, in fact during this crisis, there are negative impacts as well as positive chances on the market and the businesses therein. And because the construction industry is quite strongly involved within the daily (national/international) markets, this industry also has the negative impacts but also the positive chances.

This discussion-paper focuses on a broad discussion of some of the threats and opportunities, caused by the present crisis; not as a negative 'prophecy', but to serve as a possible pro-active 'outlook' to a (new) bright future of construction industry.

CRISIS IN CONSTRUCTION INDUSTRY: SOME EXAMPLES

Crisis-situations in the construction-industry are not new; also in earlier days they occurred, and were related to several origins. Some of them are e.g.:

a. Increasing interest-rates:

Think e.g. on the 1980's were interest-rates increased towards 13-15% etc.). These crisis-situation was merely influencing the real-estate market, being driven by the hesitating consumers; private house-owners were nearly unable to attract affordable mortgages for their houses, and the industry was confronted with high capital costs too. Governments over interefered by anti-cyclic market mechanisms, such as e.g. subsidizing, guarantees, etc. [Tempelmans-Plat, 1984]. However, because of e.g. the European regulations nowadays, such intereference-possibilities are much more restricted.

b. Oversupply of projects:

As being an example of the so called 'pig's cycle', often existing in -developing- markets [Tijhuis, 2001], this situations generally occur after an over-heating of a market. Recent examples are e.g. the collapse after the market-boom in the former East Germany area in the early 1990's, after the break-down of the Berlin Wall in 1989 [Der Spiegel, 1994; 1995].

c. Fraud-cases:

As e.g. discovered in the early 2000's, the Dutch construction industry had been influenced for years by collusion-practices in public infrastructure projects [Vos et al, 2002]. Several tenders had been influenced, so the Dutch public clients had paid far too high prices for their tendered projects. This fraud-case severely hit the construction industry, especially the infrastructure-related branches.

d. Increasing conflicts between parties involved:

In the mid-1990's, the British construction industry got aware of it's growing level of conflict/disputes, which increasingly paralysed the whole construction industry: Clients and contractors became the 'ideal playing field' of lawyers and sollicitors, often making construction projects to 'battle-fields'[Latham, 1994; Egan, 1998]. There was a growing level of conflicts and distrust between contractors and clients, often leading towards high construction prices, claims, etc. Maybe William Shakespeare did not realize himself this, but it may be a reason why he wrote the statement "*The first thing we do, let's kill all the lawyers*" [Cairncross, 1964], focusing at the situation that the lawyers often influence the business-atmosphere negatively, despite their often positive influence for getting the contracts finished, etc.

WHAT MAKES NOWADAYS CRISIS (2007-?) SO SPECIAL?

When overlooking at the above ementioned examples of construction-crises, they have at least two important distinguishing backgrounds, based on the -behavioral- way of influencing the construction industry:

Example a (increasing interest-rates):

- *They all were specifically related to a specific behaviour of the clients themselves.*

Example b, c & d (Oversupply, Fraud-cases & Increasing conflicts):

- *They all were specifically related to a specific behaviour of the construction industry itself.*

When looking to nowadays crisis, it seems to have similarities with the background of example a, which has to do with the (hesitating) *behaviour of the clients towards construction industry*.

However, compared to earlier days, this crisis nowadays really seems to have an industry-wide and global impact, especially because of the global interference via the increasing ‘digital society’, etc. In figure 1 this situation is represented schematically.

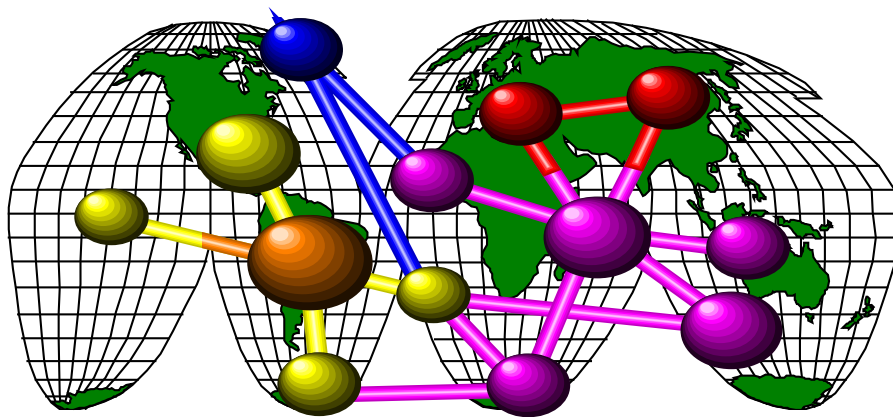


Figure 1: Globalizing influences due to the globalizing ‘digital society’.

Remarks:

In earlier days, crisis were merely on a regional scale, although e.g. the large depression of ca. 1933 really was on a global scale. However, interesting aspect of nowadays crisis still is, that the actual interest-rates are nearly as low as possible, and even on an historic low level. But because of the obviously still existing instability of the financial system, this moment in time really seems to be a ‘turning-point’: In fact there is a call for a total restructuring of business-models and governmental policies in this field.

So, apart from other influences, the client really is in the centre of the business, playing the most important role. Re-focusing on the client may therefore result in a reduction of the present crisis’s influences on construction industry.

And this may result into a strategy for the construction industry to put a stronger focus on the background of the examples b, c & d, so e.g. *Changing the behaviour of the industry towards the client*. This may even be a business-cultural change.

DISCUSSION ON RECOVERY STRATEGIES

Based on the above descriptions, the change of construction industry's behaviour may really be a first starting point to a recovery from the nowadays crisis. Especially 'putting the customer first' may become a real 'discovery' for the customer themselves, finding the construction industry paying serious attention again to them.

However, on the other hand, several of today's bad behaviour between construction industry and clients is also rooted into the fact that this industry has a quite low entrance-barrier for newcomers, being also a disputable 'playing field' of non-professional parties in this field. Especially during the recent periods of booming construction-production, the construction industry obviously has attracted quite a lot of less-professional and even non-professional parties, just showing a hit-and-run approach and going for the 'quick money'. Therefore, focus on clients cannot without a serious (re)focus on professionalism, although it might also be necessary to optimize the level of professionalism itself, regarding attention to the client's issues, etc. A (re)focus on client's and business-cultures may indeed be a serious driver to be 'part of the deal'.

Nevertheless, although one might be seriously focusing on the clients, without a project or a job there is still no income for a business. So how to survive then? As during every crisis, several weaker parties will be going bankrupt. However, this may somewhat enlarge the (shrinking?) existing market for the parties left, so dealing with that shift of the markets, often also means a shift of power: *Who will become the new market-leaders, etc.?* So not only threats, but also opportunities!

An interesting parallel can be found with e.g. the Google™-searchmodel business-case : In the late 1990's, even before the official founding of the company, very few parties saw the values of this developed patented searchmodel, obviously because the existing searchmodels from e.g. Netscape™, Alta Vista™, etc. were still functioning and serving users worldwide. There was obviously no really 'drive' for serving the clients better, although clients were also complaining too about the existing (incomplete) searchmodels. But industry did not really change then...Until Google™ started and 'restructured' the way of doing business, resulting into a complete awakening of its competitors in industry. An interesting statement or advice out of those early days is e.g. [Vise & Malseed, 2006]: *'Having a healthy disregard for the impossible'*

Maybe still one of a good lesson for the construction industry during this crisis?

CONCLUSIONS & RECOMMENDATIONS

As a summary of the analyses and discussions in the previous parts of this discussion-paper, the following conclusions/recommendations are presented:

1. *Although a recovery of the crisis is obviously no stand-alone scenario for the construction industry, a stronger (re)focus on the client and the involving may improve and speed-up this foreseen recovery.*
2. *Within crisis-times in general, several (weaker) businesses go bankrupt. However, this may strengthen and improve the healthiness of the existing parties left.*

Nevertheless, this often means also a shift of power towards (new) market leaders, with all the opportunities (and threats) included.

3. *A (re)focus on professionalism, including improvement of the accompanying business-culture, strengthens the need for parties to (re)define their market strategies: Merely focusing on a longer lasting mid to long-term approach, instead of focusing on just a short-term (hit and run) approach, although this last approach may still be profitable, but less lasting.*

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