

Survival of Construction Companies in Crises through Process-Based Management

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Abstract

Crises are among the most important reasons in completing life cycles of construction companies. Crisis management starts with the introduction of crisis signals, continues with an effective struggle during the crisis, and ends with recovery studies after the crisis to turn to the former position. Most of micro and macro crises produce significant signals before they occur. Especially large-scale construction companies can overcome crises with a minimum financial loss by catching these alarming signals, by improving policies to defeat them with a minimal damage, and by developing immediate renovation works. Construction companies which can overcome crises with zero damage will likely have a competitive advantage over their current rivals and expand their market shares largely. Considering these issues, in the present study, process-based practical applications that should be performed by construction companies to survive before, during, and after crises were presented in a detailed manner. This can contribute to the creative management of construction companies under potential crises in micro and macro levels. Overall, this study attempted to reveal how construction companies can successfully manage crises throughout them and turn to their former positions in a short period of time.

Keywords

Company, Construction, Crisis, Crisis management, Crisis processes

1. Introduction

As a phenomenon, a crisis can affect large geographical areas and many industries including construction industry which is very prone to such a negative event because of its dynamic and constantly changing structure (Loosemore, 2000). A crisis that appears in time sends its warning signals before it occurs. It is

inevitable that construction companies take into account these signals and prepare against the forthcoming crises. This is because initial investment costs are quite high in construction projects and thus may lead to huge financial damages. Construction companies can take preventive measures against crises by establishing early warning systems and analyzing internal and external environment. As a result of these efforts, they can form a guide for crises, plan the potential complications, and make a team of which preventive and remedial activities can eliminate crises. They can also determine the damages to turn to their former positions. Given these issues, it is clear that construction companies can survive with minimal damage or without any damage through effective management before, during, and after crisis (Sahin, 2014). Toward this aim, this study examines how construction companies should be managed successfully throughout crisis processes. In this regard, process-based practical applications that should be performed by such companies to survive before, during, and after crises were presented in a detailed manner. Thus, it can contribute to the creative management of construction companies under potential crises in micro and macro levels. In the construction management literature, there are a dozen of research studies concerning crisis management. However, these are far from investigating management practices of construction companies in crisis processes. In fact, they are specifically about theory formulation (Loosemore, 1999), communication structure (Loosemore, 1998e), contractual conditions (Loosemore and Hughes, 1998), real estate-based analysis (Kaklauskas *et al.*, 2011), triple constraints composed of communication, sensitivity, and responsibility (Loosemore, 1998c), environmental and organizational factors (Ocal *et al.*, 2006), organizational behavior (Loosemore, 1998b), reactive communication and behavior (Loosemore, 1998a), disorganization (Loosemore and Hughes, 2001), preparedness (Loosemore and Teo, 2000), social adjustment (Loosemore, 1997), and social network analysis (Loosemore, 1998d). Accordingly, the current study presents the first attempt in this regard.

2. Crisis Management before Crises

Crisis management is a process which starts before crises and continues by rehabilitation after crises. Management before crises requires an effective company structure, which can determine and terminate potential causes of crises and thus develop preventive mechanisms. It is, of course, almost impossible that companies can be ready against all types of crises. Therefore, the phrase “crisis management” is usually used for crises that can be managed considering time- and resource-based constraints (Mitroff and Pearson, 1993). Crisis management before crises is composed of seven efforts. These are briefly explained below as summarized in Figure 1.

2.1 Early Warning System

Crises send considerable internal and external signals to construction companies before they occur. In detecting these signals, the warning messages taken from personnel are extremely significant. Open, easy, and feedback-providing communication channels have a vital aspect in this regard. Even if such an early warning system cannot prevent crises, it can at least provide some time to companies. Therefore, as a principal work, construction companies should follow macroeconomic data such as foreign exchange, interest, and unemployment, as well as legal and political regulations.

2.2 Planning

Although, before a crisis occurs, it is very difficult to make a plan against it because of its natural uncertainty, construction companies can save this planning time that will be needed during the crisis. If they are reactive rather than proactive, they will work for planning during crises and may make urgent and incorrect decisions. In fact, each company has a different business culture and thereby a different reaction against crises. Therefore, in most cases, there is no ready-made formula against crises. A crisis management plan should contain some basic terms such as communication, comprehension, action, relationship, and coordination. Stages of a crisis management plan can be presented as follows,

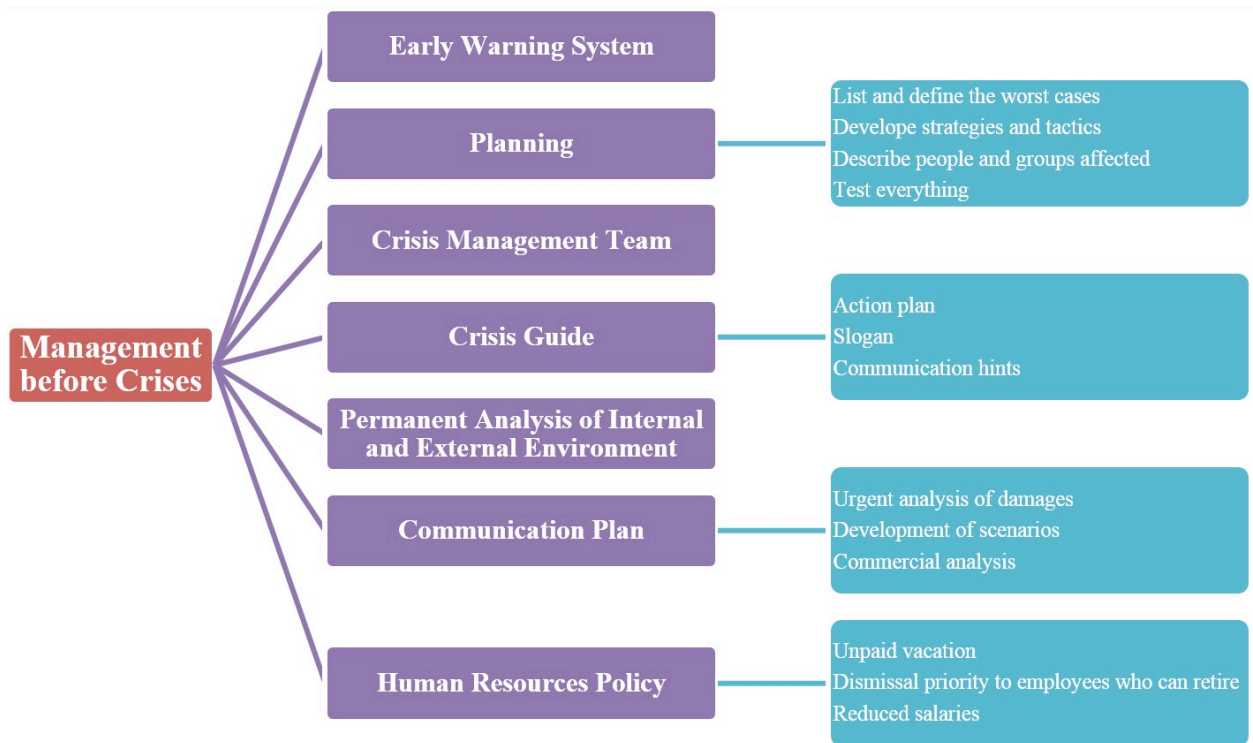


Figure 1: Management Practices before Crises

- Listing and defining the worst cases,
- Developing strategies and tactics,
- Describing people and groups that can be affected,
- Testing everything.

2.3 Crisis Management Team

A construction company with a crisis management team will likely pay more attention to potential crises than companies without a crisis management team do (Spillan and Hough, 2003). A crisis management team should report internal and external events, estimate potential effects of crises, determine the approximate time that crises can affect company, inform the top management about how to struggle with crises, and fix main activities to be performed against them.

2.4 Crisis Guide

This guide contains urgent activities in case of a crisis and has the following contents,

- Action plan,
- Slogan,
- Communication with personnel, the mass media, customers, and government.

2.5 Permanent Analysis of Internal and External Environment

Such a detailed analysis is employed to respond to crises encountered and to adapt to different types of changes. Today, construction companies are forced to constantly modify their managerial approaches because of the changes in the business environment. These changes present both some opportunities and

some threats. Thus, these companies can take their strategic positions against potential threats and can make huge profits by appropriately investing in the anticipated opportunities.

2.6 Communication Plan

During a crisis, the top management of a construction company should provide a continuous information flow for all stakeholders. This is because current communication channels will likely not work as effectively as before. Especially incorrect and false information can lead to the unexpected negative results. If the estimated effects of a crisis on a company are misunderstood by stakeholders, this can create distrustful environment for them. A crisis communication plan should have the following key issues,

- Urgent analysis of damages,
- Development of scenarios,
- Commercial analysis.

2.7 Human Resources Policy

The most important characteristic of the human resources policy before a crisis is the expectations about changes in staff. Crisis managers have a difficult role in recreating cooperation between their personnel. The first reaction to a crisis is to fire some employees and thereby to reduce the number of them. The fear of unemployment demotivates employees and diminishes their creativities and productivities, perhaps causing that they quit their jobs. However, this application should be the last solution. If this is the case, there will be three options that may be applied together,

- Unpaid vacation,
- Dismissal priority to employees who deserve the retirement,
- Reduced salaries.

3. Crisis Management during Crises

During a crisis, current economic conditions of a company are as important as the scale of the crisis. If a construction company is in a difficult position from the financial viewpoint, it may not survive after a crisis. The five practices that can be applied during crises are briefly analyzed below as summarized in Figure 2.

3.1 Determining the Size of the Crisis

In calculating the effect value of a crisis, the worst scenario should always be taken into account. In this context, numbers from 0 to 10 can be used to compute this effect value. In order to determine this specific number, the following questions should be asked,

- If the severity of the crisis under consideration is increasing, how long does the company stand firm?
- To what extent the mass media, government, and the related institutions are interested in the crisis?
- How often are activities affected from the crisis in a negative manner?
- What is the present position of the company's image?
- How much damage can happen in the company?



Figure 2: Management Practices during Crises

After these five questions are answered within the range between 0 and 10, they are added together and divided by 5. The result obtained shows the effect of the crisis on the related company (Fink, 1986). Thus, the first step in solving crisis-based problems is performed by the description of crises.

3.2 Adjusting the Crisis Management Plan

In general, a crisis management plan should include clear action details about how a crisis will be perceived and evaluated. In particular, this plan should answer the following questions,

- Which cases will be perceived as the signs of a crisis?
- Which details will exist in the report that shows symptoms of a crisis?
- Which departments and/or areas of expertise can be suspended?
- Which production- and financial-based measures will be taken?

3.3 Reviewing the Human Resources Policy

During a crisis, various rumours can appear as expectedly. Therefore, top managers should behave clearly by informing their own employees regularly. In this regard, these managers and employees can collectively decide the human resources policy of their company.

3.4 Performing Execution

In a crisis, it can be a time- and money-consuming effort to work hierarchically. In order to have a fast decision mechanism and to facilitate the execution process, intermediate managers can be skipped and personnel can have a direct connection with the top management. The following two factors are also important in this process (Regester, 1989),

- Being ready for making decisions under stress,
- Expecting that the worst scenario will occur.

3.5 Practising the Communication Policy

If the messages cannot be delivered to their targets during a crisis, failure will be inevitable. In case of a crisis, the mass media can focus on the construction company and look for its different mistakes. This may also enable the company to be inspected by the related public institutions about these mistakes. There are five dimensions of communication during a crisis. These are

- Trust,
- Honest behaviors,
- Professional expectations,
- Ethical values,
- Lessons learned.

In emergency procedures, the detailed communication steps can be listed as follows:

- Determine the characteristics of the crisis,
- Design the first reaction,
- Describe the warning and information procedures,
- Communicate with all stakeholders such as employees, customers, partners, and suppliers.

4. Crisis Management after Crises

In fact, it can be almost impossible to prevent crises (Sahin, 2014). The first work that will be done after a crisis is to perform an in-depth case analysis. Such an analysis facilitates to identify the size of company's future activities. After a crisis, there are four duties to be done. These are given below as summarized in Figure 3.

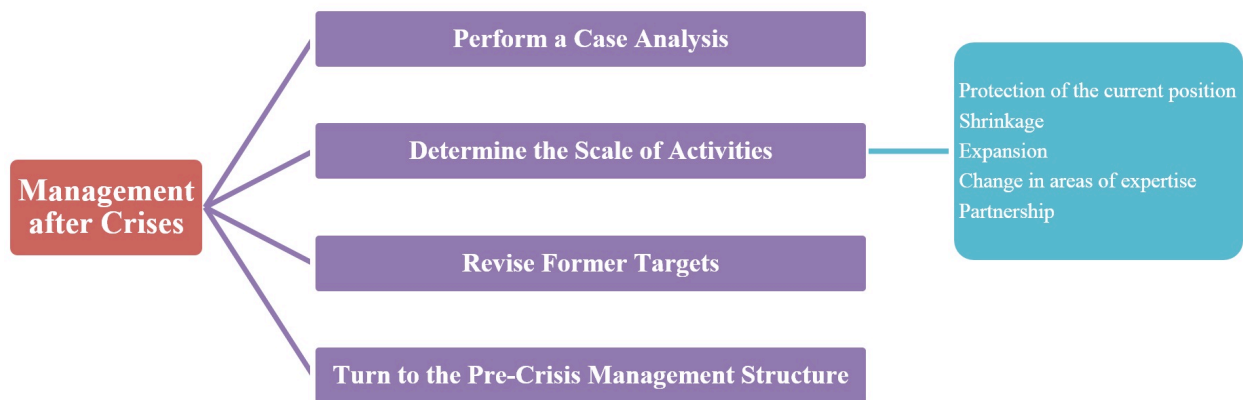


Figure 3: Management Practices after Crises

4.1 Performing a Case Analysis

In this analysis, both the severity and damages of a crisis should be evaluated. Crisis-focused perception of employees, the sensitivity of the company, and the performance of the top management in controlling the crisis should also be well-measured. In addition, the required changes in former strategies should be made.

4.2 Determining the Scale of Activities

After the financial structure and the amount of profitability are revealed, the company's scale of future activities should be redesigned. Different alternatives can be assessed in this regard. These can be listed as follows,

- Protection of the current position,
- Shrinkage,
- Expansion,
- Change in areas of expertise,
- Partnership.

Capabilities of a construction company depend totally on its position at the beginning of a crisis. For example; a construction company, which has finished its projects and has a sound financial strength, can purchase equipment and materials of the bankrupted companies in other fields of construction by paying a cheaper cost and can thus expand its activities in the future. On the contrary, a construction company, which has financial difficulties and has been damaged by a crisis, can prefer shrinking its potential activities.

4.3 Revising Former Targets

The revised targets of a construction company should be determined according to the new scale and be shared by all of its stakeholders.

4.4 Turning to the Pre-Crisis Management Structure

After a crisis, the pre-crisis management structure can be applied again. In this context, precautions taken should be canceled gradually and the central management approach should be leaved step by step. Employees who have superior efforts and sacrifice a specific amount of their salaries during a crisis should be appreciated and rewarded. Also, the crisis management team can be reorganized according to the performances of former members during a crisis. Moreover, the effects of a crisis on a construction company should be determined clearly and the accumulated experience should be recorded. Finally, the relationships with problematic employees, suppliers, subcontractors, and customers during a crisis should be evaluated again after the crisis.

5. Concluding Remarks

Crises are among the most important factors that can lead to complete the life cycles of construction companies. Especially macroeconomic crises affect large geographical areas and many industries. In this regard, construction companies should establish early warning systems, analyze internal and external environment constantly, prepare guides for crises, plan every single detail, and determine their crisis teams. These efforts seem to be vital for construction companies which deal with huge investment costs and thus cannot easily compensate their crisis-based financial losses. Some efforts can contribute to this kind of companies in escaping from the destructive effects of crises. These can be listed as follows,

- Revealing potential effects of a crisis on the company,
- Determining possible damages of a crisis,
- Estimating the time period that company will be affected by a crisis,
- Investigating company's strengths, weaknesses, opportunities, and threats.

Impacts of a crisis on a company should be shared by all stakeholders during the crisis through effective communication. Different responses to crises can be designed as (i) protection of the current position, (ii) shrinkage, (iii) expansion, (iv) change in areas of expertise, and (v) partnership. Construction companies should also share their preferences with stakeholders. In addition, the performance of personnel should be taken into account and employees, who have superior performance and sacrifice a specific amount of their salaries during a crisis, should be rewarded. Pros and cons of suppliers and customers should be evaluated as well.

Consequently, all of these managerial efforts can lead to better practices in changing current traditional perspectives of managers in the construction industry. This will likely become necessary for the future of construction companies in the 21st century when crises seem to be everyday business events.

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