

The actions in economic crisis

Summary: When economic crisis happens, building industry is struck heavily. How to react to the emergency situation is an important issue. In this essay, I try to analyze the actions from government to small companies in economic crisis. According to the structure of building industry, I analyze the advantages and disadvantages of PFI. As far as the actions for companies, I concluded some ways and considerations in management so as to keep reason in this period.

1 The status of building industry effected by the credit crunch.

British **construction activity** fell at its fastest rate in at least 11 years in June as housebuilders cut their operations at a record pace, a survey out today showed.

"Housing bore the brunt of the credit crunch fallout, reflecting the steep decline in new house building," Roy Ayliffe of CIPS said.

<http://www.guardian.co.uk/business/2008/jul/02/const-ruktion.housingmarket>

"The report, a round-up of surveys conducted by Cips and financial information provider Markit, released last week, revealed the construction purchasing manager's index falling at a "record" rate, and staff numbers at construction firms falling at an "unprecedented" rate."

<http://www.bdonline.co.uk/story.asp?sectioncode=426&storycode=3129764>



2 government interventions

In the crisis, the bankroll from government is a crucial feature for building industry, it is necessary for the carrying on of the project, liquidity, and it can save the situation to some degree.

During the economic crisis in 1979-1982, the government invested much capital in the construction industry. "The group of Eight delegation from contracting and the professions was in constant action during the year, persuade first Peter Shore and then Denis Healey to release more quickly the extra £400 million for construction promised for 1978. More pressure extracted a promise of a further £181 million boost in 1979 and 1980."

3 the change of building industry structure and its reasons

Component	Past	now
private		
Housing	40%	10%
Government		
Public work including schools, hospitals, Roads, power stations, other big infrastructures	45%	85%

Business	private	15%	5%
	Office		

Housing: ground to whole

	Public	Private	PFI
Proportion:	1	7	
Owner:	Home and community Agency	private developers	
Source of fund:	old housing corporation	40% have been dried up	
	can't borrow	can't borrow	
	Slow down	stopped	

Public work: It takes long time for government to planning, consultation for road, construction about 3 years before start, it will take 3-7years to build it. It takes long time before getting money, so it will do little to the liquidity

Private part suffered more, many projects has stopped from clients.
Government project is going.

4 about PFI

A public sector authority signs a [contract](#) with a private sector [consortium](#), technically known as a [Special Purpose Vehicle](#) (SPV). This consortium is typically formed for the specific purpose of providing the PFI. It is owned by a number of private sector investors, usually a construction company, a service provider, and a bank. The consortium's funding will be used to build the facility and to undertake maintenance and [capital](#) replacement during the life-cycle of the contract.

PFI contracts are for long terms, typically 30-60 years. During the period of the contract the consortium will provide certain services, which were previously provided by the public sector.

From the notion of PFI, we can get an idea that PFI provides a way of utilize the public funding and private service together, but, in economic crisis, will it effective to building industry?

Former RIBA president Jack Pringle called it the “last nail in the coffin” of PFI. “PFI has now descended into farce,” he said. “It has produced very poor results in terms of design, cost control and manageability, and now it can’t even finance itself.”-----from Building Design

“But within the wider PFI industry, architects are going out on a limb. Normally, if you talk to anyone working in PFI, they’ll say it’s good. But then they’ve got a vested interest. Has the construction industry turned against PFI? No — they’ve got no other work. And I haven’t heard anything from lawyers or PFI’s technical experts. Mind

you, architects are probably the ones who suffer most with PFI. They get sidelined — it's often not very rewarding for them.

<http://www.bdonline.co.uk/story.asp?sectioncode=426&storycode=3135425>

In the credit crunch time, using PFI is a good way to put some money into private companies, make the work flow, make the situation better, but the method apparently has a lot of problems. The problems are: not good for the sustainability, the poor quality of design, unfair bidding process.

“The PFI process is a major barrier to reducing the carbon emissions produced by buildings, a new report claims.”

<http://www.bdonline.co.uk/story.asp?storycode=3102295>

“Richard Rogers has called for the government to abandon PFI and spend taxpayers' money directly on greening buildings, public infrastructure, schools and hospitals.”

<http://www.bdonline.co.uk/story.asp?sectioncode=426&storycode=3135425>

“The whole point of having three bids for one contract is to deliver better value for the taxpayer than via the old route of public funding. This is why PFI has been allowed to flourish. But after a week in which a hundred construction companies have been accused of rigging bids (see page 6), we might conclude that PFI in all its various guises is not only anti-competitive, but that it eventually leads to corruption.”

<http://www.bdonline.co.uk/story.asp?storycode=3112015>

I think the problems are resulted from there is no regulations to control the running of PFI, and the responsibility of the service given by PFI is not distinctive. To improve the PFI model, the first thing to do is to nail down the responsibilities and make regulations.

5 some timely ways used by architecture companies:

cost cutting:

Current expenditure is recurring spending or, in other words, spending on items that are consumed and only last a limited period of time. They are items that are used up in the process of providing a good or service. By contrast, **capital expenditure** is spending on assets. Cut the capital cuttings, spend money on current expenditure is a effective way for the situation.

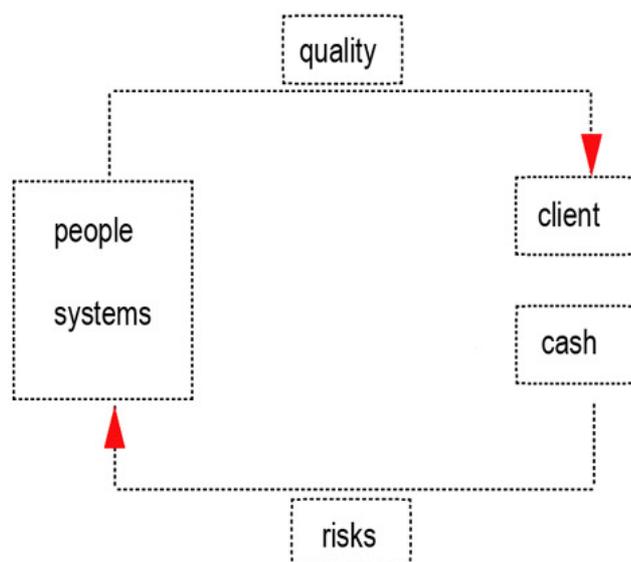
no-fee or low-fee bids and work

It is a temporary measure to continue the cooperative relationship with the client, it is important to use this method while the quality of work is not effected. Free work seems to reduce the cost of labour force, but to monitor the status of work, it will take some other expenditure to management. Meanwhile, clients are rightly concerned that architects working for nothing will take risks and that the service they'll be getting will be inferior.

6 Keep running the company in economic crisis considering these:

- **Clients:** immediate action to retain existing, extend via referrals and expand in established markets where you are already credible; actions to ensure you are close to all your clients.
- **Cash:** action to initiate a cash flow watch, zero based budgeting, and rolling forward review. A regular challenge to all expenditures.
- **People:** proposals to prune hard and early in line with the forward load; establish a total pay freeze, introduce performance related pay. Back these largely negative actions with people development programmes and greatly increased internal communications. Prepare detailed thoughts on how you are going to practice tough love.
- **Systems:** a focus on the imperatives, fit for purpose, essential and simple. A clear understanding that usability is everything.
- **Risk:** prepared plans for the worst, watching clients closely, and ensuring detailed paper trails exist. There will be complaints and claims - make sure you will be ready.
- **Quality:** you know this to be utterly critical, set actions in hand to monitor and reinforce quality - this will be the corner stone of your re-emergence in 2012. Quality matters.

<http://www.jamescookecoaching.com/content/managing-in-recession/maintaining-balance>



In the diagram, people and systems are the internal considerations for manage, if the staffs know how your company can run well, they related their performance to the survival of the company and to their salary, they could work more actively. Especially, to organize the people work

effectively, is the form of a good system. These will become a powerful sustain for your company.

Because of the economic situation, the cash problem is always the biggest problem in the process of running an architecture practice, to control the flow of cash, to balance the income and outcome, is a decisive action.

Client is like an indicator, keeping in control of the situation of client can offer a context for decision making, at the same time to develop the client network can help to find new opportunities in future.

At last, keeping good quality of the work as usual is sustainable, it will be mainly based on the regular management of people and the systems. To estimate the risk is in case of the happening of client claims.

In each case the structure of the plan has 4 parts:

- Where are we today (think in terms of strengths and weaknesses);
- Where will we be in three years time (see below) think in terms of scenarios, opportunities and threats;
- What are the key actions to be made to get there;
- How will these actions be reported and monitored.

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