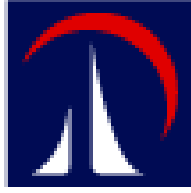


الجامعة  
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The  
British University  
*in Dubai*

**A Study on the Innovative Business Strategies  
Adopted by Different Firms in the  
Construction Industry during the Global  
Economic Crisis in the U.A.E**

دراسة حول استراتيجيات العمل المبتكرة التي اتخذتها مختلف  
الشركات في صناعة التشييد خلال الأزمة الاقتصادية العالمية  
في الإمارات العربية المتحدة

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## Abstract

Firms around the world must often manage and survive economic crisis. This paper examines how companies are affected by economic crises, to assess the type of strategies adopted by companies in such conditions, and to identify which strategic methods were effective for the companies to maintain successful performance, despite turbulence in the operational environment. This article analyzes and synthesizes the information from academic theory and business experience about managing through an economic recession.

Semi structured interviews was conducted with the five different organisations in the UAE construction sector. Data were analyzed and the results were summarized in three tables. The findings provide valuable insights for decision makers and business strategic developers in times of economic crisis. Various strategic approaches adopted, at the time of recession, by the companies in the construction sector, were studied; the modification of strategies appropriately can maintain or improve their performance in time of crisis.

**Keywords:** *Recession, Pressure, Threats and Opportunities, Business Strategy*

## تلخيص

يجب على الشركات في جميع أنحاء العالم إدارة الأزمة الاقتصادية للبقاء والاستمرار. وتبحث هذه الورقة كيفية تأثر الشركات بسبب الأزمات الاقتصادية ، وتقييم نوع الاستراتيجيات التي تعتمد عليها الشركات في مثل هذه الظروف ، وتحديد الأساليب الاستراتيجية التي كانت فعالة للشركات للحفاظ على الأداء الناجح على الرغم من الاضطراب في البيئة التشغيلية.

هذا المقال يحلل ويجمع المعلومات من الناحية النظرية الأكاديمية والخبرة في الأعمال التجارية حول كيفية إدارة مرحلة من الركود الاقتصادي.

وقد أجريت مقابلات شبه ممنهجة مع خمس منظمات مختلفة في قطاع الإنشاءات في الإمارات وتم تحليل البيانات الخاصة بهذه المقابلات وتلخيص نتائجها في ثلاثة جداول. وتوفر هذه النتائج معلومات قيمة لصانعي القرار ومطوري الأعمال الاستراتيجية في أوقات الأزمات الاقتصادية كاعتماد نهج استراتيجية مختلفة في وقت الكساد من قبل الشركات في قطاع البناء ودراسة وتعديل استراتيجيات ملائمة يمكن من خلالها الحفاظ على أو تحسين أداء هذه الشركات في وقت الأزمات.

موضوع البحث : الركود الاقتصادي ، الضغط والمخاطر والفرص ، استراتيجيات الأعمال

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## **CHAPTER -01**

### **INTRODUCTION**

## 1.1 Background

Prior to the start of oil exports in 1962, the main economic activities of the small desert principalities comprising the modern United Arab Emirates (UAE) were pearl production, fishing, agriculture and herding. With the 1973 oil boom, oil became a dominant factor in the UAE's economic growth and provided substantial investible surplus for accelerating economic development. The UAE's massive oil revenues allowed bypassing the conventional stages of development to reach the current stage of high mass consumption. The UAE's growth is not based on the conventional growth drivers of saving and capital accumulation, but rather on a resource based development strategy (Pradhan, 2009). The deployment of a large oil windfall, largely targeted at a once-and-for-all boost to the social and economic infrastructure during the oil bonanza of 1973-1982, enabled the UAE to achieve a spectacular degree of economic development. Today, the UAE has achieved an income level comparable to that of the most industrialized nations.

The UAE is an open market economy with a high per capita income and a huge trade surplus. The process of economic diversification is ongoing at a rapid pace. The primary goal of the diversification process is to create high value added jobs in a wider array of sectors in order to make the growth momentum more sustainable. Successful efforts of economic diversification during the past decades have resulted in a declining dependence on oil. It is important to note that there was an increasing shift from the public sector to the private sector as the main engine of growth through channelling huge investments in key sectors for diversification. Highly liberal and market-oriented policies, such as the Free Trade Zones - offering 100% foreign ownership and zero taxes – have attracted huge foreign investments. Apart from investment in highly sophisticated physical infrastructure, the UAE government is also stepping up investments in social infrastructure-health care, education, training and innovation, in its attempt to create knowledge based economic structure in order to integrate better with the rapidly globalizing world economy.

During the last three years (2005-2007) higher oil revenues, cheap credit and housing shortages resulted in higher asset prices (shares and real estate) and flared up consumer inflation. In these years, the UAE's efforts to diversify away



from oil have fuelled a massive growth in buildings and investment in the country, with the construction sector emerging as an important economic driver. The importance of the construction industry can be seen by the country's project value relative to its GDP. The value of projects in the UAE in 2008 is 4.6 times the estimated GDP value in 2007, compared to just 1.3 GDP in Saudi Arabia and 2.3 in Oman (Bhattacharya, 2008). So, in these years there was a great boom in the real estate sector which helped the construction industry to grow further. New developments like high rise buildings, residential complexes, manmade islands and infrastructure projects all help keep the construction industry as a very demanding business sector.

The economic crisis (2007-2010) was triggered by a liquidity shortfall in the United States banking system and has resulted in the down fall of large financial institutions and the decline in stock markets around the world. This recession was considered to be the worst financial crisis since the Great Depression of the 1930s so, this recession also hits the UAE business sector and the major affected sector is the real estate and the construction industries. The primary factor has been the continuing decrease of oil prices as a result of the global recession. This is properly reflected in the continuous decline of share prices and the overall stock market index. While it seems that there is no acute problem of liquidity, panic selling has become a major worry for the government to restore confidence in the stock market. Moreover, despite ample surpluses and consequent government expenditure, project financing has been difficult given the global credit squeeze and increasing cost of borrowing (Worth, 2008).

Besides, large project finance will not be as readily available as in the past and might affect the cost structure, or even the feasibility of some mega industrial projects. The crash in the Dubai real estate sector continues to be a major drag on the economy. There appears to be a consensus that prices and rent are currently down between 20-50 percent from their peak period. In addition, according to a report in Arabian Business (Sambidge, 2010), as of April 2010, an estimated \$364 billion worth of projects (28 percent of the \$1.3 trillion pipeline) have been put on hold or cancelled in the UAE, almost all of which are in construction.(Appendix-1).

The retail, trade, and tourism sectors have also been hard hit by the global recession, and this has been exacerbated by an outflow of expatriate workers who have lost their jobs, leading to a further compression of demand for goods, services, and real estate. Thus, the current economic environment is likely to be a sharp reality check for the UAE, prompting a healthy re-prioritisation of the huge project pipeline, a correction in the overheated real estate market, and a wake-up call for banks. However, although the large exposure to Dubai real estate may continue to act as a drag, positive interventions by the authorities, banks, and corporations to strengthen and rebalance their positions, will ensure that the UAE is well placed to take advantage of improving global conditions in 2010. The UAE government has responded proactively to this latest crisis by injecting \$33bn into the local financial sector and guaranteeing all deposits in international and local banks.

## 1.2 Research Objective

Various economic environments mostly resulted in diverse business strategies. As previous explained, the global economic crisis / recession during 2007- 2010 was considered to be an abrupt change in the external environment. In the UAE, the economic crisis hit the real estate and construction sectors severely. Therefore, the main objective of this research paper was to find out the strategy and the action implemented by the firms during this recession period (2007-2010). The research was carried out mainly in the construction industry. This research paper examines how the companies in the construction industry are going to behave in the current economic downturn and what strategic measures are being implemented to either overcome or to be sustainable in the market. The companies which participated in the research are the Property developers, design consultancies, and the main contractors. The companies have both local and international experience in the construction market. All the organisations participated in this research have a vast experience in the UAE construction industry.

This research reviews the available literature and a field study of the companies in order to:

- 1. Identify the pressures, threats and opportunities facing businesses operating in difficult economic conditions such as the current economic recession in the UAE (Objective -01)*
- 2. Identify the strategies adopted by companies in the UAE that have experienced such conditions (Objective -02)*
- 3. Assess which strategies proved to be problematic and those that have allowed businesses to respond dynamically, survive and emerge strongly as economic conditions improved (Objective -03)*

This research study on the relationship between strategies, external environment and performance must include variables that involve business scope and resource commitments. How the organisation in the construction industry reacts to this economic crisis? What are the strategies they adopted during this period? How a firm may better develop insight into how it should formulate and implement its strategy in order to retain, or create, a competitive advantage in the changed environment in which it operates. Adaptation to a changing environment was a necessary condition of organisational survival under the recession period; the failures to do so lead to performance decline and exit.

Sources were identified using searches of electronic databases, Google Scholar and other Internet sources. A substantial amount of old and recent literature providing commentary and analysis of the current or previous crisis and business responses to it, are available, including newspaper articles and studies by business bodies, management consultants and others. Sources vary in their aims – whether description, explanation or prescription - and quality. The review places greatest influence on sources that present convincing explanations as to why businesses adapt in the way that they do, linking business responses to the conditions that enable or constrain them to adapt in particular ways. Sources focusing specifically on firms' strategic adaptations under recession conditions, however, are few.

The report is structured as follows. The next chapter defines what a recession is and the global crisis (2007 -2010). The second chapter discusses the academic

literature about the strategies adapted during the recession; the third chapter discusses the research methodology and the fourth chapter provides a summary of the data analysis and results. The fifth chapter provides discussions on the results of the current situation and business strategy. The final chapter provides key findings that are presented with relevant issues identified.

### 1.3 What is Recession?

This section discusses the definition of a recession and how it influences the industry. Recessions impact unevenly on industries, countries, regions and firms. Recessions generate contradictory tendencies; for instance, declining total expenditure and decreasing input prices. During the period of recession, customers are less willing to spend, unemployment rises, credit becomes less available and competitors engage in price cutting and other desperate moves to produce sales. Recessions can contribute to the structural economic change as resources are transferred between existing industries and new industries.

Bryson (1996) defines a recession as periods of creative destruction of economic restructuring during which industries decline terminally while new ideas, technologies, products and industries emerge and become the driving forces of subsequent economic growth. Recession conditions contribute to economic restructuring through at least two distinct processes: first, through business entry and exit of firms; and second, by motivating incumbent firms to adapt products and processes in order to increase or maintain business performance. Hence, economies adapt through changes in the population of businesses and through changes in the behaviour of incumbent firms.

Recessions cause significant declines in resources available to firms because customers spend less, lenders lend less, and competitive rivalry increases. Businesses cut back on spending to conserve cash, particularly on investment spending that can be put off or delayed. Industrial and business customers may become disloyal, demand renegotiated contract terms and alter purchase patterns. So profit margins then fall as a consequence of recession. (Pearce and Michael 2006). Regarding price, competitors jockey for position with customers and suppliers to increase their own cash flows at the expense of others. Prices are cut

as a result of, heightened competition, downward pressure on revenues and declining productivity lower margins during recessionary periods (Domowitz, Hubbard and Petersen, 1987). This was intensified by international competitors when the recession has a global impact.

During recession, banks become stingy with their business loans because they seek to improve the quality of their loan portfolios, resulting in further business decline and failures. In short, recessions cause lower sales, decreased margins and reduced credit, yielding significant shocks to the resources available to the firm, thus threatening its survival. Another definition by Srinivasan, Rangaswamy and Lilien (2005): recessions can severely affect the performance of firms and even their very survival. However, all firms are not equally affected by a recession. Some firms view recessions as opportunities to strengthen their businesses, invest aggressively and establish their advantage over their weaker competitors. Whereas others cut back, waiting for the recession to pass. Recession opportunity perception is the firm's assessment of a general economic downturn as an opportunity.

Research by Dutton and Duncan (1987) and Dutton and Jackson (1987) suggest that how an organisation perceives a change in the environment (in this case a recession) significantly affects both the level and the type of response. Firms that view a recession as an opportunity perceive that they have control over both the situation and the resultant outcome and therefore, invest during the recession (e.g. building, marketing, assets). Firms that consider the recession a threat, perceive a lack of control over the situation and the resultant outcome and respond by conserving resources. In the literature review chapter additional theoretical description about the merits and demerits of a recession was provided so that the reader can understand about it fully.

#### 1.4 Global Crisis (2007-2010)

Particular recessions have particular causes that shape the depth and duration of the downturn. The worldwide recession of 1973-74, for example, was influenced by the restriction imposed by oil-producing countries and the subsequent rise in oil prices. This contributed to a depression in the advanced

economies - high price inflation combined with weak economic growth while the precise cause of the present global crisis and the weight to be attached to them in particular national contexts continues to be debated, a number of points are widely accepted.

The immediate trigger for the recession was the financial crisis, embracing banks and other organisations in many countries, engendered by the widespread default of subprime mortgage holders in the USA (Jain 2009 & Wong 2009).

Subprime mortgages triggered defaults on other financial products because payments to creditors holding derivative products could not be made. This encouraged investors to recover their investments, stimulating a run on a number of institutions. This caused the banks to reduce lending to each other and this stimulated a general contraction of liquidity in the wholesale finance markets. The global nature of the financial services industry led to problems originating in the US subprime mortgage sector being transmitted throughout the world. The crisis has led to the collapse.

Government bail-out or partial nationalisation of major financial institutions in the US and Europe. This crisis hits the UAE economy also in the real estate and the construction industry. (IMF 2009)

## **CHAPTER -02**

### **LITERATURE REVIEW**

## 2.1 Introduction

A literature review was conducted based on the research objectives. First of all the reader should understand the definition of various terms like crisis, business strategy and recession. This section also investigates the pressures, threats and opportunities in the recession time and the strategic measures adopted by the organisations. This research focuses on economic crises and firm-level strategies for managing them.

Crisis represents a “low probability, high impact situation that is perceived by critical stakeholders to threaten the viability of the organisation” (Pearson and Clair, 1998). Grewal and Tansuhaj (2001) suggest that crises come in many forms, including natural disasters such as earthquakes and meteor showers, technological disasters, firm-level crises such as labour strikes, and economic crises such as the one in Asia in 1997 or the global crisis in 2008. Another definition for the crisis by Latham (2009) as events or changes in the internal and external environment can include upturns, recessions and negative trends within the industry or the loss of an important customer. Different economic environments typically reward different business strategies.

During the flourishing time of the market, there was a strong consumer demand for products and services. In these periods company’s revenue increases and the managerial focus was mainly on acquiring and allocating resources to meet this growing demand. So firms add employees, invest in equipment and increase the production. In contrast, during periods of contraction or recession customers were less willing to spend, unemployment rises, credit becomes less available, and competitors engage in price cutting and other desperate moves to improve sales. So a better strategy was required for the companies to suit with the business environment. For this research the literature review was done on the business strategy, pressure, threats and opportunities during the recession, various strategic methods in the recession and the effective strategy during the recession. It is important at this stage of the research to introduce the reader to various theories related to this research, as will be explained in the subsequent sections.



## 2.2 Business Strategy

What is business strategy? The common definition is the foundation of successful business. Europe's best selling strategy paper *Exploring corporate strategy* by Johnson (2005) attempts to define business strategy as "Strategy is the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations".

Another definition for the business strategy is the determination of the basic long- term goals of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. But there are, of course, different types of business strategy and the best business strategies must steer a course between the expected internal pressure for business continuity and the demands of a rapidly changing world for revolutionary business strategies. Business strategy is essentially about two questions: what kind of business is the firm in? And, how do firms compete in the market? Strategic management is concerned with how firms generate and sustain competitive advantage in order to generate superior profit.

A basic principle of thinking about strategy concerns the inseparability of organisation and environment. The organisation uses strategy to deal with changing environments. So the strategy remains unstructured, un-programmed, non-routine, and non-repetitive. Not only are strategic decisions related to the environment and non-routine but they also are considered to be important enough to affect the overall welfare of the organisation (Hambrick, 1980). Beard (1981) defines the business-level strategy in terms of variation in firm characteristics relevant to competitive success, or failure, within a given industry. A firm would have a separate business-level strategy for each industry in which it competed and the relevant characteristics of the firm's business-level strategy would be measured relative to the range and norms of each characteristic in each of its industries. The above literature cited Hofer and Schendel (1978) again provides a

brief definitional statement: “At the business level, strategy focuses on how to compete in a particular industry or product-market segment. Thus, distinctive competences and competitive advantage are usually the most important components of strategy at this level”.

Normally, businesses are reported to assess their strategic position by: (a) scanning the environment for potential market opportunities and threats; (b) evaluating their strategic capability; and (c) assessing the enablers and constraints of strategy. Firms differ in how they undertake these activities. In large enterprises strategic analysis, choice and implementation are often distinct activities, carried out by different people, whereas in small firms, a single person might perform all three, often at the same time (Scott 2009). So it is essential to have an appropriate strategy for a successful business.

### 2.3 Pressure, Threats and Opportunities during the External

#### Environmental Change

In the introduction chapter the term recession was defined but still the reader should know what all the pressure, threats and opportunities are during a recession. External environmental changes, like economic crisis, reshape the opportunities and threats that firms face and are likely to render existing business strategies ineffective (Meyer,1990). Various types of environmental change can occur, with which businesses have to cope in times of a recession, such as an environment of falling. Adapting to this environmental change was a capability that business leaders needed to develop in order to survive in the market. So firms tend to suffer from organisational inertia, which prevents them from adapting appropriately to environmental change. DeDee and Vorhies (1998), Pearce and Robbins and Pearce (1993) defined that environments do appear to be more disturbing, complex or chaos perspective should be used to understand the dynamics and behaviour and to guide strategy development.

Pearce and Michael (1997) suggest that the recession results in the decline of the resource market value and it does not only create new threats but also provides important new opportunities. Recessions create opportunities in the

market. During a downturn of the business cycle, customers are often willing to rethink their existing contracts and relationships and as a result, are more willing to switch to other suppliers. Second, recessions are likely to increase the returns on marketing activities. In the literature McCarthy and Sutcliff (2002) an example was mentioned about a successful new product introduction occurred during the 1990-1991 recession. Paychex, a nationwide provider of payroll processing services to small and medium-sized companies, responded to its initial recession-driven downturn by undertaking the development of an expensive new product called Taxpay. The highly successful introduction of Taxpay in 1990 infused Paychex with a burst of new revenues, which helped the company withstand the recession.

Pearce and Michael (2006) found that recession-induced declines in the market value of resources, not only create new threats but, provide important new opportunities. Recessions generate both an operating effect and a strategic effect. The operating effect means the decline in resources affects a firm and the strategic effect is that the decline affects all firms. By being better able to conserve, maintain and attract resources relative to competitors during recession and to deploy those resources to capture customers, competitive advantage can be built. The recession may offer opportunities to introduce new services such as financing that enhance a firm's value proposition for budget-strapped customers.

Reeves and Deimler (2009) shows some examples related to recession as an opportunity like in the 1989-1992 recession. For example, U-Haul, the North American truck-rental business, was facing increased price competition. Consumers were extremely cost conscious and there was little room to differentiate on service or capital improvement. Instead, U-Haul met the competition through low rental charges but found a rewarding adjacent market selling high-margin add-ons such as cardboard boxes, tape, twine and other packing materials. With this extended offering, U-Haul achieved profit leadership, boasting a 10% operating margin compared with the industry average of 3%. Another example BAA, the UK-based airport-management company in 1990, faced a recession in its domestic market. At the same time, it faced a significant

strategic challenge from an upcoming regulatory shift: the company feared that its productive duty-free-shopping business at Heathrow and other airports could collapse. But, instead of cutting back, BAA chose to increase its retail space by 50% and shift its retail mix toward branded luxury boutiques. So literature points out that the market diversification will help the firm to stay alive in the market. In the following section the literature review tries to find out what all the strategic methods adopted by the organisations in the recession or economic crisis.

## 2.4 Strategies Adapted during the Recession

How firms manage the recession was very important and it has been straightforward that is reduce expenses like reducing research and development expense, reduce customer service, reduce the overhead cost and laying off employees may have the desirable effect of improving near-term results, but increase the likelihood of permanent damage to competitive advantage and market share growth. The best-known general measures during the recession include reducing costs, cutting production, reducing investment, entering foreign markets, working more with equity capital, improving efficiency, re-structuring debt, these can have no positive impact on company performance unless they increase sales (Koksal and Ozgul, 2007; Zehir, 2005; Laitinen, 2000; Beaver and Ross, 1999; Pearce and Michael, 1997).

Grewal and Tansuhaj (2001) show that the environmental change within an industry stimulates the formation of inter-organisational relationships and promotes experimentation with new organisational forms. This literature mentioned three distinct operating strategic measures that are revenue generation, cost reduction, or asset reduction.

Pearce (2008) suggests that the retrenchment and organisational restructuring are the strategic responses which firms adopted during an economic downturn. Retrenchment consists of cost cutting and asset reductions. Organisational restructuring includes the retrenchment activities of downsizing and plant closings, delayering, outsourcing, and departmental and divisional reconfiguration. Pearce and Michael (2006) also identifies the importance of the

retrenchment strategy, reproductive or regenerative strategy and the evolutionary strategy. Hofer(1980) builds upon previous research by Schendel, Patton, and Riggs (1976), which specifically cites economic recessions as a cause of decline that requires an appropriate strategic response. Hofer further contends that the strategic response will take the shape of three distinct operating strategies: revenue generation, cost reduction, or asset reduction. The literature review identifies the major broad categories of strategy in recession conditions: retrenchment, restructuring, investment, and ambidextrous strategies. Graeme (2009) discusses the different strategies during a recession, such as offensive and defensive strategy.

Pearce and Michael (2006) also noted the importance for position of companies in multiple markets and geographies. It was highlighted that the importance of holding a position in multiple industries has proven valuable to companies in reducing the variation in cash flow caused by one industry sector. To position for recession, firms can seek to be active in multiple geographies, industries, and markets. Internationally, when one market is weak, there should be other markets in the world where products can be sold.

During recessions, companies that spent proportionately more on research and development were found to have performed better than others (Morbey and Dugal, 1992). Koksai and Ozgul (2007) finds out that to be successful during an economic crisis decision maker and planners need to focus on the promotional strategy. But Gurkov (2009) identifies that the best way of dealing with recession is by cost leadership efforts and differentiation efforts. Reeves and Deimler (2009) mainly focus on opportunity during recession and highlights the importance of investment during recession; social strategies, like partnering with the suppliers, partnering with the competitors, investment strategy and the evolutionary strategy, which typically revolve around the business model innovation.

Some of the literature also identifies the business size as an influence on the strategic adaptation to difficult economic conditions. A firm's size can affect the nature of external environmental impacts and the mechanisms through which they are transmitted, as well as, the firm's ability to respond. Business size shapes perceptions of external pressures, threats and opportunities, the business strategies

adopted, and the levels of performance achieved. Interestingly, some studies suggest that small businesses are less likely to perceive negative impacts on performance during recession periods (Shama, 1993; Latham, 2009). Large companies tend to have greater scope for strategic choice because of their superior resources to scan the environment for potential market opportunities, to develop a wider range of capabilities and also facilitate greater resilience to withstand difficult times. This particularly applies in the case of multinational firms, with operations spread across many countries. Small businesses are perhaps more vulnerable to market shifts as they lack resources and usually operate with narrower product portfolios, rendering them at greater risk from industry-related downturns; yet some studies find that small businesses report more limited impacts than larger enterprises (e.g. Shama 1993). Shama also finds that small and large firms differ in their perception of recessionary effects, as well as reactions to recessionary conditions. That is, Shama's research indicates that whereas larger companies reacted by cutting costs, smaller organisations focused on market segmentation tactics, prompting the author to conclude that "finally, this article has demonstrated that small businesses are sufficiently different from large businesses to warrant special attention from policymakers".

Small businesses are, therefore, more likely to react to environmental shifts than be in a position to direct them. But, conversely, small firms often possess the flexibility to adjust resource inputs, processes, prices and products quickly in response to environmental shocks, a crucial capability to facilitate business survival. Small firms might also be more willing to engage in risky investment/innovation behavior to improve performance because they realize that the current successful situation cannot continue indefinitely. Latham (2009), in a study of US software firms during the 2001-2003 downturn, found that start-up firms were much more likely than larger businesses to pursue revenue-generating strategies as means of coping than strategies entailing cost reductions. Such a view is consistent with the wider literature that start-ups often seek to position themselves in particular market niches.

In summary the major strategies identified through the literature are retrenchment, restructuring, investment and ambidextrous strategy. These strategies are described in more detail, in the following section.

## 2.5 Retrenchment Strategy

Retrenchment consists of cost cutting and asset reductions. The primary objective of retrenchment is to stabilize the firm's financial condition, which is fundamental to successful turnaround. The range of retrenchment responses includes cost cutting, asset reduction, changes in management, debt restructuring, reduced product lines, and the implementation of tight cost controls. (Hambrick and Schecter, 1983; Robbins and Pearce, 1992; Latham, 2009). Retrenchment, defined as a set of organisational activities undertaken to achieve cost and asset reductions and disinvestment, has received strong academic and practitioner support as an expeditious means for reversing declining financial performance (Schendel, Patton, & Riggs 1976; Hofer 1980; Heany 1985; O'Neill 1986; Robbins & Pearce 1993; Pearce & Robbins 1993). Retrenchment is of special importance to small firms during recession (Robbins and Pearce 1993). Slatter (1984) endorsed the use of retrenchment during the business cycle. The research suggests that in difficult environmental conditions, firms that engage in retrenchment enjoy a significant performance benefit over rivals.

The profile of typical retrenchment includes employee layoffs, facilities closings, consolidation of jobs and departments, decentralization, and much wider spans of control. These appear to be the most common approaches adopted by businesses to deal with recession conditions, especially in the short-term. Basically divestment of businesses, shutting down of establishments, reductions in employment; expenditure cuts on a wide range of activities including research and development, marketing and employee training are the steps taken in the cost reduction process. It is easier to reduce costs than generate additional revenue; many businesses choose to cut back. Pearce and Michael (2006) found out that the recession experience has shown that retrenchment, through cost and limited asset reduction, can enable firms to rebound from a recession.

Geroski and Gregg's (1994) study of different UK manufacturing and service companies during the early-1990s recession found that most firms adapted by refocusing the business, understood largely in terms of controlling costs, particularly by laying off labour and closing establishments. Expanding or reducing product lines was much less common. During recession, firms have additional incentives to cut costs, in contrast to cyclical upturns where there is less incentive to do so because revenues are rising. Investment in plant and equipment declined but investment in intangibles like training, research and development and advertising were affected less by recession.

Retrenchment strategies appear to be the most common approach adopted by businesses to deal with recession conditions, especially in the short-term. In a positive point of view, the current recession provides a stimulus for firms to re-examine their portfolios and focus on the core, as well as giving them a good reason for increasing efficiency - cutting operating costs and divestment of non-core assets. In a negative point of view, cost and asset-cutting might be considered as a spontaneous reaction to poor market conditions, rather than a proactive strategic repositioning of the firm, and one that weakens the capacity of the business to respond when conditions improve. There is some sensitivity to the variable impacts of recession on particular businesses and to the heterogeneity of business responses but beyond that, there is often little analysis elaborating why firms choose to retrench, the conditions enabling or constraining retrenchment, or the connections between retrenchment and business performance.

### 2.5.1 Cost Cutting Strategy

Cost-cutting strategies are employed by firms that are closest to a break-even point, that require short-term fix in order to demonstrate profitability. The expectation is that cost-cutting strategies may provide positive results in a more timely fashion than revenue generation or asset reduction. Cost-cutting strategies are focused on efficient operations at all levels of the organisation under the assumption that during a period of environmental uncertainty, the customer will find the lowest price, thus driving down sales margins. In effect, organisations that possess scale and scope economies will only be able to maintain margins if



they exert influence on the single aspect of the equation they can partially control, namely internal costs. From a functional standpoint, cost reduction strategies require efficient scale production capabilities, vigorous pursuit of cost reductions through learning effects, and cost minimization in areas like research and development, service, sales, and advertising.

Some of the literature (Latham, 2009; Slatter, 1984; Benson, 2010; Hofer, 1980 and Schendel, 1976) identifies the typical cost cutting measures include the following:

1. Working hours and wages – to be reduced, as well as cuts in bonuses
2. Human resource – switching from seniority-based promotion and pay system to one based on ability; retrenchment of unproductive employees; compulsory upgrading of skills and knowledge by older workers and so on
3. Productivity – profit sharing creates an incentive for employees to enhance productivity
4. Bigger orders and lower bids – rewarding suppliers who meet quality standards with bigger orders help to achieve lower bids
5. Competitive bidding – where subcontractors are selected through competitive bidding rather than through negotiation
6. Time – management of time to include the handling of paperwork only once, cutting back on report writing, holding fewer meetings to save time
7. Overheads – immediate and drastic overhead cost reduction forms part of the turn-around strategy, including turning off unnecessary lights, making telephone calls at off-peak hours, reducing unnecessary travel
8. Rationalising personnel – the reduction of employment involves the rationalisation of productive capacity and product lines. Only the core personnel are retained and utilised fully to minimise overheads. Additional staff can then be employed on a project basis
9. Rely on inexperienced staff – where young and inexperienced staff are employed to take on a larger scope of work, including that of older employees who have been made redundant

10. Stock control – minimise the level of unproductive stocks that are held as this lowers interest charges as well as costs warehousing and materials handling

### 2.5.2 Asset Reduction Strategy

Asset reduction strategies, which involve the sale of a business unit, product line, and/or service line, maybe adopted by firms in response to environmental uncertainty as a strategy of last resort. Such a course of action may be considered by firms that are furthest away from the break-even point, but Hofer states that asset reduction strategies should be deliberately and carefully considered, since they have potentially far-reaching and potentially damaging effects on the organisation. Asset reduction strategies provide a one-time infusion of non operating cash flow that might mitigate cash flow strains brought on by environmental discontinuity. By divesting assets, the firm lives to see another day, but at the potential expense of long-term viability, since these assets might have long-term value. (Latham,2009; Hofer, 1980 and Schendel, 1976).

### 2.6 Restructuring Strategy

Restructuring is the process of transferring production from an expensive site to a cheaper one. It may involve the transfer of activities from a developed to developing country or from high to low wage countries as in the case of Japanese firms moving their operations overseas. Townsend (1983) observed that in the 1980's recession in the United Kingdom, virtually all major corporations at some point in time restructured their activities in the face of over-capacity and high costs.

In process restructuring, on the other hand, covers marketing, product development, production purchasing, finance and services. Its main objective is to bring the company to an acceptable minimum level of performance. Production restructuring, for example, leads to improvement in quality, elimination of waste and reduction of the production cycle. Cost improvement can be achieved through out-sourcing and buying directly from the producer. There is evidence to suggest

that the larger firms are out-sourcing some of their activities to specialist forms. The selection of local talents, with some background in management and providing them with training, forms part of functional restructuring. Laying off redundant staff and intensive training in functional skills can help to enable successful functional restructuring only if coupled with basic structural design to provide for the elimination of most of the hierarchical layers of the old structure. Staffs were encouraged to acquire new skills and to further develop skills and capabilities that they already possessed. Workers who are affected by technological training should be entitled to full retraining during hours at the employer's expense. (Latham, 2009; Pearce and Michael, 2006; Gurkov, 2009 and Robbins, 1998)

The following components should be considered in restructuring:

1. Changing top management when passing from one restructuring phase to another.
2. Adding new people (with new skills) to manage teams filled by individuals outside the organisation, particularly if it has been growing rapidly before the crisis (Slatter, 1984)
3. Constant head-hunting, training and investment in human capital remain the essence of building up managerial competence
4. Educate management and labour about the new reality brought about by the crisis
5. Management attitude must be changed permanently

## 2.7 Investment Strategy

This strategy involves expenditure on innovation and market diversification, analysts have identified firms choosing to adapt during recession by pursuing investment strategies. In contrast with retrenchment, such firms perceive recessions as opportunities to invest, innovate and expand into new markets in order to achieve or extend a competitive advantage during the recession and beyond. Many of today's household names launched successful businesses during recessions. For example, Rockefeller and Carnegie established dominant positions in the emerging oil and steel industries during the 1870s

recession by taking advantage of new refining and steel production technologies and of the weakness of competitors (Bryan and Farrell 2008). Another example was Hershey developed their brand and distribution advantages during the 1893-97 depression and Kelloggs grew out of the 1920s depression (Rumelt 2009). Also the motor, electrical and chemical industries that were crucial to post-war British industry became prominent during the 1930s. The Microsoft and Apple corporations were both founded in the mid-1970s, following the oil-crisis.

Williamson and Zeng (2009) identify that the recession is as an opportunity to implement strategic change that would otherwise not have occurred. In contrast with retrenchment, such firms perceive recessions as opportunities to invest, innovate and expand into new markets in order to achieve or extend a competitive advantage during the recession and beyond. The evidence on businesses adopting investment strategies to manage through recession is unreliable. Such strategies are risky and many businesses are likely to be too preoccupied with short-term survival to think about innovation and growth. Investment strategies require resources, finance, managerial skills, and technical expertise, so firms with limited resources are less able to implement them.

History has shown that companies can secure competitive advantage during recessions through innovation in products, services and business models and by entering new markets. But studies often make little attempt to explain why particular firms adopt investment strategies or to elaborate the conditions that make such strategies possible or, indeed, the potential risks of attempting such strategies. Such accounts imply that where businesses adopt investment strategies, success necessarily follows. The process of implementing investment strategies and achieving successful outcomes is likely to be much more complex than this suggests.

## 2.8 Ambidextrous Strategy

This strategy combines retrenchment and investment. It was likely that most firms adapt under recession conditions through judicious cost/asset cutting behaviour and through investment in product innovation and market development.

Choosing the appropriate investments to make and costs to cut takes on additional importance during recession, when choices of the market are at their most severe.

Ambidextrous organisations combine incremental change with discontinuous change, or the exploitation of existing resources to improve efficiency, with exploration of new sources of competitive advantage and innovation (Raisch and Birkinshaw, 2008). Such organisations are said to combine retrenchment and investment strategies. Indeed, it is likely that most firms adapt under recession conditions through judicious cost/asset-cutting behaviour and through selective investment in product innovation and market development. Firms are likely to need to combine increased efficiency with increased innovation in order to position themselves for an upturn. Cost-cutting alone can leave businesses unable to take advantage of an improvement in trading conditions. Geroski and Gregg (1994), for example, identified firms implementing a wide range of investment and cost-cutting activities.

## **CHAPTER -03**

### **RESEARCH METHODOLOGY**

### 3.1 Introduction

Research methodology is considered to be a science; studying how research was conducted scientifically. It was the way to systematically solve the research problem by logically adopting various steps. Also it defines the way in which the data were collected in a research project. In this chapter it introduces mainly the type of method that was adopted to achieve the objective of this research. The methods used to collect the information of different organisations related to the construction field which reacted to the current recession. The reader will understand what type of method the researcher was adopted and why this method was more suitable for this research. The research approach and strategy is explained in the following section.

### 3.2 Research Approach

Various approaches can be used to collect the information for the research purpose. It is essential to give the reader an introduction about the approaches which can be used for research in general. This section explains about the different approaches of the research. Many books have been written on the methodology of both quantitative and qualitative research designs. However it focuses mainly on the mechanical procedures of data collection and data analysis. The difference between the qualitative approach and the quantitative approach is not simply the difference between multivariate statistics and in-depth interview or between survey and case study. So the selection of method had an importance in conducting the research.

Qualitative research method explores attitudes, behaviour and experiences through methods such as interviews or focus groups. It attempts to get an in-depth opinion from participants and the attitudes, behaviour and experiences which are important, fewer people take part in the research, but the contact with these people tends to last a lot longer. But, quantitative research method generates statistics through the use of large-scale survey research, using methods such as questionnaires. This type of research method reaches many more people, but the contact with those people is much quicker than it is in qualitative research. For

this research interviews should be conducted with the top management people within the organisation. So an in depth interview was needed from the participants to collect the information. Through qualitative research method it was achievable; that is one of the reasons why this method was selected as a research methodology.

Further intension to prefer qualitative method was the flexibility in collecting data or information. Generally, quantitative methods are fairly inflexible and qualitative method was flexible. The response categories from which participants may choose are “close-ended” or fixed. However, it requires a thorough understanding of the important questions to ask, the best way to ask them, and the range of possible responses. Qualitative methods are more flexible and allow greater spontaneity and adaptation of the interaction with participants. This research asks mostly “open-ended” questions and with open-ended questions, participants are free to respond in their own words, and these responses tend to be more complex than simply “yes” or “no.” So participants have the opportunity to respond more elaborately. The flexibility approach of qualitative method will help to collect valuable information about the strategies of organisations in the recession time. This was another reason to prefer this method.

Various procedures can be adopted for the qualitative research methods. The most widely employed method is the interview. It is flexibility that makes interviews so attractive. The main task in interviewing is to understand the meaning of what the interviewees say. A qualitative research interview seeks to cover both a factual and a meaning level, though it is usually more difficult to interview on a meaning level, (Kvale, 1996). Interviews are particularly useful for getting the content behind a participant’s experiences. The interviewer can pursue in-depth information around the topic. Interviews may be useful as follow-up to certain respondents to questionnaires example, to further investigate their responses. The term qualitative interview is often used to capture the different types of interview that are used in the qualitative research. Different interview methods like structured interview, unstructured interview, semi-structured interview and the group interviews can be adopted as a research methodology. Before going on with explaining the approach of this particular research, it is



important at this stage of the research to introduce the reader to different approaches of the qualitative methods in general and then clarify the particular approach is being used in this one.

Lindlof and Taylor (2002) explained as the structured method was commonly employed in survey research and the aim of this approach was to ensure that each interview was presented with exactly the same questions in the same order. This ensures that answers can be reliably aggregated and that comparisons can be made with confidence between sample subgroups or between different survey periods. The data was collected by an interviewer through a self-administered questionnaire; the questions read exactly as they appear on the survey questionnaire. The choices of answers to the questions are often fixed (close-ended) in advance, though open-ended questions can also be included within a structured interview. A structured interview also standardizes the order in which questions are asked of survey respondents, so the questions are always answered within the same context. This is important for minimizing the impact of context effects, where the answers given to a survey question can depend on the nature of preceding questions. Though context effects can never be avoided, it is often desirable to hold them constant across all respondents.

Structured interviews can also be used as a qualitative research methodology. These types of interviews are best suited for engaging in respondent or focus group studies in which it would be beneficial to compare/contrast participant responses in order to answer a research question. For structured qualitative interviews, it is usually necessary for researchers to develop an interview schedule which lists the wording and sequencing of questions. Interview schedules are sometimes considered a means by which researchers can increase the reliability and credibility of research data. The main reason why this method wasn't selected for this research was that the method was not suitably flexible while considering other interview methods and with a limited set of questions.

*Unstructured interviews* are a method of interviews in which questions can be changed or adapted to meet the respondent's intelligence, understanding or belief. Unlike a structured interview, they do not offer a limited, pre-set range of answers for a respondent to choose, but instead advocate listening to how each

individual person responds to the question. The method to gather information using this technique is fairly limited, for example most surveys that are carried out via telephone or even in person tend to follow a structured method.

A *semi-structured interview* is a method of research used in the social sciences. While a structured interview has a formalized, limited set question, a semi-structured interview is flexible, allowing new questions to be brought up during the interview as a result of what the interviewee says. The interviewer in a semi-structured interview generally has a framework of themes to be explored. However, the specific topic or topics that the interviewer wants to explore during the interview should usually be thought about well in advance (especially during interviews of this research project). It is generally beneficial for interviewers to have an interview guide prepared, which is an informal "grouping of topics and questions that the interviewer can ask in different ways for different participants"(Lindlof and Taylor, 2002). Interview guides help researchers to focus an interview on the topics at hand without constraining them to a particular format. This freedom can help interviewers to tailor their questions to the interview context/situation, and to the people that they are interviewing (Lindlof and Taylor, 2002). So this approach has been used in this research. The reason behind this is the fact that this research focuses on the specific strategic measures implemented by organisations during the economic crisis.

It was important to mention, for the reader, at this stage the difference between the research approach and the research strategy and this was clarified in the next section 3.3 of this chapter. The section thoroughly explains the research strategies in general and discusses particularly, about the strategy implemented in this piece of research.

### 3.3 Research Strategy

This research used a semi-structured interview based approach. This method was used as a primary method for collecting the data to study the strategies adopted by the different organisations in the construction sector. Face to face interviews were conducted with the top level managers of the organisations. Semi-structured interview containing a list of questions which cover this specific

topic. The top managers whom are involved in the development of the business strategy were selected for the interview.

### 3.3.1 Semi –Structured Interview

This interview had a list of questions on the recession topic often referred to as an interview guide, but the interviewee has a great deal of flexibility about how to reply. Questions may not follow exactly in the way outlined in the schedule and some questions that are not included in the guide may be asked as the interviewees picks up on things said by interviewers. But, by and large, all of the questions were asked and a similar wording used from interviewee to interviewee. The interview process is flexible, therefore the use of a semi-structured interview in this research allows the interviewer to cover the pre-defined checklist of topics and interact with the interviewee by formulating questions to obtain the desired information. Some of the open-ended questions were suggested and some arise naturally during the interview. During the interview, the interviewer tried to build a rapport with the respondent and to encourage a conversation. Questions were asked when the interviewer felt it was appropriate to ask them. The wording of questions was not the same for all respondents.

The advantage of using this method is as follows:

1. A positive bond developed between interviewer and interviewee
2. Very simple, efficient and practical way of collecting data about the strategic measures of the organisation during the recession
3. Participants are able to talk about something in detail and depth about the topic. The meanings behind an action may be revealed as the interviewee was able to speak for themselves with little direction from interviewer
4. Information can be obtained in a relatively brief period of time when compared to questionnaires
5. Complex questions and issues can be discussed and clarified. The interviewer can probe areas like recession effects in the market or strategic measures suggested by the respondent's answers, picking-up information

that had either not occurred to the interviewer, or of which the interviewer had no prior knowledge

6. Easy to record interview by voice recorder
7. The interviewer has the flexibility of adjusting the questions and ask the respondent for further explanation

### 3.4 Data Collection Methods

This section defines the way in which data was collected. The information should cover all the steps taken by the companies in order to overcome this recession. Interviews were carried out in five organisations in the construction industry i.e. one property developer, two engineering consultancies and two contractors defined as organisation-01, organisation-02, organisation-03, organisation-04 and organisation-05 respectively. The actual names of the companies were not revealed since the organisations did not wish to disclose their organisation name. Each organisation background and their field of expertise are discussed in section 3.5.

There are three steps considered, in order to achieve the data collection. This research applied these steps in order to collect the valuable information from the organisations. The three steps will give the reader knowledge regarding how these steps helped in collecting the information required for this research study.

#### 3.4.1 Initial Data Collection

The initial step to gather information for this research was from the daily news, magazines, news websites and the data collected from the companies. This approach helped to get valuable information about the effect of recession in the UAE economy. It helps to know about the sectors which were affected due to recession in the UAE and all the steps taken by companies during this time.

### 3.4.2 Defining the Interview Questions

It was decided to carry out the interview with the organisations in the construction industry to find out the measures they took during the recession. For that purpose, interview questions were formulated which met the research objectives defined in the introduction chapter. The interviews were carried out with the business directors/general manager of the organisations. These interviews were promised and trusted to be classified as top confidential in terms of revealing the name of the interviewed person or using the information gathered for other than academic purpose.

The interview questions were designed to target the objectives of the research. Fifteen questions were designed for the interview and since it was a semi structured interview a lot of questions were raised based on the responses. These are the topics mainly covered during the interview

1. Organisational capabilities
2. Strategy before the crisis
3. The general effect of crisis on the organisation
4. Pressure, threats and opportunities of recession
5. Factors considered to overcome the recession
6. Strategy adopted for the current crisis
7. Existence of the current business strategy

The first two questions basically concentrated on the resources capabilities. Questions number 3, 4 and 5 targeted the idea of normal strategy that the organisation adapted for their business. Questions number 6, 7 and 8 targeted the idea of general effect of economic crisis on the organisation and how they react to it. Question number 9 targets the factors considered by the organisation to overcome the recession. Question numbers 10, 11 and 12 targeting the idea of adapting the suitable strategy by the organisation during the recession. Question numbers 13, 14 and 15 targeting whether the implemented strategy during the recession by the organisation was successful or not. Refer to appendix-2 for the interview questions.

The interview questions were open-ended questions which helped the interviewer to be more flexible with the interviewee to ask about the measures and

responses of the firms during the recession. Interviews were recorded with the permission and an initial description about the subject was explained to the interviewee before the start of the interview, so the interviewee got an idea about what the researcher was going to discuss. Furthermore, the researcher preferred not to rely on recording the interviews since it might be considered as a substitute for listening closely throughout the duration of interviews which was necessary due to the use of semi-structured interview approach, therefore taking notes was necessary. Interviews were conducted in English and it was scheduled from one to one and half hours. The information was obtained in a relatively brief period of time, when compared to a questionnaire. Interview questions have the flexibility to be modified, for instance, if an interviewee mentions an unanticipated issue then a new question can be added to the interviews questions which will allow the interviewer to explore the new area of concern. The semi-structured interview helped to build a relationship between the researcher and interviewee which facilitated the flow of information between both of them.

### 3.4.3 Analysing the Data

The first collection of data was primarily focusing on the interviews. All the interviews of the organisations are recorded with a voice recorder. These interviews were transcript and the coding was done. The data collected was analysed and compared against the previous literature review carried on and in line with the evolution of the events. The data gathering and analysis will be exposed to the reader thoroughly in chapter 5 and 6.

### 3.5 Description of Organisation Participated in the Study

This section explains the organisations which participated in the interview. The interviews were carried out in the construction sector because the major affected sector in the UAE economy was the construction field. Therefore the organisations in the construction field were considered for the research study. International companies and local companies are among the participants in the interviews. The following section will discuss about the capabilities, strengths and

business activities of these organisations so that reader will have knowledge about all the organisations.

### 3.5.1 Property Developer- Organisation-01

Organisation-01 was undertaking multi-billion Dirham civic projects as part of development in Abu Dhabi, the capital emirate of the United Arab Emirates, into an international business magnet and tourist destination. It's an Emirate's premier real estate development, management and investment company. This company's main vision is to establish Abu Dhabi as the UAE's most dynamic forward-thinking real estate market by creating unique and prestigious developments that can be used as a benchmark of quality, whilst adhering to the cultural and natural heritage of the city.

Launched in 2005, this company has announced assignments worth more than \$75 billion USD, in a property development portfolio diverse in scope and style, attracting considerable worldwide interest and inward investment. The development company was owned by leading Abu Dhabi institutions, shareholders and investors, providing them with a sound long-term portfolio. This organisation has a key competitive advantage due to its sound financial backing, large resources, the high level of management expertise and the Government's support in undertaking large-scale, market-driven projects which add value to the Emirate's booming property industry.

The organisation was committed to producing developments that balance the need for infrastructure with environmental sustainability. The company owns over 50 million square metres of land in strategic locations throughout the Emirate. The current property portfolio includes major developments and re-developments within the Emirate of Abu Dhabi. At the core of what the organisation stands for is the corporate focus on balancing the evolving needs of a modern city while maintaining and conserving the environment. Its projects seek to prioritise both the immediate and future physical, social and economic

requirements of the United Arab Emirates and Abu Dhabi for the benefit of those who live and work in the region.

This company vision & mission involves:

1. Rewarding investment - To create for shareholders a stable and lucrative investment platform providing realistic returns and long term benefits.
2. Leadership - To be regarded as the most credible and reliable real estate company in the region by the real estate and financial community as well as our customers and partners.
3. Long-term Communities - To create modern, efficient, attractive and sustainable environments to facilitate the social and economic development of Abu Dhabi.
4. Growth - To achieve the attraction of inward investment, and controlled expansion into international markets.
5. Premium - To create communities developed to high-quality standards, balancing the need for infrastructure with the sustainability of the environment.
6. Environment - To protect and maintain the environment so that developments complement and enhance the existing beauty of the sea and landscapes.
7. Deliver maximum return for stakeholders through sustainable and world class property developments.
8. Through the planning of developments, ensure delivery of the highest quality products on time and on budget with the highest standards of finishes.
9. At all times be stakeholder focused, responding and reacting to the needs, wants and desires of shareholders, customers and residents.
10. Create and promote developments that are forward looking, innovative and tailored for specific markets.
11. Promote Abu Dhabi's image as a global destination, a good place to live, work, visit and enjoy life.
12. Encourage inward investment and promote employment.



13. Optimise personal development of staff through quality training, and establishing and maintaining the highest standards of professionalism and ethics.

### 3.5.2 Engineering Design Consultancy- Organisation-02

Organisation-02 was a multinational engineering and design consultancy, providing expertise to help resolve complex challenges presented by the built and natural environment. It has a network of innovative, technical, integrated teams crafting superior engineering and architectural solutions for clients across the globe, offering both multinational strength and local knowledge. Since its origin as a family business in 1938, this organisation has grown both in size and diversity, and continues to deliver value to clients across the globe and connect a matchless pool of creative, professional people to produce outstanding solutions to challenging problems. They plan, design and enable complex capital projects and lead the way across a diverse range of disciplines from architects and engineers designing complex master plans to improving the efficiency of public transport. Mostly the solutions delivered to the client by this firm are more innovative.

It is one of the world's top ten global design firms and has over 18,000 employees worldwide. It has more than 200 permanent offices worldwide and it's Europe's largest and fourth multidisciplinary consultancy in the world. In addition to the UK headquarters, it has offices and design centres in Europe, China, the Americas and the Middle East. This organisation has been established in the Gulf for over 40 years, having first carried out design and supervision commissions in the Gulf area in 1967. The regional head office (Dubai) was established in 1979 and branch offices in the Middle East and India now employs around 2,000 staff serving Gulf clients across all market sectors from offices in Abu Dhabi, Al Ain, Dubai, Sharjah, Manama, Kuwait city, Muscat, Doha, Riyadh, Jeddah and Bangalore.

In this organisation, a diverse range of architectural, engineering, planning and consultancy professionals across the full spectrum of the built environment who work with the clients from the beginning of a project. It delivers international

standards of consultancy at a local level, providing assurance to clients, that all the work which is performed in accordance with internationally recognised quality management system for small and large projects. They offer a total programme management solution and use innovative thinking and new technologies to optimise the long-term performance of the clients' assets. The company's Middle East and India sector business provides clients in the region with a comprehensive service throughout the project's entire lifecycle. Whether it's the concept for a new master plan, the upgrade of a rail network, the modelling of a flood defence system or the improvement of a management process, they plan, design and enable solutions. Sectors in which they work are: Buildings/Developments (Residential, Commercial, Mixed Use); Defence; Education; Healthcare; Hospitality; Industrial Process; Manufacturing; Marine Engineering; Oil and Gas; Retail; Sports and Leisure; Transport (Airports, Highways, Rail); Utilities. Their clients include ministries, local governments, hotel and leisure project operators, major real estate developers, national oil companies, contractors in the oil and gas sectors and private clients.

### 3.5.3 Engineering Design Consultancy-Organisation-03

Organisation-03 aims to produce high quality engineering design in concept, in detail and in execution, on time, to programme and delivering excellent value for money. The distinctive culture and ethos is still based on the same principles of care, value and elegance that were established when the practice was founded. It was founded in 1976 with a team of seven members, after that, there was no looking back. Working alongside international designers and academics, the engineering approach is holistic, combining different disciplines in one and as an integrated team. The reputation for excellence has grown from the basis that engineering is always viewed as one important component of a project's overall design solution. The organisation constantly strives for innovation. The appreciation of a client's social, political and economic issues and of architectural and aesthetic qualities makes this company an ideal partner, helping a wide range of clients to shape great solutions.

The organisation continually investigates new methods of construction, new materials and new thinking through a dedicated research department. At this organisation they understand the need to be adaptable and willing to change, in response to their own growth and to the changing needs of time and the industry. Their international experience in the engineering expertise draws upon multiple disciplines to create design solutions that are breath-taking in scope: from road schemes, bridges, harbours, schools, sports stadia and offices, to hotels, hospitals and tall building. It provides cutting edge solution across a wide range of sectors

The business sectors include airports, bridges, culture, media and public buildings, education, hotels, light industrial, medical and scientific, offices, rail, residential, retail, roads and highways, sports and leisure, tall buildings, transport buildings and water front development. This organisation has a 30 years experience of delivering construction consultancy to the private sector, ten years as partner to the public sector, and five years as strategic adviser to local government. The organisation provides management consultancy services across the public sector, offering clients a thorough understanding of construction consultancy and service delivery in the built environment gained from their wide experience of public sector partnerships. In the Middle East sector the business mainly concentrates on the construction consultancy, infrastructure and the management consultancy.

#### 3.5.4 Contractor-Organisation-04

Organsation-04 was mainly involves in the construction industry. This organisation is the main contractor in the construction field in the Abu Dhabi region. Over the last 20 years, construction in the Emirates has progressed at a great speed and this has led many existing and new companies to set up operations in this part of the world. This construction company started out as a managing contractor for palaces and high-end villas in Abu Dhabi, but has since evolved into a full-blown main contractor. From small beginnings in 2003, by 2005 the opportunity had arisen for a major change in operations and today, the company is one of the fastest growing contractors in this sector with strategic knowledge and

expertise-sharing partnerships with a number of international companies that are leaders in handling mega-projects.

According to the General Manager of this organisation, “In the early days, we would receive an instruction from a client to carry out a construction project and we would then put this out to tender. By 2005, it had become obvious that there was an opportunity for us to grow the business by becoming a main contractor and doing the work ourselves. At that time, we were seeking contracts for a wider range of projects, including high-rise towers. We were quite successful in making this change and the company soon grew from around 50 people in 2003 and 500 in 2007 to over 6,600 employees in 2009. Over the last two to three years we have seen our business grow at around 100 per cent year on year in turnover.”

### 3.5.5 Contractor-Organisation-05

This is an organisation which has varied business interests and always comes up with innovative business ideas. From civil works to electrical projects, marine works to landscaping and irrigation, pharmaceuticals to interior designing it is dedicated to turning imaginative ideas into leading products and services. It is managed by a team of highly motivated and committed professionals who have proven their expertise in their relevant discipline. Since the inception of the group in 1984 it has become synonymous with quality service and has had significant success within the UAE and Gulf: mainly through the exceptional performance in civil construction division, road construction section, transport services and electrical projects division.

This group is an enterprise established in 1980 and located in Abu Dhabi. The group has been expanding steadily over the years which have been helped to include companies of various activities. These companies vary from landscaping, road and infrastructure works, power transmission & distribution, reclamation & coastal works, general transportation and earth moving and building construction. The approximate annual turnover for this group is two billion dirhams, out of 1.5 million dirhams is from the contracting group. In this research, the focus is mainly on the construction division and the building construction activity, functioning

since 1998. The company has a highly qualified technical and management team with over 2,500 labours and a fleet of significant numbers of equipment. The forms of activities of the company are residential, buildings, offices, industrial buildings, pipelines, factories and infrastructure. The company deals with major clients such as Jebel Ali Free Zone Authorities (JAFZA), NAKHEEL, Dubai Electricity and Water Authority (DEWA), Dubai Ports Authorities (DPA), and others. The main objective of the company is to provide excellent service to the clients by executing projects on time to the required quality standards.

## **CHAPTER -04**

### **DATA ANALYSIS AND RESULTS**

## 4.1 Introduction

This chapter studies how companies reacted to the research objectives during the interview. Data was collected through the interviews. Each organisation responds differently to the recession. This research determines what are the pressures, threats and opportunities that each organisation recognised during recession period and the strategy adopted based on that. Previous sections have already explained about all the organisations that participated in this research. Data analysis was completed and the results were summarised in three tables as

1. Threats, pressure and opportunities-objective- 01
2. Different strategies during the recession-objective-02
3. Effective strategy during the recession-objective-03.

The following section explains the results of the data derived from the interviews.

Table 4.2.1 lists pressures, threats and opportunities due to the recession, the factors which influenced the selection of the appropriate strategy adopted in this period. These factors were recognized through the research study and through the literature review. Pearce and Michael (2006) and Pearce and Michael (1997) identify a variety of opportunities and threats during the recession like new product innovation, lowered sales, decreased margins and reduced credit.

Table 4.2.2 lists a variety of strategies adopted by the organisations, such as organisation-01, organisation-02, organisation-03, organisation-04 and organisation-05 in the different sectors of the construction industry. Strategic methods adopted by these companies were based on the pressures, threats and opportunities during the recession period.

Table 4.2.3 shows which strategy was more effectively used by these organisations in the recession period. This table was derived based on the measures taken in the period of recession and shows the level of importance of each strategy.

## 4.2 Data Analysis Comparison Schedule

This section discuss the results of the data and how the analysis of the results was done. All the data collected from the interviews with the organisations, is summarised in three tables and will be discussed in the following section.

### 4.2.1 Threats, Pressures and Opportunities-Objective 01 (Table 4.2.1)

Table 4.2.1 was derived based on the objective pressure, threats and opportunities of the recession period and indicated the responses by the organisations 01, 02, 03, 04 and 05 to objective 01. Each organisations responded in a distinct way.

The revenue reduction and job reduction are identified as the major pressures in the economic crisis. These organisations strongly identified these parameters as the major pressures. During the interview of the organisation -02 with the business director, he quoted “the pressure and the threat is clear,the revenue is going to drop and to sustain the operation that we had and the client starts thinking there is a lot of more players in the market so the client starts reducing our fees that is another threat. So it actually loosing the business that we have.”( Appendix-3)

Various threats were identified during the field study and are listed in this table. High competition, contractual issues, lack of cash/ liquidity, shifts in the market sectors (collapse of property market) and accommodation are the threats which were identified. For example the two contractors that is organisation-04 and 05 mentioned high competition in the market and the lack of cash flow as the major threat throughout the recession time. The general manager of the Organisation -04 responds as “the big problem and the biggest threat are the payment and the financial issues because if you cannot maintain reasonable cash flow you cannot continue with the work and the high amount of competition now this is also why just maintain the status quo.”

Majority of the participants considered this recession as an opportunity and a few opportunities in the UAE market were identified as nuclear sector, management consultancies, and infrastructure works. Moreover the availability of getting quality people was also an opportunity in the recession time but before the



crisis it was much too difficult. In the interview with the resident director of the organisation-03 mentioned as “the quality people will be available now its positive side of the recession before we didn’t getting the people, before whatever you pay you will not get the quality people”. The business director of Organisation-02 was also quoted as “the opportunities are the availability of the resources in the market there is more resources”. New business sectors, new territories, innovation, availability of resources and the merging of business streams are the opportunities identified by the organisations participated in the research study. So this table will help the reader to have a better understanding about the effect of the recession in the construction industry.

#### 4.2.2 Different Strategies during the Recession -Objective 02 (Table 4.2.2)

Based on the threats, pressures and opportunities, several strategic measures were formulated by the participants. These strategic measures were listed in table 4.2.2 and the measures were grouped under the strategies, such as retrenchment strategy, restructuring strategy, investment strategy and the ambidextrous strategy. These types of strategies were well explained in the literature review chapter. Each strategy was listed with several measures which were carried out by the companies within the hard time of the market. For example, measures like reduction in human resources and reduction in overheads were listed under the cost cutting strategy. Accordingly several measures were grouped to each strategic measure.

The retrenchment strategy comprises cost cutting measures and the asset reduction measures. The cost cutting strategy includes the reduction in the working hours/wages, reduction in the human resources, reduction in the productivity, reduction in the bigger work orders, competitive bidding, reduction in time , reducing the overheads, relying on inexperienced staff and stock control. The majority of the cost cutting measures are adopted by these organisations. None of the organisations mentioned about measures such as relying on inexperienced staff or the stock control. The main emphasis was on cutting costs of human resources, wages and overheads. The business director of Organisation-

02 quoted “the strategy was to cut the overhead first” The resident director of the organisation-03 mentioned as “the hardest one is making the people redundant people salary that everyone is doing the same”. In summary most of the organisations used this business strategy as a first step to defeat the economic crisis and to sustain the business in the market.

Another strategy, which was implemented by the organisations, was restructuring measures, involving changes in the top management, adding new people and training and investment in human capital and educating management and labour. For example organisation 01, 02, 03 & 04 gave more emphasis to the change in top management during the recession period. Availability of resources were considered as the opportunity in the recession time so adding new quality people was strategic method by organisation 02, 04 and 05. In the interview the general manager of organisation-04 mentioned “now the strategy is to keep the top people and the redundant people where not performing and now the market place where is more good people”. Also the general manager of organisation-05 mentioned “we are trying to select the best people to work with from labour to office staff in order do that we have to screen the people, educate the people and train the people”. Therefore, organisations gave importance to restructuring measures in the recession time.






Based on the opportunities in the recession time organisations tried to implement investment strategy. The research results show that two measures were considered for the investment strategy, that is innovation and market diversification. For example, innovation was implemented by organisation-02 and 03 and market diversification was implemented by organisation 01, 02, 03 and 05. But organisation-04 kept the same status quo as before the crisis because they didn’t want to take the risk. In the interview it was mentioned by the general manager of organisation-04 that “at the moment we are basically looking to maintain the status quo until we see the things starting to pick up again”. But the engineering consultant organisations like organisation 02 and 03 considered this recession as an opportunity to diversify the business and new innovative tools in the market. The business director of organisation-02 commented in the interview as “the need the diversity start to diversifying business example management

consultancy, nuclear is the new sector we brought in UAE and we have a full time senior staff here, new system costing us money but that is an investment and it's a strategy".

Through the research study it was evident that four of the organisation which were involved in the study mainly adopted both investment and retrenchment strategy. In the literature review these combined strategies were mentioned as ambidextrous strategy. This research study shows that organisations 01, 02, 03 and 05 gave more importance to cost cutting measures and investment opportunities. At this stage, the reader can find out all of the measures these organisations adopted during the time of recession.

#### 4.2.3 Effective Strategy Adapted during the Recession – Objective 03(Table 4.2.3)

Table 4.2.3 shows the level of significance of each strategy adopted by the organisations which participated in the research study. This table was the derived from the results of table 4.2.1 and table 4.2.2. In the table 4.2.2 eleven measures for retrenchment strategy, four measures for restructuring strategy, and two measures for investment strategy and one measure for ambidextrous strategy are listed. An average value of each strategy was calculated based on the measures implemented by these organisations. For example, organisation-02 gave importance for five measures out of eleven measures in retrenchment strategy (Refer Table 4.2.2) so an average value of 0.45 was calculated. Each strategy was evaluated with an average value based on the measures adopted within these organisations 01, 02, 03, 04, and 05 during the recession time. These values were then compared to the different level of importance as mentioned below:

	0	No Importance
	0.10 – 0.25	Least Importance
	0.25-0.50	Average Importance
	0.50 – 0.75	High Importance
	0.75- 1.00	Extremely High Importance

Based on the results, the levels of importance given to a variety of strategies by these organisations were identified. For example, organisation-02 gave more importance to the investment and ambidextrous strategies since more measures based on this strategy were adopted (refer the table 4.2.2) and an average importance given to retrenchment and restructuring strategy.



















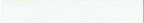

From table 4.2.3 it was evident that the organisation adopted different strategies and gave varying levels of importance to each strategy. Organisation 02, 03 and 05 gave high importance to the ambidextrous strategy that is the combination of retrenchment and investment strategies. But organisation-04 implemented only retrenchment and restructuring strategies and didn't find any opportunities during the recession. This organisation keeps the same status quo as before the crisis. So this table shows the importance given to the strategies by each organisation and how these organisations think which strategy are more effective during the recession. The results indicate that the combined strategy - retrenchment and investment will facilitate the organisations to survive and emerge strongly as economic conditions improve.

Threats, Pressures & Opportunities - Objective 01 (Table 4.2.1)						
		Organisation-01 (Property Developer)	Organisation-02 (Consultancy)	Organisation-03 (Consultancy)	Organisation-04 (Contractor)	Organisation-05 (Contractor)
Pressures	Reduction in revenue	x	x	x	x	x
	Reduction in Job		x	x	x	x
Threats	High Competition		x	x	x	x
	Contractual Issues		x			
	Lack of cash/Liquidity		x	x	x	x
	Shift in market sectors (collapse of property market)	x	x	x		x
	Accommodation		x	x		
Opportunities	New Business Sectors	x	x	x		x
	New Territories	x	x	x		x
	Innovation		x	x		
	Availability of quality Staff	x	x	x	x	x

Table 4.2.1

Different Strategies during the Recession - Objective 02(Table 4.2.2)							
Sl.No	Strategy	Measures	Organisation-01 (Property Developer)	Organisation-02 (Consultancy)	Organisation-03 (Consultancy)	Organisation-04 (Contractor)	Organisation-05 (Contractor)
1.0	Retrenchment Strategy						
		Working Hours				X	X
	Cost Cutting Strategy	Wages	X	X	X		X
		Human resources	X	X	X	X	X
		Productivity					
		Bigger order and lower bids		X	X	X	X
		Competitive bidding		X	X	X	X
		Time					
		Overheads	X	X	X	X	X
		Rely on inexperienced staff					
		Rely on inexperienced staff					
	Asset Reduction Strategy						
2.0	Restructuring Strategy	Changing top management	X	X	X	X	
		Adding new people		X		X	X
		Training and investment in		X	X		X
		Educate management and				X	X
3.0	Investment Strategy	Innovation		X	X		
		Market Diversification	X	X	X		X
4.0	Ambidextrous Strategy	Retrenchment & Investment Strategy	X	X	X		X

Table 4.2.2

Effective Strategy Adapted during the Recession - Objective 03 (Table 4.2.3)				
Company Name	Retrenchment Strategy	Restructuring Strategy	Investment Strategy	Ambidextrous Strategy
Organisation-01 (Property Developer)				
Organisation-02 (Consultancy)				
Organisation-03 (Consultancy)				
Organisation-04 (Contractor)				
Organisation-05 (Contractor)				






	No Importance
	Least importance
	Average importance
	High Importance
	Extremely High Importance

Table 4.2.3

## **CHAPTER -05**

### **DISCUSSION**

This research paper discussed three issues, being pressure, threats and opportunities in recession, strategy adopted by the companies in the construction industry and the effective strategy in order to sustain the companies in the business market. The findings of this research will be discussed in the following section

### 5.1 The General Effect of the Economic Downturn on the Organisation

As it was mentioned in the introduction section, during the recession period, an estimated \$364 billion worth of projects were put on hold or cancelled in the UAE, almost all are in the construction sector. Recession causes significant pressures and threats for the organisations in the construction sector. These organisations identified major pressures in the market causing the drop in the revenue since cash flow from all the project came to an end. The results suggest that the decline in jobs automatically resulted in revenue drop. Hence, there is a relation between these pressures. The findings are consistent with the literature. For example, Pearce and Michael (2006) found out that the recession cause lowered sales, decreased margins and reduced credit. In the study, the consultants and the contractors in the construction sector made an emphasis, commonly, on the reduction in jobs and the reduction in revenue. However the property developer gave much importance on the reduction in revenue because the financial crisis has quite significantly affected homeowners buying decisions.

The study found that some of the usual threats in the recession are high competition, contractual issue and a shift in the market sectors in the UAE construction sector. Within these threats, high competition, lack of cash and the shift in the market sector are the more emphasized threats identified by organisations-02, 03 and 05. Domowitz, Hibbard and Petersen (1987) also agree and the literature had similar findings that during the recessionary period there will be high competition, downward pressure on revenue and declining productivity with lower margins. For example, organisation-01, property developer observed that the shift in the market sectors was a major threat since there was a huge collapse of the property market in the recession time. Also,



organisaton-02 highlighted contractual issues as a threat because contracts terms and conditions became more stringent after the crisis but the rest of the organisation didn't give much significance to it.

Pearce and Michael (1997) suggest that the recession creates opportunities. This statement was strongly supported by the findings of this research. Even though the research shows the recessions what it also provides ideal opportunities for investment. In general, companies must however invest in key areas that include new assets, marketing and research and development to maximize future rewards. During the recession, companies that spend proportionately more on research and development were found to have performed significantly better. (Morbey and Dugal, 1992). As per the literature review, the research study suggests that the recession creates opportunities. The opportunities that the organisations identified during the recession period include new business sectors such as nuclear, defense, infrastructure etc, new territories such as western region of Abu Dhabi, other Middle East countries etc and innovation such as sustainable buildings. Within the opportunities, new business sectors were considered as the major opportunity by the participants. For example, design engineering consultancy that is organisation-02 and 03 identified nuclear, management consultancy, defense and infrastructure as new business sectors in the UAE market. Since these consultancy companies had vast international experience, positions in multiple markets and business size helped them to explore the opportunities in the market. Therefore, the research suggested that the importance of business size and multiple geographies or market had an influence on the strategic adaption in the economic crisis. It was strongly agreed by Pearce and Michael (2006); he explains the importance of investing in multiple markets and the geographical regions which will assist firms successful throughout the recession.

In summary all the organisations responds quickly to the recession and recognize the pressures, threats and opportunities in order to formulate suitable strategies to overcome the recession. Through the research study with these organisations, and through the literature review, different strategies and measures were identified.

## 5.2 Different Strategies Adopted during the Recession

The literature review explained various strategic methods and measures relating to each strategy. Through the research study organisations 01, 02, 03, 04 and 05 adopted various strategies based on the pressures, threats and opportunities which were identified during the recession and are listed in the table 4.2.2. The main strategy which were identified was the retrenchment strategy, restructuring strategy, investment strategy and ambidextrous strategy.

Latham (2009) emphasizes the importance of retrenchment strategy as a cost cutting measure and asset reduction to be implemented during the economic crisis. The primary objective of retrenchment is to stabilize a firm's financial condition, which is the fundamental to successful turnaround (Hambrick and Schector, 1983; Robbins and Pearce, 1992).

However in the research study, organisations indicated greater importance for cost cutting strategy rather than asset reduction strategy. For example, organisation 02, 03, 04 and 05 gave major importance to cost cutting measures, such as working hours, wages, human resources and overheads. Based on the pressures and threats analyzed by these organisations, the recession made them adopt these cost cutting measures. So the research study suggests that cost cutting measures were the initial major step to defeat the recession.

Another strategic method which the organisations preferred to adopt was restructuring strategy. Changing top management, adding new people and training and investment in human capital were the measures implemented by the firms for this strategy. Restructuring measures were taken by the majority of the construction firms who responded to the survey. Changing top management was the major measure which the organisations gave importance to during the recession time. As mentioned before, reducing staff was done as a cost cutting measure which helped the organisation to think about adding new quality people. It was highlighted by the participants that the recession was an opportunity to hire quality staff. So, restructuring helps the organisation to focus the group in an effective manner and it helps to focus the core business effectively. Even the literature Latham (2009), Pearce and Michael (2006), Gurkov (2009) and Robbins

(1998) shows the importance of laying off redundant staff and intensive training in functional skills can help to enable successful functional restructuring, but only if coupled with basic structural design to provide for the elimination of most of the hierarchical layers of the old structure and training and investment also have importance in the restructuring strategy

All the participating organisations mentioned that the recession creates opportunities. The opportunities which were identified are new business sectors, new territories, innovation and new quality human resources. In order to utilize these opportunities and to sustain in the market, the suitable strategy was investment. The literature review also highlighted the use of investment strategy in the recession. As per Reeves and Deimler (2009), Williamson and Zeng (2009), recessions can create ideal opportunities for investment. Innovative tools or products and market diversification are the measures taken by organisations for investment strategy. Before the crisis, the property sector was the most promising market in the UAE but after the crisis, the property market went down and the demand for the high rise buildings collapsed. Most of the projects were put on hold or cancelled, as mentioned in the introduction section. So the organisations in the construction sector need to find new opportunities in order to be sustainable. The participating firms in the research study highlighted new business emerged in the recession period, namely nuclear, transport and rail, infrastructure, management consultancy, educational buildings for government and health care centers. Hence investment in these sectors helps organisations to win more work.

The research results show the importance of combined strategies in recession time. From table 4.2.2 we can find that organisation 01, 02, 03 and 05 adopted both retrenchment and investment strategy. In the literature review this strategy was defined as the ambidextrous strategy. The companies that implemented both the retrenchment and investment strategy were more effective during the recession time. So, the firms should choose these strategies in order to sustain in the market during the hard times of economic crisis. (Raisch and Birkinshaw, 2008; Geroski and Gregg, 1994). Also the research findings were strongly consistent to this point. However from the table 4.2.3 it is evident that organisation-04 didn't implement both the retrenchment and the investment

strategy since they preferred to retain status quo as before the crisis and didn't want to take any further risk for future investment. Therefore, only cost cutting measures were adopted.

Finally the findings of this research show the various strategies that each organisation in the construction industry adopted and all the steps taken by these organisations in the recession time. These findings were strongly consistent with the literatures and furthermore this research suggests that the combination of cost cutting measure and investment will be the most effective strategic method in recession times.

### 5.3 Business Size, Multiple Market and Geographies as an Influence on Strategic Adaptation to Difficult Economic Conditions

This research study found that certain factors such as business size, multiple market and geographies had an influence on the strategic adaption in the recession time. Within the small business population, there are likely to be variations in how firms adapt, and the performance outcomes that arise from adaptation. Some will adapt proactively through investment, innovation and market diversification; others will adapt though retrenchment; yet others will combine both approaches. But the smaller firms differ from corporate organisations because of the particular vulnerability of new and young firms to external shocks, insufficient time to accumulate resources to be resilient, differences in financing which increases small and medium enterprises dependence on banks and the typically emergent forms of strategic adjustment in small businesses.

Shama (1993) and Latham (2009) suggest that the firm's size can affect the nature of external environmental impacts and the mechanisms through which they are transmitted, as well as the firm's ability to respond. Above all the business size shapes perceptions of external pressures, threats and opportunities, the business strategies adopted, and the levels of performance achieved. Also, suggested that small businesses are less likely to distinguish negative impacts on performance during recession periods. Due to superior resources to scan the environment for potential market opportunities, large companies tend to have

greater scope for strategic choice to develop a wider range of capabilities. But, conversely, Shama (1993) find that small businesses report more limited impacts than larger enterprises and small firms often possess the flexibility to adjust resource inputs, processes, prices and products quickly in response to environmental shocks, a crucial capability to facilitate business survival.

Pearce and Michael (2006) noted the significance of position of companies in multiple markets and geographies. This literature recommended that holding a position in multiple industries has proven worthwhile to companies in reducing the variation in cash flow caused by one industry sector. To position for recession, firms can seek to be active in multiple geographies, industries, and markets. Internationally, when one market is weak, there should be other markets in the world where products can continue to be sold.

The literature review, mentioned the importance of business size and multiple geographies as factors which have an influence on strategic adaption to recession. It was clearly understood through the research study that these factors have an influence on the strategy adaption. For example, consider organisations 02 and 03. Since these organisations have multinational experience and business structure; it was an enormous help them to adopt lot of effective strategic measures during the recession and resulted in exploring new business sectors in the UAE markets, such as nuclear and management consultancy. However organisation-04 was a medium sized construction firm in the UAE market and it was a growing firm in the industry, trying to keep the same status quo as before the crisis without taking any further risks. So from the research findings it was evident that the business size and multiple market and geographies had a major influence on the strategic selection and it was totally agrees with the literature findings.

In summary, although arguments can be presented to demonstrate that small firms are more likely to suffer during recession, there are counter-arguments and, moreover, business size is only one influence upon performance under recession conditions. Industry, geography and other factors also play a part. Despite their limited resources, small firms are often able to chart a path through difficult economic times that enables them to survive and perhaps even grow. So

recession has a singular effect on both small, or large, enterprises but organisational, market and other environmental characteristics all influence business behavior. How business owners/managers choose to address the opportunities available, and deal with the threats posed, makes an important difference.

#### 5.4 Cost Cutting Measures as the First Step of the Recession

The results of the research show that the organisations in the construction industry took the cost cutting measure as the initial strategy to overcome the recession. Reducing working hours, wage reduction, reduction in human resources, bigger orders, competitive bidding and reduction in overheads are the measures taken by the organisations highlighted during the interview. The main focus being given to working hours, wages, human resources and overheads.

Through the literature review, retrenchment strategy was the one of the strategies that organisations implemented during the recession. Pearce (2008) defined that retrenchment strategy consists of cost cutting and asset reductions. The range of retrenchment responses includes cost cutting, asset reductions, and changes in the management, debt restructuring, reduced profit lines and the implementation of tight cost controls. Latham (2009) finds that cost cutting strategies are focused on efficient operations at all the levels of the organisations during the period of recession. Pearce and Michael (2006) identifies that the recession experience has shown that retrenchment, through the cost and limited asset reduction, can enable firms to rebound from a recession. Robbins (1998) also shows retrenchment was identified as a common strategy in over two-thirds of the firms in the sample during the 1990-1991 recessions. They used both cost and asset reduction in their retrenchment. Slatter (1984) endorsed the use of retrenchment during the business cycle. So the research also strongly agrees that in difficult environmental conditions, firms that engage in retrenchment enjoy a significant performance benefit over rivals.

Data analysis results shows that organisations first step to the recession was cost cutting strategy. In the initial stage of the recession, organisations identify the reduction in revenue, reduction in jobs, high competition, contractual

issues, lack of cash/liquidity and the collapse of the property market are the threats and pressures. To formulate the initial strategy during recession the organisation considered these threats and pressures. Job reductions in the market result in the reduction of revenue. In order to increase the profit margin and to sustain the market the organisations took the measure of cost cutting. So the above mentioned measures are adopted by these organisations. We can see from the results of the data analysis that there is a link between the pressures, threats and cost cutting strategy adopted by the organisations. For example, organisation-02, 03 and 04 identified certain threats and pressures which were listed in the table 5.2.1 and these organisations took the same cost cutting measures to overcome the recession. The consultancies (organisation 02 and 03) and the contractors (organisation 04 and 05) have the same approach by reducing cost. But the property developer (organisation 01) reduced wages, human resources and overheads. So it was important to keep the cost down and cash flow was essential.

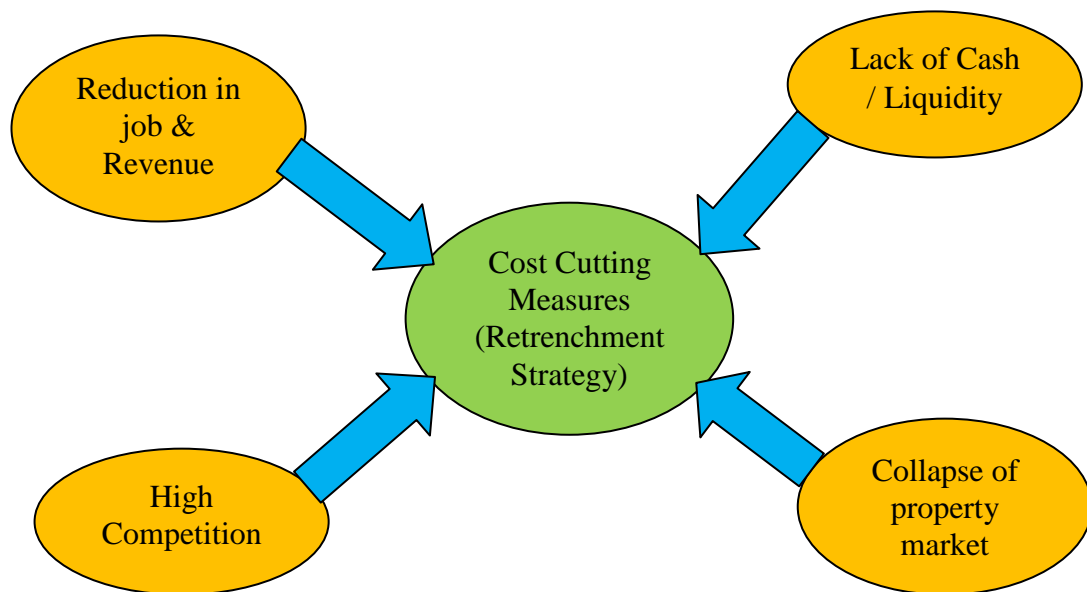


Figure (i) Cost Cutting Measures (Derived from this research)

For example, to fully utilize an executive in the firm requires more firm-specific training than to fully utilize an hourly worker, so the firm retrenches by cutting hourly workers rather than executives. As a second example, a marketing channel contains many investments specific to a particular distribution channel

while advertising was placed in well-defined media markets, so the firm was likely to retrench in advertising rather than in marketing channels. In general, preserving factors with high specificity was more likely to preserve the firm's competitive advantage. Cutting wages was also a factor which can restore later when the market recovers. Redundancy that is reduction in the human resource was another factor which the organisations considered during the recession. All the respondents gave importance to the reduction of human resources. Redundancy means retrenchment of unproductive employees, employing staff on project basis and the keeping only the core personnel. In general the most popular cost cutting measures include cutting working hours and wages, reduction of human resource and cutting overheads, being the initial strategy of the organisations.

### 5.5 Markets Diversify During the Recession Time.

Due to the collapse in the property market sector in the UAE during the recession, the organisations in the construction industry consider different business sectors. The results of the research show the importance given by the organisations for market diversification during the recession. These measures were considered as an investment strategy. Organisations find out that the recession creates opportunities and one of the opportunities that they identified is new business sectors and the new territories. So investment strategy had more relevance in the recession period.

The literature review recognized market diversification was one of the effective methods to sustain the market during the recession and it was a type of investment strategy. Reeves and Deimler (2009) agrees that the recession may offer opportunities to introduce new services and he suggest that a company's creativity in adapting to an unknown future will be shaped by the diversity of perspectives it can bring to bear on the task of adapting to the new environment. The degree to which a company can encourage and maintain such diversity, even in the face of the stresses of a recession, is a key determinant of its future resilience. Companies able to survive and thrive during a downturn gain great momentum in the race for future advantage and with growth opportunities likely



to come in all sizes and shapes, the ability to shift seamlessly and rapidly from insight to action may well make the difference between winning and losing during and after the downturn. As such recession provides ideal opportunities for investment.

Through this research study organisations 01, 02, 03 and 05 adopted investment strategy in the recession period. Market diversification is the one of the investment method they adopted. But the organisation-04 didn't like to take any opportunities and the response in the interview was that they liked to keep to the present status quo. So there was a link between the opportunities and the investment strategy. Based on the opportunities that were identified by the organisations 01, 02 03 and 05 resulting in the adopting the investment strategy, for example the consultant that is organisation-02 diversifies the market sector to nuclear and management consultancy.

In the interview with the business director of the organisation-02 mentioned that “the need the diversity start to diversifying business example management consultancy, nuclear is the new sector we brought in UAE and we have a full time senior staff here and this new system costing us money but it's an investment and it's the strategy”. Pearce and Michael (2006) identified the importance of position of companies in multiple markets and geographies and highlighted the importance of holding the position in multiple industries has proven valuable to companies at the time of recession. Experience of the company in the market also a factor which can influence investment strategy. Since organisations-02 and 03 are multinational companies and their market experience helps them to diversify the market in UAE. They have a lot of experience in the market internationally and this helps to start new business sectors in UAE.



Figure (ii) Market Diversification (Derived from this research)

## 5.6 The Role of Innovation under Recession Conditions

Innovation is widely regarded as a positive route to successful business development. During times of recession, however, spending on innovation is often cut back as firms refocus on core activities. Participants suggested that product, service and process innovations should be regarded as key ways in which organisations can work their way out of recession and prepare for an upturn. For example, organisations 02 and 03 highlighted the importance of innovation models in the time of recession. The engineering consultancy, organisation-02, introduces carbon critical design tool as a tool for the design of sustainable buildings in the market. It results in the introduction of new products in the recession time. But organisation-03 introduced green buildings or sustainable buildings in the market. It makes a difference from other organisations within the market. These are not necessarily incremental improvements to what already exists, but rather fundamental changes in the business and product/service concept. Success may not necessarily be based on the amount of expenditure on innovation, but the innovation model that was used.

McCarthy and Sutcliff (2002) highlighted a successful new product introduction which occurred during the 1990-1991 recession. Paychex, a national wide provider of payroll processing services to small and medium sized companies, responded to its initial recession-driven downturn by undertaking the development of an expensive product called Taxpay. The highly successful introduction of Taxpay in 1990 infused Paychex with a burst of new revenues, which helped the company weather the recession. As a result the companies that spent proportionately more on innovation were found to have performed significantly than others (Morbey and Dugal, 1992). Thus the research also shows innovation was one of the measures of the investment strategy and this step was taken by most of the organisations in the recession.

## **CHAPTER -06**

### **CONCLUSION AND RECOMMENDATION**

## 6.1 Conclusion

The purpose of this research study has been to: identify the pressures, threats and opportunities facing businesses operating in difficult economic conditions, such as those currently being experienced in the UAE, the strategies adopted by businesses that have experienced such conditions; and to assess which strategies proved to be problematic and those that have allowed businesses to respond dynamically, survive and emerge strongly as economic conditions improved. This was done using the data sources such as academic studies of business responses to recession; explanation on the current crisis; and studies of organisations in the construction industry. This paper summarizes the key findings of the research and highlights key measures that the organisations took during the recession. The findings were summarized based on the objectives

### Identify the pressures, threats and opportunities facing businesses operating in difficult economic conditions such as current economic recession in UAE (Objective -01)

1. Experiences and responses to the recession by the organisations are diverse.
2. Recession also creates opportunities for innovation and investment.
3. The size of the business also had an influence on the strategic adaption to recession.
4. Multiple markets and geographies also had an influence on the strategic adaption to recession.

### Identify the strategies adopted by companies in UAE that have experienced such conditions (Objective -02)

1. The organisations adopted a variety of strategic approaches to deal with the recession so some firms focus on retrenchment activities, entailing cost reduction, in order to conserve resources; others use recession to exploit opportunities to invest, innovate and diversify; yet others, perhaps most, adopt an 'ambidextrous' approach combining judicious cost reduction

activity with equally carefully chosen investment projects to expand sales, profits and/or market share.

2. Cost cutting measures such as reducing working hours, wages and reduction in human resources and overheads were the initial measures adopted by the organisations.
3. Redundancy was a common measure adopted by the companies during the recession

*Assess which strategies proved to be problematic and those that have allowed businesses to respond dynamically survive and emerge strongly as economic conditions improved (Objective -03)*

1. Innovation played an important role during the recession period and it was a part of investment strategy. Companies that spend proportionally more on innovation were found to have performed significantly better than others.
2. Organisations succeeded when they combined both the strategies of cost reduction and the investment.
3. Market diversification is the one of the effective method to sustain in the market during the recession

All the available evidence suggests that retrenchment, investment or ambidextrous strategies are likely to bring about survival or success. The research study and the literature review point to the more likely success for organisations during the recession is to adopt ambidextrous strategies. Advocate strategies whose purpose it was to exploit new market opportunities without analysis of the conditions that support them, were not adopted by firms because of resource constraints, market and other characteristics are likely to prohibit their adoption by some firms. It was vitally important, therefore, for businesses to develop the capability to undertake strategic analysis in order to assess the key influences on performance. Business owners/managers need to increase their understanding of the internal and external conditions that enable or constrain adaptation to the crisis, in order to be able to adapt successfully. To conclude, the current recession

represents both a threat and an opportunity for the UAE businesses. Grasping the opportunities will be a key to securing the competitive advantage in the market.

## 6.2 Recommendations

The research study provided a deeper understanding of how firms in the construction industry try to survive over the recession. However the study was narrowed to construction firms in the UAE during the global crisis (2007-2010), and, as a consequence, the findings were limited. It may be beneficial for future researchers to widen the scope of the strategy inquiry during recessions with additional industries and across multiple recessionary periods. Future studies should include financial data in the analysis and test strategic choices during an economic downturn in relation to the company characteristics as size, industry sector and market scope. Company resources and skills affect strategic decisions in such conditions; their effects on company performance should also be examined. Future studies should link business strategy with performance outcomes and explain the importance of organisational strategies during the crisis.

Also the future research could investigate the formulation of technological strategy and place more emphasis on the relationship between strategy and economic performance. It is possible that the strategies of the companies vary from sector to sector and across time. To reveal sector/time-specific characteristics, comparative evaluations of strategies and their impact on organisational performance across various sectors and in multiple time frames may produce findings of greater relevance to policymakers.

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## Appendix -01

### List of Projects Cancelled or on Hold in UAE

Project	Value (US\$mn)	Client	Status
Nakheel Harbour and Tower	38,000	Nakheel	On hold
Al Salam City	8200	Al Rajhi Group, Tameer Holding	On hold
Asia-Asia Hotel	3270	Tatweer	On hold
Al Salam City (Phase 1)	2700	Al Rajhi Group, Tameer Holding	On hold
Dolphin City	1700	Emirates German Group	On hold
Western region Aluminium Smelter Power Plant	1500	Abu Dhabi Water and Electricity Authority	On hold
Nad El Sheba Racecourse	1300	Meydan LLC	Cancelled
Redevlopment of Mina Rashid	1000	Nakheel	On hold
Aqua Dunya (Dubvailand): Phase 2	950	Aqua Dunya	On hold
Aqua Dunya (Dubvailand): Phase 1	950	Aqua Dunya	On hold
Investment Corporation of Dubai (ICD)	817	Investment Coprporation of Dubai	On hold
High Rise Boulevard	817	High Rise Real Estate	On hold
Anara	800	Tameer Holding	On hold
Plaza Mayor (Jumeirah Village)	800	Tasees, Makaseb Holding, Ishraqah	On hold
Falcon City of Wonders (Dubailand)	680	ETA Star	Cancelled
Atrium Project	654	Sunland Group	On hold (for redesign)
Palm Deira: Mixed-use Building Project	600	Nakheel	On hold
Palm Trump Hotel and Tower	600	Nakheel, Trump Organization	On hold
The Vantage	545	Cirrus Developments	On hold
Light Rail and Tramway (Dubai Waterfront)	500	Nakheel	On hold
Rotating Tower (Jebel Ali)	500	Merjen Group	On hold
Tiara United Towers	480	Zabeel Investments, United Group Holdings	On hold
Dubai Exhibition City	450	n/a	Cancelled
Jumeirah Hills	450	Sama Dubai (Dubai Holding)	On hold
Esplanade	422	Muzoon Holdings	On hold
Cactus Theme	420	Nakheel	On hold
Lagoon Club Hotel and Residences	400	Tourism Development and Investment Co	On hold
Signature Towers (Business Bay)	400	Dubai Properties	On hold
DRI and Meltshop Plant	400	Al-Tuwairqi Group	On hold

Emivest - DSO - Towers	400	Emirates Investment and Development PSC	On hold
International Powers/Mitsui - Umm Al Nar RO Plant	350	Abu Dhabi Water and Electricity Authority	On hold
Replacement of Infield Pipelines (Zakum Field)	350	Abu Dhabi Marine Operating Company	On hold
Desert Gate Hotels and Towers	350	Bawadi	Cancelled
X2 Towers	300	Al Odaid	On hold
Borouge - Melamine Plant	300	Abu Dhabi Polymers Company Ltd (Borouge)	On hold
Ain Al-Fayda	300	Al Qudra Real estate	On hold
Sharjah Sports City	250	Government of Sharjah	On hold
Tatweer Towers	250	Mizin	On hold
Dubai Healthcare City - Phase 2	235	Tatweer	On hold
Forbidden City	222	Nakheel	On hold
Residential Towers on Plot 39	210	Emaar	On hold
Porsche Design Towers (Business Bay)	200	Dubai Properties	On hold
Pilkington Emirates - Float Glass Factory	200	Pilkington Emirates	Cancelled
Sienna Square	150	Cirrus Developments	On hold
Sea Gull Tower	145	East & West Properties	On hold
Image Residences	137	Al Fara'a Properties	On hold
Canal Point	136	Istithmar	On hold
Seascope Topwer	135	East & West Properties	On hold
Dubai Marina - Ice Tower	130	Mada'in Properties Abyaar Real Estate Investment	On hold
Waters Edge (Busienss Bay)	125	Damac Properties	Cancelled
Mina Rashid - Mixed-use Tower	110	Azizi Investments	On hold
West End Tower 1 and 2 (Jumeirah Village South)	110	Al Rashid Investments	On hold
Business Bay - Burjside Boulevard	100	Damac Properties	On hold
Dolphon Towers	100	Damac Properties	Cancelled
West Bay Tower (Business Bay)	88	Snasco, International Investment Bank	On hold
Al Odaid - Palm Tower	80	Al Odaid	On hold
Nadra Tower (Business Bay)	70	Tamweel	Cancelled
Jumeirah Village - Green Park	50	Damac Properties	On hold
Palm Island Hotel Resort	50	Al Fardan Group	On hold

Source: HSBC Global Research [http://www.constructionweekonline.com/article-4360-cancelled\\_and\\_delayed\\_uae\\_projects\\_the\\_full\\_list/](http://www.constructionweekonline.com/article-4360-cancelled_and_delayed_uae_projects_the_full_list/)

## **Appendix -02**

### Interview Questions

1. What kind of business is the firm in?
2. What are the Organisation's resources and capabilities?
  - Before
  - Current
3. What is the Procedure for the Strategy formulation?
4. What are the factors normally considered during the strategy formulation?
5. What are the strategies adopted before the recession period?
6. Was the recession anticipated and how is the reaction to it?
7. What are pressures, threats and opportunities identified during the recession?
8. Which business units were affected by the recession?
9. What are the factors considered necessary to overcome the recession?
10. What is the current strategy adopted for the crisis?
11. What are the factors involved for current strategy during the recession?
12. Have you ever faces the crisis before? If yes than what was the strategy adopted at that time?
13. Do you measure how successful your strategy is implemented? If yes then what type of analysis?
14. Is your strategy for the short term or long term vision?
15. Existence of the current planned strategy? Some examples?

## Appendix -03

### Sample Interviews

#### Interview with General Manager of Organisation-02

Before our strategy **couldn't cop**<sup>1</sup> up with the work that is **before the crisis**. The work is flowing through our doors we didn't have to bid for it because the clients are asking for our services. Suddenly everything was stopped and we need to feed our staffs.

So the strategy was to **cut the over head first** and we waited for while before making the decision and it's different from Dubai to Abu Dhabi. Because Abu Dhabi got the oil here but not as good decision maker's .but Dubai didn't have the money but fast decision makers and so we have to look both the places. Dubai end up with 180 million dollar debt but Abu Dhabi have their own debt but they didn't declare it or they all to sustain it. The UAE pump petrol two and half million barrel day, this about 40 billion dollar an yr.but there budget is based on 34\$.the last yr also the average 70\$ so they are making money. So back tour organisation strategy we were getting the process what we wanted from the contract point of view, we were **choosing our clients**, and we avoided working with government clients **before the recession** because of the bad terms and conditions. We wait for the private sectors like Aldar, Mubadala; these people have more money and also less risk on the contract.

If it on the govt. thy issue a contract which they cannot change it .if we want to change the contract nasty clauses we were able **to negotiate before the crisis** now we have problem. Take it or leave it. **So there is more risk less fees as very tight.Now the money is with the govt not with the private sector any more.** During the crisis we look very hard decision in Abu Dhabi it's not like Dubai, we lost about 15% of the staff Dubai lost more than half.

In the initial stage of the crisis we try to keep our staff here hoping that we get more work and we did at the same time **staff diversity**.Sectors which are not doing before us doing right now for ex. **Management consultancy** we did it in the Middle East here. Now we have the HSE project in al ain, leading a unit here in abu dhbai office. It's not a design it's a consultancy studies and soft things it's no drawing s involved and **we also diversifying to the nuclear.**

Al though we can see it coming may be one and half yr time staff is mobilised here for the last 6 months so we taking engineers all will cost money. But hopefully it's an investment. This is the investment to get the projects through the doors. This we used to study what we doing here. But lot of money go that way we also diverted to the health care, airport. In Abu Dhabi we didn't manage to get any airport, now we very hot bids at the moment, Saudi Raabia Jeddah Airport and the Shalala airport.Sallala airport with the CCC Contractor. **Slow decision making is the major problem in Abu dhabi.**

Before we are relying on 60% on the building sector 20% on the infrastructure may other just site supervision. Now **we reduce the building and**

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1.  - Points highlighted based on the research objectives

increased the infrastructure because this demand is here Now we are getting projects from al ain municipality, Urban planning council, are the major clients for this type of sectors. So we are back to these clients after the recession.

But its very hard terms and conditions, payment, they didn't come on time, and they didn't give us an advance payment, they are based on mile stones. That means the cash flow was impacted. Need to have money to pay the salaries, so borrowing by the bank and all that became an issue but I think we done well. We have done well emerging from all of it. Now its start about to move the market 3 months back, I feel start change the feel. Started to get more projects in Abu Dhabi but very tight. Tight means we have to review the cost, we cut a reduction in the salary 10% .But talking about our office Manila we can't price the bid without the manila office.because we will not win.

Manila office have a future there we have to manage them properly manila is not a sweat shop I have been to manila a office its large than our office, more advanced technology in the desk, very neat office mi can take any client and it's the same as our organisation office of the same quality. So it's like a global design office like Bangalore. The cost of living in manila is fraction of the cost here may not be the case in India, India becoming expensive. We started using this office but we will have problems but we have to come solutions for it. Back to crisis we started to cut the overhead se we had the commercial, architect, these are the overhead they didn't have the fee. So it started to cut down at bare minimum.

And before we didn't have a commercial and all the directors are doing it so it back to basics. Directors have to do everything. So this is how we cut down the cost. What we did we shrunk the office a bit and because we can't see the workload coming but at the same time it was costing us fortune bidding no response because the management, project management, client organisation. They are trying to test the market and tell their bosses they are doing something. But they submit the bid it will fail. For example al falah community, I bid for 4 times with different mangers its landed last week, 2 yrs to take to land it.fro eg. Central market we are doing well then we r getting variation after variation but he metro box for Mubadilla started telling about for the last one and half years back now finally its negotiating its taking time to get the job. I it's not easy like this.

The other thing the quality before getting people and they were lot of learning curves but we have money to afford mistakes now we have no money for mistakes. We have to be right from the first time. We should have been like this before because the turnout is going 30%. Before the crisis the market was the high rise buildings, residential, and the low rise buildings. But now the rise buildings market was went down and it was maximum before the crisis .after the recession no body want the high rise buildings. so went down same with the residential and the commercial. Low rise market increased because the Abu Dhabi had a lot is high rise and UPC restricts the building heights.



So we being in rail way business in auh. We done the Dubai metro so we had an experience .suddenly its market in Abu Dhabi .In Abu Dhabi metro will have 330 km of tram and 130 km of metro.

So another market was the defence it was not a part of the strategy before now we are targeting , we targeting airports .Master planning doesn't cost client too much money .so it is the time to spend little money and plan things, our planning depart is too much busy.This is how we change our strategy we were relying on these and we open up new business sectors.

Management consultancy was no there before and, mag. Consultancy we opened because lot of organisations requires that services. Management consultancy is to set up organisation, recruit hr, system procedure, quality assurance. So got project in al ain municipality getting Abu Dhabi and the western region. And we are growing. We have a lot of organisations in Abu Dhabi like UPC they are starving for this services and so people like Ernst& young not too many consultancy can do management consultancy so we penetrate into this market. So strategy we changed the business sectors.We kept targeting what we do before but we have change otherwise we didn't survive.

As per the Abu Dhabi vision 2030 they needs to build hotels , hospitals.oil is the major factor in the use economy .steel price is also went down after the crisis and other commodities prices overall went down by 40% after the crisis. The labour cost is also fell down. Everything fell down. If we look at the recession in 74 and other ones we will see there is a comeback .even for this recession we had a sharp decline we will recover within one and half years .every sharp fall will have a very quick upturn. As so deep we will recover quickly.

In 2009 we are 56% building sector, site supervision 18%, infrastructure 19% and the master planning 7% before the crisis but now we move diversity we not going only for building we diverted we have more on infrastructure and master planning increased because clients are used in using the planning. Site supervisions increased and the vision now new sectors with management consultancy 10%. I.e. the new sector of the business, if one sector fell down we didn't put all the eggs in the basket.Before the recession the staff growth is too fast. It was 475 and we need to shrink. But now we are going in Abu Dhabi we are growing the manila office. We need to live with Abu Dhabi.

It's our strategy and out sourcing our job to manila (gdc).using the global design centres we called them everybody doing it Halcrow have it in Islamabad, hyder have in Manila but the coordination between the office will be the issue.Manilla office also have the system. We have to keep the client facing people in the Abu Dhabi office. Some projects we can't do in manila .for example the design and build project the contractor wants to be here. Some projects like small storey buildings we can send to manila office very easily there is no problem.Before the crisis resources was an issue now it's not a problem. When the recession came we have make some staff redundant. We try to make the less as possible. Quality people will be available now its positive side of the recession before we didn't getting the people .before whatever you pay u will not get the

quality people. After the crisis we are getting the people before we are not getting it. We had a challenge before the crisis after the crisis we don't have it. Accommodation was a problem in Abu Dhabi still a problem but lesser than before. We are trying to shift the office outside the city we consider this option we haven't made the decision to make the people life easier to outside the city. We have the fees competition heavy bidding activity will cost a lot of money and we are winning one out of three its good rate. But sometimes we spend a half a million on a bid we can't win it. Half million is the profit of a ten million job which will ever come very easily.

Everybody saying it's an unrealistic programme for the projects for example its sir baniyas island project. Now after the crisis we had a realistic program now they want to do slowly before they want to finish the design in 4 months we can't finish the design in 4 month but we need to so that. Back to reality now the entire bank is doing the feasibility study before yes they call come take u. Now they want feasibility study for everything. We have a big inflation before it was a challenge. Now we didn't have the inflation. Now the new challenge we are facing is the contractual terms and condition it's a big issue because the client is the market now take it or leave it.

There are some shop stoppers we can't give away. There are some other risks we have to take but we have to mitigate the risks by good project managers or allow some money against it. like the latest bid we submit to UPC , liquidated damages is a half a million dirham's per day for the delay. Half a million dhs per day if u late per day. Unlimited liability, if anything happens they blame for it. All these stupid contractual issues, we trying to get around them by having commercial managers involved having more reviews. showing the project coming in the right direction, about the risks, client management is the key issues. Whatever clauses you have, the client will not impose it if we have a good relationship. So client management is a key point. We have to work as a region not working alone anymore. We didn't going to grow the Abu Dhabi office unless the client focussed here. So it will cut down the cost, use of global design centre, Need the diversity start to diversifying business example management consultancy .nuclear is the new sector we brought in uae. We have a full time senior staff here .new system costing us money but that is an investment and it's a strategy.

During the first year of the management consultancy, we have al ain municipality project, Abu Dhabi about to be signed, but the future is bright for this sector they are high fee corner. Before the crisis we are trying to avoid the government sectors because of the terms and conditions but we didn't stop working with them. Before the crisis we are working with them but if have a project from private sector and one from government sector. But now we are talking to them more and try to get the terms and condition and manage them. ie managing the client representatives. We have more risk but it has to be a manageable risk.

Strengths of our company in the design are the sustainability, carbon critical tool .now we are talking with the municipality and they need to measure on their building with this tool.Cultural diversity is the part of our strength and people from the six nations are working here. It had a value to the business from client point of view.Opportunity during the crisis rail, defence health care, so rail I think for example the metro box we are targeting it defence still trying we haven't got anywhere yet. Health care we had a couple projects with al dar.Design & build, infrastructure we are scoring a lot. D&B market, we paid bid may be 6 or 7. The problem is the contractor is not winning the bid.

Two serious bid for the air port also Before the crisis we don't work with the contractor it's difficult. For example we did ethihad terminal but its difficult o work with contractor and they demanding. But now there is a sector for it and contractor is our client. especially on the infrastructure projects we are targeting these contractors. We manage to give the bids to the contractors but the contractor need to win the bid from the client. If we win the job we are their consultant but don't price correctly he doesn't win. This is the problem we are facing; contractors are not pricing it correctly.

We had analysis which contractor to go with, sometimes more than one contractor.Our weakness is the internal training between the offices. We slow to response sometimes.For D&B projects not any project managers can manage so there is special kind of, we are trying to get people who is more aware of this market.During the crisis we redundant a lot of people .high competition it's not easy to win a job. After the crisis to sustain in the market was a challenge new work we have to deliver it. If we don't deliver it on the margin then we have problem. Lack of cash and liquidity, lot of bank doesn't have cash any more like nakheel, we have 60 million dhs.so we shift the market sectors before buildings, high rise now infrastructure, roads, bridges and the accommodation is still a problem in Abu Dhabi.

## Interview with Business Director of Organisation -02

Before the crisis

Procedures what we have within certain committees, strategic committee. We have different committees within the organization of the company we have the board which is the highest authority within the Abu Dhabi office then we have the strategic committee then w have the senior management committee. The board is the decision makers for the how the business is being driven want client we need to pursue and all the above. Being developed or direction such as senior management action being taken. They it will work the strategic committee

Each member within the strategic comities will come up with the set up plans to achieve certain goals. The goals have been first put forwarded by the board of directors. These are the targets achieved need to achieve in this financial year. Need to achieve Of profit, need to get these much of allocations of the staff, need to grow, reduce our risk, whatever targets and goals set up by board.

These targets and the goals is the input for the strategic committee. Go with each one of it, take it to achieve the targets or within the business that

controlling need to do, additional clients concentrates on certain clients increase my clients whatever the strategy that been needed.

Then the strategic committee will meet, then they will have a joint strategy after the meeting then they will agree on certain things, will agree, disagree, discuss, will accept, comment, reject on the certain strategic

Decisions at the end it will have a strategic plan for the business. This strategic plan will be dynamic plan that is been adjusted every 4 months. **Every 4 months we adjust the plan.** The plan will say 1.determine the type of business that we can found for ex. We can concentrating on infrastructure or work on buildings, open **new territories like example master planning, defense, type of the business we going to be targeting**

Who are our target clients within the business stream we go to target the clients 1,2,3,4 example the client 6 will not target this year or near next year these are the target clients that not compatible with the business model not work with them for now but later on

Now target the type of the business, target the type of the clients and go does the type of the projects .Each client will have a 4 or 5 types of projects within his business stream. then we take to the action plan who's goanna be responsible for each on the actions and the strategic plan will go up to the board for the board to approve .so the board first set the goal and set the target.Return from the strategic committee the strategic plan and they look at the plan they say ok 1, 2, 3, to be modified to that extend or the rest is approved the strategic plan.

Then the strategic plan goes back to the senior management as actions. we can talk to that client and we can't go behind that client and the project manager to do 1, 2, and 3 and ensure the more work

As I said the board will determine the targets and goals for the business. The targets and the goals are for the year. At the end of the 4 months the strategic committee will looks at the achieved targets where we standing right now against the goals that being set b y the board. If we achieving these targets well and well. If not it's usually be the case like achieving in some business streams, u will exceed in some business streams and some business stream will not achieve these are the issues or matters we have to look it to it. How we modify to achieve these goals may be the initial planning is not correct within the business stream or need to modify something or change something or do this how the market is

#### First Reaction to recession

First thing we have to come up with **the plan called Business continuity plan**.BCP is how to ensure that our business going to survive within the crisis .To do the BCP , we need to do a lot assumptions .Assumptions that we are going to put is .. **now the crisis hit first the building sector and the developing sector so we have to assess how much that going to be impact and the where the impact going to come** and we know the impact start in Dubai and the impact in Dubai going to impact the other regions of the uae .First the other parts of the region in general first we start consider the building sector and the other section .Now the impact mean some can be affected or some going to affect more than others. **Automatically some sector will strive and new business models for you to balance that job**

The other sources of revenue can be other business streams, other business, locations, geographic locations or can be other business model, the ways we do the work

For example now the revenue drop and we need to survive, work up the methods we need to increase your margin, or profit let us sustain you the margin. How we can do that? What are the measures that we can need to increase the margin or to maximize our margin so we look the overheads, look at the cash flow,

Based on our assessment we need to have to do a prediction that how the market goanna be behaving within the next period, this is how the market is behaving .Now we have to adjust our cost and are based on the market behavior then we have to adjust our business model to maintain our targets including the cost and everything

#### Pressure, Threats and Opportunities

Threat is very clear the revenue going to drop and to sustain the operation that we had , this is a threat within our current project there is a threat, the threat the client starts thinking there is a lot of more players in the market so the client starts reduce our fees that is the another threat There is the threat actually loosing the business At that time we had. For example the ongoing project there is a threat that some of the projects will suddenly stop Client decided that it is not feasible or bank decided that any more continue with the finance these are the threats

Opportunities are the availability of the resources in the market there is more resources. just before the crisis it is very difficult to get the staff in the market because everybody is busy to get the offer from somewhere else so there is an opportunity that we are actually find more available staff on the market. Now the staff are more reasonable. Before the crisis or more unreasonable doesn't make any sense that we means that we can be more compatible with our proposal, we can reduce the fees because the labor is cheaper

There is an opportunity of merging the business streams, there is other business that day where actually weaken by the bubble. Now after the crisis ,infrastructure for example before there is no time for infrastructure client didn't think about the infrastructure so infrastructure became the new thing because the slow down , actually try to build the infrastructure to match the future development.

There are opportunities within the business for coordination and collaboration between the business and other parts of the business, instead everybody is busy, UK sector is busy, china is busy, and Hong Kong is busy, when everybody slows down, now we have the opportunity to share our projects. Also looking at the internal training there is an opportunity to flourish. Now you are looking at our own business. Before everyone is busy now everybody is slowing down so training more internally.

We opportunities that we called the long corridor and short corridor. Long corridor is the internal trading between us and the other offices globally. Short Corridor is between the different other business regions within the region like Bahrain, Qatar, Oman, etc globally UK and US Offices.

Decision that are driven by when we can go, how think the ship can float. For us to keep the ship to float, we need to maximize the profit so we can sustain



the business, Revenue decrease so that we are getting an  $x$  but we getting only the  $0.6x$  revenue. So we need to sustain the business. So you have instead of having a margin of  $0.1x$  you have to get  $0.2x$  of  $0.6x$

For you to less to do that we don't go to the client and charge that but the client actually looking you to reduce the fees so what you do , we have to do we have to look at the ways methods for you to reduce the cost. So looking at the cost to actually formulating the cost of the product for example **reducing the cost of the design by reducing the man-hours on working on certain projects or working on the on the global design centre.** So we start looking at the global design centers in Philippines sending project to them. The **cost of doing the design in the** Philippines centre is half the cost what we have to done in the gulf region .It's the another way of minimize the cost looking at the overhead management structure look at the resources unfortunately **let the people to go**, how to **reduce the rents**, looked at the office to move out of the city, to **get cheaper rents**, we **looked our transportation** , how to reduce the our transportation for projects , **looked at our travel, business travel** , and regular travel , that we offer for the staff. Looked at **our communication** for example, we elected to change our wireless connection and mobile phone providers, Everybody within the world within the business stream looking for the ways to reduce the cost. We had managers that we actually assign them for the projects. so they available to these projects so their costs will be taken out by the overhead and looked at the projects, their profitability will increased we created the neutral line there which should not go below. When it come down the productivity of the office should always maintain a top of the line make sure it still it floated. It goes below it all, be raised.

We looked **out cash flow** now to ensure we got our cash, client looked all. Then dealing with the client to **bring all the cash flow**. So there is collection of efforts and the measures we are taken there is a collection of measures that we looked at, we designed and we implemented to ensure that the **our cost has been dropped that we getting our fees and then we are maintaining our same level**, service it's not easy thing because trying to satisfy two totally different monsters here. It's our cost deliver the services is not an easy equation but we looked up just to ensure that we meet our targets.

#### Innovation

As our organisation we stand like we are future of having a leading position in variety of field, our clients didn't come to us because it have a cheapest product they come to us have highest quality we can provide the highest quality product we do. So there are lot areas the client knows that the innovation highest technology is come from our organisation. Look at our **green buildings about sustainability carbon critical design** tool, this where the clients know they come to our organisation for everything building design master planning, for all of them. We come down of sensitive projects they know we are the leader in Europe and other parts of the world. Since talking about the government projects we are the engineering firm to do this. If we looking at the quality for example, we are talking about the clients especially come for our organisation because we have the reputation , and the we have the methods in house , process, system, that we can make sure that the client money worth, not only the design but actually after the pre contract. So we build not only on what we doing we build done in the past what we create the reputation that we builds within the clients and the market

here. We build on the knowledge not only the knowledge in the region .. For example nuclear this is something the new field in the UAE, never exist before. We have nuclear department here and that we have nuclear department we have to put in the market and we have some nuclear wizards and the staff we brought it here from our nuclear business in all over the world. They all employees, they know our systems they being working before in the same stream and they does it before, they created the market before this why they doing in UAE also.

Management consultancy they didn't exist in UAE before. We brought management consultancy through the recession and we got our biggest project right now in UAE, HSE project in al ain, Abu Dhabi and the western region. This done through the new branch of business wasn't here before the recession .but we brought it here because that is the need it's a new opportunity. That was created that was the new business stream that we talking about management consultancy didn't exist before. Nobody have the time for management consultancy. That they want the management consultancy be the part of their business that why we bring the service because we have it in house.

Study on market

We have the targets and the targets developed, strategy will provide project and plans and action plans. Now the target is set. Now the strategy is dynamic and then as a result the projects and plans are dynamic as well. That is before the recession then what happened the difference is through the recession and until now what is doing is we only modify the strategies after the recession we set the new targets realistically based on the real market.

Actually in the beginning of the recession, i.e. recession starts on October 2009 at the beginning of the recession, the review is more rapid and we have a vey frequent reviews. Strategy on 4 months adjustment is made on daily basis. We can't wait for 4 months and see the market so the strategy in for 4 months. But the projects and the plan levels daily review daily adjustments making sure that we get just optimizing our opportunities.

Measuring the Strategy Successful

Mainly several measures, cash flow are the one, cash collection. We have also for the productivity so look at the productivity. How productive we are, we look at reveeneues. How much work we win within certain period actually, check on weekly basis. We cannot actually wait for every week, every week we looking at it. So we have a circular goes around every week with the amount of the cash flow, which is not done before the crisis, it's only after the recession.

That was done through our financial year before the crisis we have called the PSR( project statics report) PSR is what we have usually every month that the finance ,each project manger look at the projects that they have and how the projects is performing g from the financial point of view.

After the crisis it is not like that we looked upon all the measures we looked at the cash, cash flow, productivity, product within. We looked at all these before but not that intense but in a weekly basis not only in Abu Dhabi but all the office in the region

There are data comes through and analyze distributed through the senior managers within the region for all the offices .Now I can see what Abu Dhabi is doing, Qatar is doing, Bahrain doing so we look at the productivity ,cash flow, cash collection,PSR done.

we learn from the recession its huge learning experience and the experience we learn from it reshaped to way that we do the business that will continue even after the recession because that you become better, you actually able to upgrade or enhance too the way to do the business by the recession. There is no recession for you to go if you actually benefitted that and enhanced way u do the business in the short and long-term business. How you gonna maintain .we look at the risks the differently, access our risks differently something else we do right now that we didn't do it before. We evaluate the risk when something happens.

Now we have to reevaluate all the risks of all the projects on monthly basis .so the risk qualification is being reviewed on monthly basis we need to know exactly each project where currently standing, what are the risks for this projects, within two years of completion what is the value of the risk. Now we do the risk monthly basis.

Example for the risk

For e.g. the project we are running right now we estimated the risk 2,2,3, like that and this Probabilities of the risk that happen, the risk money wise, this is the amount of money we want to put aside The project 25% completed and I take 5% of the risk but now not the case within the project the risk fluctuates, because there are new elements .now new elements are introduced to the equation . These are the new risks because the way the clients behave, the way the clients contract behave, additional delay ahead the project completion which means the put the additional resources, we need to pay for it all of these now we evaluated in all the project.

They way we look into it Is not only the project manger, the project director brought the financial manager. All look at it every month that is intensified followed. New step in the frequency of revisiting the risks. Now it is a continuous process may be it will be the same, updated,

In Dubai we are forced to take actions just too sudden drop in the work locally .the reason is that we have some major projects with so major client's example Nakheel, is the major client with our organisation.7 or 8 projects with this client. Suddenly 100 people sitting without any job. we carried out with you to 7 months thereafter that we have to take the decision , we will pick the measures it will reduce the some overhead by some of the additional resources redundant. Especially in Dubai but happened in Abu Dhabi very small scale. The point we they need to consider have is that before the recession the we actually allocating the resources to your business although you know it's not required and you can't be utilizing the 100%

The reason for that is couple of things:

Load of the work is increased dramatically we get the projects that we actually that it can be increased we hired people ahead of the time , utilizing them 60% of the time,Need the staff we couldn't get them, everybody is busy and everybody is getting better.We have at least have the resources to utilize for the client .Now after the recession you had the line to make our operation more because you have you know where it to deliver. We can actually adjust your resources. If you have to make someone redundant or you make the post redundant, to make the post redundant based on the stringent criteria you can do



without the post, you can do without the employee and you don't let anyone go or retain them even if we will retain them. So the least performer let them go.

The second thing another parts of the business they already deliver, we had a more share on the resources globally so I can reach the UK business experience, I can take the middle east experience or Asia The exchange and sharing the resources between the different business units and the between the different regions

#### Crisis before the Recession

Example we had lack of resources within the market we have a central market project we have to deploy within a yr 120 people at the site. We had some resources which we can free from other internal projects.

Since it a very important client and the project we need to provide the better service that we can but the same time we maintain the reasonable margin. We will be an agreement with the employee/ candidate in the market this post who goanna and how much we goanna pay and then 3 weeks before he actually get the job and go back and requires double how the market was there. So the decision was made we have the study for this project and the other projects as well. We have to find a strategy to sustain the business not being threatened in the middle of the project people come to say either you double my salary or I can go. We come up with a several measures .First measure was as far as to promote for example, we have engineers having 6 yrs experience. What we do is we put more guys we have to the senior level and hire more juniors. That is very successful plan because we able to invest in our staff they get promoted

The 3rd thing is we actually maintain the profitability of the projects not paying overestimated wages to staff. The 4th thing is that we got more juniors .Finding out the staff locally in the market was difficult during the boom time so we gone to recruit from outside the UAE, like from Singapore, India, Philippines, .so we have to go outside the country to get the people because we can't sustain it locally everybody is locally busy .the other thing is that we try to make it more reasonable