Working Paper Proceedings

Engineering Project Organizations Conference
Rheden, The Netherlands
July 10-12, 2012

A Turn-Around Model for Construction Company Rescue: Failure to Success

Kanadi Jagafa and Gerard Wood

Proceedings Editors
Amy Javernick-Will, University of Colorado and Ashwin Mahalingam, IIT-Madras

A turn-around model for Construction Company Rescue: Failure to Success

Kanadi Jagafa and Gerard Wood
The School of the Built Environment
University of Salford M5 4WT,
United Kingdom
Emails: k.a.i.jagafa@edu.salford.ac.uk & g.d.wood@salford.ac.uk

Abstract

Research works on the causes of business failure as well as tools on the predictability of business failure has received considerable attention in finance literature due to the 2007 recession. In 2009, the UK insolvency rate hit a record high of 270,000 i.e. 11.9% death rate. The Office of National Statistics (ONS) reports that, this is the first time business deaths have outnumbered business births since the year 2000. Across industries, the construction industry in 2009 recorded the highest number of business deaths in a single year with over 44,000 company bankruptcies. The aim of this research is to develop a model that gives construction companies in distress a likelihood of success at recovery. Based on a literature review, 52 factors were found to be the causes of business failure in the construction industry. However, the Input and Output model suggests that, while some factors are determinants, others are indicators or symptoms of business failure. It was found that the top seven determinants of business failure in the construction industry are; "Management Incompetence", "Insufficient Capital", "Lack of Business Knowledge", "Fraud", "Industry Weakness", "Poor Technical and Technological Capacity", and "Poor Relations with Clients and Government", while, "Inadequate Profit" and "Inadequate Sales" are the top two indicators of business failure in construction companies. A transition by implication involves change. It was found that economic down-turn does not necessarily cause business failure but combined with company flaws and bad practice, produces a rough tide for companies to ride on. Most do not survive. Leadership was also found to be, arguably, the most valuable resource at the stage of company turn-around. Therefore, the conceptual framework was designed with the view that leadership drive the transition process. It is hoped that this model will aid managers of companies in distress narrow their focus on the likely determinants of their company problems. To easily and quickly identify the problem, return to the board, address the problem and turn-around performance towards success.

Key words: business failure, turn-around, recovery

Introduction

Hitherto, researchers, organisations, entrepreneurs, investors and policy makers have been interested in the reasons why businesses fail (Kale and Arditi, 1998; Dikmen et al, 2010). In the summer of 2007, the UK financial market suffered a meltdown that drove so many construction companies out of business; both large companies and Small and Medium Enterprises (SMEs) (HC, 2009). The current insolvency statistics demonstrate the difficulties being experienced by many businesses. It's been reported that building firms fold every four hours as bankruptcies soar. A statistics of 500 building firms exactly was stated insolvent

during the first quarter of 2008; the highest in five years (Langdon, 2008). In 2009, the UK insolvency rate hit a record high of 270,000 with construction responsible for about 40,000 i.e. 14.9% death rate. The Office of National Statistics (ONS) reports that, this is the first time business deaths have outnumbered business births since the year 2000.

Business failure has been defined as a fall in revenue or a rise in expense to such a point that the company cannot secure further debt or equity for business. The consequence of this will either be a discontinuance of ownership and management (through mergers) or a discontinuance of business (complete scrap of the product or service) (Shepherd, 2003; Everett and Watson, 1998). A similar definition is that by Dimitras (1996; cited in Dikmen et al, 2010) who defined Business failure as *"a situation that a firm cannot pay their lenders, stock shareholders, and suppliers"*. The latter definition has been adopted for this research in the context of the construction industry. It is important to note that reported business failures do not include disclosures of business discontinuances without loss to creditors. Financial distress is a significant indicator of business failure and should be diagnosed at an early stage to avoid bankruptcy.

Current Events

In recent times, some major construction companies have gone under. For example, Connaught plc, a social-housing giant operating the UK and specialising in repair and maintenance services collapsed in September 2010. The company employs about 10,000 staff (Knight, 2010). The cause of the giant's collapse is unclear. Some argue that there were irregularities with Connaught's accounting books. Others argue that pressures from the government cuts were to blame. Whatever the opinions of people concerning the collapse of Connaught, the following facts remain about the company's business activities. Firstly, "*suicide bidding",* Connaught plc was found to be bidding too low for projects in order to win contracts with local authorities and housing associations. This inevitably had an effect on the stability of the company. Stone (1999) knows too well about mark-ups, profit, and survival in the construction industry. Pricing too low automatically jeopardises survival. Secondly, *poor financial management*; Connaught plc gave false impressions of its financial health by tweaking its financial statements to hide losses and accentuate growth. Once, they were found out, their funders lost confidence in the company and refused to refinance Connaught's debt of £220 million. The company also had a shortage in working capital. Thirdly, *receivable difficulties*; owing to the government cuts it was difficult for Connaught plc to get its payment from its public sector clients – local councils delayed payment for as long as contractually possible (The Guardian, 2010). Fourthly, *sudden management departures*; this is arguably a clear case of the "Captain abandoning ship" sort of move. According to a Guardian analyst, within two years, three top executives; the CEO, the executive chairman and founder, and the financial director all quit office and cashed-in shares and options worth a combined £16.6 million. These factors contributed to the demise of Connaught plc.

Another recent case is ROK, a national house builder and Connaught's biggest competition. ROK enjoyed a season of growth since its establishment in 2000. Its value was up to E430m. The company, led by its chief executive officer, was vicious and relentless in its growth; capturing everything it sets its eyes on. However, according to Building Design (2012) the *company's business strategy was not consistent with its own unique style*. What caused this great giant to fall? First, *diversification* from contracting to maintenance, hence taking on more debt, and which meant *cash was not received up front* as much. Second, ROK made some *unforced acquisitions*, which also increased debt. Third, the company had *no financial*

cushion as it was *heavily leveraged.* Fourth, there was also a case of accounting irregularities in the company's plumbing division. Lastly, *poor leadership*, ROK had a CEO who was more concerned about the company image and confidence than the work itself. He was obsessed with establishing the company's corporate identity, vision and unity of purpose. The company's 3,800 employees were constantly mesmerised by loud and flashy internal conferences, with high performing staff often rewarded with the "ROK star" and it's top management incentivised with handsome bonuses for meeting targets. Its share prices were proudly displayed in its regional offices. As the company started to decline to an impending death, there was obviously, no right leadership present to turn-around the giant. For a company to have any chance at recovery, the leadership has to be good, humble, and possess a strong will (Collins, 2001). Fletcher and Wearden (2010) also affirm this by stating that "the onus on recovery is management-driven, and outweighs any macro concerns about the construction industry". From literature, it was found that economic down-turn does not necessarily cause business failure. It only exposes company flaws and inflames the impact of bad company practices. The combination produces a rough tide for the company and only a few survive.

Problem statement

In construction, failure studies have focused on explaining failure at the project level rather than the corporate level (Arditi et al, 2000). However, it is important to note that failure at corporate level can not be divorced from failure at project level but not necessary the other way around. Construction, like any other business, needs funds to run. Firms need to act fast when company finance begins to shrink. Jonathan (2002)and Langdon (2012) reported that cash flow shortages, falling profits, failure to pay suppliers, delayed and /or reduced valuation certificates, progress of works slowing, insufficient resources deployed on the project, falling asset values, excessive borrowing, or even boardroom tensions are obvious signs of company financial difficulty but are often overlooked by management. When a company admits its situation and pulls the alarm of distress, then, the first thing to do is to try to stage a turnaround. If that's not possible, then the next step will be to try and salvage the project either by extracting a meagre return or limit and manage the loss and damage associated with it. During a turnaround, management could decide to adopt a number of strategies. These include; negotiating with existing lenders, raising new equity, disposal of assets, introducing new management, and informal agreement with creditors. If none or a combination of these strategies proves effective, management must begin to consider a formal insolvency procedure. However, no contractor wants to get to the point of insolvency. It is always hoped that the recovery is successful. Here, already things are going wrong, the company's financial stream has dried up or about to. It is important to come up with strategic decisions for sourcing new funds and having the right people in place to take the company to greatness. Restructuring of the whole company becomes imperative; management structure, asset structure, capital structure, determining an appropriate mix of debt and equity that fits the company's business strategy is vital to the turnaround process. Dept repayment strategies must be in place. With little or no cash to repay creditors in full, it is important to prioritise creditors to be paid. These are lenders who are likely to take legal action against the company or have sufficient power to cripple progress. However, this will result in survival "credit management" with cash being juggled to avoid any likelihood of legal action from those of less priority on the list.

Literature is pervaded with failure of construction businesses and not much talking about their turn-around (success stories), the processes taken to have a great chance at successful turn-around (critical success factors), or the factors that could impede efforts at the transition

period. There is very limited data on this area. Some may argue that having a continuity plan is enough, but time and time again, this has been insufficient to rescue a company in distress. There needs to be a more reliable framework to secure company survival. The main aim of this research is to design a framework for corporate recovery in construction companies. The research will identify companies that approached their impending demise but had a strategic rebirth and a sustained success. These companies will be compared to other carefully selected comparable companies that failed to make the transition, and/or sustain it. The aim is to discover the essential factors at work during the transition period (for example Fig 1); the common problems encountered and the decisions taken to address these problems.

It is hoped that in the end, the framework will provide companies with a better chance of survival when faced with failure. This research will provide a full review of current literature on factors surrounding the failure of construction companies both at corporate and project level. This was done in order to have a clearer understanding of the determinants of business failure.

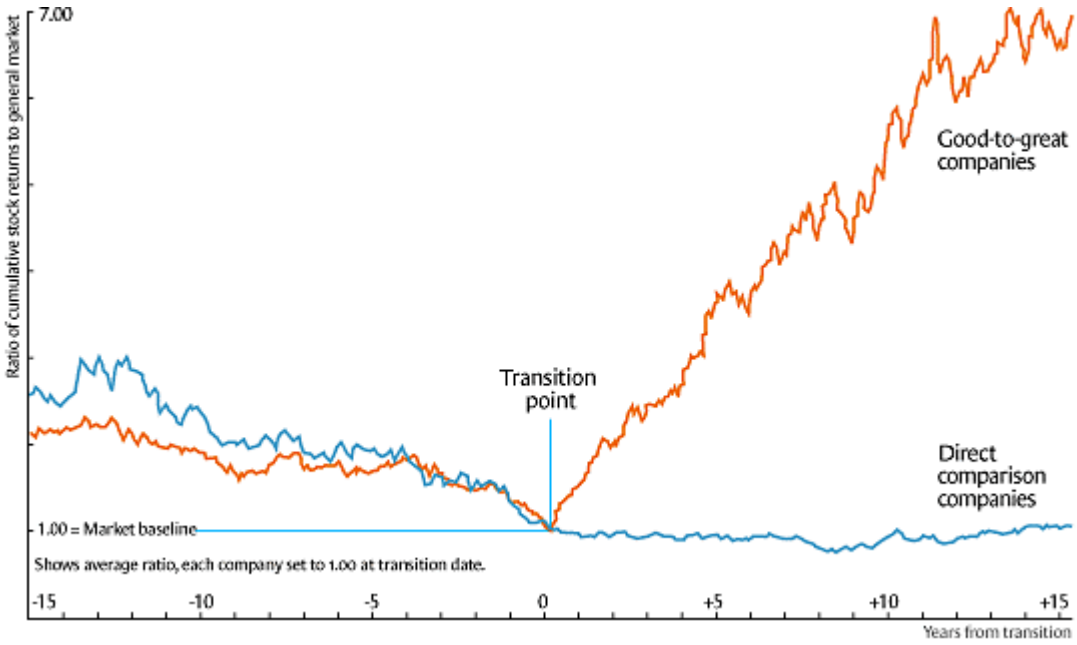

Fig 1: Good-to-great transition. Source; Collins (2001)

The mission is not to bring out a recovery formulae but to outline a number of activities, steps, strategies and tactics that if when applied, the company will have the best chance at survival. Within this research, the term business failure is only used for comprehensive reasons only. It is not looking at business failure or failed business (bankruptcy). When we say "businesses that have approached business failure" we mean businesses in decline, businesses that are at pre-insolvency stage; the fence of bankruptcy and profitable. That is, businesses that are *barely* breaking even, providing neither a reasonable income for the owner, nor a fair return to the investor. They are also known as "failing businesses" (Land, 1975; Everett and Watson, 1998)

Determinants of Business failure

Based on an extensive review of literature, a list of 52 factors was compiled as an exhaustive list of factors that are responsible for business failure in construction companies. Most were

iterations of Dun and Bradstreet's credit reporting database of 1989 - 1993. In this paper, the factors were outlined under the same categories as in Arditi et al (2000). They categories are; budgetary issues which covers financial management aspects of the company; human and organisational capital issues which covers some aspects of company tangible and intangible resources; issues of adaptation to market conditions which covers sales, competitiveness, diversification and expansion; and business and macroeconomic issues which covers industry specific and national economy issues. This can be seen in Table 1. A new category was added to accommodate social reasons for business failure. It was found that race and/or minority status of company owners can impede the growth and hence survival of the construction company (Bates, 1997).

After the factors were outlined and ranked, the input/output model designed by Koksal and Arditi (2004) was used to show cause-and-effect relationship. From the systems theorist's point of view, organisations are continuously transforming inputs into outputs. This model shows that organisational factors as well as external factors are the main determinants of business failure in construction which then reflects on company performance also known as symptoms or indicators. This argument is supported by the work of Dikmen et al, (2010) as they identified 33 determinants mostly associated with failure likelihood to fall under "value chain", "resources", "decisions" and "chance factors" which are same as organisational and external factors. The effect of these determinants on the company performance will then be the symptoms. These symptoms can either show growth (survival) stagnation or failure (outcomes). For example, Lack of business knowledge and inadequate managerial experience may increase operational expenses, create conflict within the organization, create a poor company image to clients which will hurt the competitiveness of the company and hence result in inadequate sale of goods and services, which may in turn affect an organization's profits. Having the symptoms does not automatically mean business failure. Not when the company yields returns greater than the minimum acceptable hurdle rate. By implication it can still pay lenders and stakeholders but has not learnt to cut cost. As a matter of fact, the input and output model points out clearly to managers the areas that need improving. Koksal and Arditi (2010) called it the feedback loop. Staging a turn-around to improve company performance could save the company.

Dikmen et al, (2010) saw "poor company image" as an intangible resource and as a determinant.. However this research argues that poor company image is a performance indicator, a symptom of failure. Before it becomes a company resource it is a performance indicator. A "poor company image" could be a result of insufficient capital to promote itself or because of its poor technical and technological capacity hence cannot maintain a certain required standard of work in the market it operates. Or, it could be as a result of poor relations with clients, supervisors and government or managerial incompetence. It is a result of any of or a combination of the above reasons. Therefore, it's been placed under symptoms or performance indicators. By discretion, other factors mentioned by other researchers which were not mentioned by Arditi et al (2000), were placed under the categories they belong. Table 2 shows determinants of business failure in construction companies on the left vertical corner and a list of researchers on the top horizontal corner. The factors were ranked based on which factor the individual researchers considered to be most important. Some factors were not mentioned by other researchers hence, they were not ranked by them. The factors were then grouped and represented using the input and output model with human, organisational and financial capital, macroeconomic, social and natural factors as inputs. And, budgetary, business and market adaptability issues as outputs.

Table 1: Ranking of determinants of business failure by Researchers

	Dikmen et al (2010)	Arditi et al (2000)	Everett and Watson (1998)	Kale and Arditi (1998)	Hall and Young (1991)	Stead and Smallman (1999)	Koksal and Arditi (2004)	Chan et al (2005)	Byabashaija (2007)	Harada, and Kageyama (2011)	Perry (2001)
FACTORS											
Budgetary issues											
1. Insufficient profit		1	4			2	1			2	
2. Heavy operating expenses		3			9		2				
3. Insufficient capital	15	4	1	2	1		1				
4. Burdensome institutional debt		5					3				
5. Receivable difficulties from the client	6	10					6				
Human: organizational capital issues											
6. Lack of business knowledge		6	2	1	2	2	2	1		1	2
7. Lack of organisational knowledge	2				3		4			3	3
8. Poor relations with clients/government/networking	5			6	5		2		3		
9. Lack of managerial experience/competence	1	11	1	1	2	1	4	1	1		1
10. Poor technical and technological capacity	3		7		10						
11. Saving non-value adding activities	9										
12. Poor company image	10			5							
13. Scarcity of financial resources	15			4							
14. Overexpansion/not expanding	26	18		3			9				
15. Wrong level of diversification	20										
16. Fraud		12	3		4		3	2	1		
17. Lack of line experience		13					6				
18. Lack of commitment		14					8				
19. Poor project cost estimation	25				4				6		
20. Poor financial management	12				3						
21. Wrong project selection	21										
22. Poor working habit		15					7				
23. Unexpected change within the workforce	17										
24. Poor value chain analysis at the corporate level	7								2		
25. Poor strategic planning	8										4
26. Poor human resource management	16								2		
27. Poor leadership	14										

28. Poor investment decisions	13			6							
29. Poor communication	18								4		
30. Poor planning and scheduling	19										
31. Poor monitoring and control	22										
32. Poor environmental scanning	11										
33. Poor organisation of resources	28										
34. Poor quality management and control	30										
35. Poor selection and management of supply chain	31										
36. Poor project risk management	32										
37. Poor change order and claim management	33										
38. Unsuccessful restructuring/reorganisation	4								5		
Issues of adaptation to market conditions											
39. Inadequate sales	27	9	5		6		4				
40. Not competitive		16					7				
Business issues											
41. Business conflicts		8			6		5				
42. Family problems				5	6		5				
Macroeconomic issues											
43. Industry weakness		2	6		7		1				
44. Poor growth prospects		17					3				
45. High interest rate		19	3		8		4				
46. Economic fluctuations	24										
47. Shrinkage in construction demand	27	9	5		6		4				
Natural factors											
48. Disasters		7					2				
49. Change in politics	29										
50. Sudden death of the company leader	23										
Social factors											
51. Race											
52. Societal class (majority or minority)											

In the input and output model, organisational and environmental factors are represented as determinants of business failure. These determinants are further classified under "Human, Organisational and Financial Capital" and "Macroeconomic, Social and Natural Factors".

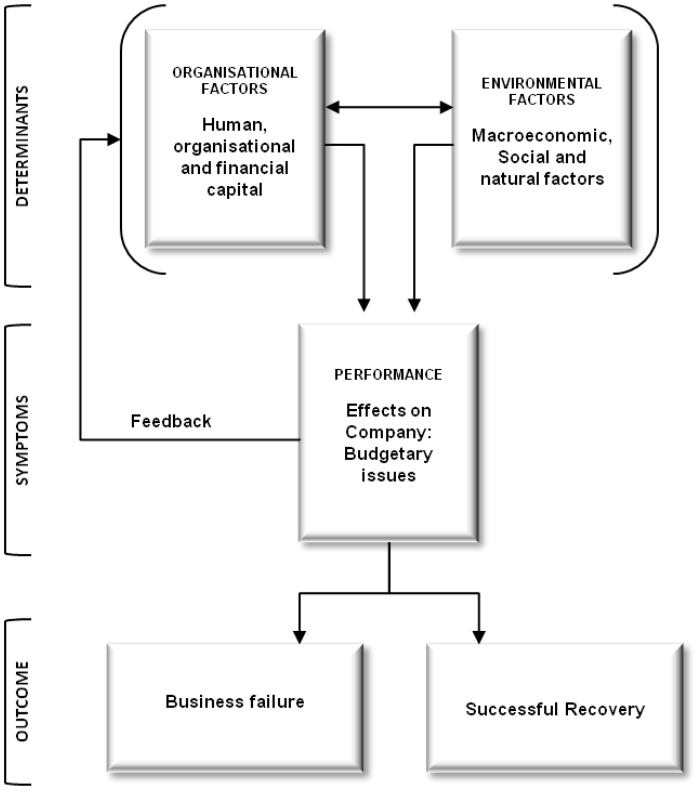

Figure 1: Input and Output framework of business failure/survival in the construction industry

Human, Organisational and Financial Capital

These are factors unique to the organisation. They have to do with company resources (tangible and intangible), and how they are managed i.e. every decision made to allocate these resources both at corporate and project level. Company intangible resources are company assets that are saleable though not material or physical such as relationship capital and skill (Lu, 2009; Lu and Sexton, 2006).

Table 2: Determinants of business failure in order of importance

DETERMINANTS	
ORGANISATIONAL FACTORS	**ENVIRONMENTAL FACTORS**
Human, Organisational And Financial Capital	***Macroeconomic, social and natural factors***
1. Management incompetence/experience 2. Insufficient capital/Scarcity of financial resources 3. Lack of business knowledge 4. Fraud 5. Lack of organisational knowledge 6. Poor relations with clients/government 7. Poor technical and technological capacity 8. Poor investment decisions	1. Industry weakness i. Poor growth prospects ii. Shrinkage in construction demand 2. Disasters 3. High interest rate 4. Economic fluctuations 5. Sudden death of the company leader 6. Change in politics 7. Race

9. Overexpansion/not expanding 10. Wrong level of diversification 11. Family problems 12. Poor project cost estimation 13. Poor financial management 14. Lack of line experience 15. Lack of commitment 16. Poor working habit 17. Unexpected change within the workforce 18. Poor value chain analysis at the corporate level 19. Poor strategic planning 20. Poor human resource management 21. Poor leadership 22. Poor communication 23. Poor planning and scheduling 24. Poor monitoring and control 25. Poor organisation of resources 26. Poor quality management and control 27. Poor selection and management of supply chain 28. Poor project risk management 29. Poor change order and claim management 30. Poor environmental scanning 31. Saving non-value adding activities 32. Unsuccessful restructuring/reorganisation	8. Social class

Most researchers ranked "Managerial Incompetence / Experience" as most important determinant of failure in construction companies (Dikmen et al, 2010; Arditi et al, 2000; Stead and Smallman, 1999; Chan et al, 2005; Byabashaija, 2007; Harada, and Kageyama, 2011; Perry, 2001; Everett and Watson, 1998). Followed by; Insufficient capital/Scarcity of financial resources, Lack of business knowledge, Fraud, Lack of organisational knowledge, Poor relations with clients/government, Poor technical and technological capacity, Poor investment decisions, Overexpansion/not expanding, Wrong level of diversification, and so on (see Table 2). On the other hand, a few researchers assert that "Insufficient Capital" is the most important determinant in construction business failure (Hall and Young, 1991; Wong and Ng, 2010; Kale and Arditi, 1998) This is supported by the Input and Output model designed by Koksal and Arditi (2004) which showed "Insufficient Capital" as the most important determinant in construction business failure with a high rate of occurrence. The argument is that, firstly, construction is a capital intensive business. Secondly, where contractors are paid on interim basis, the often negative reading on company's project cash flow report during construction (Arditi et al., 2000) makes a lot of companies to run on debt until practical completion before they can fully recover their investments and count profit. Hall and Young, (1991) state that the larger the amount of debt, the greater the probability of failure. Warren Buffet states more succinctly "you can't go bankrupt if you don't owe money". Thirdly, it is argued that small firms have difficulties in raising funds and there is often poor management of debt. Small firms do not pay much attention to financial ratios as big firms hence their increased likelihood of failure (Kale and Arditi, 1998).

Previous studies have also reported that the amount of capital invested at start-up is positively related to the success of a business. Improving the financial performance of construction industry is crucial for all stakeholders within the construction industry (Bates, 1990; Bruderl et al., 1992; and Holtz-Eakin, 1994; cited from Everett and Watson, 1998). It will be interesting to note that Dikmen et al., (2010) found "Scarcity of financial resources" i.e. insufficient capital, as the 15th most important determinant while Arditi et al., (2000) ranked it as the 9th most important

Macroeconomic, social and natural factors

Macroeconomic trends affect the construction industry. Whenever there is a recession the construction industry is the first to feel the effect because of shrinkage in construction demand, and the last to recover (Langdon, 2008; ONS, 2011). "Poor growth prospects could be as a result of over competition where there are too many contractors fighting over few contracts. This could lead to "suicide bidding" i.e. contractors submitting underpriced tenders in order to secure contracts or bidding for contracts beyond company specialty and capacity. As the name implies, this could lead to failure. Issues like 'Disaster and "sudden death of company leader" are purely chance factors and may not lead to company failure in the event that they occur. However, in the case of small and medium firms, the death of a company leader could be the end of that business (Wallace, 2010). With respect to social issues, "race" and "social class" does play a subtle role in business failure. Bates (1997) analysed financial institution's lending to small business start-ups. He found that relative to the white-owned firms, black and minority owned business start-ups with identical measured characteristics are observed to be poorly capitalised and therefore are more likely to have discontinued operations over time.

Table 3: Symptoms/Indicators of business failure in order of importance

SYMPTOMS	
PERFORMANCE	
Budgetary issues	***Business and market adaptability issues***
1. Insufficient profit	1. Inadequate sales
2. Heavy operating expenses	2. Poor company image
3. Receivable difficulties from the client	3. Business conflicts
4. Burdensome institutional debt	4. Not competitive

Budgetary issues

The most important symptom under budgetary issues is "Insufficient Profit". It can be the effect of any or a combination of the determinants in Table 2. For example, poor investment decisions or wrong project selection could lead to heavy operating expenses which could lead to increased borrowing (debt) and in turn lead to operating at a loss (insufficient profit). Bad projects could also lead to payment problems and this will definitely affect growth and profit of the company.

Business and market adaptability issues

Determinants such as; management incompetence, and/or economic fluctuations could lead to inadequate sale, this in turn will reflect on company profit. A continuous and worsening string of inadequate sales could cause the construction company to bow out of the market - failure. Another example is when managers lack the business

knowledge to attract clients, suppliers and distributors and poor relations with clients, government and supervisors could lead to "poor company image" and cause the company any competitive advantage with regards to its image. Carnall (2003) and

Existing Turnaround Frameworks

The key to this research will be a systematic contrasting of the successful turn-around companies to their direct comparisons. The main question this research will keep asking as it goes on this journey will be; "what's different?" A review of literature produced a couple of turn-around frameworks. Jim Collins, the author of *"Good-to-Great"* and co –author of *"Built to last"* supported by a team undertook a five year project to find how to turn a *good organisation* into one that produces sustained *great results*. He defined "Good" as "the enemy of great". Barely a definition but it is a philosophical way of looking at it. Inferring from his book, good could be a point where a company is doing well enough to be complacent and probably oblivious of its loss of market share to its competition. While "great", he defined, as "attaining a sustained cumulative stock return of about 7 times the general market over a long period of time; in this case 15years. The general market cumulative stock return, however significant, is the equivalent of "good". By the end of the research, he and his team came up with the ultimate "flywheel" (Figure 3). This is a framework of concepts broken into three broad stages: disciplined people, disciplined thought, and disciplined action; within each concept, are two key concepts. From a critical view, it seems that accountability is the core of these principles. Jim Collins and his team found that these three concepts help make the transition successful. A similar concept is that pioneered by Vital Factors Solutions in the United States who believes in four principles; a commitment to accountability, communication, effective decision-making and problem-solving. With accountability and culture of transparency in communication it was easy to identify problems and address them.

Figure 2: Good-to-great ultimate flywheel

(Collins, 2001)

The major differences between the good-to-great research and this research are; the companies here a facing failure. Therefore, they are not comfortable. There is

urgency. Also, the level of pressure at the time of transition and the conscious effort to make a change is different. This means that there is a plan and a program with transformation targets. In Collin's research, one of their major findings was the good-to-great companies had no tag line, launch events, or program to signify their transformation process. In order words, they did not consciously adopt a revolutionary process of moving from good-to-great. The construction industry is not a very stable industry. It is very volatile. However, a company does not have to be in a good industry to do well with a lasting legacy (Collins, 2001). Jim Collins used his top 10 good-to-great companies to make this statement more explicit.

Another turn-around framework, but this time, for construction, is one used by the Construction business recovery team at Davis Langdon. However, this is project focused. They use this flowchart as a guide during CBR process. This is quite useful to this research as project distress can transcend to corporate distress and vice versa.

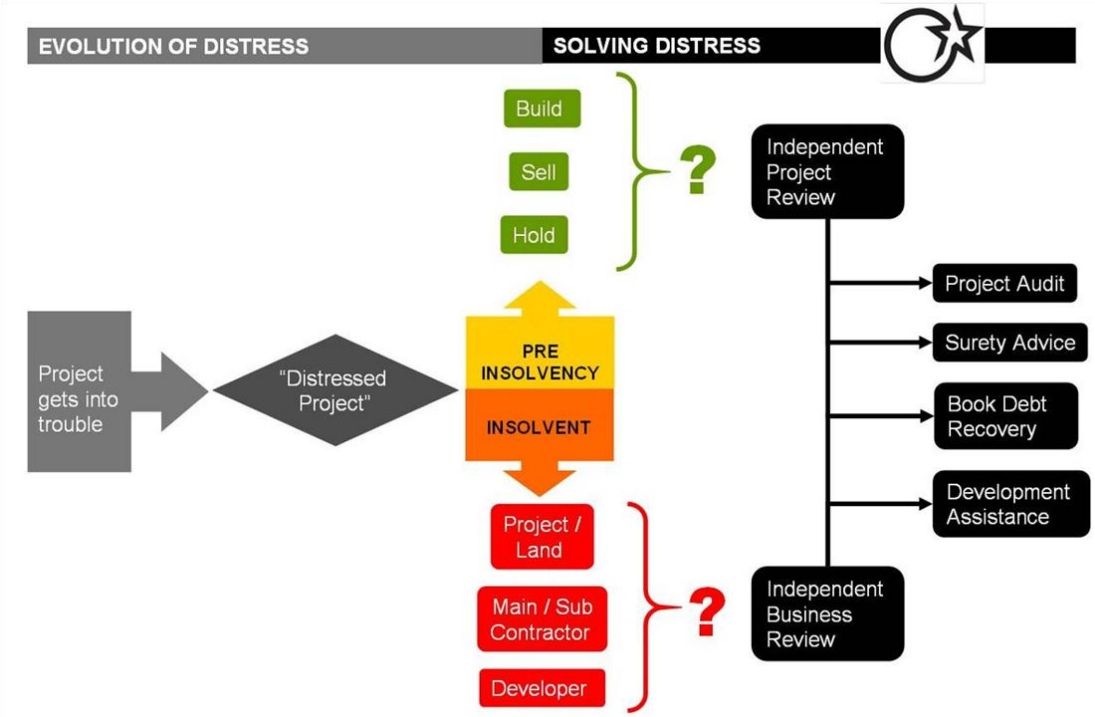

Figure 3: Distress Project Assessment

(Langdon, 2008)

The above frameworks are useful but there are limitations as it does not cover the whole process of transition. However, they will used as strong framework references in this research.

Aims and objectives of the research

Aim

The aim of the research is to develop a framework that gives construction companies in distress a likelihood of success at recovery.

Objective

1. Explore the determinants of business failure
2. Explore existing turn-around frameworks in the construction industry
3. To identify critical success factors in construction business recovery
4. Identify factors that could impede successful transition.
5. Design a framework for successful recovery in construction business rescue.

Research question

As already mentioned, the main focus will be the "Transition Point". The main questions will be: can a failing construction company turn-around its fortune to success, if so, how? Also, how can it sustain success? In simple terms, the research will be asking the question; *what happened here*? Therefore, the research will look at successful turn-around as well as comparison companies who failed to make the turn; despite all efforts. What is profound and glairing is that the industry needs to change they way it does business. And this can not be overstated.

Research methodology

The first part of this research conducted an extensive review of literature that produced an exhaustive list of 52 factors that are responsible for business failure in construction companies. Most were iterations of Dun and Bradstreet's credit reporting database of 1989 - 1993. In this paper, the factors were outlined under the same categories as in Arditi et al (2000). The second part of the research will be looking at businesses in decline. Therefore, the research will adopt the multiple case study approach. The lessons to be learnt from the multiple case studies are intended to expand and generalize theories (qualitative) for use construction companies. According to Tracey et al (1995) it is appropriate to begin theory building with case study research. Data will be collected from both primary and secondary sources; professional and academic journals, conference papers, government publications and textbooks, company documents and online news papers. The literature review will inform the formulation of the questions for the interview and will invariably answer objective 1 and 2. The intention of this research is to collect factual information as well as opinions of contractors, developers, funders (banks) and other stakeholders deal apparent failure and how they drive out of it. Therefore, it was felt that the most appropriate method of data collection technique will be 'interview'. Face-face interviews will be held with both senior managers of the contractor, developers, financiers and their respective suppliers who held key positions of responsibility during the transition era. This will allow a better understanding of the local context (case study) and the collection of more precise accurate and reliable data. For triangulation purposes, the use of focus groups will be utilised where possible. Focus groups will be held to confirm first hand from the executives, what they shared in

common. This will be held, separately, for both companies that recovered, and those that didn't. NVIVO will be used for analysis.

Conceptual framework

There is a general consensus among researchers that the major and number one determinant of business failure in the construction industry is "Management Incompetence" (Dikmen et al, 2010; Arditi et al, 2000; Everett and Watson, 1998; Kale and Arditi, 1998; Stead and Smallman, 1999; Chan et al, 2005; Byabashaija, 2007; Perry, 2001; Harada, and Kageyama, 2011). There is also a misunderstood meaning of management and leadership in the construction industry (CIOB, 2007; Ng, 2011; Ricketts, 2009, Kotter, 1990).

Leadership vs. Management

So, at the stage of turn-around, which is more needed, Management or Leadership? According to Kotter (1990), leadership is about coping with change (in this case a transition). It focuses on innovation; on the big picture; on strategies that take calculated risks; and on people's values (Warner, 2009). One of the greatest arguments on the distinction between leadership and management could be solely embedded within the fabric of this statement by John Kotter – *"you can't manage people into battle; they need, deserve, and want to be led"*(=mc, 2012). That is the main function of a leader, to bring change, to use his "big picture" thinking and make that which seems impossible possible, to change the fate of a failing company into a profitable one, to transform a good company into a great one (Collins 2001). Kotter's concern was for the changing organisation, the business/work environment and how this change can be achieved successfully.

An attempt by Kotter to resolve the common question of when leadership or management should be used and to what degree resulted in a chart representing the relationship between "Change needed" and "Complexity of Operation".

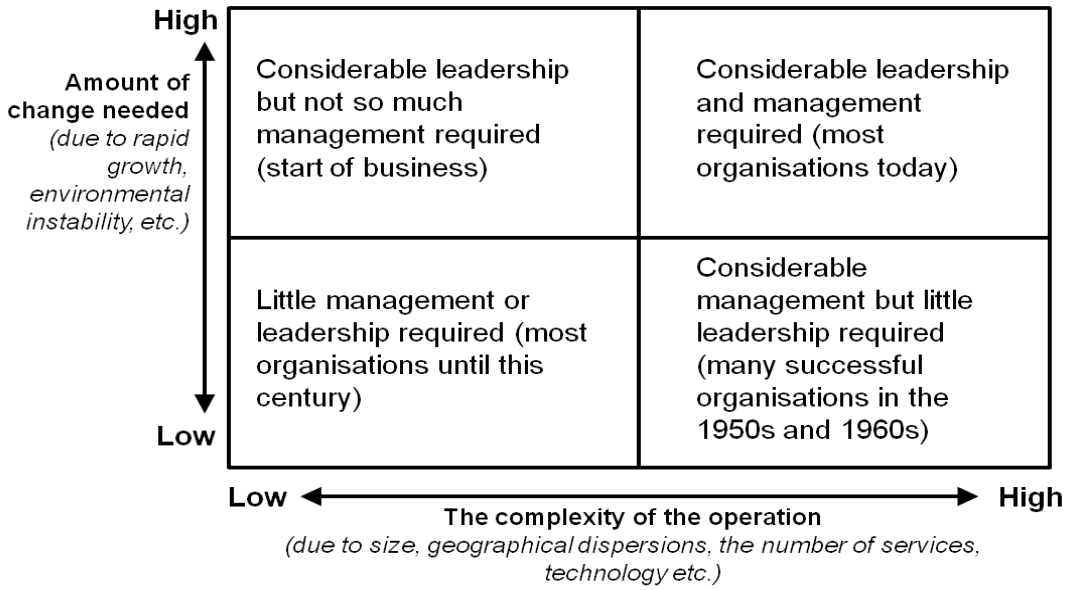

Figure 6: Relationship between "Change needed" and "Complexity of Operation *(Source: Kotter, 1990; cited in =MC, 2012)*

Ng (2009) also concludes that company heads must possess both leadership and managerial qualities in today's organisation (top right quadrant). This statement is re-affirmed for this research as the situation of business failure is one that is very complex and requires a high amount of change. According to Goleman 2000, and Panthi et al., (2008), managers must be able to navigate between the leadership styles with respect to the situation they find themselves. Managers must not be tempted to adopt a single style and personalise it but must wear the right leadership hat consistent with the problem at hand.

Based on the literature gathered, this research has come to the conclusion that "Leadership" is the focal point and the necessary ingredient for a successful turn-around (see Figure 7). However, the company head must be able to read the situation and know when to switch hats; management or leadership.

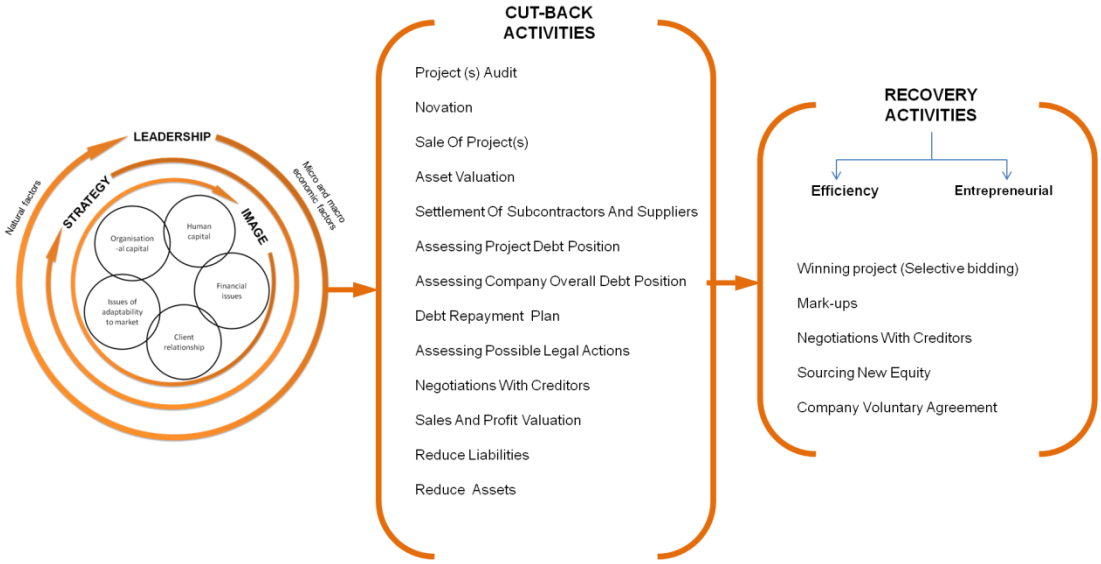

Figure 7: Conceptual framework

Image

The strategic re-structuring of the company image must be from the inside-out. From the vision statement, employee confidence; how do employees see the company?; company logo, company processes; state of the art design and technology, company atmosphere, company interior design. The power of 'word of mouth' must never be underestimated, especially coming from an insider. As the old wise saying goes "looking good is good business" (Anon, 2012). However, it is important that management is not obsessed with the image of its company and ignore what is important as in the case of ROK. Confidence can only take you so far without having strengthening the core of the business.

Expected contribution to knowledge

This research is expected to bridge the gap between theory and practice, to identify, understand, and suggest solutions to issues executives and managers face at the point of company distress. Issues such as how to drive revenue and profits, optimise cash

flow at the same time provide quality products and services, and build effective management teams. With a recovery model available, companies know how to be better immune to determinants of failure. It is hoped that this research will aid managers of companies facing bankruptcy, narrow their focus on the likely determinants of their company problems. To easily and quickly identify the problem, return to the board, address the problem and turn-around performance towards success. Also, it is hoped that with a clearer understanding of the causes of business failure, some unsound businesses will not be initiated and some failing businesses can be rescued.

.

Reference

Arditi, D., Koksal, A., & Kale, S. (2000). Business failures in the construction industry. *Engineering Construction and Architectural Management*, *7*(2), 120-132.

Bank of England (2009) *Trend in Lending*. http://www.bankofengland.co.uk/publications/other/monetary/TrendsApril09.pdf

Bates, T., (1997) Unequal access to financial institution lending to black and white owned small business start-ups. *Journal of Urban Affairs*. Volume 19, Number 4, pg 487-495

Bates, T. and A. Nucci, 1989, 'An Analysis of Small Business Size and Rate of Discontinuance', *Journal of Small Business Management* 27(4) (October), 1–7

Bruderl, J., P. Preisendorfer and R. Ziegler, 1992, 'Survival Chances of Newly Founded Business Organizations', *American Sociological Review* 57 (April), 227–242.

Burnes, B. (1996) Managing Change: *A Strategy Approach to Organisational Dynamics*. 2nd ed. London, Pitman.

Byabashaija, W. (2007). Firm Emergence : The Importance of Embeddedness to Firm Founders in Resource-Poor Situations. *African Business*, (1965).

Carnall, C.A. (2003) *Managing Change in Organisations*. 4th ed. England, Pearson Education Limited.

Chan, J. K. W., Tam, C. M., & Cheung, R. K. C. (2005). Construction firms at the crossroads in Hong Kong: Going insolvency or seeking opportunity. *Engineering, Construction and Architectural Management*, *12*(2), 111-124.

Chiang, Y., Cheng, E.W.L, and Lam, P.T.I. (2010) Epistemology of capital structure decisions by building contractors in Hong Kong. *Construction Innovation*. Vol. 10 No. 3, 2010pp. 329-345.

Child, J. (1972) Organisational structure, environment and performance: the role of strategic choice. *Sociology* 6: 1-22

Collins, J. (2001) *Good to Great: why some companies make the leap… and others don't.* Mackays and Chatham, Great Britain. ISBN 0712676090

Cressy, R., 1996a, 'Are Business Start-ups Debt-Rationed?' *The Economic Journal* 106, September, 1253–1270.

Damodaran, A. (2001) *Corporate Finance: Theory and Practice*. 2nd Ed. John Wiley and Sons (Stern School of Business, New York Univ., www.stern.nyu.edu/∽adamodar) ISBN: 978-0-471-28332-4

Dikmen, I. et al., 2010. Using analytic network process to assess business failure risks of construction firms. *Engineering, Construction and Architectural Management*, 17(4), pp.369-386.

Dimitras, A.I., Zanakis, S.H. and Zopounidis, C. (1996), "A survey of business failure with an emphasis on prediction methods and industrial application", *European Journal of Operational Research*, Vol. 90 No. 3, pp. 487-513.

Doppler, K. and Lauterburg, C. (2001) *Managing Corporate Change*. Springer, Germany.

Evans, D. S., 1987, 'The Relationship Between Firm Growth, Size, and Age: Estimates for 100 Manufacturing Industries', *The Journal of Industrial Economics* XXXV (June), 567–581.

Everett and Watson, J. (1998). Small Business Failure and External Risk Factors. *Small Business Economics*, 11, 371-390.

Fletcher, N. and Wearden, G. (2010) Connaught's rivals ready to pounce. *The Guardian*. Tuesday 17 August 2010 17.57 BST [first accessed, 10 Jan. 2012] http://www.guardian.co.uk/business/2010/aug/17/connaught-rivals-ready-to-pounce

Goleman, D. 2000. "Leadership That Gets Results." *Harvard Business Review,* March-April

Hall, G.C., Hutchinson, P.J. and Michaelas, N. (2004), "Determinants of the capital structures of European SMEs", *Journal of Business Finance & Accounting*, Vol. 31 No. 5&6, pp. 711-27.

Hall, G., & Young, B. (1991). Factors associated with insolvency amongst small firms. *International Small Business Journal*. 9: 2

Hawkes, A. (2010) ROK administrators make 700 redundant. *The Guardian*. 10 Nov 2010. First accessed 15th Feb 2012

Holtz-Eakin, D., D. Joulfaian and H. S. Rosen, 1994, 'Sticking It Out: Entrepreneurial Survival and Liquidity Constraints', *Journal of Political Economy* 102(1), 53–75

Harada, N., & Kageyama, N. (2011). Bankruptcy Dynamics in Japan. *Japan and the World Economy*, (2010).

House of Commons, (2009) *Banking Crisis: dealing with the failure of the UK Banks*.

House of Commons, Treasury Committee. Seventh Report of Session 2008–09. May, 2009

Jonathan, R. (2002) The *Corporate finance handbook*. 3rd ed. Kogan Page. London.

Kale, S., & Arditi, D. (1998). Business Failures: Liabilities of Newness, Adolescence, and Smallness. *Journal of Construction Engineering and Management*. Vol. 124, No. 6, pgs 458-464

Knight, B. (2010) Connaught Collapses: What went wrong? *Business reporter, BBC News*, 8 September 2010. First accessed 15th February 2012 http://www.bbc.co.uk/news/business-11228059

Koksal, A., & Arditi, D. (2004). An input/output model for business failures in the construction industry. *Journal of Construction Research.* Vol. 5, No. 1 (2001), 1-16.

Kotter, J.P. (1990) A force for change: How leadership differs from management. Free Press ISBN 0029184657

Kotter, J.P. (1995) leading change: why transformation efforts fail. Harvard business review on point. No. 4231, 1995.

Langdon, D. (2008) Construction Business Recovery News. Issue Number 1. www.davislangdon.com.

Lu, S., and Sexton, M. (2006) Innovation in small construction knowledge-intensive professional service firms: a case study of an architectural practice, *Construction Management and Economics*. 24:12, 1269 — 1282

Lu. S. (2009), Culture and People: week 10 *Relationship Capital – Leadership* presentation, University of Salford, Salford.

Management Centre (=mc) (2012) *Intelligent Leadership*: Approaches to Leadership and Management. Management Centre USA. [First accessed 13 Feb. 2012)http://www.managementcenterusa.com/data/files/pages/intelligent_leadership.pdf

Myers, D. (2008) *Construction Economics: A New Approach*, , 2nd edn, Abingdon: Taylor & Francis.

Ng, L.C., 2011. Best management practices. *Journal of Management*, 30(1), pp.93-105.

Office of National Statistics; *Business failures outpaces new start-ups during 2009.* http://www.bytestart.fco.uk/content/news/statistics/business-births-deaths-2009.shtml December 31, 2010. [Accessed 14/02/2011]

Panthi, K. et al., 2008. An Investigation of the Leadership Style of Construction Managers in South Florida. *differences*, (2000).

Perry, S. C. (2001). The Relationship between Written Business Plans and the Failure of Small Businesses in the U.S. *Journal of Small Business Management*, *39*(3), 201-208.

Ricketts, K.G. (2009) Leadership vs. Management. *World Wide Web Internet And Web Information Systems*, pp.1-5.

Stone, M. (1999) Markup & Profit: A Contractor's Guide. Craftsman Book, ISBN 1572180714, 9781572180710

Shepherd, D. a. (2003). Learning from Business Failure: Propositions of Grief Recovery for the Self-Employed. *The Academy of Management Review*, *28*(2), 318.

Stead, E., & Smallman, C. (1999). Understanding Business Failure: Learning and Un-Learning From Industrial Crises. *Journal of Contingencies and Crisis Management*, Vol. 7, No. 1, 1-18.

Toor, S.-ur-R. & Ogunlana, S., 2009. Ineffective leadership: Investigating the negative attributes of leaders and organizational neutralizers. *Engineering, Construction and Architectural Management*, 16(3), pp.254-272. Available at: http://www.emeraldinsight.com/10.1108/09699980910951663 [Accessed September 23, 2011].

Toor, S. & Ofori, G., 2008. Leadership for future construction industry: Agenda for authentic leadership. *International Journal of Project Management*, 26(6), pp.620-630. Available at: http://linkinghub.elsevier.com/retrieve/pii/S0263786307001585 [Accessed July 18, 2011].

Watson, J., (1998). Small Business Failure and External Risk Factors. *Small Business Economics*, pp.371-390.

Watson, J. (2003). The potential impact of accessing advice on SME failure rates. *A paper for the Small Enterprise Association of Australia and New Zealand 16th Annual Conference, Ballarat,* 28 Sept-1 Oct, 2003.

Wallace, J. S. (2010). Family-Owned Businesses: Determinants of Business Success and Profitability. *All Graduate Theses and Dissertations. Paper 594.* *http://digitalcommons.usu.edu/etd/594*

Wong, J. M. W., Ng, S. T. (2010). Company Failure in the Construction Industry : A Critical Review and a Future Research Agenda. *FIG Congress 2010, Facing the Challenges – Building the Capacity Sydney, Australia*, (April 2010), 11-16.