

AKERLOF

Coronavirus COVID-19

Construction Industry Guidance

Supporting our Clients, Colleagues and Industry through Uncertainty



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Strength through Adversity

The COVID-19 pandemic is first and foremost a global public health emergency that is costing lives and pushing national healthcare systems to the brink. Whilst front line workers heroically place their own lives at risk, Governments and industry work closer than ever to understand and address the challenges, search for treatments and support families and communities.

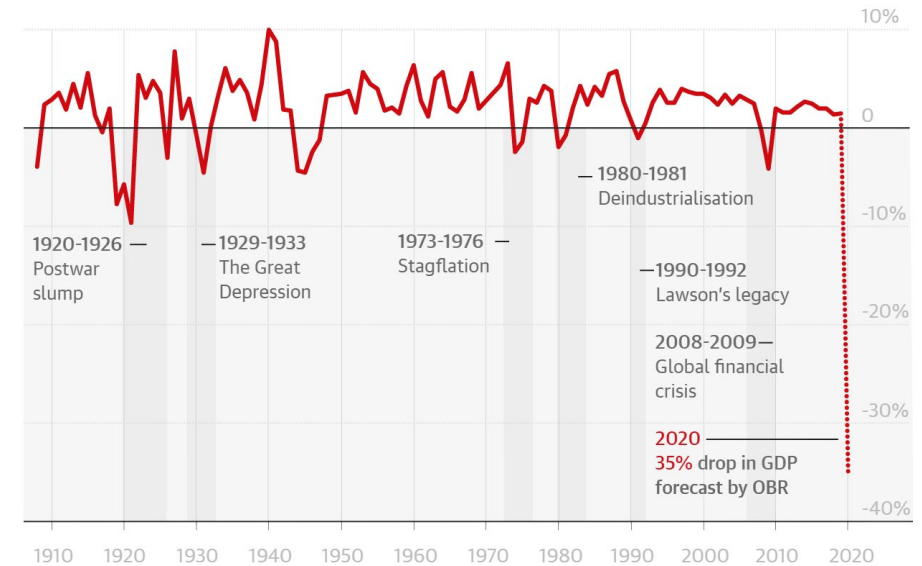
It is also an economic crisis – one that could portend a recession deeper and more long-lasting than the Great Recession of 2007-2009. Companies and their boards are challenged to act promptly, in unprecedented times.

This document is intended to support senior leaders in understanding the situation, to plan responsible measures that protect their stakeholders, their businesses and develop strength in the face of adversity. In a landscape that will never be the same again.

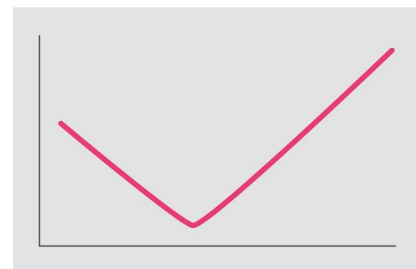
The economic impact is under debate...

During the press conference on 14th April, Rishi Sunak warned of 'unprecedented challenges ahead'. He was responding to a report from Office for Budget Responsibility suggesting that a three-month lockdown, followed by three more months of partial lockdown measures could shrink GDP by 35% in the second quarter of the year and put unemployment up by more than two million.

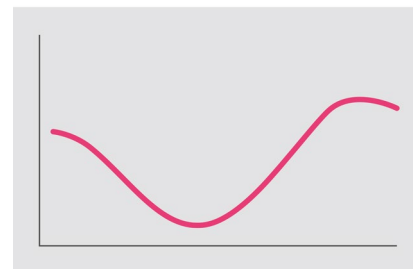
This scenario comes several weeks after IHS Markit / CIPS UK Construction Index reported March data as the 'fastest downturn in UK construction output for almost eleven years' as emergency public health measures led to stoppages of work and a slump in new orders. Whilst Sunak has insisted the UK economy would be able to recover 'quickly and strongly' after the crisis was over, more than 50 economists, polled by Reuters, have been less conclusive in their opinion.



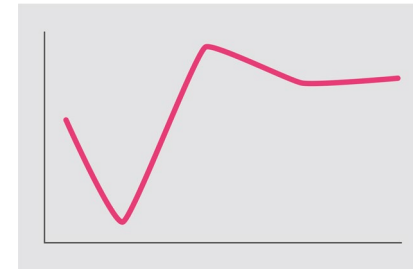
Some of the scenarios debated include:



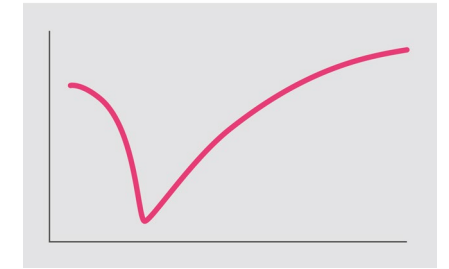
V-Shape: The best outcome. A growth plunge, followed by a sharp recovery.



U-Shape: When recovery takes more than a couple of quarters.



W-Shape: A double-dip. Easing boosts activity but effects filter through over time.



Swoosh: A sharp downturn, with a gradual recovery as lockdown is eased.

The industry reaction to date has been varied...

Business secretary Alok Sharma's letter (dated 31st March) acknowledged the critical contribution that the UK construction sector is making to the support and resilience of the UK economy, confirming that construction sites across the UK can remain open. Firms across the supply nevertheless are faced with difficult decisions as to how to respond to the pandemic; evaluating how sites can be kept open without compromising the safety of their workforce, whilst trying to balance business survival amid intense uncertainty.

The Construction Leadership Council (CLC) issued a briefing note, encouraging the industry to work together to maintain cashflow to all parts of the sector.

CLC
8th April

Van Elle raise £6.7m through new shares to manage COVID impact and capacity for growth investment, whilst Gleeson placed shares to raise £16m for post pandemic work push.

Reuters
14th April

Willmott Dixon keep 90% of sites open whilst furloughing 800 staff. Morgan Sindall and Wates furlough 1,000 employees each, Mace 800 employees, with LoR and Kier cutting employee pay by up to 20%.

Noble Francis (Twitter)
6th April

Network Rail are planning to restart work at Euston Station from 20th April, whilst Mace, BAM and Wates have restarted work at some of their sites.

Construction Enquirer
14th April

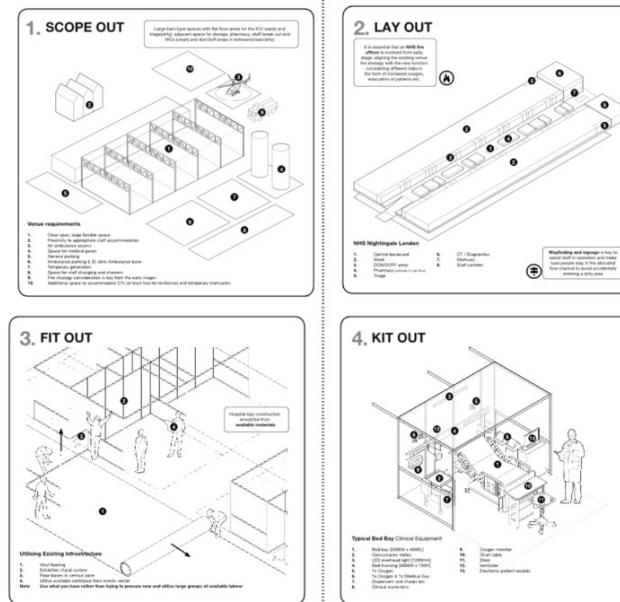
Cantillon and DeGroup, amongst others, have collaborated to donate stocks of PPE to frontline NHS workers, whilst Saint Gobain has supported manufacture of the same.

Construction News
23rd March

Industry responds to call from Government to deliver 12,000 beds in 8 locations to 1 consistent design.

RIBA Journal
7th April

Have no doubt... our Industry has real impact



Emergency Hospital Construction

- London Excel Centre
- Belfast City Hospital
- Harrogate Convention Centre
- Glasgow SEC Campus
- University of West England
- Manchester Central Convention Centre
- Birmingham NEC
- Cardiff Principality Stadium

11,730 beds

9-16 days
average construction time

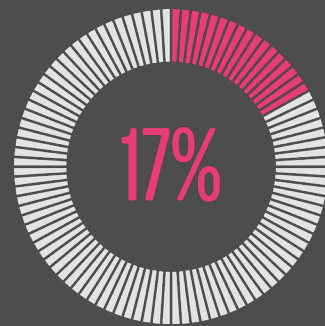
1 design
platform approach

Sources: (1) NHS Nightingale North West – Image courtesy of Joel Goodman
(2, 3 & 4) NNS Nightingale London – Image courtesy of BDP Architects

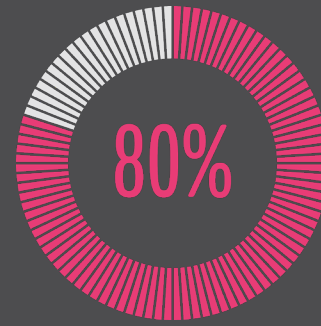
It is in times of crisis that good leaders emerge...

Whilst economists debate the magnitude of the impact, it is clear that the world post COVID-19 is unlikely to resemble the one before it. With a longer-term horizon, leaders need to plan their organisational rebuild to cope with the 'new normal.' However, leaders, like generals in the heat of battle, run the risk of being so busy tackling short-term priorities that the future is obscured by the fog. In seeking to address the crisis, a tendency to become too defensive or aggressive can follow; calm pragmatic leadership is essential.

A study analysing strategy shifts of over 4,700 companies and how it affected their performance during and after the last three recessions identified:

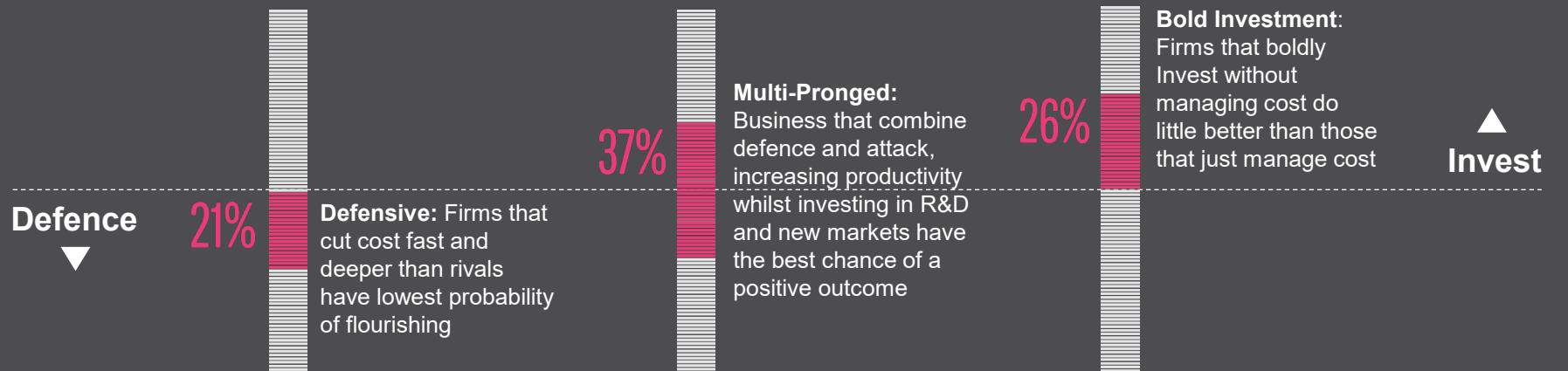


Companies didn't survive a recession



Companies didn't return to pre-recession growth and profitability after three years

Only a small number of companies (approx 10%) flourished after a slowdown, doing better on key financial parameters than they had before. The post-recession winners were not the usual suspects, in fact firms that cut costs faster and deeper than rivals don't necessarily flourish. The spread of strategies can be seen below:



Source : Roaring Out of Recession (Ranjay Gulati & Nitin Nohria & Franz Wohlgezogen - Harvard Business Review, March 2010)

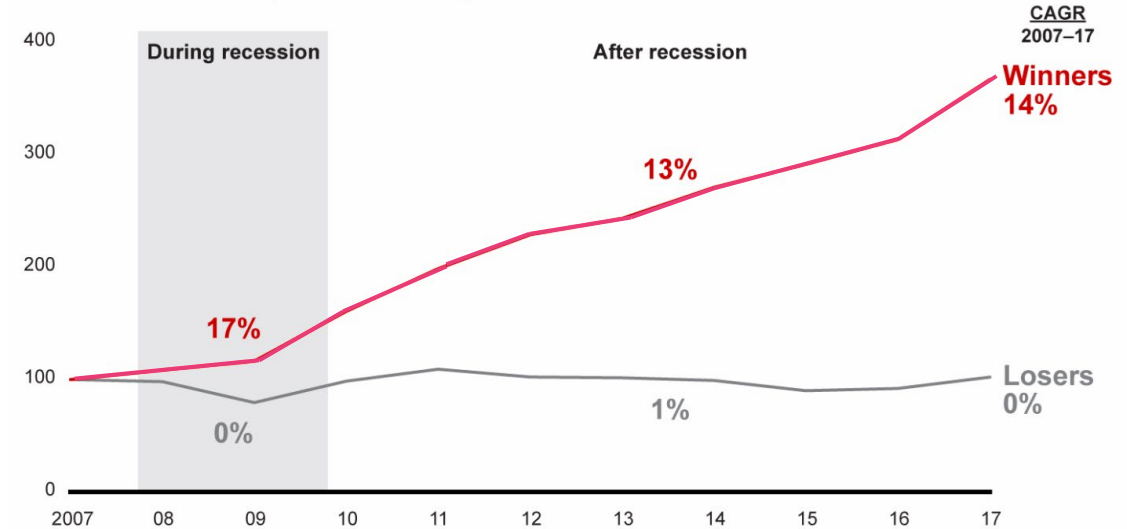
Learning from history

COVID-19 represents a high-pressure test of change management; to navigate, a company needs to be flexible and ready to adapt. Inaction represents the riskiest response to the uncertainties; as the earlier study identified, rash or scattergun action can be equally as damaging.

Learning lessons from history we highlight three fundamentals:

- **#StayHomeSavesLives** – and our economy. Review of the 1918 Flu Pandemic identified that the implementation of non-pharmaceutical interventions (NPIs) e.g. social distancing measures, not only flattened the contagion curve but also mitigated economic disruption. To the extent that NPIs attack the root of the problem, they serve the economy. To protect the health of our economy, protect the health of our people.
- **Repeated Scenario Planning:** Recent analysis by Bain, using data from the Great Recession, identified that the gap in profit and market cap amongst business broadened during the subsequent expansion. Amongst the companies that stagnated in the aftermath *“few made contingency plans or thought through alternative scenarios... when the downturn hit, they switched to survival mode, making deep cuts and reacting defensively”*. More successful companies focused intensively on cost containment, but simultaneously reinvested in growth. Proactive scenario planning serves to mitigate over-reaction adopted belatedly.
- **Retain Positive Focus:** Consistent with the Stockdale paradox, in confronting the current challenges, we should retain faith in a positive future. The economic upheaval offers a rare opportunity to restructure our economies to shape and create markets and businesses that deliver sustainable and inclusive growth. Consistent with the sentiments of Sir Harold Emmerson, the construction industry can bounce back stronger.

Growth in nominal EBIT (indexed 2007=100)

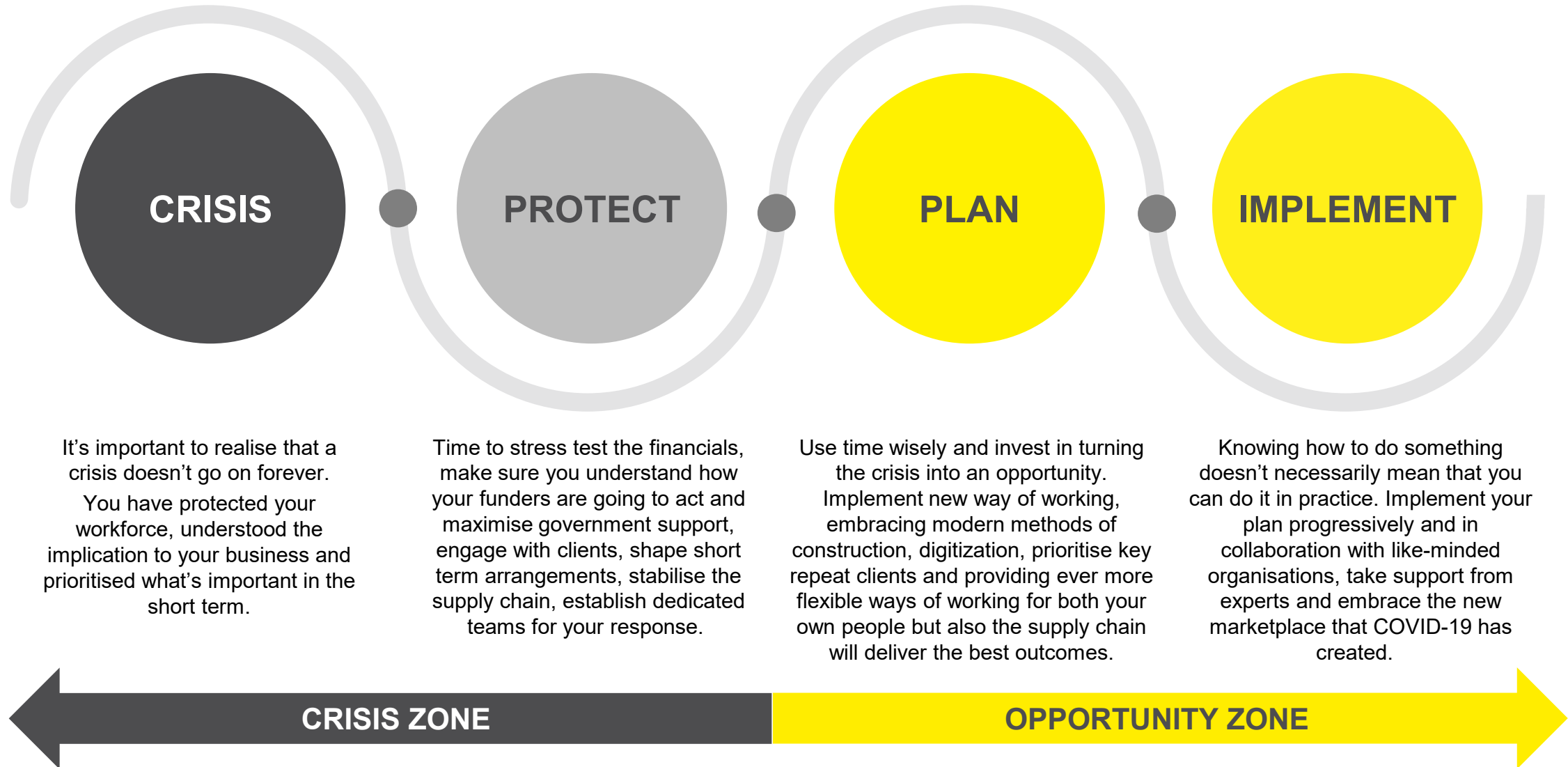


“I should wish to pay tribute to the remarkable recovery of the building materials industries and the construction industries their flexibility in meeting new demands on their services; the introduction of new materials, increased mechanisation and new techniques; the steady rise in output, and the avoidance of major industrial disputes. Although, as in other industries, there are obstacles to progress, the construction industries as a whole provide an efficient service, and they do not make enough of their own achievements.”

Sir Harold Emmerson (1962) – in reference to post war activity

Moving through the phases

Leading during a sustained crisis is treacherous. The immediate priority must be to protect, to stabilise, before moving towards a more adaptive phase, using the turbulence of the present to build on, setting new plans that reshape and redefine.



1 Stay Safe

Continue to do everything you can to protect your employees, their workplace and help them to adapt to new working conditions. Keep them well and keep them mentally healthy.
#StayHomeSavesLives

2 Confront the Facts

Industries are suffering unprecedented disruption. To move forward you must confront the brutal facts of your current reality – understand your business drivers and how the business is impacted by the pandemic.

3 Scenario Plan

Uncharted territory necessitates agility and flexibility; model a range of financial, operational and workforce scenarios that reflect the impact on your business; adapt quickly by exploring your strategic options.

4 Act Decisively

With increased uncertainty it is important to make difficult decisions quickly. Focus relentlessly on the drivers of value and risks across the business.

5 Engage and Value your People Dearly

Communicate regularly, clearly and with empathy, providing your teams with as much information as you can. Help them to adapt. Afford them a say in how changes are applied, if possible.

PLAN for an evolving landscape...

6 Cash is King

Ensure your finances and working capital are in good order; protect your liquidity; re-examine your financing, funding and exposure. Adopt a hands-on approach to cash management.

7 Focus on Efficiency

Companies that attend to improving operational efficiency fare better than those that focus on reducing the number of employees.

8 Stay Connected

Progressive companies stay connected to customer needs – a powerful filter through which to make investment decisions.

9 Respond Responsibly

Use the circumstances as an opportunity to do the right thing. We encourage the World Economic Forum 'Stakeholder Principles'; help those affected, to secure common prosperity.

10 Invest for the Future

Continue innovating and investing in areas of growth you need for the future; successful companies strategic invest, anticipating changes to the industry landscape, adapting to gain advantage.

IMPLEMENT

Implementing change management requires dexterity, that must address the organisation and support & engage individuals. Below we outline the ADKAR model to help you develop a change management strategy that addresses value systems at both company and individual level in moving beyond the impact of COVID.



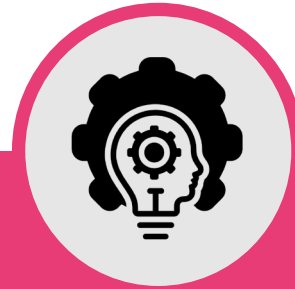
AWARENESS

It's important to realise that by implementing change, you require employees to step outside of their comfort zone. The importance of awareness is hard to overstate - reactions are shaped by expectations.



DESIRE

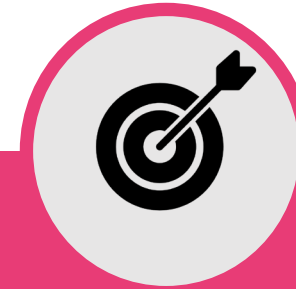
Understanding that there's a need for change and wanting change to happen are two different things. Building explanations of the need and the effect, clearly and repeatedly is integral to this.



KNOWLEDGE

There's no point in trying to implement change unless your teams have the knowledge of how to; new expectations of them, their role and the company.

Training, support and coaching needs should be planned.



ABILITY

There is a difference between knowing and applied ability. Structure interventions to ensure your teams have the skills and behaviours to move through to the other side.



REINFORCEMENT

Reinforce changes by celebrating small wins. Equally address quickly areas where the new process is compromising value or your business drivers.

Knowledge share...

Education, knowledge share and lifelong learning are core to our values and essential to the development and sustainable growth of our industry.

We've therefore created space to highlight material that we have found useful in understanding the implications of COVID-19. We hope you find them helpful: www.akerlof.co.uk/knowledge

Within our 'Knowledge Share' you will find links to guidance articles by the World Economic Forum on stakeholder principles, Dr Jim Kennedy on what steps to take (inc detailed checklists) in preparing your pandemic response plan and world leading insight from McKinsey, amongst others.

We will also be preparing advice on risk mitigation, recognising the dangers of the upward curve as the industry seeks to recover.

**We're
here to
help...**

Akerlof is a leading consultancy that specialises in integrating change with a focus on new ways of working in the built environment.

We can help your business develop or implement a plan in uncertain times.

AKERLOF

EXPERTS IN MODERN METHODS OF CONSTRUCTION

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