In search of construction improvement: where did it all go wrong?

Stuart Green
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Farmer review - October 2016

- Industry synonymous with a sick, or even dying patient;
- Dysfunctional training model;
- Lack of innovation and collaboration;
- Non-existent R&D culture;
- Low productivity continues to hamper the sector;
- Critical shortage of skilled workers (Brexit);
- Flawed business model
Edinburgh Schools – Feb 2017
Collapse of Carillion – January 2018
Grenfell Tower disaster – June 2017
An alternative diagnosis...

• Focus lies on understanding how the construction sector changes over time in response to the evolving policy environment.

• Policy is directly implicated; policy reports have material consequences.

• Policy shapes expectations of what the industry is for - it also shapes what we talk about and what we ignore.

• It’s a myth to suggest that the industry is resistant to change.

• The embedded practices of the present are shaped by accumulated responses to previous policy challenges.
Five distinct phases

• 1945-1979... *the age of the planned economy.*
• 1979-1997... *the dawn of enterprise.*
• 1997-2010... *enterprise meets social democracy.*
• 2010-2016... *the new age of austerity.*
• 2016-date... *a legacy of dilemmas.*
The age of the planned economy

• Focus on volume home building following WW II
• Nationalisation synonymous with modernisation
• Massive investment in public housing programme
• ‘Streets in the Sky’
• Tripartite social contract: demand management.
• Widespread support for direct employment
• National building strike of 1972
• Winter of discontent 1978-79
Homes for heroes
1960s High Rise Housing
All Agencies' Construction Output by Type of Work (1955-2010)
Constant (2005) Prices Seasonally Adjusted - £million

(Source: Construction Statistics Annuals)
The dawn of enterprise 1979-1997

• Liberalisation of the economy
• Extensive privatisation: British Airways, British Gas, British Leyland, British Telecom, BAA, British Rail, PSA, BRE
• Confrontation with trade unions – miners’ strike 1984-5.
• Imposition of spending restrictions on LAs
• Creeping centralisation in government.
• Right to buy – 1 million homes in 10 years
• Tenant management organisations (1994)
The enterprise culture
Privatisation and outsourcing

• Extensive privatisation of client base: utility companies, British Rail, BAA, British Telecom, British Rail

• Privatisation of Property Services Agency (PSA) (1990)

• Retreat of government as a provider of mass housing.

• Shift of responsibility for existing stock to housing associations/TMOs.

• Demise of public sector Direct Labour Organisations (DLOs).

• Outsourcing strategies driven by regulatory pressures and the introduction of yardstick competition.

• Compulsory Competitive Tendering (CCT).
Housing completions by tenure 1946-2018
(Source: MHCLG)
Strategic imperative of ‘structural flexibility’

• Increased systemic reliance on subcontracting.
• Emergence of the ‘hollowed-out’ firm.
• Growth in self-employment from 30% in mid-1970s to 50% in mid-1990s.
• Reduction in trade union membership.
• Decimation of apprenticeship system.
• Proliferation of procurement methods: design-and-build, management contracting, construction management
• Legitimising storylines: lean construction, supply chain management, partnering, collaborative working.
Innovation vs change

“We only have two demands!
Why don't people just give us what we want?”
Percentage self-employment: 1984-2003

Source: Labour Force Survey
The Egan Report

• Perennial argument that the construction sector is under-achieving.

• Recurring problems: poor quality, lack of modernisation, adversarial culture, client dissatisfaction, fragmentation.

• Overriding emphasis on efficiency

• Eliminate waste which doesn’t add value from the perspective of the client

Dissenters few-and-far between...

Academic slams Egan report for being grossly one-sided and adversarial

A leading academic has returned attack to the Government and organisations such as the Construction Industry Board and Construction Trust Practice Programmes of being bias washed by the Egan report 'Rebuilding Competitiveness'.

Egan, speaking at a Construction Industry Council meeting in London last week, said: "The kind of organisation, such as the Construction Industry Council, that was put out behind Egan, that was all the time about Egan's report, they have to get a message across. It has been advocated in different forms that the Egan report was a big success. It was a reflection of the Government and the construction industry in a way."

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Green said that the Department of Construction and the Regions should do research to gauge the effectiveness of the construction industry's response to the Egan report. He also recommended that research be undertaken on the effectiveness of the Egan report's recommendations. He added that research should be undertaken on the potential for the Egan report to influence the government's policy on the construction industry.
A cloying consensus....
Enterprise meets social democracy
Enterprise meets social democracy

• PFI relabelled PPP
• Schools, hospitals and prisons
• Performance management runs rampant.
• Discourse of sustainability – triple bottom line
• Proliferation of improvement initiatives
• Procurement on Best Value
• Partnerships, partnering, collaborative working
• Rapid increase in migrant workers from Eastern Europe from 2004
Percentage self-employment: 1997-2018
Source: Labour Force Survey

1997-2010 New Labour Government
2010-2015 Coalition
Conservative

Egan
Wolstenholme

1997 - 2018
One Death is too Many (Donaghy, 2009)

• “The Construction Industry generally is modelled to provide maximum flexibility. Consequently the majority of functions are contracted out and at least 40% of workers are self-employed or CISs”.

• “The advantages are obvious in that it reduces overheads. Some but not all argue that it improves profitability and productivity. The disadvantages are that it become more difficult for a safety culture to flourish, worker engagement is weak, employment security and continuity is minimal and skills training is at best patchy.”
New age of austerity 2010-2016
New age of austerity 2010-2016

• Debate stripped back to cost reduction, carbon reduction. Two dimensions.
• Best value retreats, low cost procurement dominates.
• Leanness and agility in the marketplace.
• Partnering marginalised.
• Low carbon jobs, retrofitting the housing stock.
• PFI/PPP exposed as poor VFM.
• BIM becomes the answer to every problem.
24 June 2016: UK votes to leave EU
Farmer review—October 2016

• Primarily focused on house building – also invited to examine the barriers and enablers to the greater use of off-site construction.
• Egan report is lauded as a ‘watershed’.
• Previous calls to arms have not been acted upon by the industry.
• Ticking ‘time bomb’ is the industry’s workforce size and demographic.
• “The wide-scale incidence of self-employment is a reflection of the desire for flexibility”.
• 10 key recommendations – no cherry picking.
A legacy of dilemmas
“The construction industry ... suffers greatly from the boom and bust syndrome, resulting in difficulty in maintaining the availability of highly skilled tradesmen because of the lack of a guaranteed continuity of work”.

“The traditional and hugely valuable concept of building contractors employing and training tradesmen such as bricklayers and joiners through apprenticeships within their own workforce has also largely disappeared”.
Hackett Report (2018)

• Roles and responsibilities for ensuring building work meets the requirements of the Building Regulations are unclear.

• This lack of legal accountability within the current system is exacerbated by industry fragmentation and multiple layers of sub-contracting. It is inconsistent with other contexts where ensuring delivery of ‘user’ safety is a fundamental issue.
Construction Quality Commission (2018)

• “Quality is critical. It is about the greater public good we expect from our buildings to promote human health, safety, and wellbeing as well as addressing today’s many social, cultural, environmental and economic concerns”.

• Two broad strategies:
  • Code of Quality Practice – guidance on best practice.
  • Education – raise awareness of quality management.
Thoughts on ‘quality’

• “The place to improve the world is first in one’s own heart and head and hands, and then work outward from there.”

Robert M. Pirsig
Conclusions

• UK construction sector has undergone extensive change over last four decades, with important unintended consequences.

• Embedded logic of the ‘hollowed-out firm’ dictates mode of competition.

• Access to a ‘reserve army’ of migrant workers has disincentivised investment in technology and skills & training.

• Decades of reliance on laissez-faire market mechanisms and voluntary regulation has lead to a crisis in confidence.

• Recent policy emphasis on ‘technical fix’ in guise of MMC

• Current Brexit-induced economic and political uncertainty reinforces the logic of structural flexibility.
No. of employees per home built

- Barratt: 2.8
- Persimmon: 3.4
- Taylor Wimpey: 3.0
- Bellway: 3.7
- Bovis Homes: 3.4
- Redrow: 2.1
- Berkeley: 1.7
- Galliford Try: 1.9
- Crest Nicholson: 3.4

Average: 2.8 employees per home built in 2016

Source: Housing Market Intelligence (2017)