



# A change management model for Saudi construction industry

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Received 11 May 1999; received in revised form 15 August 1999; accepted 13 September 1999

## Abstract

The construction industry today in Saudi Arabia is going through a process of adapting to a changing economic environment. With the change in the Kingdom's economic thrusts due to the fall in price of oil in recent years, the construction sector is driven by competitive pressure to adjust to the present market demands and governmental regulations. One has to become auspicious especially at these times when the government has shifted its dependence to the private sector in pursuing its economic objectives. This paper proposes to analyze the present state-of-affairs and economic realities impinging on the construction industry, enumerating several alternative change-models with the end purpose that a change management model be developed specifically suitable for use among Saudi construction companies. © 2001 Elsevier Science Ltd and IPMA. All rights reserved.

*Keywords:* Change; Change management; Construction; Saudi Arabia

## 1. Introduction

Everyone is aware of the reality that the world is in a constant state of change, and no one is exempt from this process. Increased global competition, technological innovation, growing scarcity of resources, all exert a great pressure for anyone to adapt and survive. For any business enterprise, the proposition for change is always a difficult and expensive task and yet the ability to cope with pressing demands and developing technologies, becomes the essential ingredient for perpetuity. The very existence of most companies in today's fast-paced generation depends on how well they respond to the change process or how they actually stay with the change [12].

Economic, technological, social and political issues today have forced business leaders to become commercially aware of their business directions. New ideas are generated, innovations are introduced, and change consequently becomes unavoidable. Out of competencies and behaviours generate new and viable approaches in answering organisational problems and issues that have now become the essence of today's business survival. Moreover, Kilcourse, [10] said, the challenge of "change or die" becomes trivial if the organization does not possess the following four basic characteristics, i.e.: a *focus* on organizational objectives; *integration* of the

task/technical, structural/procedural and the social/cultural elements within the organization; *flexibility*; and *awareness*.

Nonetheless, success and continuity still rest on how the organization adapts to the pressing demands for fundamental changes in the environment [3]. It is the prime task of any organisation to perfectly adapt against a strong 'degree of radicalness' brought about by the pressures of modernization. In modern times, those companies that have 'survived' have been found to be good at the 'management for change'. A study cited by De Geus [7] enumerated company characteristics that have successfully stood the challenge of survival:

1. conservatism in financing;
2. sensitivity to the environment;
3. a sense of cohesion and company identity among employees;
4. tolerance.

In Saudi Arabia, the construction sector is no exception to this fight for business existence. Albeit, the area of change management is new for the Saudi construction firms, the repercussions of global economic crisis and lowering oil prices in the international market pushed Saudi construction firms to compete for projects and prompted a proper change management approach either in the form of company mission realignment or a change in strategies. This is where a model for a change

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management (specifically for the Arabian business environment) is needed and where in the purposes of this paper respond.

## 2. The construction industry in Saudi Arabia

Uncertainty, as they say, is inherent in the nature of the construction business. This may be due to the nature of construction itself — a competitive tendering process which operates extensively in the industry, competitive bidding, of usually large-sized firms and made up of predominantly craft-background workforce, project-based, and mainly dependent on ‘derived demand’ (i.e. construction essentially relies upon a need, either by society or an individual), so much so by attribute, it would call for a competent, ‘distinctive’ management approach. We see, therefore, the Saudi Arabian construction as no exception to this uncertainty. Relatively, the Kingdom’s construction industry is young compared to other countries, yet, it is basically made up of the public and private sectors. The public sector pertains to the government ministries responsible for infrastructure and national development projects, while the private sector comprises the construction firms privately owned or subsidised either by a family corporation or a conglomerate. The Kingdom’s construction industry during the 1980s became a boom, when the country’s oil revenues brought financial ease to support massive infrastructural development projects [9]. It was estimated, during the heydays, that two-thirds of all construction activity was believed to have been commissioned by the government [5]. However, the fall of oil prices in 1986, resulted in a consequent global economic slowdown and particularly for Saudi Arabia, there was a deferment on the completion of some on-going major infrastructure projects and development plans. There were problems in payments, financial assistance and guarantees encountered from the ranks of the contractors. These consequently aggravated competition usually in the form of lowering profit margins and wages. Furthermore, as the emphasis by the government has shifted from complex construction projects to more basic building work, concerns have focused on technical expertise and joint ventures between foreign and local companies — a move that has pressured the involvement of the private sector on construction projects. Given a favourable financial climate and recognized to spur the economy, the private sector showed greater participation in the national economic development. Beginning in 1994 joint ventureship between a foreign company and local Saudi owned private company has proliferated and typically is able to operate at high capacity due to the experience, large capital and favourable image of the foreign partner combined with the adeptness and influence of the Saudi partner. They became highly competitive and offered a large variety of

specialised professional services including operation and maintenance of the completed facility.

## 3. Future directions

Saudi Arabia’s construction industry still has an enormous challenge and market opportunities to face in the future. Tentatively, the existence of most construction companies may depend on whether they may go into smaller, contractor-conceived projects, rehabilitation, operation and management contracts of various kinds, but a ray of hope for the construction industry is foreseen in the government’s enhanced commitment to the private sector and to its firm commitment to the principle of privatisation. The switch from public to private financing for projects, and the willingness of Saudis to invest in their own country, also forebode a long-term future of the construction industry.

## 4. Competition in the construction industry

As modern business continues with its growing complexity, so is the well-being of the organisation becoming further dependent on how it strategically maneuvers itself vis à vis the business environment’s competitive realities. Changing market requirements call for new products or procedures, company’s financial losses require cost-cutting and even sometimes to the extremes of reducing the work force. Emerging economies submit their own political priorities with implicit potential for conflicts and demands for adjustments in those priorities, quality of products and services are becoming the basis for company reputation and profitability. In sum, the microcosm of any business organization is exposed to a myriad of external and internal pressures for organizational change. As was mentioned earlier, competition becomes the hallmark of business survival. In vying for existence, the organization becomes totally dependent on its capacity to exercise its competitive dynamics and managing change.

Competition may be on the pricing, on the quality of products or in other direct ways. In whatever form it may take, competition provides a major source for efficiency, invention and development.

### 4.1. Competition among contractors

Among contractors, there happens a direct head-on competition between them which drives the search for competence and innovation and makes clients become ever more demanding. The concept of competition in the construction industry is usually narrowed down to that of competitive tendering on price. By and large, the ‘lowest price’ or ‘lowest construction cost’ criterion is

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