

# The uk housing sector



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**Introduction**

The UK housing sector has been under the shadow of 'Credit Crunch' since June 2007, which initiated from United States and began to cover the globe. Not only the construction industry, but all the other industries including textiles etc. were affected due to this. The housing sector was flourishing day by day as more projects were introduced and the log books were filled till next couple of months, until June 2007, the credit crunch began to expand its feathers, after which the whole streamlines began to draw down.

The unwanted result for UK housing sector appeared in the form of; 20 – 30 % of house prices fell from its maximum level, from 2007 onwards. Mortgages are not approved as frequently as it was done before and only 50% are approved and new homes are not built as frequently as were done before 2007.

Goodhart and Hofmann (2008) explain that the mortgage rates are directly dependant on the banks which has a strong impact on the price of the houses. Due to Financial Recession an alarming situation arose resulting in change of different policies within an organization in order to survive.

The Large House Builder, plc is a large UK national house builder which has taken necessary steps to counteract the 'Credit Crunch' by maintaining a balance between its cost and its expenditure. This it has done by cutting down its costs, selling the portion of land which it purchased so that it could be sold at a reasonable price when required and by repositioning itself into social housing sector.

Appleyard (2006) states that the UK's housing sector is going through a change. The current recession has enabled the housing sector to change. This change is usually in the form of merging one firm into another so that both benefit from each other's experience and expertise. The company board of Large House Builders, plc has therefore decided to attain the services of Small Firm Ltd which is a small, regional housing developer in the South East of England.

This report will address the key change management issues which would take place when there is mergence of Small Housing Builders Ltd into Large Housing Builders plc in regard to its organizational structure and culture. The second part will be the further analysis of this mergence in the form of preparation of a change management plan for the first two years.

### **LARGE HOUSE BUILDER plc**

The UK national house builder or the Large Housing Builder (LHB) plc has major contribution in UK for the last decade (Appleyard, 2006). The company has a regional structure with offices throughout different locations of the country. This regional structure is managed by a regional manager who is responsible to answer to the central management board concerning his tasks which mainly include the profit /loss, purchasing of land and all the procedures involved in achieving it and the development and marketing of the site.

A recent research done by The Future Shape of the Sector Commission (2006) indicates that in 2006, Large House Builders were successful to build 25, 000 houses. But due to the recession in 2007, this figure is said to

decrease drastically. The research further suggests that to safeguard the market from adverse effects of credit crunch, Large firms started to merge with Small firms in order to benefit itself along with the other firm.

The Large House builder plc, being a big organization has the capability to stabilize it in a number of ways. The current Recession has limited the space for the large housing builders to expand further. The only way suggested is by mergence, which can be done by having strong internal and external relationships within and outside the company. This will result in maximum output and the number one priority to satisfy the customer is hence achieved (The Future Shape of the Sector Commission, 2006)

### **ORGANIZATIONAL STRUCTURE**

Greenberg (1996) emphasizes that organization structure should be such that it should clearly elaborate the arrangement between the single and assembly of people corresponding to the assigned duties, abilities and power with a certain organization.

Although it is not possible to see the organizational structure physically but it can be presented in the form of a chart known as “ organization chart” which elaborates the layout of the parties involved in the organization. Such organization chart can be seen for Large House Builders (Appendix B).

The organization structure of Large Housing Builders is a complex one as many parties are involved in this firm. In fact there are as many as 20 sub-parties working at a time for a single project. They can be from designing team to finished project, transportation and logistics of construction materials to finance department, from IT department to Estimation works

etc. From this fact it can be seen that it is quite difficult to structure the organization on one single page.

In order to define the goals, the relevant part of the organization is magnified yet there is a deep inter-relation between different parties of the company which hurdles the way. As stated earlier, the firm is making its best for the survival in the current Credit Crunch. Although the top management is giving more importance to work hard in order to achieve prosperity which it has seen in the form of positive development yet the entire struggle is ending in vain as the current financial crisis is not permitting to prosper. The management of the firm feels like climbing a huge mountain when it comes to paying the salaries to the staff in the current credit crunch.

According to Lu (2009, CL) the structure of the company is the correct usage of the potential facilities and the capacity that a company has. There can be three ways in which the project can be integrated into the firm:

### **Functional Structure**

In this type of structure, much emphasize is given to functional part. Projects are located in functional units such as human resources, finance and marketing where as the projects located in function which has dominant role with relevant staff being seconded from other functions for duration of the project. The disadvantage is this structure is that all groups are more focused towards functional manager.

## **Matrix Structure**

The Matrix structure is the one which has both the functional manager as well as the project manager. The members of the project have to report to both the functional as well as the project managers.

There are three types of matrix structures according to their strengths;

### **a. Functional Matrix Structure**

In this the functional managers are more dominant than the project managers. This type of matrix system is also called “ Weak Matrix” system and is mostly suitable for large Firms.

### **b. Balanced Matrix Structure**

In this type the project managers and the functional managers share equal power amongst them. This type of matrix structure is also called a “ Perfect Matrix”.

### **c. Project Matrix Structure**

In this type of structure, project managers are more dominant over the functional managers. This type of matrix structure is also called “ Strong Matrix” and is mostly suitable for small firms.

## **Project Structure**

In this type, the projects are self-contained structural units with each unit having its own staff members and resources.

From the above mentioned type of matrix structures, the Large House Builders is having the “ Functional Matrix Structure”(Fig. 1). The firm was having a boom in construction as it produced about 25, 000 houses in 2006. With the initiation of Recession Period in 2007, the firm started to stabilize its

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self by cutting down its costs. The firm's performance was good when considering each project separately but on a broader perspective, there was less or poor coordination between different projects as the structure of the firm was based on some prototype or typical functions. Thus this structure permitted Large House Builders to enhance their accuracy level by keeping themselves gentle and adjustable with the members of the different projects.

In the functional matrix structure, the staff members report to the functional manager as well as the project manager as stated by Lu (2009, CL). This sometimes took a shape of minor clashes between different parties and thus halting and making delay in the project.

By analyzing the firm, it was seen that the structure of the company changes as the project progresses. These changes were not massive in nature; in fact some minor changes were taking place. When the bidding phase starts, the firm was showing a firm functional type of structure. As the project initiated, the Functional Structure branched out into two parts. When talking about individual project, Project Structure was mostly dominant and the overall structure of the firm was found to be Matrix rather than Functional. Finally at the completion of the project, Matrix Structure was found which influenced both the Projects as well as the firm itself. As stated earlier, that the company has regional managers which are controlled by the management board thus indicate that it is a “divisionalized organization” as whole of the structure of company is well organized.

The characteristics of divisionalized organization are stated below;

The management board directs the divisional members who further authorize the regional members to take control of the profit/loss, land acquisition and marketing. This type of arrangement corresponds to the “middle line” part of the organization. This can be considered as the backbone of an organization where key decisions are taken Lu (2009).

The firm has “limited vertical decentralization” of authority as regional managers are in charge of their region and the company is very much dependant on them.

The regional managers are in focus of their jobs perspective and have only one goal of “Standardization of outputs” and thus producing quality houses in favor of the customers.

### **ORGANIZATIONAL CULTURE**

According to Schein (2004) culture is an in-depth knowledge of assumptions, faiths and values that the members of the organization take as granted. However, it is difficult to describe it and can simply be regarded as the charm or the identity of the organization.

Organizational culture has got both the formal as well as the informal components (Lu, 2009c). Formal elements like aims and objectives were apparent as all the necessary steps were taken to strengthen the firm not only in its own field but other forms of construction as well.

Whereas the informal components such as racism, religious symbolism etc. some what were not in line with the latest policies of the company. The



board management took a notice of these moral values which were creating problem and hindrance in the achievement of the firm's goals.

According to Handy (1993) there can be four types of cultures as stated below;

### **Power Culture**

In power culture, whole of the control is concentrated to very few individuals. This usually have a family type culture and is suitable for small to medium sized firms where the reaction to the current market trend is very instant.

### **Role Culture**

In role culture the roles are assigned on the basis of functions. These functions are allocated to different member to do the job. Such a setup is usually in large firms.

### **Achievement Culture**

Achievement culture is very much based on results and outcomes. Examples can be such firms in with much research and development activities take place.

### **Support Culture**

In this type of culture, much importance is given to an individual person within the organization. Example can be such as within a design team only importance given to Architect.

From the above discuss, Large House Builders plc were found to have “ROLE” culture because each member fully focused on the role given by the

top management. The staff members with not encouraged to do such task which was not stated in their role statement.

As all the managerial bodies were assigned their role statements, the junior managers tried to prove their mettle by giving more in the current credit crunch whereas the senior management was try to stabilize the firm in its own way which resulted in some unsettlement between the organization.

### **ORGANIZATIONAL STRETEGY**

Hersey et. al (1969) defines a strategy as the setting and arrangement of the tasks which an organization wants to achieve. There is a long debate as to whether the strategy is set first or the structure of the organization is set first. But for a successful completion of the desired aim, strategy and structure are always in line with each other Lu (2009, CI). The high standard of the firm was due to the fact that the management board was quite aware of the strength and weaknesses of their company. Every step taken was towards the stabilization of the business.

The management board of Large House Builders was seeing the current credit crunch but was unaware that this could give a real tough time to them. So a meeting was called in which certain points were drawn down, the main theme was that the Banks were unable to give the money to the clients which in return resulted in a complete stop to construction of some time.

According to Lu and Sexton (2006) the firm in the phase of innovation can be either explorative or exploitative which counts on the Structure capital, Human capital and relationship capital

When seeing Large House Builder plc under the generic company level strategies illustrated by Miles and Snow (1978), the company was found to be “ANALYZERS”. The company was doing well and was very stable before the credit crunch in 2007. This can be judged by the performance of the company in 2006 as the company produced 25, 000 houses indicating that it has very well organized structure and they are very bothered about their efficiency, performance and reputation. Thus they were having good expertise in their field of work with good amount of resources available for their expansion and establishment.

Being analyzers, the company will expand their business in the same field i. e. construction of houses which may be on a larger or smaller scale but the basic aim will be stabilization, reputation and good performance.

### **SMALL HOUSE BUILDERS:**

The Small Firm Ltd is a regional housing developer was has its operations in the South East of England. The firm is a family owned organization in which all the top management is from the same family indicating that the culture of the firm will be a family culture. The key members will have strong belief and good understanding between them. The Small Firm Ltd is completely customer oriented. High priority given to customers is very essential to thrust forward in business. Customer satisfaction is the key to success for the firm.

The Small Firm Ltd produced 1, 000 social housing units in 2006 which is the clear indication of well established link with public and private authorities.

The close link between different authorities is very beneficial as such types of strategies are helpful when there is a limited space and time to stabilize.

### **ORGANIZATIONAL STRUCTURE**

The Small Firm Ltd has highly motivated and trustworthy top management whose total emphasize is on customer satisfaction. The firm has produced 1, 000 housing units in 2006 for different housing associations and local authorities. This indicates that the firm has strong ties with its customers and all of them have good understanding amongst them.

As previously stated, the organizational structures can be Functional, matrix or project structures Lu (2009). From them above discussion it is quite obvious that the firm has “ Project Matrix Structure” which is also called strong matrix due to the reason that in this matrix type, Project Manager has the authority to influence its staff and workers. The workers have to answer to the Project Manager for their work which is the case in Small Firm Ltd due to the strong tie between the Project Manager and the workers.

The role of the Functional Manager in firm is independent to the Project Manager as the Functional manager focuses more on the technical side and the resources allocation. The resources and cost allocation is quite tough job when it comes to a complex project. According to Lu (2009), there may be a conflict developed between the Project Manager and the Functional Manager due to the resource allocation.

The firm posses a “ machine organization” due to the following reasons as indicated by Lu (2009):

- The firm is much focused on technostuctureso that it competes the market and it's competent.
- The firm shows limited horizontal decentralization as the members of the board share more ideas with the project manager and less with functional managers although both manager types are important for its success.
- The labor of the firm is hard working and always motivated to do the tasks which contribute to the betterment of the country and the firm. There is a strong communication and co-ordination grip between the labor and the project manager and thus show standardization of work process.

### **ORGANIZATIONAL CULTURE**

Deal and Kennedy (1982) explained that to check whether an organization is successful or not, study its culture. The Small Firm Ltd has a family culture which means that level of trust and motivation is very high. From the types of cultures explained by Handy (1993), the Small Firm Ltd is having a “POWER” culture (fig. 4), the reason of power that the total concentration of the power and authority will be on a single person who will be the leader.

Small firm ltd is having an informal type of structure which indicated the strong influence of the leader (family member) the staff members including managers. The firm can easily cope with any external discrepancies that may arise during a tenure time of any project. Thus making it self stabilize creates less problems and such firm can easily cope with financial crunch.

## **ORGANIZATIONAL STRATEGY**

Structure and Strategy should always be inline with each other (Lu, 2009).

Thus this type of strategy can be found in Small Firm Ltd as the firm can easily cope with financial crisis. From the types of strategies stated by Miles & Snow (1978) the Small Firm Ltd was found to have “ DEFENDER” type of strategy.

The Small Firm Ltd is very market based firm, close study of market and new trends in market is very beneficial for the company as it helps to change the short comings and thus increase the profit. The strong relation between the top management and the departmental management is in strong observation between the leader which is very beneficial to enhance the chances of survival in the time of difficulty.

## **CURRENT SITUATION**

The management board of Large House Builder plc has decided to merge with Small Firm Ltd in order to stabilize itself in the ongoing credit crunch period (Appendix 1). This is not the only aim; in fact other things are also taken into consideration like Large House Builder plc is trying to adopt the expertise of social housing as well so that if there is a slump in the construction of large houses, the company can mingle with the social housing sector. So there is a need of change between two companies which can easily be brought into practice by implementing a change management plan.

## **CHANGE MANAGEMENT**

According to Lu (2009, LP2) change is an important fact of life and the key success is to manage it successfully. A successful manager is the one who

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doesn't allow change to happen on its own, in fact he make proper plans and strategies to implement change. Change doesn't take place at once rather it can take place many months and even years for the different parties involved in change to settle down and know each other.

Such a situation of change management has risen up between the Large House Builders plc and the Small Firm plc. Both the companies are opposite to each other in the since that both have different organizational structures, cultures and strategies but the common thing between them is that the both are in the construction business and especially in house building. Both companies will have the following Organizational issues;

### **Structural issues**

The large house builders have functional matrix structure and the small firm ltd has a project matrix structure. The small firm will have to work really hard to come with the structure of the large house builders. The large house builders have a very well organized formal structure where as the small firm has an informal structure.

### **Cultural issues**

The Large house builder has a Role culture in which every manager has a certain role assigned on which he is only answerable for his work to the top management whereas the small firm has power culture in which whole power is concentrated on the leader or single person. Such issues may produce a clash between two parties.

**Strategic issues**

The Large House Builders have adopted the analyzers strategy where they are keen to expand their company according to given marketing conditions and respond to market changes. On the other hand, Small firm adopts defenders strategy in which they do the job in their own field of expertise saving themselves from outside threats because of having family culture.

Such issues may cause a hurdle towards success between the two companies. To cope up with such difficulties a two year change management plan will be setup so that the process of integrating two companies of different culture, structure and strategy can run smoothly.

**TWO YEARS CHANGE MANAGEMENT PLAN**

To bring about change in the organization, necessary two change management plan is to be setup for the proper implication of roles and jobs of the two different teams i. e. the Large House Builder plc and the Small Firm ltd.

Lewin's (1947) three stage change management plan for the individuals of the organization can be setup as:

- Unfreeze
- Change
- Re-freeze

Kottar's (1996) eight stages change management plan will be used to implement a successful change in the organization. The eight stage plan is:

1. Establishing a sense of urgency
2. Creating the guiding coalition



3. Developing a vision and strategy
4. Communication the change vision
5. Empowering broad-based action
6. Generating short-term wins
7. Consolidation gains and producing more change
8. Anchoring new approaches in the culture

The two change management approaches will be integrated in such a way that a proper setup over a period of two years will be established which will enhance the company's performance.

### **FIRST YEAR**

The first year of the mergence of Small Firm Ltd into the Large House Builders plc will be very crucial as many objections and discrepancies are likely to be encountered. Though the anticipated outcomes of the mergence is likely to generate a lot of benefit to both the companies yet the initial few months are regarded as very sensitive for the Small Firm Ltd.

The change management plan is broken down in Quarters of a year and possible planned workout is analyzed as follows:

### **FIRST QUARTER (Q1):**

During the first quarter of the first year the Small Firm Ltd will be in the learning stage and would be considering ways to overcome the barriers which would resist their way towards the change.

According to Greenberg (1996), an organization can encounter with two different types of barriers in change.

- Organizational Barriers to Change

- Individual Barriers to Change

## **1. ORGANIZATIONAL BARRIERS TO CHANGE**

Sometimes terms and conditions are such set in an organization which barriers a change to take place (Katz and Kahn, 1978). Following are the organizational barriers to change in the view of Greenberg (1996):

### **a) Structural inertia**

The Small Firm Ltd and the Large House Builders plc significantly differ with respect to the organization structure they have worked in before. The Small firm ltd will learn to adopt the divisional structure of the large house builders by mixing their manager with the divisional managers of large house builders.

### **b) Work group inertia**

The large house builders and the small firm have their own ways to complete the assigned task. A task is not just completed as it a part of the job in fact, it is because the person learn from his social values to complete a certain task as assigned Greenberg (1996). So to tackle the pressure of completion of task at both ends is different which needs to be considered when assigning tasks.

### **c) Threats to existing balance of power**

This issue is very important when it comes to change within two organizations as the managing power of both firms is entirely different from each other. For example the Large builders have a management board and a CEO who is in charge of making key decisions whereas in Small firm there is a single power or a leader who takes key decisions. After mergence, a

conflict would be raised up during the designation and allotment of powers within the organization.

**d) Previously unsuccessful change efforts.**

Both the firms are quite familiar with the fact that change management theories recently adopted by firms haven't proved to be successful yet both are willing to stabilize themselves with firm motivation and hard work.

**2. INDIVIDUAL BARRIERS TO CHANGE**

The Small firm being in the initial stage of mergence will be facing great difficulty to cope with the individual barriers to change. According to a research done by Nadler (1987), there are many factors that hurdle the way of people towards a change. These factors are:

**a) Economic insecurity**

A very important point which comes into one's mind during a change at any level of work is that whether my job is secured? Am I getting the right salary? Such issues when taken into consideration during a change in such a time of Credit crunch may alter the minds of the employees of not only the Large builders but in fact the small firm ltd also. The reason being that both the firms are going to re-locate and re-assign the tasks to the individuals which may interrupt the desired performance of members.

**b) Fear of unknown**

While following the same routine of work as followed by the staff for quite a long time, the staff felt secured that they had a good level of understanding developed between other staff members and managers. Merging with someone you haven't worked with before will set up a fear of unknown and

everyone will be in a state that something can go wrong any time Greenberg (1996).

**c) Threats to social relationship**

Due to a change the members of the firm feel un-relaxed and insecure as they had good relationships with the members they were previously working with. Due to this a lack of communication would be developed which would resist the fluency of work.

**d) Habit**

By doing a similar kind of work for past many years develops a natural phenomenon for an individual and the person becomes habitual to it. Any alteration in form of a change/new job, can result in mental dissatisfaction resulting in low performance.

**e) Failure to recognize need for change**

In situations where the individuals of the organization are unable to understand the necessity of change can result in a complete disaster. To overcome this, necessary steps such as awareness campaigns are run to establish a level of understanding among the workers so that they are well aware of the advantages of change.

During the First Quarter (Q1) of the first year, the Small firm Ltd will be coping up with the initial difficulties of settlement in the organization. With the further enhancement of the Two year change management plan, there would not be any discrepancy left within both the organizations after merger.