

## PM WORLD TODAY – EDITORIAL – DECEMBER 2008

## Silver Lining: Why the Economic Recession May be Good for Project Management!

*By: David L. Pells*

**Introduction**

What a mess! The US economy is officially in recession, and apparently has been for the last year. The economies of Germany and the UK are also close to or in recessions as well, as are the economies of many other European countries. There are a few exceptions, Finland for example. But across the globe, the effects of the economic crisis in the United States and other developed countries have been felt by all those engaged in the “global economy”.

Generally speaking, the impact of the global economic downturn is very negative, as financial markets decline with resulting losses in wealth; as markets, industries and organizations contract; as unemployment grows; and as individuals and families are hurt. The recession is affecting most local, national and regional economies, at different rates and in different ways. The big question for those of us in the PM world is how current economic conditions and trends are affecting project managers and the project management profession.

The biggest negative impact on PM will be the cancellation or delays of capital investment, and therefore in programs and projects, in many industries. Short term impact will include job losses for project managers and project teams. The next biggest effect will be on the families of project team members, as more family members become unemployed and as general economic conditions affect everyday citizens. Other negative effects will include stresses on budgets, schedules, customers, supply chains, and other aspects of project management, and negative pressures on the PM products and services industry. It's going to be painful for all of us in the months ahead.

In the long run, however, there may be a silver lining. Project management may be set to benefit in unexpected ways. In my opinion, the project-oriented approach and professional project management will be even more seriously and widely embraced in the future by business and government leaders worldwide. This will lead to increased demand for project management, project managers and PM professionals. Let me explain why I think this is true.

## The Global Economy in Tailspin

Just how bad is the global economy now? Here are some descriptors and indicators.

- According to Wikipedia, the global financial crisis of 2008 is a major financial crisis, the worst of its kind since the Great Depression, which is ongoing as of December 2008. It became prominently visible in September 2008 with the failure, merger or conservatorship of several large US-based financial firms. Beginning with failures of large financial institutions in the United States, it rapidly evolved into a global crisis resulting in a number of European bank failures, declines in various stock indexes, and large reductions in the market value of equities and commodities worldwide. The crisis has led to a liquidity problem and the de-leveraging of financial institutions especially in the USA and Europe, which further accelerated the liquidity crisis. World political leaders, national ministers of finance and central bank directors have coordinated their efforts to reduce fears, but the crisis is ongoing and continues to change. At the close of October a currency crisis emerged with investors transferring vast capital resources into stronger currencies such as the yen, the dollar and the Swiss franc, leading many emergent economies to seek aid from the International Monetary Fund. [1]
- Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. A collapse of the US sub-prime mortgage market and the reversal of the housing boom in other industrialized economies have had a ripple effect around the world. Furthermore, other weaknesses in the global financial system have surfaced. Some financial products and instruments have become so complex and twisted, that as things started to unravel, trust in the whole system started to fail. [2]
- According to the BBC in October, the Bank of England said the world's financial firms had now lost £1.8 trillion (\$2.8 trillion) as a result of the continuing credit crisis [3]
- According to the World Bank's Trade & Development 2008 report, published in September 2008, "the global economy is teetering on the brink of recession. The downturn after four years of relatively fast growth is due to a number of factors: the global fallout from the financial crisis in the United States, the bursting of the housing bubbles in the US and in other large economies, soaring commodity prices, increasingly restrictive monetary



policies in a number of countries, and stock market volatility... the fallout from the collapse of the US mortgage market and the reversal of the housing boom in various important countries has turned out to be more profound and persistent than expected" [2,4]

- According to the BBC on October 1, 2008, "The financial crisis is likely to diminish the status of the United States as the world's only superpower. On the practical level, the US is already stretched militarily, in Afghanistan and Iraq, and is now stretched financially. On the philosophical level, it will be harder for it to argue in favor of its free market ideas, if its own markets have collapsed... Some see this as a pivotal moment. [2,5]

- Chinese and US officials met in Beijing on Thursday, 4 December for bilateral trade talks. Spearheaded by US Treasury Secretary Henry Paulson and Chinese Vice-Premier Wang Qishan, the global financial crisis was expected to dominate the Strategic Economic Dialogue. [6]



*Paulson & Qishan  
Photo courtesy of MediaCorp*

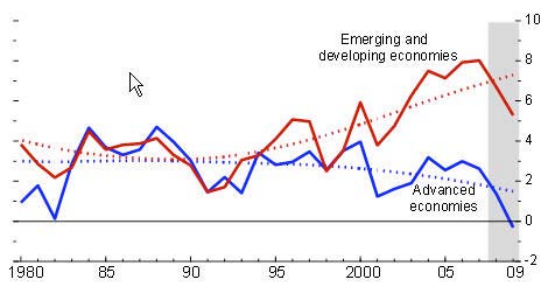
- What started as a financial disaster in the United States has become a truly global economic crisis. Banks and other financial institutions throughout the world purchased toxic financial instruments engineered on Wall Street in the USA and the world's nations have all now been impacted by the credit crunch. What began as a financial crisis has now impacted the real economy globally. The United Kingdom, Germany, France and other European countries have poured trillions of dollars in taxpayer money into stopping the rot of the world's financial system. The United States has initiated its own costly rescue of Wall Street. However, the global economic crisis is raging out of control and cannot be stopped. China has begun to lay off factory workers. Japan and Singapore have economies that are in recession. In South Korea and other countries, the currencies are collapsing. Iceland is bankrupt. The stock market in Russia has been decimated. Commodity prices are undergoing radical deflation. As the consumer economy in the United States continues to erode, the repercussions will continue to spread globally. Highly respected economists including Nouriel Roubini and Nassim Taleb have issued warnings based on their analyses that with respect to the global economic crisis, the worst is yet to come.[7]

- At the APEC meeting in Lima, Peru in November 2008, leaders of Pacific Rim nations promised to work together on further "urgent and extraordinary" steps to combat the global economic crisis and pledged to refrain from erecting new barriers to trade and investment. President George W. Bush, President Hu Jintao of China, Prime Minister Taro Aso of Japan and other

leaders of the 21-nation Asia-Pacific Economic Cooperation group, or APEC, also called for improved corporate governance and backed efforts to thaw frozen credit markets. [8]

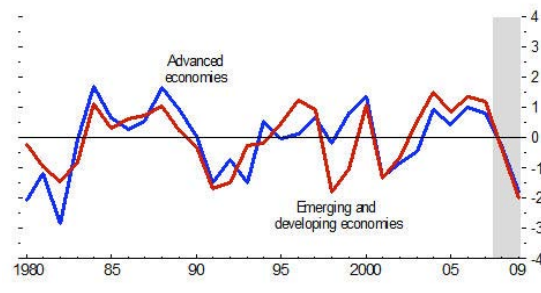
- According to the IMF in November, “prospects for global growth have deteriorated over the past month, as financial sector deleveraging has continued and producer and consumer confidence have fallen... In advanced economies, output is forecast to contract on a full-year basis in 2009, the first such fall in the post-war period...” [9]

**Figure 1. Real GDP Growth and Trend**  
(Percent change)



Source: IMF staff estimates.

**Figure 2. Real GDP Growth—Deviation from Trend**



Source: IMF staff estimates.

- According to the BBC on 14 November, the eurozone has officially slipped into recession after EU figures showed that the economy shrank by 0.2% in the third quarter. This follows a 0.2% contraction in the 15-nation area in the previous quarter from April to June. Two quarters of negative growth define a technical recession. The news was widely anticipated and follows data showing that Germany and Italy, two of the biggest eurozone economies, are already in recession. [10]
- According to the BBC on 5 December, “US employers axed 533,000 jobs in November, the biggest monthly cut since 1974, the US Labor Department said. In a dramatic indication of the worsening situation in the economy, the US jobless rate rose to a 15-year high of 6.7% from 6.5% in October. Since these latest figures were compiled, further jobs losses have been announced, including big cuts at AT&T. The grim economic data pushed Wall Street shares down by 2.5% while oil fell to a near four-year low of \$40. Recent data has fuelled fears that the world’s biggest economy is set for a deep, long downturn.” [11]
- According to Reuters, also on 5 December, “A slew of U.S. companies have announced jobs cuts this week, including phone giant AT&T, which said on Thursday it was letting 12,000 workers go, and economists expect the unemployment rate to top 8 percent by late next year... U.S. job losses in November were the steepest since December 1974, ... In addition, job losses

in recent months turned out to be worse than previously reported. October's loss was revised to show a cut of 320,000... while September's drop was revised to 403,000...That meant the total reduction in U.S. non-farm payrolls for the last three months was 1.256 million, with almost 2 million jobs shed in the year so far...If December's job picture mirrors the last three months, it will make 2008 the worst for employment since 1945." [12]

I don't think I need to go on. The economic news is bad and seems to be getting worse each day. The world is reeling, especially North America and Europe, but the impact is clearly global.

### **The Bad News for Project Management**

In the short term, there is no doubt that the project management professional world will suffer, along with other industries, professions and sectors of the economy. Although most readers will need no reminders, here are some of the negative effects of the economic downturn on the project management field:

- Cancellations of projects, and entire programs
- Program and project delays, and restructuring
- Lost contracts (projects), due to lost customers, bankruptcies or market conditions
- Project downsizing, due to budget cuts or scope reductions
- Downsizing of organizations, including project teams
- Delayed or cancelled capital investment
- Reduced budgets for employee development, training & professional activities
- Reduced budgets for consultants, contractors and outsourcing
- More unemployed project managers, leading to more competition and reduced salaries for PM jobs
- Slower growth rates for member-oriented professional societies
- Increased price sensitivity related to PM related products and services, including membership fees for professional organizations



In some cases, projects will be cancelled, rescheduled or not started due to the lack of credit or investment. In other cases, projects and project management teams will be affected by the financial conditions of owners, customers or employers. In many cases, open market economic conditions will have negative impacts, for example, the failures of contractors, pricing and logistics problems, human resource problems in many countries, transportation problems, and other factors.

## **The Good News – Project Management will be part of the Solution**

Now for the good news. Two immediate results of the current economic situation will be economic stimulation programs by governments worldwide and the restructuring of organizations and industries. Both of these broad changes will be implemented via programs and projects. Here are some recent announcements and news.

### Economic Stimulation Programs

- ❖ The European Commission called for EU governments to jointly combat the economic slowdown with \$256 billion in spending and tax cuts [13]
- ❖ In October, Germany guaranteed all private bank accounts and negotiated a 50 billion euros (\$69 billion) bailout deal for Hypo Real Estate AG as Europe's second largest economy sought to ward off financial crisis. The Finance Ministry and private banks reached a deal late Sunday to infuse an additional line of credit worth up to 15 billion euros (\$21 billion) into the embattled real estate giant. [14]
- ❖ On 25 November, The European Commission unveiled an economic recovery plan worth 200bn euros (£170bn) which it hopes will save millions of European jobs. The EC expects member states to contribute 170bn euros while the European Union will give 30bn euros. The plan is aimed at boosting consumer confidence and stimulating spending. Some of the money will be used for job training, improving energy links and broadband access, and developing less polluting cars. The Commission's proposals include at least five billion euros to help the car industry develop green technologies and a total of 2.2 bn to improve the energy efficiency of homes and factories. [15]
- ❖ According to the International Herald Tribune on 4 December 2008, "President-elect Barack Obama and leaders in Congress are fashioning a plan to pour billions of dollars into a jobs program to jolt the economy and lay the groundwork for a more energy-efficient economy. The details and cost of the so-called green jobs program are still unclear, but a senior Obama aide, speaking on condition of anonymity to discuss a work in progress, said it would probably include the weatherizing of hundreds of thousands of homes, the installation of so-called smart meters to monitor and reduce home energy use, and billions of dollars in grants to state and local governments for mass transit and infrastructure projects. The green component of the much larger stimulus plan would cost at least \$15 billion a year, and perhaps considerably more, depending on how the projects were defined, aides working on the package said." [16]

- ❖ On 5 December, French President Nicolas Sarkozy (pictured right) unveiled a 26bn-euro (\$33bn; £23bn) stimulus plan to help France fend off the financial crisis. The measures include a 1bn-euro loan for carmakers and 5bn euros of new public sector investments [17]



- ❖ On Friday, December 5, 2008, the German upper house of Parliament, the Bundesrat, passed a 32 billion euro economic stimulus package, despite hefty criticism from a number of states. The package was approved by the lower house of parliament, the Bundestag, on Thursday. German Chancellor Angela Merkel said the rescue plan would secure one million jobs and boost consumption and investments across the country. [18]

- ❖ According to CNNmoney.com on 5 December, "Congress is expected to have an economic rescue bill ready for Obama to sign on Jan. 20... A Democratic aide in the House told CNNMoney.com that at the moment it's likely the proposed stimulus package for January will be between \$400 billion and \$500 billion and would include elements for infrastructure spending, green energy initiatives and tax cuts... Economy.com's Faucher said the total cost of stimulus could come close to \$1 trillion..." [19]

- ❖ According to the Associated Press on 5 December, "The Swedish government announced Friday an 8.3 billion kronor (\$1.01 billion) economic package to stimulate employment and infrastructure development amid the global financial crisis. A news release said the package includes steps to encourage "employment and restructuring" of workplaces. That includes job training, increased support to vocational schools, increased spending on infrastructure, and benefits for those facing long or short term unemployment. [20]

- ❖ On Thursday, 4 December, Argentina's government announced plans to use billions of dollars of newly nationalized pension fund assets to grant low-cost loans to farmers, industry and automakers, in a bid to boost production and ease credit amid the global economic downturn, President Cristina Fernandez said Thursday. Most of the 13.2 billion pesos (\$3.9 billion) in loans will come from state-run banks and assets that the government acquired in last month's takeover of the country's 10 private pension funds, Fernandez said, giving no other details. The interest rates and terms of the loans were unclear. [21]



- ❖ In south Texas, USA, Rio Grande Valley leaders have issued a 100-page, \$1 billion list of projects they would like to see included in a federal economic stimulus plan that would invest billions in the nation's infrastructure... part of President-elect Barack Obama's economic stimulus plan - called the "New New Deal" by some - is creating or saving 2.5 million jobs by putting Americans to work rebuilding roads, bridges, airports and schools...[22]

In the USA and many countries, there have been many calls in recent years for increased investment in infrastructure. It now appears that massive investment in roads, railways and other transportation infrastructure programs will be included in most economic stimulus budgets around the world. In addition, massive government investments into industries and projects to create more jobs in many industries will call for more project managers and project management.

### **Industry & Organizational Restructuring**

Organizational change is accomplished with projects, whether downsizing, restructuring, mergers, acquisitions or divestiture. As a result of recent turmoil in the financial markets and the economies, some industries are seeing massive restructuring. In the USA, the automotive, banking and insurance industries are subject to both government rescue and major reorganizations. But the economic mess is affecting many industries in significant ways, including communications, energy, mining, oil & gas, semiconductors, transportation, and others.

Here are some recently announced examples:

- In automobiles: According to the New York Times on 2 December 2008, "General Motors, increasingly desperate for a federal bailout to stave off financial collapse, told Congress on Tuesday that it was willing to drastically shrink every aspect of its operations to ensure its long-term survival... On the same day that the industry reported its worst sales month in 26 years, the three Detroit automakers delivered new business plans to lawmakers in the hope of winning support for \$34 billion in federal loans... G.M., the world's largest automaker for decades, said Tuesday that it was in such dire straits that it would deeply cut jobs, factories, brands and executive pay as part of its plea to get \$12 billion in federal loans and an additional \$6 billion line of credit..." [23]
- In technology: "In the first quarter, we saw lower volumes in our existing engagements and delayed start of new engagements based on weak consumer spending in the Americas and Europe," said Joseph C. Lawler, Chairman, President and Chief Executive Officer of ModusLink Global Solutions. "Given the extreme sense of uncertainty regarding the economy, we have been aggressively taking action to reduce costs across the organization and **restructure** areas where we can gain efficiencies, while continuing to execute our overall business strategy. We expect the result of our actions will be more

than \$40 million of annualized cost reductions resulting in a leaner, more focused and efficient company as we move forward." [24]

- In the software industry: According to the San Francisco Chronicle, design software maker Adobe plans to lay off about eight percent of its world wide workforce and **restructure** parts of its business. The 600 job cuts will come from all of the company's business units and are in response to the weak worldwide economy and lower than expected Creative Suite 4 sales. Shantanu Narayen, Adobe's president and CEO, said "The global economic crisis significantly impacted our revenue during the fourth quarter. We have taken action to reduce our operating costs and fine-tune the focus of our resources on key strategic priorities." [25]
- In the airline industry: On 4 December 2008, Deutsche Lufthansa AG announced that its supervisory board has approved a plan to buy ailing Austrian Airlines AG, potentially pushing Germany's giant carrier further along one of the most ambitious airline acquisition sprees the global aviation industry has seen in years. The Austrian government as soon as Friday could approve the deal, which values the national carrier at as much as €377.4 million (\$479.5 million) and aims to save it from collapse under mounting financial woes. [26]
- In the mining sector: The London- and JSE-listed Lonmin Platinum is the first and the smallest of the world's three platinum majors to take the scalpel to costs in the wake of the collapse of the platinum price. New Lonmin Platinum CEO Ian Farmer tells Mining Weekly that the South African operations have taken on higher costs and lower productivity during a period of unsuccessful change management, and that these have now collided head-on with a downturn in demand for platinum-group metals. [27]



These are just a few examples of industries and organizations that are in the midst of wholesale restructuring activities. Organizational change projects in the financial services industry are even more pervasive. Merrill Lynch is being acquired by Bank of America to form the largest bank in the USA, as measured by assets. Many other mergers of large and medium-sized, national and regional banks are occurring now across Europe and North America. All of these organizational changes should be planned, budgeted and managed with projects and PM.

In addition, in the wake of recent corporate scandals and governance problems, the governance of project management must and will become more common, more

important and more visible. This is especially true where governments are investing in or taking outright control of major industrial organizations – for example, banks in Germany, Iceland, the UK and USA.

At first glance, organizational restructuring projects would seem to offer limited opportunities for professional project management. Upon serious consideration, however, it is clear that restructuring of major industries such as automobile manufacturing and financial services will cost hundreds of millions of dollars, involve hundreds of project teams, and will be of strategic importance related to the very survival of the organizations involved.

### **The Silver Lining – Increased Demand for PM in Long Run**

An unexpected but welcome consequence of the current economic crisis will undoubtedly be continued and rapid growth in the project management profession for years to come. Here are some of the reasons why I think this is true.

- ❖ Organizations will become leaner, flatter and more cost conscious – leading to a renewed emphasis on efficiency and productivity.
- ❖ Industries and organizations will become more project-oriented – as firms avoid large investments and long term commitments to larger staffs and operational overhead expenses.
- ❖ More professional workers will be required to move from project to project within industries, as fewer employers offer long term employment or benefits.
- ❖ Professional project management provides the most cost effective and productive approach to managing programs and projects – this is why PM methodologies were developed in the first place.
- ❖ Customers, investors and taxpayers will demand responsible management and accountability related to programs and projects – this is especially true for government and public sector programs but also for industries and organizations now controlled by the government.

Not only will more project management be needed during the economic recovery, on projects funded by governments and for restructuring industry, but more organizations in more industries will become more project-oriented. The demand for more and better project management will increase in all sectors. This now seems very obvious.

## **New Growth Industries - Opportunities for Society and for PM**

The current economic crisis provides an opportunity for governments to seriously reconsider some long cherished assumptions and policies. In the USA, the US congress and the new Administration have an opportunity to address important social and economic issues, including education, energy, health care, transportation and others. Through economic stimulus programs, investments can be directed to those programs and strategies that are more sustainable. Wholesale changes in will be possible. And the changes can be accomplished much more rapidly than if left to market forces – per previous policies.

Such strategic investments, however, will need to be planned, directed and managed – as programs and projects. These will call for professional project management, complete with serious PM governance and oversight. Both real progress and accountability will be required. Finally, some new and small but important industries should start to grow rapidly. Examples are in the renewable energy sectors; near-earth space-based science; Earth sciences, climate monitoring and weather management; infrastructure development in Africa and Asia; global and web-based education; and nanotechnology based industries.

In summary, I too am concerned about the global economy. I am worried about cancelled and delayed projects, unemployed project managers, and my own loss of work and income. But I am also excited about opportunities for projects and project management inherent in the economic stimulus proposals. I recognize that every organization that plans to restructure will need project management to do so successfully. I believe all organizations will recognize that a project-based approach can not only achieve more in less time, but also with fewer resources. I see many new opportunities for projects and PM in emerging industries, including renewable energy, the green economy and a more globally conscious world.

Project managers and project management will undoubtedly be affected in negative ways by the current global economic crisis. But in many organizations, PM will be recognized as part of the solution, as organizations and industries restructure, participate in economic stimulus projects, or take advantage of newly emerging opportunities. And as economies and organizations start to grow again, project managers will be the first to be hired. Because while PM can be critical for surviving a recession, it is absolutely vital for creating new products, new facilities, new systems, new business, or a new and better world.

Good luck with your projects!

David L. Pells  
Managing Editor  
[www.pmforum.org](http://www.pmforum.org)  
[www.pmworldtoday.net](http://www.pmworldtoday.net)

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*David L. Pells  
Managing Editor  
PM World Today  
PMForum, Inc.*



***David L. Pells** is the Managing Editor of PM World Today and of [www.pmforum.org](http://www.pmforum.org), one of the world's leading online sources of project management news and information. David is an internationally recognized leader in the field of professional project management, with over thirty years' experience in project management. His professional experience includes a wide variety of programs and projects, including engineering, construction, transit, defense and high technology, and project sizes ranging from several thousand to ten billion dollars. He served on the board of directors of the Project Management Institute (PMI®) twice, and was awarded PMI's Person of the Year award in 1998 and Fellow Award in 1999. He has published widely and speaks at PM conferences and events worldwide. David can be reached via email at: [editor@pmforum.org](mailto:editor@pmforum.org)*