Strategic planning of UK housebuilders: case study of a major property developer

This item was submitted to Loughborough University’s Institutional Repository by the/an author.


Additional Information:

- This is a conference paper. It is also available at: http://www.arcom.ac.uk/

Metadata Record: https://dspace.lboro.ac.uk/2134/16514

Version: Accepted for publication

Publisher: ARCOM

Rights: This work is made available according to the conditions of the Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0) licence. Full details of this licence are available at: https://creativecommons.org/licenses/by-nc-nd/4.0/

Please cite the published version.
STRATEGIC PLANNING OF UK HOUSEBUILDERS: CASE STUDY OF A MAJOR PROPERTY DEVELOPER

Robby Soetanto¹ and Wei Pan²
¹ Department of Built Environment, Coventry University, Coventry, CV1 5FB, UK
² School of Engineering, University of Plymouth, Plymouth, PL4 8AA, UK

Current global economic crisis has presented the UK housebuilding industry with unprecedented period of volatility and uncertainty. In light of this, the development of strategic plans is becoming more critical for ensuring future competitiveness. Evidence from early literature suggests that firms in the development sector have not put sufficient emphasis on this management function. Further, there is little information on the manner by which housebuilders formulate their strategic plans, let alone how the actors participate in the process of strategising. The research intends to contribute to this important but little understood area by presenting case study of a leading UK housebuilder, and a proposed activity framework, with a view to obtain a greater understanding of the strategic process within the organisation. Contrary to the popular belief, the finding provides evidence that longer-term thinking underpinned by sound and defendable business principles which are mobilised within organisation, does contribute to successful business in volatile and competitive environment of construction sector. Further, their longer-term thinking might have been responsible for their survival in the current difficult economic time. However, there is little evidence of any attempt to further utilise potential knowledge and creativity of staff. Further research should look at possible barriers to staff participation as professed by the activity framework.

Keywords: competitiveness, corporate strategy, housing, property development.

INTRODUCTION

Developing a plan for the future is a critical and complex exercise in the modern world. Due to pervasiveness of risks and uncertainties within the construction sector, planning at strategic level would require a higher degree of ‘sophistication’ in organisational capability. A number of scholars suggested that the construction sector does not perform particularly well in planning longer-term due to preoccupation of ‘getting the job done’ and ‘winning the next project’, and the prevalence of small construction companies. Similarly, evidence indicates that many developer companies do not have long-term strategic plans (Sriram and Anikeff, 1995). Many view that property development requires longer-term plan than contracting does because the most benefit actually comes from the land investments. Further, there is usually long period between the planning applications of real estate development and the release of the consents. Meanwhile, developers have to deal with market uncertainty and changing requirements up to the point of sale. The current recession, which has hit badly the development sector, would necessitate fundamental restructuring of the business plan. The volatility of the market and tough competition in the business highlight the importance of being prepared for the future through appropriate

¹ Robby.Soetanto@coventry.ac.uk

deployment of organisational resources for proactive corporate planning. Therefore, it is prudent that firms equip themselves with appropriate skills and well-developed approaches that are required for thinking about the future.

Thinking longer-term future demands exploration of intuition and creativity within the mind of individuals and organisational stakeholders. The process of strategic decision making, coupled with the role of intuition and creativity within the process, is an important, but little understood and under-explored area. Soetanto and Dainty (2009) have proposed an activity framework for greater understanding of future uncertainties and risks as experienced by individuals and firms (as a group of decision makers) with a view of enhancing the process. The aim of the framework is not to present well-defined steps and analytical formulae for developing strategic plans, but to facilitate effective and efficient mobilisation of organisational capitals. The framework identifies critical strategising activities ideally enacted within adaptive and agile modern organisations. An investigation of strategic process was conducted via case study of a major UK housebuilder in order to: (i) gain understanding of the corporate activity in developing strategy, (ii) identify key business principles that underpin their long-term strategy, and (iii) assess the current activities against the proposed activities in the framework with a view of identifying potential improvements. The case study involved in-depth interviews with three senior managers of the company. First, a review of strategic planning and practice in construction with particular emphasis on the development sector is presented. This leads to the presentation of the proposed activity framework. Then, the methodology and the case company are described, followed by the presentation of the findings. A reflective discussion of the findings and the comparison between activities in the case company and those suggested by the framework is provided. The paper is concluded with a brief discussion of the contribution of the findings and further research.

STRATEGIC PLANNING IN THE DEVELOPMENT SECTOR

Despite abundant literature of strategic management, there is little on the strategies and strategic planning in development firms. Several studies suggest that various strategies have been used by different firms, with none can warrant superior outturn. Hardy (1986) proposed a life-cycle or evolutionary model of firm development for analysing strategies. The model suggests that a firm adopts different strategies as it passes through three stages of its life; start-up, growth, and maturity stages. The position in the life cycle influences the selection of product-market strategies, organisational structure and administrative processes that support the selected strategies. Later, Sriram and Anikeeff (1991) found that the selection of strategies is not determined by firm position within the development stage. Further, they discovered evidence that the performance of development firms has no relationship with the strategies chosen by the surveyed firms. It is the consistency of the intended strategy to organisational structure, technical and administrative supports, which makes firms succeed. Successful development firms are those who are able to interpret the necessary infrastructure to support the chosen strategy for appropriate implementation within a particular organisation context and environment. Green (1988) investigated strategic management practices of small-to-medium sized development firms which have survived in a volatile economic climate through focus group and questionnaire survey in Anchorage, Alaska. He found five most important strategies adopted during adverse economic climate, namely (i) high equity or cash position in business, (ii) quality of properties owned or developed, (iii) diversification of business, (iv) developer’s experience, and (v) highly trained operating staff.
More recently, Anikeeff and Sriram (2008) studied the relationship between firm size, the extent of vertical integration, and performance amongst 80 US real estate developers. The results suggest that smaller, non-integrated firms outperformed the other groups of firms. That is, small developer firms which contract out most construction works perform better in difficult economic times. This highlights the advantages from having small and flexible organisational structure, which is conducive to the entrepreneurial orientation of the business. For development firms, strategic planning and the selection of product-market strategy are considered as entrepreneurial problems. Volatile economic situation demands fluidity in organisational strategies, which have to remain flexible and responsive. Whilst it is not possible to determine the most appropriate strategy, the selection of one can be appreciated through better understanding of the strategic process, which is the focus of the following section.

STRATEGIC PLANNING OR STRATEGIC THINKING?

In a project-based industry such as construction, a greater focus has traditionally been expended upon shorter-term, operational and tactical planning to execute projects (Chinowsky and Byrd 2001). Often, strategic planning process may be unstructured, non-routine, non-repetitive, and more complex than operational planning (Junnonen 1998). A number of scholars (e.g. Warszawski 1996, Price 2003) have developed formal methodological procedures and processes for helping firms doing strategic planning. These methodologies have their merit for providing formal guidance for strategic planning process and ensuring appropriate outcome of the process. Here, planning aided by the rationally-derived methodologies may be closely associated with shorter time horizon and within relatively stable environment where many parameters influencing the efficacy of the plan are known. In reality, Minzberg (1994) and Junnonen (1998) argued that formation of strategy in a highly turbulent, uncertain and competitive environment as in the construction sector often takes place as an emergent (rather than deliberate) and iterative process within the firm, resulting from social interactions involving various activities.

In strategic decision-making process, political behaviour and intuitive synthesis provide alternatives to the rational procedure, to explain the manner by which organisations actually make strategic decisions (Elbanna, 2006). The rationality paradigm attempts to adopt analytical approach to develop strategies which are logical and backed up with evidence in pursuing corporate goals. In practice, this paradigm is often hindered by cognitive limitation of the decision makers (i.e. bounded rationality), complexity of the problem, conflict among decision maker, and non-linearity of the actual strategic process, resulting in a lack of consensus on the relationship between rational process and achievement of corporate objectives (Elbanna, 2006). The role of intuition is recognised when managers have to make quick decisions based on incomplete information, in a highly complex and dynamic environment. Hence, the decisions made are difficult to explain rationally, or the managers are unable to articulate rational reasons for taking a particular decision. Indeed, Henden (2004) found that top managers put more emphasis on intuition (rather than rational analysis) in strategic thinking and foresight. The interplay between rationality, political and intuition synthesis will exert significantly influence upon the perception of strategic issues, uncertainties and risks, and communication of this perception amongst organisation members in the formation of strategy.
Recently, Soetanto et al. (2007) conducted a questionnaire survey of construction directors and managers to explore current strategic planning practices in construction organisations in the UK. The findings indicate that strategic planning is an informal process relying on personal experience and intuition. For some, planning longer-term seems difficult given the way construction order is made. This confirms the belief that construction is dynamic, highly turbulent, rapidly changing industry and therefore a low level of strategic planning (Price and Newson, 2003). Most respondents used fairly simple tools, such as SWOT and competitor analyses; few exercised ‘what-if’ analysis within top management circle. The approaches tended to be ‘top-down’ in orientation, where senior managers determined the company strategic plan and then they communicated this to staff. The majority had a fairly shorter-term orientation to the future and admitted to having experienced external events that had changed the course of their plan. In an in-depth case study of medium-size contractor, Green et al. (2008) suggested that strategy is a collective endeavour by a loosely defined group of organisation members, who shape strategy through their actions rather than through any formal plan, within social and physical context of the organisation. Further, they found no evidence to suggest that formal strategic planning have any significant influence on the enacted strategy.

In sum, the practice of making strategy has little resemblance to the ‘strategic planning’ as a formal, purely rational and structured process, but more of a process of ‘strategic thinking’ within the mind of organisation members. The manner by which organisation members perceive the future (and its associated uncertainties and risks) and mobilise this perceptive thinking (specifically, in terms of cognition and intuition) in the formulation of strategy is indeed little understood. The literature has also suggested that managers rely heavily on intuition in corporate strategic thinking, which is characterised by high degree of uncertainty and ambiguity (Sadler-Smith and Shefy 2004). Further, there seems to be little belief upon the merit of engaging and mobilising human capitals in strategic thinking. Implementing strategy requires a great deal of support and commitment from organisational members who will be affected (either negatively or positively). It is therefore critical that members of the organisation are involved in the strategic process.

TOWARDS AN ACTIVITY FRAMEWORK FOR IMPROVING STRATEGIC THINKING PROCESS

The review of literature has called for greater understanding of the process of strategic thinking within organisations. Greater understanding will enable organisations to be more creative and receptive to changes, and to rethink their position in the market place. Importantly, they have to carefully consider allocating appropriate resources to the supporting activities. Soetanto and Dainty (2009) synthesised several key activities that underpin coherent strategic thinking within organisations. Figure 1 depicts a visual representation of the five independent but closely related activities. The pyramidal form with an activity in each corner is considered an appropriate representation of the framework as it suggests the nature of the interrelationships between activities. The framework embraces a sense of flexibility, in which activities can be undertaken in no particular order, although the first iteration would intuitively commence with establishing business goals. A full description of the framework as a point of departure for a potential paradigm shift of the strategic planning practice is presented in Soetanto and Dainty (2009). The following paragraphs briefly describe the activities involved.
Business goals are derived from corporate mission and provide the purpose of a business unit for undertaking a particular action in relation to the strategic plan. Business does not exist in vacuum, but within an environment which is characterised by dynamic interplay amongst a plethora of interconnected factors. Several tools and techniques have been used to enhancing understanding of organisation context, such as PESTLE (or STEEP) and SWOT analyses, to name a few. Stakeholder analysis identifies (both internal and external) stakeholders and clarifies their roles in the process. The analysis of all possible stakeholders will enhance understanding of the context in which strategy is going to be enacted.

Besides rational thinking, exploration of plausible futures and uncertainties utilises much of innate skills and tacit knowledge of individuals and groups within organisation. Creativity and intuition are encouraged and deemed as a vehicle to devise a breakthrough solution in the decision making. The caveat is that they can possibly lead to biases, if these skills are not appropriately understood and harnessed. For example, Hillson and Murray-Webster (2005) have demonstrated the application of emotional intelligence to enhance individual and group awareness of themselves. At collective level, group dynamic and cohesiveness might have a significant impact on the outcomes.

Eliciting knowledge activity facilitates the articulation of tacit knowledge by individuals and the interaction of articulated knowledge during strategic thinking. This may involve bringing together the identified stakeholders in meetings and brainstorming workshops where future uncertainties and ideas are generated and discussed from all levels of management hierarchy. What is critical here is the articulation and discussion of creative ideas, generated both consciously and unconsciously, and their relations to the stipulated goal(s). An exploratory study to investigate strategic planning practice and assess how the proposed framework may be enacted, is described as follows.

THE CASE STUDY METHOD

Case study method is employed if the objective of a particular investigation is to gain in-depth understanding of the phenomenon, the actors, the context in which such phenomenon is taking place, and their intricate interrelationships. The framework developed in previous research (Soetanto and Dainty 2009) serves as an analytical reference to examine the existing activities involved in the strategic thinking within
organisation. A major developer company was used for an exploratory case study of strategic thinking within the organisation context. The company was chosen mainly due to personal contact which provided access for the required data collection. The unit of analysis is the developer organisation. In-depth interviews were conducted with three senior managers of the company. Each lasted about one and a half hour. First, the purpose of the study was explained to the interviewees. Given the sensitive nature, the interviewees were rest assured the confidentiality of the conversation. Intended to be more of informal conversation, the interviews covered several key areas including current operational activities, the manner by which the firm develops their strategic plans, parties involved and their role, contribution and participation from staff, information required and operationalisation of strategic plans. The conversations were also led to discussion on the company attitude and approaches to competition and their actions to mitigate the impact of the current recession. Due to possible reluctance to disclose information in relation to strategic process, there is no question literally asking and comparing the practice against the activity framework. However, the existing practice and its activities are expected to emerge during the conversation. Being an exploratory study, three interviews were considered as a case for negotiating further access, and were deemed sufficient to gain some practical understanding of the existing practice.

The interviews were recorded and transcribed verbatim. The analysis involved identifying themes within the transcript, and then organising passages of the conversation according to the emerging themes. For the purpose of this paper, the themes presented are related to the corporate philosophy and key business principles that underpin the strategies adopted.

**THE COMPANY**

The case company is a large national property developer with headquarter in the South East of England. The company was established more than 50 years ago. Apart from this region where the high value developments are located, the company also operates in the North West and Midlands. In the period before recession, the annual turnover is typically £500 millions with profit generally around £60 millions. The company develops around 2,500 homes annually. Additionally, it also delivered few hundred thousands square feet of commercial and mixed-use space each year. Although, residential housing provides up to one half of the turnover, the company portfolio ranges various developments of mixed of use and mixed of tenure. It employs around 800 people who provide all the skill-sets required for major developments. Due to the availability of in-house skill-sets, they see themselves capable of performing the role of a design and build contractor. It also undertakes special development projects, where it has working partnerships with government authorities, NGOs, other major property developers and relevant bodies. The business is led by the founder and his family, supported by a few non-family board members.

The interviews have helped to unearth key business principles which infused and manifested within the strategic plan. They are described as follows.

**Emphasis on sustainability**

The interviewees emphasised the longevity of development projects generally and associated this with their approach to sustainable development. The long-term business vision is to develop sustainable communities. Despite the commerciality of the business, they emphasised the need to maintaining the balance of social, economic
and environmental requirements of the local community, through stakeholder engagement activities. Development is a complex undertaking and requires diverse skill-sets, which are drawn from all sectors of community, industry and background. Their inputs instil appropriate ingredients to the development for the local community, such as understanding culture, background and preference of the local residence. The company contributes to the education of future generation via community engagement activities, such as training of school teachers. This is particularly aimed at developing an awareness of career in the built environment in order to ensure availability of skills for the future. Their attention on the skills and the creation of jobs within the local area has brought them to employ local labour since 19 years ago. Through their reputation of sustainability, they acquired a lot of works through negotiation rather than tender.

**Emphasis on design quality and legacy**

They wanted to be seen as a developer with different approaches and attitudes to other volume-housebuilders. They wished to create value through the development processes and long-term investment in skills and technology. In recent years, the company had won more than 100 awards for design quality and sustainability. Early within development process, the company aimed to gain a greater understanding of the key local requirements (e.g. of the potential residents), which reflected in the design of the products.

**Integration of micro and macro-scale plan**

The long-term plan of development schemes is underpinned by masterplan with its key ingredients. The masterplan as a macro-scale plan of 1500 to 5000 homes, was illustrated as overlaying intricate layers of infrastructures, namely ‘underground’ (i.e. energy with future-proofed technology, water, sewerage), ‘blue’/ surface water, and ‘green’ infrastructures. There is added value from living to close proximity to green infrastructures, e.g. open space family park. Micro-scale plans look at detailed design of a sub-division of the masterplan, typically consider development area of 100 to 500 homes. Integration of micro and macro-scale plans would ensure integrity and consistency of design, and consider how these respond to wider community requirements. Particularly, this looks at how the spaces interact within each other during their use within the context of the local community, e.g. interaction amongst home, street, garden and neighbour.

**Development of wider market orientation**

A development was perceived as an engine for improving quality of life within the local community. The company considers demography profile and social background as well as psychology, conscious and subconscious elements, and use them to inform design and targeted markets. They often work with various stakeholders within the community, looking at their needs and requirements. It is the chairman’s vision that a development should be mixed of tenures and mixed of use with appropriate multi-social backgrounds within the locality. This was seen as an opportunity to gradually uplift the quality of life of the local community. In this case, the impact of planned housing scheme to the local area and social demography is considered carefully. Then, the company studied and assessed possible interventions to influence the demography profile. One development in a less affluent area in the South East, which introduced private and mixed tenure houses with existing affordable housing, was a successful example in the company endeavour to facilitate better quality of life and sustainable community.
**Competitiveness built on reputation**

The interviewees believed that the company has a unique reputation that set them apart from their competitors. The reputation was built on key ingredients of development; they were quality of masterplan, quality of place, quality of public realm, design quality, sustainability in broadest sense, and creating homes where people are proud of living. The reputation was built on the key business value; honesty, openness and integrity. In term of competition, they did not consider that they directly ‘confronted’ their competitors, but they actively scanned through the environment, look at what the competitors were doing and the market place. Instead of competition from their peers, they perceived the second-hand market as their possible biggest competitor. The source of corporate competitiveness was within the vision of the board and the quality of staff. They were the only developer in the UK, accredited with ‘Investor in People’. Additionally, the company has possessed several certificates of compliance to ISO management systems. Due to their reputation, the company has been invited not only to respond, but to influence government policies through various consultations (e.g. Planning Policy Statement).

**Responsive and adaptive to change**

The company is prepared to learn from past experience and adapt to change. They identify good aspects from the past, and then adapt, revise and apply them for future actions. Most of changes resulting from the adaptations, have been gradual in nature; there are not radical changes. Innovation is seen as essential, but they wish to innovate within their level of control. Since the economic uncertainty started at the end of 2007, their policy of mixed development, the reputation, emphasis on sustainability and quality have allowed them to concentrate on different types of residential development with arrangements from government grant.

**Discussion: A reflection of the strategy and practice**

The case as presented here, demonstrates key business principles which have shaped the strategic plan of a leading UK property developer. The company has existed for significant number of years, and has experienced sustained growth in turnover and number of staff. Operating in a sector susceptible to economic fluctuations, the company has survived few periods of economic difficulties that have occurred in Britain since 1950s. The company strategy is hinged on long-term vision of sustainability, underpinned by quality of design and masterplan which is built from an inevitably complex and long process of development of local community. Being in the sector traditionally branded by short-termism of thinking and actions, this case demonstrates that long-term plan developed based on sound and defendable business principles, contributes to the success of a property developer. Also, it is probably safe to say that their reputation of quality and integrity may have helped them to survive during economic downturns.

The interviews have enabled the assessment of the strategic process, against the activity framework. The company is a family-led business, where the founder, with a spirit of entrepreneurship, instils strong vision of longer-term sustainability and quality to stay apart from competitors. The vision of mixed of use may also be deemed responsible for the ease of market diversification in the current period of economic downturn. This has strong resonance with the findings of Green (1988). The founder’s strong leadership may have elevated the company to a leading developer in their sustainability agenda, evidence from their influence on the government policy. In the activity of establishing the operational context, the interviews present no evidence of
formal environmental scanning activity. Instead, it is very much an informal, sub-conscious and ‘fluid’ process in which explicit and tacit knowledge is mobilised and understood by the board members. The company actively engages external stakeholders, mainly the customers and the local community in the development area. The community engagement activities focus on developing awareness of the development, identifying specific requirements, and enabling continuity of skills provision for the future. These activities revolve around ‘staying in close proximity’ with customers, and can be deemed as a process to embed the development within the local community. The discussion about internal stakeholders focused on the contribution of diverse skills set to development process as provided by the staff.

There is little attempt to engage staff at the lower level within organisational hierarchy in the strategic process. This is mainly due to traditional pre-conception that strategic plan is entirely within the remit of the board members. The predominant expectation is that staff inputs are invited when it is deemed as required by the board. However, the dominance of family members within the board may have brought this practice in the organisation.

The proposed framework puts forward activities of developing self-awareness and eliciting knowledge which are considered critical in harnessing employee participation. As the benefits of staff participation has not been fully realised, it is of little surprise that these activities are non-existent.

CONCLUSIONS

A review of literature in the domain of strategic content and process has revealed various views and diverse research findings in this contested area. Nevertheless, there is little information and research on the manner by which property developers formulate their strategic plans, let al. one how the actors participate in the process of strategising. This paper intends to contribute to this important but little understood area by presenting case study of a major property developer in the UK and a proposed activity framework, with a view to obtain a greater understanding of the strategic process within the organisation. The framework identifies critical strategising activities ideally enacted within adaptive and agile modern organisations. The findings provides an alternative view to the popular belief that organisations in the construction and development sector are predominantly thinking shorter-term, and tend to adopt reactive business approach. The case company adopted key business principles instilled by the founder, which hinge on sustainability and quality of products. Indeed, this suggests some evidence that longer-term thinking which is mobilised within organisation does contribute to successful business in volatile and competitive environment of construction sector. In fact, their longer-term approach might have been responsible for their survival in the current difficult economic time. However, there is little evidence of any attempt to further utilise potential knowledge and creativity of staff. Further research will investigate the implementation of the activity framework in several organisations with particular focus on possible barriers to staff participation in strategic process. Perhaps, it would be naïve to claim that the findings offer a prescriptive recipe of successful property developer. Moreover, generalisation of the findings is of course beyond the purpose of the research as presented here. However, it is intended that the framework and findings from the case study contribute to the debate around this nebulous subject area.
REFERENCES


