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STRATEGIC MANAGEMENT FOR CONSTRUCTION CONTRACTORS

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Summary

This paper describes on-going research into strategic planning practices within British construction companies. The study focuses on the internal activities that contractors undertake to establish their corporate strategies. Previous studies of construction strategic planning have generally focused on either the analysis of industries trends, or corporate strategies as viewed from outside the construction organisation.

The results of a preliminary survey and an extensive literature search have revealed that most construction contractors take an informal approach to planning in the long-term. A more systematic and formalised approach for undertaking such a planning exercise should bring about unity of purpose in the strategies, and also ensure improved monitoring of deviations and appropriate early actions. The research method combines both the primary methods of case studies, interviews and questionnaire surveys, with the secondary methods of academic and industry literary reviews; together with the analysis of specific corporate records to elicit information on the activities, participants and issues addressed in formulating strategic plans. An initial simple case study provides the background to the more robust interview surveys.

Keywords: Strategy, Strategic Planning, Strategic Planning Process, Construction Companies, Long-Term.

Introduction

Enterprises in many sectors have realised that it is insufficient, and sometimes quite dangerous to neglect strategic planning and simply react to events. Consequently they are making efforts to predict how the future may influence their operations [Bettis & Ofori 1992]. Such efforts can be observed in the adoption of a strategic management approach as a management style to address the enterprise’s survival, both in the short and long-term.

The construction industry is similarly exposed to the risky conditions that prevail in other industries. This has resulted in a shift towards a strategic management approach for ensuring their long-term survival. In particular, its business environment is considered as turbulent. Newcombe et al. [1990] described the changes that take place within the industry as being ‘continuous, often rapid and sometimes unpredictable’. In the same vein, Male [1991] and Bettis & Ofori [1992] noted that construction is now a highly dynamic sector whose operating environment, industry structures and product requirements are changing at an ever increasing pace. Friedman [1984] recognised the industry as changing rapidly, with the rate of change accelerating. He noted further that ‘everyday new markets emerge, older markets shrink, opportunities arise, funding shifts, government regulations multiply, business cycles alter, competition tightens, and inflation exacts its relentless and invisible impact on a company’s capital’, and that in the face of all this change, it is becoming more difficult to manage a construction business in today’s environment.
Project Orientation of Planning

Within this business environment of continuous and rapid change, the two requirements of importance for management are efficiency and effectiveness. The first relates to the operating activities of a company, while the latter addresses the relationship of the company and its business environment. The construction industry's approach to formal planning and management with regards to the two requirements has been oriented most obviously towards the project. Significant in this, is the relatively large proportion of academic research, and published work in construction management which focus on the management of construction projects, with lesser attention on the management of the construction business [Winch 1989, Betts & Lansley 1993]. This is exemplified by the numerous applications of formalised techniques and processes for successfully and efficiently implementing projects. Such an approach to management, in the construction industry, has been considered essential to the survival and growth of construction contractors, due to the considerable impact that each individual project can exert on the business success of the contractor. Focusing attention on the efficiency of projects is therefore natural. However, project success by itself may not necessarily lead to enterprise success [Cleland & Kimball 1987]. This is because in general, companies depend much more on improvements in their overall effectiveness for their long-term survival and success. In some instances, it is even possible for a company to fail while being very efficient [Hofer & Schendel 1978]. In fact, Sanders and Cooper [1990] argue that, notwithstanding the extensive research in the management of construction projects, contracting organisations continue to experience a high failure rate, because of the industry's total orientation towards project management and not business management.

Short-term Scope of Formal Planning

Traditionally, long-term strategies for survival have received relatively very little formal attention by construction organisations [Cusack 1991]. The approach of focusing on the project in formal planning has portrayed an image of a short-term orientation for the construction industry. Hillebrandt and Cannon [1990] noted that a number of construction companies only had short-term corporate plans. With the framework of formal planning shifting from a short-term, to a long-term approach in the global business environment, construction companies ought to be re-directing the focus of their formal planning activities to reflect the balance needed between the strategic and the tactical. Such an approach calls for a mixture of creative insight and experience from construction managers, in order to effectively address their long-term survival; a demand which management in the industry has often been equal to, albeit that the process of evolving their strategies has been performed informally. The result of such an informal procedure has been that:

- there is very little information available on how contracting organisations plan their long-term future survival; and
- where such planning is undertaken, there appears to be no systematic approach for doing it, and the factors involved vary considerably.

Strategic Planning - Overview of Practice by Construction Companies

According to Langford and Male [1991] strategic planning in the construction industry has frequently been based on the experiences of senior managers, who formulate the strategies based on the 'incrementalism' concept proposed by Quinn [1989]. The incremental mode involves consciously dealing with the future by making use of new information to gradually improve on their present strategies on a piecemeal basis. This type of planning
generally addresses the internal environment of the organisation. Muspratt [1984] contends that the construction industry is notoriously unsophisticated in its strategic planning procedures partly due to the difficulty in making accurate predictions in a market place so wrought with uncertainties, and hyper-competition. This is further amplified by Schleifer [1990], who opines that long-term and strategic planning are not addressed in any formal way by many construction contractors. The whole planning exercise is usually governed by the intuition of the chief executive officer alone.

Lansley [1987], using the concepts of strategic planning which had earlier been proposed by Miles and Snow [1978] and Porter [1985] analysed the UK construction industry, and divided the developments within the environment of the industry into three chronological phases: 1960 - 1970; 1970 - 1980; and 1980 onwards. Construction companies exhibited different characteristics in the formulation of their strategies within these three periods [Bents & Ofori 1992]. In the first phase, construction companies did not employ any formal long term planning and analysis, since the business environment was considered as stable. Increased competition and shifting of development funds by clients in the second phase called for a flexible and entrepreneurial approach. Construction companies consequently formulated their strategies using this approach. The adopted strategy was frequently the insight of top management, and was often derived informally. Hillebrandt and Cannon [1990], analysing the objectives and strategies of construction companies, discovered a wide variety of approaches in the formulation and types of the strategies they exhibited.

Objectives

Strategic planning research in the construction industry has dwelt on the analysis of industry environments, depicting the generic strategic patterns that companies have pursued with a view from outside the companies. Detailed study of how the companies formulate their strategies has to a large extent, been overlooked, probably due to the informal approach associated with the process. Strategic decisions hold considerable impact for organisations, with the outcome of their implementation frequently spelling success, collapse or financial distress for the company. The formulation of strategies therefore cannot be left to chance, and deserve formal attention.

The research aims to identify a framework within which the strategy making process in construction companies may be examined. In the development of such a framework, Mintzberg [1994] and Bhide [1994] caution against the imposition of a rigid structure for the strategy making process. They argue that such a rigid structure for strategy making inhibits the intuition and creativity of executives, and often result only in strategic programming. They both contend that strategy making should be performed as a learning process, and allowed to take place as an informal and organic activity.

However the importance of strategy to the survival of the company, demands that the process of evolving such strategies should follow a systematic approach. This will ensure that the process can better lend itself to:

- co-ordination, and easy monitoring of the resulting strategies; and
- an effective integration of the different administrative and operational activities that make up the company, to address a single coherent strategy.

Underlying this research is the important issue of how construction contractors plan their long-term survival strategies, with a view to mapping out the current practices of strategy formulation.
General approach for Strategic Planning Research

The study of strategic planning activities can be categorised into two approaches: a macro approach; and a micro approach. The macro approach employs a more global view, and is aimed at understanding the general tendencies in strategy, such as strategic groups or typologies. The micro approach utilises the study of a particular detail of interest. This concentrates more on specific strategy phenomenon, such as mergers, acquisitions, and pricing behaviour. Research into strategic management have generally concentrated on the macro approach to empirically investigate strategy and competitive advantage, with a view from outside the business organisation. Two different perspectives are featured in this approach:

- *a choice perspective* this concentrates on a post-hoc examination of various strategies, linking them to performance, with a view to identifying the most profitable strategy available to management [Porter 1980]; in this context, strategy is considered as a pattern in a stream of decisions [Mintzberg & Waters 1989, Quinn 1989]; and

- *a structural perspective* in which the performance of a company is linked to the structure of the industry in which it performs its business activities; good strategy is viewed as the best position of a company within its industry structure in order to achieve superior performance [Porter 1989].

Bryson & Bromiley [1993] identified three ways in which strategic planning activities within an organisation can be studied and modelled. These were outlined as: a study of the overall effects of strategic planning systems; an examination of the strategic decision making processes; and an examination of strategy implementation processes.

Conventional Approach for Data Collection

Information and data elicitation to be employed for analysis involved in researching the strategic planning process can be achieved by either primary or secondary methods.

- **Primary methods** are considered subjective, and employ direct observation of the activity or process under study. They include the techniques of questionnaire and interview surveys, and provide data which is constructed around a specific detail. These offer greater accuracy of inferences. However, although information from questionnaires may be economical, the return-rate on survey research is often poor. Moreover, it is often difficult to obtain multiple responses from the same company. This often affects the quality of the data for analysis. The alternative of interviews is considerably costly, and often affects the amount of data that can be collected, especially for the wide geographical spread of corporate offices in the construction industry.

- **Secondary methods** are regarded as being more objective techniques. These utilise information from archival corporate records, financial statements, promotional literature for new products or developments, reports found in industry-specific news media, and major publications. This method suffers a limitation in the specificity of information, due to a masking by the aggregation of the data. The data can be employed only in the context within which it has been organised. It however bears the advantage of the
information being already ordered, and is frequently easier and relatively cheaper to access.

The two main methods of obtaining information for studying strategic planning activities of companies both involve important trade-offs which can affect the results of any analysis, when either one of them is applied separately.

**Research Methodology**

The strategic planning process as referred to in this paper defines a set of generic activities that occur across the entire problem-solving sequence of determining what the company ought to do in the long-term, and how to achieve it. The study focuses on the activities of this process at the strategic level of the company, and utilises a sample of thirty construction companies which were randomly selected from a database. The database listed companies which were principally located in the UK, and had an annual turnover of one million pound sterling.

A preliminary activity set and a logical sequence was constructed from an initial case study. From rather simple and broadly defined preliminary activity set, a more comprehensive activity set was constructed from the subsequent surveys. The inclusion of an activity in the final activity set was determined by the statistical technique of t-test, by applying a simple code of zero / one to the responses to facilitate the analysis.

**A Combined Data Elicitation Approach.**

To overcome the potential weaknesses inherent in any one method, Smith et al 1992, recommended a combined approach of the two methods for data elicitation. Their approach has been adopted for this research. This utilises both the primary and secondary methods, in a three stage procedure, to gain the advantage of maintaining the specificity of the information obtained, while minimising the subjective effect of observer bias. More explicitly, the approach starts with an initial case study, which provides a good background. This is followed by the more robust primary survey techniques, supported by the secondary archival methods. In the last stage, the study will employ detailed case studies to finalise and validate the process model. In this way, each stage will serve as a background to the next, thereby ensuring consistency.

**The Initial Case Study**

The initial case study serves as a preamble to the research. It employed the primary methods to examine the strategic planning process within a selected construction company. This was performed in a two stage exercise, with an outline questionnaire, followed by an interview. The interview was administered as a structured discussion, to allow other information which otherwise might have been lost in a simple question and answer interview to be obtained.

**Selecting the Case Company**

A preliminary questionnaire was dispatched to thirty large and medium construction companies, which were randomly selected from a database. This was aimed at identifying companies that already had a formalised strategic planning procedure implemented within
their organisation. The case company was selected from a list of respondents, as it satisfied most of the criteria in the preliminary questionnaire.

**Brief Description of the Initial Case Study**

The company is a division of a Group of companies, that operate within the wider definition of the construction industry. It provides services in design, management, and consultancy in construction within the UK and mainland Europe. The company comprises six business units, with a diversified portfolio of projects. The company's projects extend from the very large, to the very small in size measured by turnover, and from new work to refurbishment. The case company considered itself as a leading building and civil engineering contractor, judged by its significant market share of the sectors in which its business operations are performed.

**Terminology**

The term strategy and its derivatives are often used in different contexts. The case company associated the following meanings with the term and its derivatives.

- **STRATEGY**: Arrangement for dealing with the external environment of the company to achieve success, with a long term view.
- **STRATEGIC PLANNING**: Process by which strategy is formally agreed or defined within the company, and its translation into more detailed targets and required actions, within a long-term time frame.
- **STRATEGIC**: Of decisions, plans, or goals, which are intended to affect the whole company over the long-term.

**Strategic Planning Process in the Case Company**

The strategy of the case company originates from the Chief Executive, whose entrepreneurial vision guides and directs the form and nature of the strategic direction of the company. The case company serves as a *cash-cow*, (described as a company with a high market share, and which generates large amounts of cash), for the Group. Growth in turnover and the ability to accommodate cyclic workloads rank high on the strategic agenda. The markets that the company provides services in, are categorised into four sectors as, UK, Europe, US, and the rest of the world. Planning information is obtained both from within and outside the company. These include published sources, as well as informal ones. The time scale of the planning exercise covers a period of two years. The Chief Executive, all the unit executives, and a Business Development Unit (BDU - the equivalent of a strategic planning department), constitutes the Strategic Planning Board, which undertakes the planning and monitoring of the whole planning process.

**Outline of the Strategic Planning Process in the Case Company**

The planning exercise is co-ordinated by the BDU. Each business unit was requested by the BDU to propose their strategies, within a general framework of the Chief Executive's goal. The isolated unit strategies were then put together and rationalised at the Division's Strategic Planning Board. The rationalisation exercise, aimed at providing a balance in the
strategies of the individual units, and addressed how best each unit strategy contributed to the strategic purpose of the company as a whole. If the rationalisation exercise does not result in a coherent strategy which consistently addresses the purpose of the company, the process is taken back to the unit level, with the new framework that emerges at the last rationalisation exercise, to re-appraise the separate strategies. The effective co-ordination of the Business Development Unit in practice, minimised the number of repetitions of this stage of the exercise. A financial plan and a resource requirement programme are then developed out of the rationalised set of strategies.

![Diagram](image)

**Figure 1. Process Diagram of Strategic Planning in the Case Study**
The analysis involved in the exercise, and preparation of the financial plan was prepared with a spreadsheet package. A number of ratio measures were extracted from the financial plan to serve as measures for the evaluation and control of the plan. The rationalised strategies of the individual units, along with the developed resource and financial plans, together with the control measures were consolidated into the Strategic Plan of the Division. Figure 1 presents a process diagram of the various activities involved in the exercise.

**Output of the Planning Exercise**

The planning exercise of the company resulted in two reports, a Strategic Plan, and a Market Analysis. The Market Analysis presented information on developments in the business environment of the company which were regarded as relevant to the company's survival. This served as background to the planning exercise. The Strategic Plan presented broad outlines of what was perceived by the various unit managers, of the company's future workload and resource requirements, and where the business's operations should be directed. A financial forecast was prepared for each unit, and consolidated into the Division's Financial Plan. The report of the strategic plan was presented under the following headings:

- *Introduction*;
- *Extracts from the Market Analysis Report*;
- *Strategic Issues Facing the Company*;
- *Unit Strategies*;
- *Financial Forecasts and Division Financial Plan*; and
- *Risk Analysis*.

**Concluding Remarks**

The paper has presented a case study of the strategic planning process with a view from inside one construction company. The approach of the company to the planning process combines both the entrepreneurial insight of its top management, and formal analysis to derive their strategic plan. The framework for within which strategies are evolved by the units originates from the chief executive officer in the form of strategic goals, but then this is polished during the interactive stage of the planning process. The process involves only top management. The time scale of two years for the strategic plan, however, is rather short, and is symbolic of the industry's general orientation towards the short-term. The case study forms the initial stage of establishing a preliminary activity set and logical sequence of the planning process. The next stage of the work will address the elaboration of the preliminary activity set, to provide a more comprehensive activity set. This will be achieved through a primary survey technique. The final activity set construct, and its logical sequence, will serve as a conceptual framework for undertaking the strategic planning process, which can be applied by construction contractors.
References


