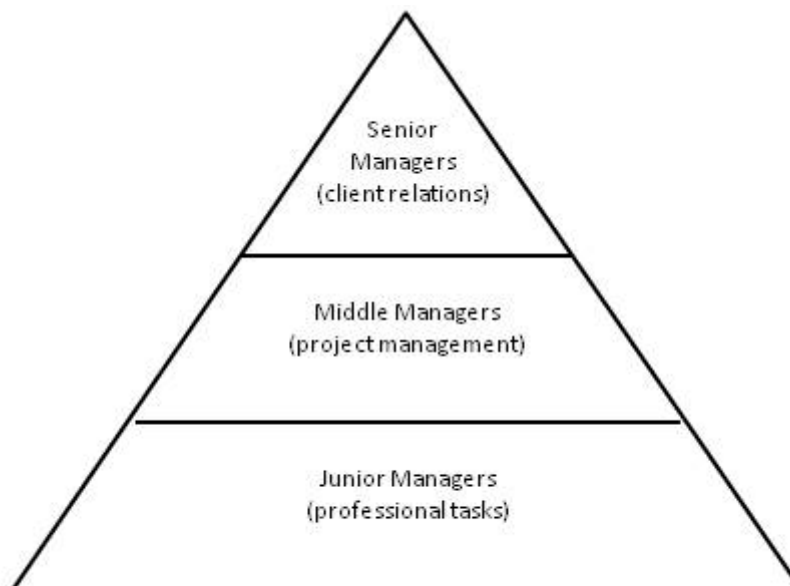


Balance approach in designing strategy for a construction firm

By Alex Milovanovich

Running a construction firm is complex challenge for management as they have to fight on few fronts in the same time. It requires extra human resources at all management levels as well as their multidisciplinary mix. To balance this need with the call for efficient organisational structure i.e. low overheads, construction firms normally organise in professional pyramids.



Professional Pyramid of a construction firm

The project nature of construction business means that a firm basically needs to run three key activities simultaneously in order to deliver its services successfully and they are: (1) client relations, (2) project management, and (3) professional task execution. The first activity i.e. client relations is happening at senior managers/executive level – usually by those with extensive project and/or commercial experience. After securing a project middle managers are responsible to organise it and deliver on time and within budget. In this way they learn tricks of running a project business which could be used later in a relationship with strategic clients. These middle managers are also in a position to be the first to spot business opportunities and provide leads as they operate on site i.e. within the clients' environment. Finally junior engineers and other junior staff e.g. commercial are responsible for the execution of construction and other professional tasks on site as well as at the head office.

Managing the existing and obtaining new knowledge is extremely important for a construction firm. Focus is on collaboration and exchange of information among employees as well as on gaining new linkages (e.g. partnerships) in order to increase competitiveness and profit. The construction firms often struggle to learn between projects, and often have weak internal business processes. In this respect, it is important that these firms attempt to

codify knowledge acquired on projects so it can easily flow between projects. It is important that construction firms integrate project experiences into continuous business process to ensure coherent organisation.

Each construction company participate and fight on two markets simultaneously: the market for its professional services and the HR market for its professional staff. For example, the best specialists from the job market will probably join a firm which secures the most attractive and challenging projects or the one which provides the best opportunity for professional development and satisfaction. These superior new employees will automatically lift the competitiveness of a firm they join and the firm itself will boost its confidence from their arrival and focus on the second front/market to secure new project work. One must understand that superior professionals hold a key to successful and profitable project execution and those firms who lose or fail to attract them are first to face economic difficulties and failure.

A construction firm will be in balance and achieve competitive advantage only if those two markets in which it participates are effectively serviced with the firm's existing economic and organisational structures.



Balanced construction services firm

Organisational structure is defined as the way of dividing labour according to different tasks and co-ordinating it. Six basic mechanisms of coordination are: mutual adjustment, direct control, standardisation of work processes, standardisation of performance, standardisation of knowledge and standardisation of norms. As construction organisations go through own development stages they undergo structural changes as well - from entrepreneurial to bureaucratic and from hierarchical to those with matrix structure. The concept of matrix structure is built on a balance between the two (or more) bases for the grouping of personnel, such as production and marketing. This structural change reflects both the internal needs and requirements of business environment. Although complex, matrix structure is the most suitable for the project nature of construction work where teams are often moved around from place to place.

VALUE CHAIN

As mentioned before, the construction business is a complex one because it contains many activities that can be best described using a Value Chain diagram where each link represents a center of human resource development for skills, quality and efficiency. The quality of execution of each of these activities opens up the possibility for innovation, achieving competitive advantage and differentiation which are critical for winning of new projects and efficient execution of existing ones. Besides storing knowledge and enabling professional development, these links within a Value Chain are extremely important for achieving competitive advantage because they act as mechanisms that connect numerous, vocationally and geographically diversified construction activities. These links represent collective learning within the organisation, coordinate various professions within the construction work and integrate numerous technological developments. Therefore, the information systems that monitor a Value Chain are usually vital for gaining competitive advantage from these links.

Construction firms are organised around project teams who move from one project to another. Because of this, employees in a construction company must be willing to cooperate with each other by connecting their different tasks, different professions and different locations in order to successfully execute agreed strategy. Therefore, matrix organisational structure is the most appropriate because it allows managers to easily and efficiently concentrate on solving problems of their clients, which is achieved much faster than in "old-fashioned", bureaucratic and hierarchical companies.

SOURCES OF DIFFERENTIATION IN VALUE CHAIN OF A CONSTRUCTION FIRM				
FIRM INFRASTRUCTURE * top management support in selling; * facilities that enhance the Firm's image; * superior Management Information System; * superior legal and conflict resolution services				
* superior training of personnel	* stable workforce policies * quality of work life programs * programs to attract the best professionals	HUMAN RESOURCE MANAGEMENT	* sales incentives to retain best salespersons * recruiting better qualified sales personnel	* extensive training of service teams
* superior plant technology * proprietary quality assurance equipment * contract research	* unique service features * unique production process and plant * quality inspection procedures	TECHNOLOGY DEVELOPMENT	* applications engineering support * superior market research * tailored and most rapid quotations	* advanced servicing techniques
* most reliable transportation for inbound deliveries	* higher quality raw materials * higher quality plant and wearing components	PROCUREMENT	* most desirable media placements * service positioning and image	* high quality materials for repairs
* handling of inputs that minimises damage or degradation * timeliness of supply to production process	* tight conformance to specifications and responsiveness to changes * attractive site appearance * low defect rates * no delays in production * superior plant maintenance * high safety record	* rapid, secure and timeliness movement of plant * timeliness movement of people to and from site * debtors collection and credit reporting * information processing	* high advertising level and quality * personal relationships with channels and buyers * most extensive promotion * most extensive "turnkey" offer * superior sales force quality	* high service quality * extensive buyer training * adequate resources on site * link to Marketing & Sales for the new contract
INBOUND LOGISTICS	OPERATIONS	OUTBOUND LOGISTICS	MARKETING & SALES	SERVICE

MARGIN

MARGIN

There are two ways for a company to achieve competitive advantage in operating costs: (1) to control the primary cost generators or (2) to change the configuration of its Value Chain.

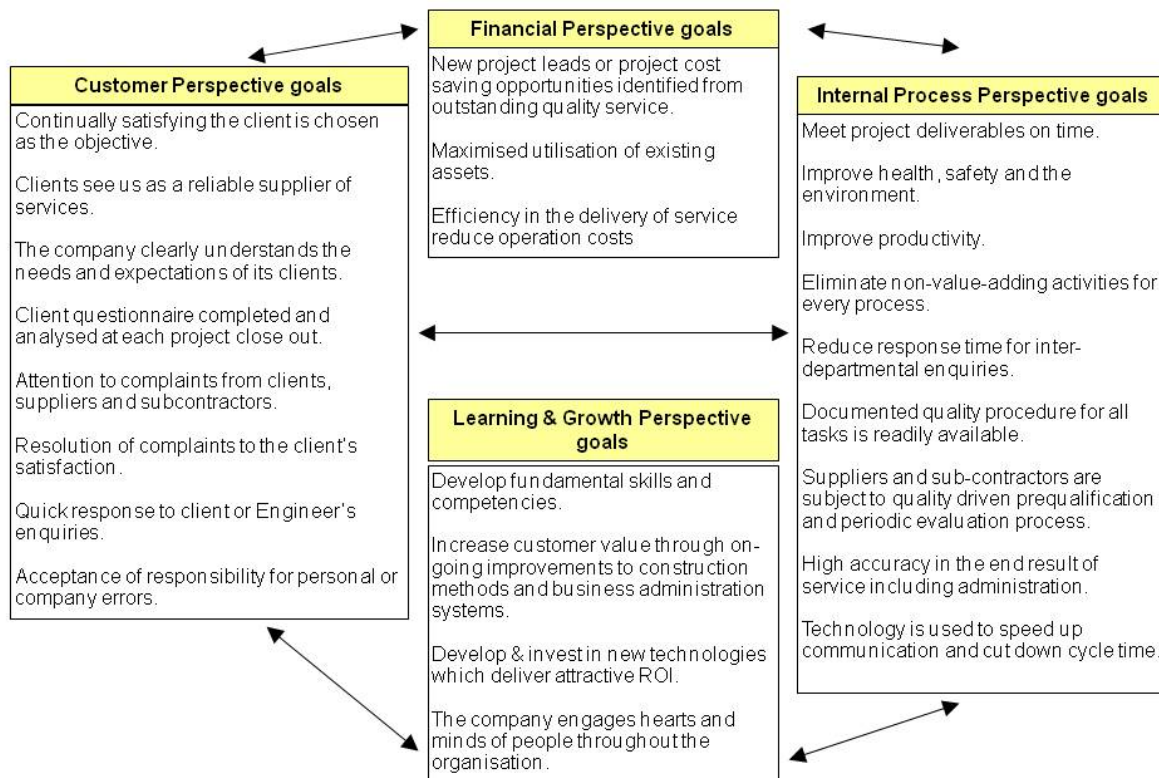
Those companies that have achieved this and reduced operating expenses by altering their Value Chains had to change many things in it. To identify new Value Chain a company first needs to examine all activities of its employees as well as to examine the Value Chains of its competitors in order to find the most creative solutions for different and unique ways of running its business. Each link has to be analysed according to added value criteria to both internal operations and customers directly. Each activity that adds value to a business would need to be studied in search of new ways for increasing customer gains. In the same way, one must eliminate or reduce any activity that does not add value.

USE A BALANCED SCORECARD FOR PERFORMANCE REPORTING

In order for a construction company to enter and prosper in this business it must first understand its Value Chain and has a clear vision of what it wants to achieve. It is usually done by a group of experienced professionals helped with capital from interested investors. The next step would be to work on a strategy which will achieve their desired vision. Since we already realised the complexity of a construction company's Value Chain we can expect that strategic objectives of the ambitious company reflect this complexity as they try to address all or most of those links in the same time. In order to enable easier and more efficient carrying out of strategic planning and organising of strategic objectives in a multi-perspective space I particularly recommend the Kaplan-Norton Balanced Scorecard to be used for managing objectives in a construction company.

A comprehensive strategic planning and business reporting about performance in an enterprise using the Balanced Scorecard (BSC) provides a model that translates the vision and strategy of an organisation into tangible measures of achieving its strategic goals by introducing a comprehensive combination of indicators which can address all links in the Value Chain. This allows managers to link short-term operational management with the long-term vision and strategy through continuous observation and measurement of their business performance from four different perspectives: (1) financial, (2) internal processes, (3) customers, and (4) learning and growth.

QUALITY INTEGRATED GOALS for a construction company



BSC is a systematic model with its structure based on inter-relationship of these four perspectives now used for controlling of a company and, in the same time, fundamentally linked to company's vision and strategy. The model is based on three time dimensions: yesterday, today and tomorrow.

An organisation has to control and monitor today's operations because it affects tomorrow's growth and it is based on yesterday's results. BSC is not only a record of past results but also an indication of expected results. The strategic objective of the model itself is to become a statement of vision and strategy in operational terms.

In this model, a guarantee of the total quality of construction activities is the integration of quality management system with quality of processes and services under the terms of customers and users, balancing between the efficient and effective execution.

By organising strategic goals according to Kaplan-Norton's balanced model make them easy to follow. The next step is to select measurable performance indicators for each goal and decide on data collection and reporting method(s). But the biggest challenge here is to choose performance indicators that are practical to follow i.e. that the reports of their movements can be used for making both strategic and tactical decisions in various situations. Poorly selected indicators usually end up in a dust bin.