

# STRATEGY AND BUSINESS DEVELOPMENT PRACTICES IN DANISH CONSTRUCTION INDUSTRY SMEs

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The paper presents a qualitative study of strategy and business development practices in Small and Medium Sizes Enterprises (SME) in the Danish construction industry. Theoretically the paper draws upon theories on how strategy is developed and practiced as an integrated part of everyday management practices. 19 qualitative interviews have been conducted in total representing architects, engineering companies, contractors and subcontractors. Based on an in-depth analysis of this empirical material, the study finds: (1) the market is characterized by a typical “red ocean” environment, where the companies compete on their overhead rather than their ability to reduce production cost and create value. (2) the companies have a reactive practice towards development, where they try to follow the development in the market rather than shaping their own market. (3) their approach towards strategy development is characterized by being unstructured, undocumented and non-reflexive. This is interpreted as a sign of unprofessional management practices in the businesses, which reproduces the existing institutionalized division of labour in the construction industry. The paper concludes that business development represents an important but unacknowledged practice for innovation of the building industry and suggests that strategy processes should be facilitated and subject to more detailed research in order to escape the present unhealthy market practices in the construction industry.

Keywords: strategy, business development, innovation, SME.

## INTRODUCTION

The construction industry is often criticized for being a tradition bound and conservative industry (e.g. Egan 1998 and ATV 2009). Nevertheless innovation processes are present at all levels of the industry – from the workmen at the construction site to the major societal development programmes.

Construction differs from other industries in the project-based design and production regime, with a high degree of unique production combined with a significant element of institutional standards and repetition. Furthermore is the product linked to a specific site and the production team composed uniquely for each project. This dynamism frames the innovation process in contexts where continuous development is more or

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less impossible. Consequently are many of the innovations confined within the single project (Thuesen 2006).

From a company perspective the consequence is that they fail to evolve independently, but are enrolled in an institutional development that fixates the company in an institutionalized role. This effect is achieved as the companies build for the same clients, uses the advisors, subcontractors and suppliers are furthermore are hiring the same types of employees with the same competence profile. Consequently is it impossible for the companies to develop core competencies, but are stuck in a fierce competition on overhead rather than their ability to reduce costs and create value. This competitive environment is outlined in the following figure 2.

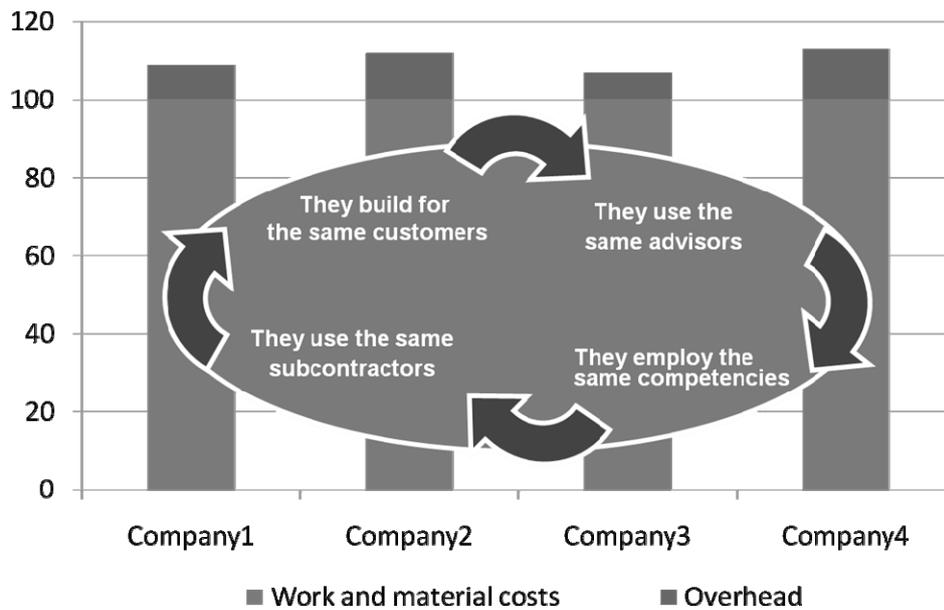


Figure 1: Competitive situation in the construction industry

The secondary consequence of firms competing on their overhead is that the labour and material costs not are subject to a systematic reduction by continuous learning processes. In fact construction cost have increased by approx. 4,6 % per year the last 20 years (Danish statistic 2010).

While this is a major challenge to solve at the societal level it also represents a great opportunity for companies in relation to develop new business models which challenge the competitive logic. This however requires distinct business development practices, which aims at escaping the existing institutionalized way of working.

## PROBLEM SETTING

The purpose of this study is to identify the present practices of business development in small and medium construction enterprises. More specifically, we want to study.

- How central is business development in the daily management practices.
- Who develop the business.
- How good are companies to implement strategies in practice.
- What are the barriers for business development in construction.
- How do the companies respond to the environment and competitive situation.
- What are the biggest challenges in business development.

## **THEORY**

Theoretically the paper draws upon two strands of theories one on strategy and another on business development. Within strategy two strands on strategic development one focuses on classical strategic development as a normative approach to business development (e.g. Porter 1998) and the second focuses on how strategy is practiced as an integrated part of everyday management practices (Jarzabkowski and Spee 2009, Whittington 2006).

There is little consensus on how to approach strategy and a number of schools can be identified (Wit and Meyer 2005). This is similarly the case within construction (Green *et al.* 2008, Hua 2008).

The Porter tradition, including (Kim and Mouborgne 2004) has become a widespread business school standard reference for making strategy, which implies that even SMEs as discussed here, can adopt well described tools and procedures from this school even if originally developed in large corporation context. This implies vision, mission, goals, strategies and action plans, implementation and performance evaluation.

The strategy-as-practice strand claims that strategizing as part of everyday managing is a fruitful way to understand strategy, an approach that appears much more directly usable for small and medium size companies (Jarzabkowski and Spee 2009, Whittington 2006). Here vision, mission, goals and strategies appear as discourse forming actions, implementation and evaluation in everyday management.

Business development is here understood as a broad set of innovative activities developing both existing and new business in a company (O'Connor *et al.* 2008) possibly mobilizing management, market, strategy, technology, product, and process development. Again most theory address large companies and we therefore pragmatically apply that to SMEs.

## **RESEARCH METHODS**

The study of the business development practices is drawing upon theories about strategic development and through collection of empirical material by the use of interviews. Informed by the theories of strategy development an interview guide was developed mapping the use of tools and practices in each company.

A total of 19 interviews were conducted encompassing 12 Contractors, 4 Architectural and 3 Engineering Firms – all employing more than 10 officers and producing a yearly turnover of up to approx. 350 million DKK.

All interviews were conducted as personal interviews with a duration between one and two hours. The interviewed in each company were either the owner or/and the CEO, except in two cases where the interviewed were part of the company's management team and being responsible for business development activities.

The first 4-5 interviews were primarily qualitative in nature. Subsequently the interview guide was revised combining qualitative and quantitative questions. In this way the information could be analysed statistically. All interviews have been transcribed.

Although the 19 companies represent a limited sample it is our impression that it is a fair representation of SMEs in the Danish construction industry.

## RESULTS

Overall the study finds not significantly different business development practices among architects, contractors and engineering firms and consequently are they in the following presented as one group.

### The companies have limited formal structure of their strategy

The initial part of the interview identified whether the companies have developed and documented vision, mission, goals, strategies and action plans and whether these are clear (measurable) and implemented.



Figure 2: Levels of strategy formalization

The survey shows that 83% of enterprises have established goals, but only half have strategies and action plans for how the goals are achieved, and only 11% follow up on whether they are realized.

The reason that almost all companies have formulated concrete goals should be seen in the light that they are relatively easy to establish. There is no doubt that it is easy to decide that the turnover should double over the next five years, or that the operating margin should increase from 10 to 12%. The question is, on which background the targets are set and how realistic they thereby are.

The limited use of follow-up plans should furthermore be seen in the light that 42% identified implementation as the largest challenge in their business development. They experience that when it comes to actual implementation most of the strategies fail. This suggests strongly that it is the same in construction as in other industries: many goals and strategies are not implemented as intended. Studies across industries show that up to 80% of all goals which are being created in companies do not or are only partly being realized, as intended (Kotter 1995, Higgs and Rowland 2000). In other words there is not a linkage between strategy and practice.

The weak implementation reveals that the businesses do not have structured strategy processes. Thus, was only few of those interviewed able to document their strategy process. The strategy is something the management teams discuss regularly, but without structure, no formal decision on what to do and not to do, probably because the daily operation always comes ahead. This is illustrated in the following quote.

*No. 5 (subcontractor): Yes we have a vision, mission, strategy and action plan, but it is not finished yet. We have been working on it for a long time, because we have been very busy lately. We have used an hour here and there and then we haven't worked with it for several weeks. We don't have a follow-up plan, but it is in the making. We hope our goals are measurable.*

**They would like to prioritize business development, but they don't**

The interviewed was asked (1) how much time they were spending on daily operations, optimization of the current business, and actual business development activities and (2) how much time they would like to spend. The result is shown below.

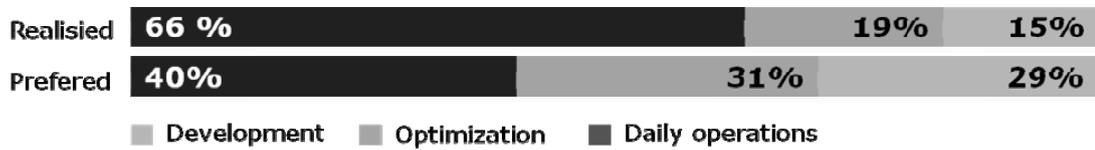


Figure 3: Realized and preferred use of time

There is a marked desire to spend less time on daily operations and more on development. All interviewees responded that they would like to spend more time on development and less on daily operations, except a few who do not want to change the allocation. In fact time was indentified as the most scared resource in the business development. 53% of the respondent mentioned lack of time as a key barrier – illustrated in the following quote.

*No. 10 (subcontractor): I always lack time. I do not have the time to search for the necessary knowledge and consequently are my decisions made on an inadequate background. I have to do it like this; there simply isn't time making detailed analysis.*

Most of the respondents furthermore state that they would like to delegate more of the daily management activities to the middle mangers. However since the managers have high seniority in their jobs as business leaders they have had the opportunity to change the balance between daily operations and development. This raises another question why haven't they changed it? Reflecting upon the professional background the mangers have, a persuading argument would be that the interviewees are uncertain about the work with business development, and therefore stick to what they know they have mastered previously – the daily operations.

Since the interviewed typically have an education as a craftsman, engineers, architects and other technical professional backgrounds they seldom have specific competences within management and business development.

Most of the companies are struggling with a dilemma whether to continue as before, with a management who interfare much in daily life or to develop more professional management skills and practices to ensure the development of the company. The move to a more proactive approach to the development of the company requires a greater awareness of the managerial and commercial skills. The movement will furthermore require a change in the identity, as outlined in the following quotation.

*No. 1 (subcontractor): I would like to spend much more time on development. I like to be a part of the daily routines, but on the other hand would I like to get away from all the workshop decisions. This should been taken care of by my middle managers, but we are not there yet.*

**Business development activities only involves top management**

The result shows that the company's strategy is not formulated by the CEO alone, but together with a number of other actors in the company. More specifically, it is developed in collaboration between the CEO, the executive board and to some extend the middle managers as illustrated in the following figure.

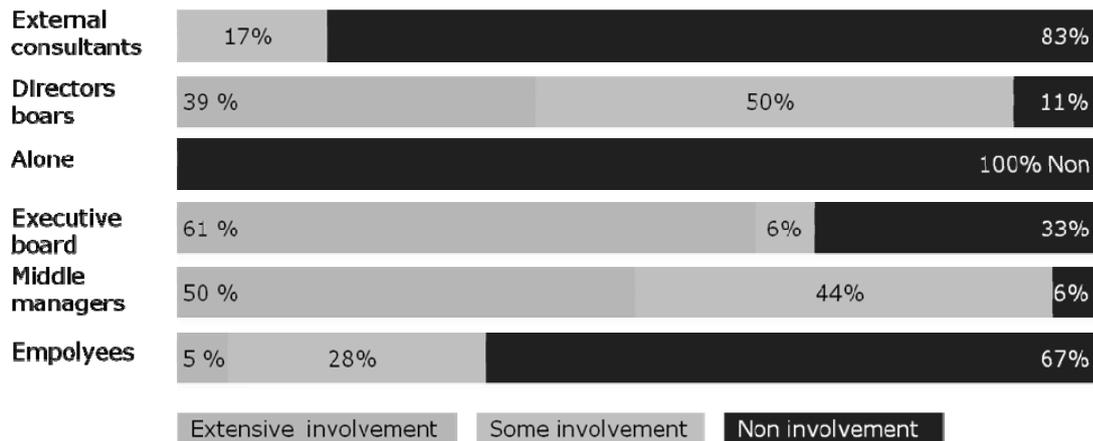


Figure 4: Realized and preferred use of time

Besides the top management the board directors also play a role in the development. However looking into the qualitative statements in the interviews their role seems to be of a legitimizing character, rather than an active part in the strategy formulation processes.

*No. 10 (subcontractor): The board work as my puppet. It consists of my wife who is chairman, our old lawyer two elected among the employees and myself.*

*No. 14 (subcontractor): It is my company, so it is me who decides where we are going. I present the direction to the board, where we discuss it before I/we make the decision.*

The employees are only involved to a minor extent. This involvement typically occurs at annual meetings which are rare and usually unstructured. However the few example of employee involvement has provided sound results and proven to been success – as illustrated in the following statement.

*No. 9 (architect): When we had to implement a new 3D CAD system, we were putting it in the hands of a workgroup of the employees to run the process. It has been a great success. The group still exists today and is responsible for maintaining the system.*

Furthermore are external advisers hardly used in the business development process. As the vast majority of those interviewed have a technical professional background and limited the commercial education and since the board of directors play an inferior role in the development are the risk of group thinking profound. All though they are aware of the importance of strategy processes they get stuck in the daily problems which arises from the projects, as illustrated below:

*No. 13 (architect): We have management meetings where we try to discuss the strategy. But every time we end up after five minutes talking about something else. We simply are too passionate about the projects. We need one to help us focus on the company and not the projects.*

The consequence of this passion for projects is that the long-term development of the business is unprioritized.

## DISCUSSION

### Non-systematic business development

A central finding in the study is that the practices of business development in the SMEs are characterized as being non systematic in a sense non-conscious and

inseparable from the daily practices. This is not necessary a problem as one of the respondents stated.

*No. 4 (contractor): Yes we have goals and strategies. It only deals with the overall direction and is only known to me and my partner. It is not known by the employees. We don't use it every day, since me and my partner is present in the daily business and we lead the way through creating the culture – by visible leadership.*

The quotation suggests that strategy work can be integrated into the daily management, where the leader sets direction and is a carrier of the change through his/her own practices and cultural significance and in line with the strategy as practice approach (Jarzabkowski, P. and Spee 2009). This way of looking at development of the enterprise was in the cases occasionally closely related to the educational background where it is "master" who defines and represents the firm and the practices within. More in general there is an option to mobilize a set of strategy practitioners when supporting such a strategy approach.

However this approach is problematic when the company grows (Greiner 1972). Here the problem is that as the company grows still greater demands are put on directors from being able to lead a gang to manage a large company with various different disciplines. With the construction industry historical and still present use of situated-learning processes, it is the master who masters the profession. This is adequate as long as the master can manage his assistants, but it becomes problematic when he is required to manage an entire company where the palette of skills to master increases. These new knowledge areas to master are, for example financial management, employee management, sales / marketing and development. In major companies this issue is targeted through the division of labour. The CEO does not need to be specialist within all areas the company works within but manages through delegation and control (Greiner 1972).

#### **Reactive business development processes making the companies a by-product**

The non-conscious business development practices can be problematic as there is a risk that the company gets stuck in the building industry's existing way of working, competing on the overhead rather than value creation and core competencies.

Since they are very involved in the daily operation, the strategies is a non-reflective result. The input for the development of the "strategy direction" stems from their daily work with clients, projects and suppliers as well as government regulation.

If this type of development stands alone, the result is that the business development is slow and that the progress depends on the projects undertaken and it generates a one-sided focus on projects and not the business itself. The company is in this sense just adapting to the development of the environment. Combining this with the strong state regulation of tender forms / tender models and product and process requirements the result is that the company is a by-product of project of the project based production regime. It is an appendix to the projects, which have a legal and administrative function and represents a container for resources which is not assigned to a project. This is tried illustrated in the following figure.

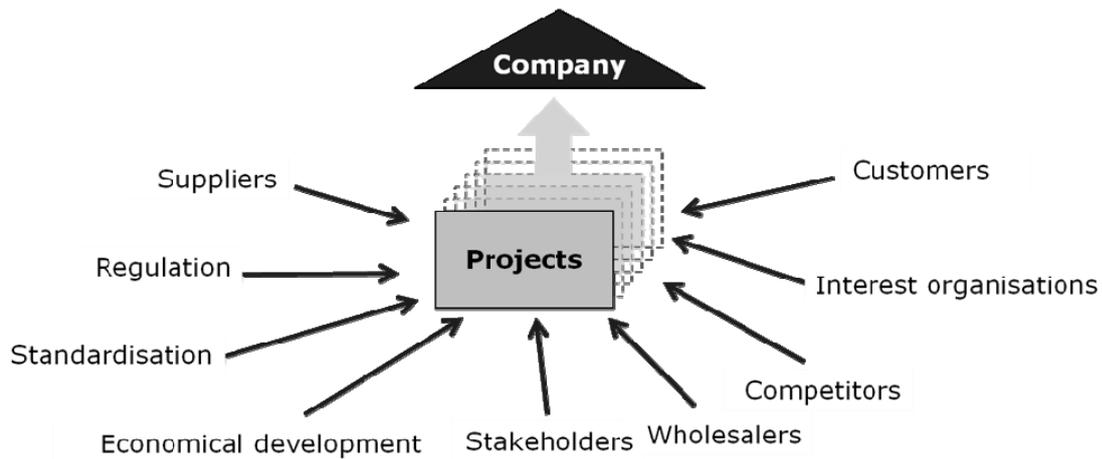


Figure 5: The company a by-product of the institutional project-based production regime

Another consequence is that the input to the strategy direction does not differ significantly from competitors' input. This means that the companies unconsciously are moving in the same direction as the competitors because they are not aware of the inputs they receive and the direction they are implicitly present. Consequently they will build the same competencies as competitors and they reproduce the existing division of labour in the industry.

**Red ocean environment**

This development has resulted in that most businesses operate from a Cost+ model, making the companies compete on their overhead rather than their core processes (Nicolini *et al.* 2001). In this sense are the market place characterized as a typical red ocean environment – as described by Kim and Mauborgne (2004, 81).

Table 1: Red and blue ocean strategies

Red ocean strategy	Blue ocean strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value/cost trade-off.	Break the value/cost trade-off.
Align the whole system of a company's activities with its strategic choice of differentiation or low cost.	Align the whole system of a company's activities in pursuit of differentiation and low cost.

The companies within the construction industry are in this way swimming around in a red ocean, where all are fighting against each other for the good projects.

The companies can easily survive in this competitive situation if there is enough food. But when the projects disappear, the companies will have to cannibalize on each other. It is therefore primarily in crises when projects not come by themselves that companies are looking at business development as illustrated in this quote.

*No. 12 (contractor): I see the history repeats itself... we develop our self mostly during crises.*

**IMPLICATIONS**

Although the red ocean market puts pressure on margins in each company making them struggle for survival, it also represents an opportunity for creating an uncontested market space pursuing a blue ocean strategy.

A premise for the development of a blue ocean strategy, however, requires a conscious approach to business development.

An important part of such a strategy is a fundamental separation between the sales price / value and costs. Kim and Mauborgne (2004) states “a blue ocean is created in the region where a company’s actions favourably affect both its cost structure and its value proposition to buyers. Cost savings are made from eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in, due to the high sales volumes that superior value generates.” (Kim and Mauborgne 2004, 83).

It is however not only companies that will benefit from more conscious business development practices. The secondary consequences of such work will potentially be of great societal importance.

Initially, the change of the competitive environment from competing on overhead to competing on the ability to create value for customers and reduce costs mean that companies will improve their income level. But as more companies are looking out of the red sea against the blue, the competition in the blue will intensify resulting in lower costs and higher value for consumers. In this way conscious business development practices have the potential to break the sky rocketing cost curve of construction.

## CONCLUSION

This paper has presented a qualitative study of strategy and business development practices in Small and Medium Sizes Enterprises (SME) in the Danish construction industry. Drawing upon mainstream strategy theories as well a practice-based theories for strategic development analysing empirical material from 19 qualitative interviews, the study finds: (1) the market is characterized by a typical red ocean environment (Kim and Mauborgne 2004), where the companies in the absence of core competencies compete on their overhead rather than their ability to reduce production cost and create value. (2) the companies have a reactive practice towards development, where they try to follow the development in the market rather than shaping their own market. (3) their approach towards strategy development is characterized by being unstructured, undocumented and non-reflexive. This is interpreted as a sign of unprofessionalized management practices in the businesses, which reproduces the existing institutionalized division of labour in the construction industry. The paper concludes that business development represents an important but unacknowledged practice for innovation of the building industry and suggests that strategy processes should be facilitated and subject to more detailed research in order to escape the unhealthy market practices in the construction industry.

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