

# Chapter 1

## Introduction

'It's tough making predictions especially about the future', ex-baseball player and sometime pundit, Lawrence Peter 'Yogi' Berra

### 1.1 Trying to predict the future – a task fraught with risk

The quote above is amusing but when judged on another level it makes perfect sense! We all know what it feels like to try and make plans only for something unexpected to crop up. Sometimes whatever it is that occurs is trivial and causes minor inconvenience. Sometimes the magnitude of what happens is so great as to cause everything we planned to become either impossible or utterly pointless. Whilst we may be affected on a personal level, it may be that we are inconvenienced on a collective level. As this book explains, strategic management is about the organisation and, as a consequence, about all of those who are involved (employed or giving their services voluntarily): those who may provide products or service and the consumers. The real dilemma for those who have responsibility for the organisation (the custodians) is in making the right decision on the basis of the information they have available. There are, it seems, no magical ingredients<sup>1</sup>.

The politician, Harold Macmillan, was once asked what it was that caused those in power to be unable to deliver promises made in election manifestos. His reply, after a somewhat long dinner, was pithy but instructive: 'Events, dear boy, events'. This quotation is frequently used by commentators to summarise the dilemma that all of us face in making plans for the future. If we make assumptions about what we think may happen, we should acknowledge the potential for things to change. At the time of writing this particular part of the book there have been two anniversaries, the original events of which have had an immense impact on the world through both politics and the economic system.

In the first event, the attacks of September 11<sup>th</sup> 2001 were immediately obvious in terms of their significance and are rightly perceived as a defining moment of history. Like a generation before who had witnessed the assassination of President John F. Kennedy, you may be asked where you were or what you were doing, when you first heard news of the awful events at the World Trade Centre. Beyond the shock that this event caused in terms of realignment of relationships and the beginning of the so-called 'War on terror', we have witnessed an increase in security (especially at airports) and the impact of uncertainties in economics which affects us all. For a short period, many seriously wondered whether people would be prepared to work in high-rise buildings again. Those involved in the design and construction of such beings were certainly

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<sup>1</sup>The French general, Napoleon, was reputed to judge the promotion of officers by considering, amongst other things, their luck.

required to explain why those trapped in the burning towers could not escape more easily and how any deficiencies might be avoided in the future. Sadly, it seems, the ingenuity (and, it seems, evil intent) of terrorists such as those who perpetrated this attack makes the construction of absolutely safe buildings almost impossible.

The second event is one that may not have had the immediacy and visual impact of the September 11<sup>th</sup> attacks, but its significance is being felt by all who have a vested interest in the continued well-being of the economic system. This event, the beginning of the so-called 'credit crunch' in America in late summer 2007, has created an apparent 'tidal effect'. As well as making everyone much more aware of the intricacies and complexity of the banking and financial system, including the peculiar and exotic lexicon employed by practitioners, it has caused panic and fear by investors. Most especially, a financial system that almost everyone believed was perfectly safe (including well-known banks) has been shown to be reliant on decisions and strategies that were based on extremely risky assumptions (at best) and downright greed and hubris by individuals who believed that their actions, as well as making them wealthy, were unquestionable.

The effect of the credit crunch has been to undermine the state of property worldwide (which has traditionally been a very good long-term investment) and simultaneously increase the cost of borrowing and reduce the amount of credit available. House prices in America have rapidly declined (now being experienced elsewhere, notably Dubia) and the confidence and the belief that increasing value in real estate gave to everyone has disappeared. People are finding that their ability to spend on the basis of credit has been stymied. Reduced income because of the effects of the credit crunch either directly or indirectly means that people consume less. Governments are finding that their spending plans will be negatively affected. Firstly, there are likely to be by reduced tax receipts if people spend less and, potentially, if unemployment increases. The latter means that the financial burden required to pay benefits increases. Added to that, there have been examples in the UK and America<sup>2</sup> of the need to provide vast amounts of financial assistance to failing financial institutions. This is because the risk of allowing what is commonly referred to as the 'toxicity' of so-called 'sub-prime' lending could potentially create a 'contagion' that would mean that the entire system that it facilitates by homeownership would collapse. Because this is a vista far too awful to contemplate for governments, they are willing to provide such assistance – regardless of any proclaimed beliefs in the market.

The consequences of the events that have stemmed from the credit crunch have gone beyond the effects of our capability to consume or repay the mortgage or on any government's ability to manage the economy. Those organisations that can claim to be unaffected are extremely lucky; albeit there are always those who gain in any crisis. Those firms in industries that were reliant on never-ending consumption are now experiencing extremely tough trading conditions. More especially, any that assumed property values were unidirectional (upwards) have probably found that long-term plans are now erroneous. For an industry like construction the effects of the credit crunch have been particularly severe on some organisations and firms. Managers taking strategic decisions in property investment and development or speculative housebuilding will be likely to have found to their cost, like Harold Macmillan, that events really can cause unanticipated problems. When one consults the list of activities contained in the Standard Industrial Classification (see below), it is not hard to see why any downturn in the economy has an immediate effect through reduction in spending on construction (in terms of labour, materials, plant and associated expertise and professional services)<sup>3</sup>.

As the next section begins to consider, what can strategy really do to assist people? Strategic theory, if it is assumed to be about certainty about the future, is bound to fail. Those whose task

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<sup>2</sup>Freddie Mac and Fannie Mae in America and Northern Rock in the UK.

<sup>3</sup>The terms 'accelerator' and 'multiplier' are sometimes used. These describe the way in which money can be invested in particular parts of the economy to create activity (which will often require construction) and therefore accelerate economic growth. Such growth (through employment and production of materials) in turn leads to further demand which ensures that the effect of the original investment is increased (multiplied).

is to make strategic decisions are often paid large amounts of money to make confident predictions on which a great deal rests – in terms of investment in resources and productive capability. As some may ask, can strategic management provide tools and techniques that demonstrate the logic of decisions taken. If it cannot, what does it provide?

## 1.2 A journey towards strategy: art or science?

Strategic management has many definitions which causes something of a dilemma for those who suggest that there is one best way. However, some commentators recognise that ‘managing strategy’ requires a combination of both the ‘hard-headed’ skills of carrying out calculations as to likely outputs from certain inputs, as well as intuitive skills which rely on things like hunch and ‘good judgement’. So, for example, one definition I came across advised the need for a combination of art and science. Putting these together, it was explained, would allow those involved in strategic management to be involved in the formulation, implementation and evaluation of cross-functional decisions which would allow an organisation to achieve its objectives.

Wickham makes the point that strategy is always going to be difficult because, as he states, ‘organisations are complex ... and made up of people with minds, wills and interests of their own’ (2000, p.1). Therefore, managers who need to make strategic decisions must appreciate that there will be effects which impact on all those people involved in the processes which must be implemented in pursuance of whatever objectives have been decided. As Wickham believes, if managers have only limited ability to control the ‘human aspect’ within their organisation, they can do even less about the external environmental aspect. The environment is, he contends, ‘constantly shifting’ and will provide the influences that create opportunities and threats that may potentially enable the organisation to, ideally, prosper or, if the wrong decisions are made, to decline. As history has demonstrated all too frequently, success today provides no guarantee of survival tomorrow.

The desire of those who provide definitions to include achievement of objectives is understandable. The emphasis of strategy is on making sure that the organisation (see below for a consideration of what this word means) is collectively working towards whatever preconceived ends have been decided. However, in setting organisational objectives we must be aware that there are many competing forces that must be reconciled before potential objectives can be agreed. As will be explained, organisations usually have both a technical and a social side. There may be an assumption that because the former, i.e. the technology and equipment or plant, can be programmed to perform, then why should not the latter also be considered in a similar way?

However, if you consider how the world works on a day-to-day basis, we know that sometimes things don’t always work out as we expected. Chance and, frequently, events intervene to change the way that the intended outcomes are produced. Sometimes, such serendipity allows consequences which are, despite not being intended, beneficial. Sometimes, of course, the consequences are not beneficial and cause alteration to plans which, in turn, are disruptive and potentially costly. Whatever happens, as sentient beings, we acknowledge that this is not a bad thing. If life were as straightforward and as linear as some suggest it should be, it would be a lot more dull and predictable than it often is. This is the same for organisations. If organisational strategy were simple and success guaranteed, then it would make no sense to do other than follow the ‘standard formula’. Why would you deviate from it?

On the basis of what has already been stated, strategic objectives are problematic in that there are no guarantees in terms of attainment. But this does not mean that they should not be set at all. At the very least, they should act as beacons which will, like guidance for a ship, provide a sense of direction. Whilst the captain of a ship will, if at all possible, attempt to go in a straight line, they will alter their course to take account of potential dangers or any obstructions. The

objective is to reach the final destination safely. It is perhaps worth acknowledging that for many managers in organisations the difficulty is in selecting the 'right' beacon. And continuing the analogy of the ship, sometimes a radical alteration in course is required. As will be explained, in dynamic and turbulent markets, the 'art' of organisational strategy is being able to have sufficient resources that are capable of responding to events and influences that no one had even envisaged.

### 1.3 Strategy, a problem of expectation?

In his seminal book, *What is strategy and does it matter?*, published in 1993, Richard Whittington acknowledges that there is no shortage of publications with the words 'strategy' and 'management' in their title. As he explains, they tend to be 'filled with charts, lists and nostrums, promising the reader the fundamentals of corporate strategy'<sup>4</sup> (1993, p.1). There is a problem with such texts, Whittington suggests, because, given that they tend to present similar 'matrices, [and] the same authorities', how can they live up to the promise of giving the answer to how to 'do' strategy? Given, at the time that Whittington wrote his book, that such books tended to sell at approximately £25, he is led to conclude:

There is a basic implausibility about these books. If the secrets of corporate strategy could be acquired for £25, then we would not pay our top managers so much

Such sentiment is hard not to agree with. Undoubtedly, every author believes (or would like us to believe) that they have discovered the secret of strategy. Accordingly, to be able to demystify such secrets is no mean feat and would prove popular among those managers whose task includes strategic management. Equally, the academic community would be equally keen to know what the magical ingredients of successful strategy are! The publication of *In Search of Excellence* by Tom Peters and Robert Waterman in 1982 is a case in point of what happens to those who believe that it is possible to derive all the answers from one text. Peters and Waterman argued that, on the basis of research carried out into sixty-five so-called 'excellent companies', they had identified eight attributes which were crucial to their success. Word spread among the management community, especially at senior level, that all that was required for success was to read this book and ensure that you had implemented the eight attributes. A significant footnote to this book is that a number of these excellent companies went bankrupt. Clearly, it seems, Peters and Waterman, even though their book has become a legendary best-seller (some six million copies), had not 'cracked strategy'.

The author's own experience is that the most enjoyable books have a definite appreciation of what the potential readership believe they will want and, as a consequence, aim to provide material that matches perceived expectation(s). Academic books are no different. They attempt to distil informative and useful theory that has proven application in the empirical world. Students who read such texts are expected to be able to articulate such theories (certainly in work that is submitted for assessment) and, it is hoped, in the workplaces that they attain employment in. Strategic management textbooks, including this one, should not depart from this principle and, therefore, the attempt here is not to pretend that there are magical formulas which will provide guaranteed success.

A logical conclusion is that there are no absolutes as far as achieving corporate success is concerned. In so far as the practice of implementing strategy is concerned, much would seem to

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<sup>4</sup>Corporate strategy is an expression that implies business-oriented organisations.

depend on who takes the key decisions in any organisation. These people are usually, though not exclusively, senior managers<sup>5</sup>. An interesting observation made to me many years ago was that senior managers are frequently guided by nothing other than their instincts and that such instincts are rarely (if ever) based on reading of texts intended to present strategic theory.

Completing the writing of this book in 2009 it seems that the world in which organisations – and, more especially, managers – have to operate is less certain now than in any time in history. At first glance this contention may seem somewhat facile. However, there is little doubt that the difficulty of making key decisions concerning resources which an organisation should deploy in pursuit of certain goals is harder now than ever. For those of us who live in the developed world, we normally have a surfeit of choice in everything we consume. Even though we may not have enough money to buy all that we want (or are persuaded that we must have), there is usually constant competition for our custom. For those organisations that can give us the best bargains or value, provide us with the widest choice or, increasingly, it seems, offer exactly what we want (customise), there is the hope of gaining what is known as ‘competitive advantage’ (see below).

The word ‘organisation’, according to Sims *et al.* is a ‘notoriously difficult concept to define precisely’ (1993, p.277). However, they make the point that an organisation is more than the technology and systems that are used to produce, distribute and deliver products and services to potential customers (this is a word that will be analysed subsequently). Most especially, organisations must involve people for the purposes of setting some sort of direction. Those who make such decisions, at whatever level in the organisation, will expect to be judged on the outcomes. Accordingly, those who make decisions that result in success can expect plaudits and, usually, financial reward. For those whose decisions result in failure, whilst the consequence is not always guaranteed to end in unemployment, they should expect others to question their judgement and ability in the future. Managers in construction organisations are treated no differently and, as analysis of the historical development of the industry suggests, can expect little sympathy if they make ‘poor’ strategic decisions.

## 1.4 The dilemmas of a formal definition of strategy

Such dilemmas inevitably require more precise consideration of what it is that managers are actually doing when they involve themselves in strategy. Like many management concepts, whilst there is broad agreement about the generalities of what strategy is, many definitions have particular nuances that suggest personal differences in interpretation. Many definitions have their provenance in what is often referred to as the ‘classical’ view of strategy (see below), which assumes that decisions can be made on the basis of rationality and that desired outcomes can be attained as a result. The word strategy has its origins in Greece at around 500 BC when it was used in a military context as a means to identify best how to organise soldiers. At a similar time in China, the need to understand the political and economic context in which battles take place was identified as a key to success by Sun Tzu in his book, *The Art of War*.

As some conclude, the idea that running a business is similar to war – in that there are two opposing forces willing to engage in conflict (and that there can be only one victor) – is still viewed by some as the basis of ‘effective’ strategy. Accordingly, the definition provided in the online edition of the Oxford English Dictionary draws inspiration from the historical military applications:

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<sup>5</sup>Whittington believes that the faith that is placed in senior managers to make the ‘right’ strategic choices is the reason they are paid so much.

In (theoretical) circumstances of competition or conflict, as in the theory of games, decision theory, business administration, etc., a plan for successful action based on the rationality and interdependence of the moves of the opposing participants (Oxford English Dictionary Online, 2008)

Ironically the end of the Second World War and the development of more formal approaches to business meant that the emphasis of strategy moved from how to win battles and wars to the more widely accepted view that it is about how to organise resources to effectively compete in business<sup>6</sup>. The 1960s saw the publication of a number of seminal books (Chandler, 1962; Sloan, 1963; Ansoff, 1965a) which helped to consolidate the belief that managers, especially those at executive level, were expected to dedicate themselves to the pursuit of efficiency and effectiveness. Alfred D. Chandler, an academic who researched and wrote about strategy was among many influential commentators who used General Motors (GM). His definition was that it is 'the determination of the basic, long-term goals and objectives of an enterprise' (1962, p.13). Alfred Sloan, who was a former President, published his biography, *My Years with General Motors*, in which he was absolutely specific about what strategy is:

... the strategic aim of a business is to earn a return on capital, and if in any particular case the return is not satisfactory, the deficiency should be corrected or the activity abandoned (1963, p.49)

Given that Sloan was writing about his time as President of General Motors which, at that time, was a successful car-making corporation employing over half-a-million people, his views were hugely influential. He, like Chandler, made clear his belief that strategic management required careful consideration of the externalities and opportunities of the marketplace. Successful strategy was based on exploiting those opportunities which offered the greatest potential market. This task, it was stressed, was not easy and, significantly, because it required absolute dedication by those managers it concerned, meant that they should not be encumbered by what was seen to be the day-to-day (and therefore relatively straightforward) issues of operational management. GM's success, Chandler contended, had been due to the ability of executives to be 'removed [...] from the more routine operational activities,' and, moreover, this gave them 'the time, information, and even psychological commitment for long-term planning and appraisal' (1962, p.309).

**Four perspectives for considering strategy**<sup>7</sup> The belief that strategy can be managed by senior managers and based on the rigid application of top-down, rational decisions has become dominant. As advocates of this view assert, it is the best (only) way to achieve success. So, once senior managers have taken key decisions concerning strategy, all that remains is for other managers to implement them. Because of the dominance that this perspective has had since being proposed by Sloan, it is known as classical. As Whittington explains:

Flattered by the image of Olympian detachment, lured by the promise of technique-driven success, managers are seduced into the Classical fold (1993, p.17)

The classical approach is one that is based on a desire to maximise **outcomes** (whether measured in profit or otherwise) by the deliberate application of predetermined **processes**. Given

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<sup>6</sup>The word 'business', it is accepted, is usually considered to be profit-centric.

<sup>7</sup>These are more fully explained in Chapter 2.

the ontological basis on which the classical perspective is based, i.e. rationalism, many have argued that other perspectives are required to account for the imperfections of the empirical world in which all organisations operate (implement strategy). As in general studies of management, there is an increasing awareness that because strategy is implemented by, and has effects upon, social beings (people) the assumption of rationality is suspect. Therefore, three other perspectives have been proffered as alternatives: evolutionary, processual and systemic. Like the classical approach, each may be considered by the two key dimensions of outcomes and processes.

As the word implies, the **evolutionary** perspective is based on a belief that only organisations that are able to quickly adapt to the vagaries of the market will survive and prosper (much like Darwin's belief in the evolution of species). Whilst they will still seek to maximise outcomes, their use of processes will not be predetermined. Rather, processes will be developed during the course of practice; they will 'emerge'.

The **processual** perspective is one that acknowledges markets, people and organisations as being far from the perfect entities that proponents of the classical perspective believe is the case. Therefore, the processual perspective accepts that strategy is a matter of accommodation of the multiplicity of outcomes needed to satisfy both those involved and the opportunities that present themselves in the markets. Accordingly, outcomes are 'pluralistic' and processes, similar to the evolutionary perspective, are 'emergent'.

Finally, the **systemic** perspective is one that recognises that culture and powers are influenced by the extant characteristics of the social systems in which the organisation operates and the relevant 'markets' it serves. In terms of outcomes it is similar to the processual perspective in that they are pluralistic. However, in terms of processes, the systemic perspective fully embraces the belief that a deliberate approach is appropriate.

Following on from this brief analysis, it can be discerned that there are a multiplicity of approaches to understanding what strategy involves. In subsequent chapters further consideration will be made of the range and importance of definitions. However, as the title of this book makes clear, the context in which analysis of strategy takes place is construction. Therefore, it is useful to consider the essential characteristics of construction and whether they provide a particular (or peculiar) climate in which strategic management must take place.

## 1.5 The context of construction – a truly unique industry?

One of the challenges in teaching students enrolled on construction courses is to explain how strategy can be understood in terms of an industry that, to a very large degree, is reliant on what happens in the national economy and which, in turn, is affected by global events. Accordingly, if the state of the economy is good, then the sense of well-being and optimism will result in a higher demand for goods, services and the general infrastructure – all of which will stimulate demand in construction. As some might argue, traditionally, strategy, as far as construction organisations are concerned, is simply a matter of being able to 'read' the ongoing trends in the economy. To do this successfully requires either unique insights (something that can be notoriously difficult), or to be 'fleet of foot' in being able to shift resources or, as is often the case, relying on the subcontracting system to fulfil short-term needs.

Many commentators, most notably those who wrote the 1998 report, *Rethinking Construction* (Construction Task Force), assert that the industry's apparent unwillingness to invest time and money into long-term development and improvement of processes used in production has been one of the reasons why it has failed to match the expectations that some suggest are possible. Their use of other industries with which to make comparison is intended to present a stark contrast between those that are dynamic and highly innovative and construction which they consider to be, in general terms, patently not. Such analysis is too simplistic and, as

this book will explain, consideration of strategy is vital in every organisation regardless of its size.

The fact is that every member of society relies on the output of construction. The industry is responsible for creating what is referred to as ‘the built environment’. That is: everything we see around us that did not occur naturally. Construction, therefore, has a connection with every aspect of our daily lives. It includes every building that we use for residential purposes, education, industry and leisure. Construction was involved in creating the traffic infrastructure for all roads, motorways, railways (and their precursor, canals), airports, harbours and their attendant structures. It is fundamental in terms of the infrastructure that creates the sense of well-being we enjoy as a civilised society: clean water, sewage disposal, and the multitude of utility services that allow us to live comfortably all year round regardless of external temperature or environmental conditions (gas, electricity and telecommunications).

However, this does not tell us exactly what construction consists of. In order to fully appreciate the extent of what construction actually consists of and its impact on creating the built environment we all rely on and ‘enjoy’, it is necessary to consult the Standard Industrial Classification of Economic Activities (which is published by the government through the Office for National Statistics). This provides a fully comprehensive categorisation (under Section f) of every activity that is considered to be construction. Indeed, it is deemed to be:

... general construction and specialised construction activities for buildings and civil engineering works. It includes new work, repair, additions and alterations, the erection of prefabricated buildings or structures on the site and also construction of a temporary nature. General construction is the construction of entire dwellings, office buildings, stores and other public and utility buildings, farm buildings etc., or the construction of civil engineering works such as motorways, streets, bridges, tunnels, railways, airfields, harbours and other water projects, irrigation systems, sewerage systems, industrial facilities, pipelines and electric lines, sports facilities etc. This work can be carried out on own account or on a fee or contract basis. Portions of the work and sometimes even the whole practical work can be subcontracted out. A unit that carries the overall responsibility for a construction project is classified here. Also included is the repair of buildings and civil engineering works. This section includes the complete construction of buildings (division 41), the complete construction of civil engineering works (division 42), as well as specialised construction activities, if carried out only as a part of the construction process (division 43). The renting of construction equipment with operator is classified with the specific construction activity carried out with this equipment. This section also includes the development of building projects for buildings or civil engineering works by bringing together financial, technical and physical means to realise the construction projects for later sale. If these activities are carried out not for later sale of the construction projects, but for their operation (e.g. renting of space in these buildings, manufacturing activities in these plants), the unit would not be classified here, but according to its operational activity, i.e. real estate, manufacturing etc. (Office for National Statistics, 2007, p.173)

As this definition describes, there are three main types of construction activity (referred to as divisions): ‘Construction of buildings’ (41), ‘Civil engineering’ (42) and ‘Specialised construction activities’ (43). Each division is further subdivided into groups and classes. As the following list demonstrates, it is within these groups and classes that the true complexity and wide variety of tasks can be fully appreciated:



- 41 Construction of buildings
  - 41.1** Development of building projects
    - 41.10 Development of building projects
  - 41.2** Construction of residential and non-residential buildings
    - 41.20 Construction of residential and non-residential buildings
      - 41.20/1 Construction of commercial buildings
      - 41.20/2 Construction of domestic buildings
- 42 Civil engineering
  - 42.1 Construction of roads and railways
    - 42.11 Construction of roads and motorways
    - 42.12 Construction of railways and underground railways
    - 42.13 Construction of bridges and tunnels
  - 42.2 Construction of utility projects
    - 42.21 Construction of utility projects for fluids
    - 42.22 Construction of utility projects for electricity and telecommunications
  - 42.9** Construction of other civil engineering projects
    - 42.91 Construction of water projects
    - 42.99 Construction of other civil engineering projects
- 43 Specialised construction activities
  - 43.1 Demolition and site preparation
    - 43.11 Demolition
    - 43.12 Site preparation
    - 43.13 Test drilling and boring
  - 43.2 Electrical, plumbing and other construction installation activities
    - 43.21 Electrical installation
    - 43.22 Plumbing, heat and air-conditioning installation
    - 43.29 Other construction installation
  - 43.3 Building completion and finishing
    - 43.31 Plastering
    - 43.32 Joinery installation
    - 43.33 Floor and wall covering
    - 43.34 Painting and glazing
      - 43.34/1 Painting
      - 43.34/2 Glazing
    - 43.39 Other building completion and finishing
  - 43.9** Other specialised construction activities
    - 43.91 Roofing activities
    - 43.99 Other specialised construction activities
      - 43.99/1 Scaffold erection
      - 43.99/9 Specialised construction activities (other than scaffold erection)

Every group and its classes are fully explained in the guidance document that is provided by the Office for National Statistics. As will become obvious, from the list above and consultation of the associated guidance notes, construction is crucial to every aspect of our existence. Literally nothing we do on a daily basis will not involve some contact with construction. Moreover, as the standard industrial classification makes clear, construction, as well as being a set of activities that ensures a fully functioning society can be maintained, has an economic importance that cannot be overestimated. It is a major employer. Its contribution to the economy is crucial. The most up-to-date output figures produced by the Office for National Statistics show that the value of construction is in excess of £80 billion per year (some 6% of Gross Domestic Product) and that for the second quarter of 2008 the contribution of various segments of construction has amounted to a total provisional output of over £21 billion:

- Housing new work: £3,027 million;
- Non-housing new work: £8,358 million;
- Housing repair and maintenance: £4,972 million;
- Non-housing repair and maintenance: £4,655 million.

Current statistics show that construction employs over 2.2 million people (the vast majority<sup>8</sup> being male). Trying to gain an idea of how many firms there are in construction is notoriously difficult because of the very high number of organisations employing very few people. This, together with the transient nature of the industry means that accurate figures are hard to come by. By way of providing some indication of the number of ‘enterprises’ that operate in construction, Sommerville and McCahey presented a study in 2003 that suggested that whilst there were almost 700,000, some 571,455 employed no one at all (consisting of the self-employed) and that of the remainder that do have employees (120,345), 85,445 employ four or fewer and 113,755 employ fewer than 20. As will become important in terms of considering how strategy is practically applied, this study showed that there were only 855 that employed 100 or more people; and only 140 employing 500 or more. Construction, therefore, is an industrial sector that is dominated by micro enterprises.

The difficulty is in considering how construction really operates and how particular influences exist, or are managed (manipulated) to create the conditions in which ‘activity’ is required. As Hillebrandt (1984) argues, it is an industry which has characteristics that make it different and, most especially, the desire of the person(s) who wish to procure products or services is frequently determined by the prevailing economic conditions. She believes that direct comparison with other sectors, although less straightforward than some suggest, is possible:

The construction process is long and involves a large number of separate organisations in design, costing, pricing and production of each product often with a client, private or corporate, who has never or rarely before been involved in a major construction operation and for whom the expenditure is among the largest [they have] ever made. Not only is the new building or works normally designed by a separate organisation from that which will construct it, but since it must usually be priced before it is produced, there are great uncertainties for the contractor in that pricing process. Furthermore, each product tends to be large in relation to the size of the contractor undertaking its construction so that the risks for that firm are considerable. The physical process of production is often a messy one carried out substantially in the open and subjected to the vagaries of the weather. Conditions of work are generally inferior to those in factories. (1984, pp.2–3)

Therefore, the simple assumption that applying strategic principles in construction that have worked elsewhere would seem to have problems. Nonetheless, as many acknowledge, the characteristics of construction have caused the industry to be viewed by outsiders in a highly negative way. Almost a quarter of a century since Hillebrandt’s observation (and over ten years since the recommendations contained in *Rethinking Construction*), it is worth remembering that many organisations have striven to ensure that the industry is less prone to the sort of conflict and labour problems that used to be commonplace in the 1970s and 1980s. As well as this, no matter what the general public thinks of what the construction industry achieves (and the way it does it), it

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<sup>8</sup>Whilst there is some minor variation from quarter to quarter, male employment in construction is usually some two million representing over 90%.

is vital to us. Its output is the consequence of deliberate implementation of processes that, usually, frequently involve many individuals, organisations and agencies, all of which will have particular strategies.

The history of construction adequately demonstrates that those individuals (or groups), who had the foresight to consider the future demand of clients, and who assembled the right mix of resources involving equipment and plant, were able to achieve remarkable success in terms of completed projects. Anyone who has marvelled at the ingenuity of the work of the great engineers such as Telford and Brunel should realise that their vision required a supply of men (as workers in construction were<sup>9</sup>), equipment and materials. Compared to contemporary construction sites, the work that was carried out in, for example, the building of the canals, railways and the huge Victorian municipal schemes would probably seem chaotic and, certainly, dangerous. However, all of these works required a degree of organisation on a day-to-day basis that enabled work to take place. Whilst it is unlikely that those carrying out such organisation would have described their efforts as being strategic, they would have acknowledged the importance of planning and procuring men and materials in a way that was timely and cost-effective. For the small contractors who emerged at this time, longer-term considerations were not a high priority. In effect, it might be said that their approach to strategy was one that evolved. Those construction firms which evolved at the same time as the Industrial Revolution provided the production capabilities to build the rapidly developing towns and cities (and the accompanying infrastructure). A short history of the development and emerging importance of firms in construction, and the strategies they pursued, is presented in Chapter 3.

## 1.6 Developing an understanding of who ‘consumes’ construction

One of the central assumptions of strategy is that having developed an analysis of the general business environment and the particular markets for a product or service (see Chapter 4), it is possible then to allocate resources in accordance with demand patterns (see Chapter 6). For products and services that are considered to be stable (e.g. food and fuel), demand is consistent, based on the existing population who normally make such purchases. However, there can a dramatic (albeit temporary) shift in demand when, for example, there is a perceived crisis: such as the potential for exceptionally bad weather when people will over-buy in order to stock up on both food and fuel. When the crisis is over, though, demand normally returns to a consistent level. Services, such as provision of transport (buses, trains), are similar in that there are consistent levels of use. Interestingly, though, demand for certain modes of travel, like particular food purchases, can be altered by the provision of alternative choice – especially if it is based on price. Air travel has shown tremendous growth in the last decade following the expansion of budget airlines. Nonetheless, once the demand patterns are established, further growth has a tendency to be consistent (assuming the costs do not shift, such as by the introduction of taxes or if fuel prices increase).

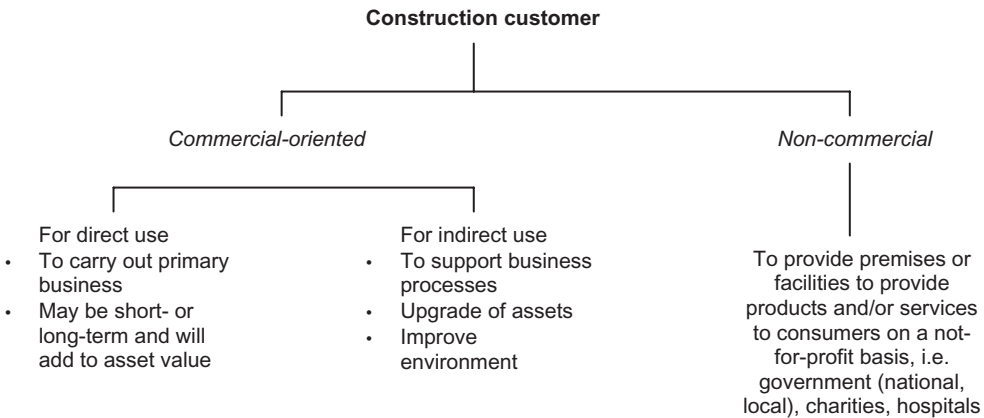
Crucially, it is recognised that items like food or fuel are things we buy on a very regular basis. Construction is not something we purchase in the regular way that we tend to purchase foods or fuel, certainly as individuals. Even though some clients (organisations representing a wide spectrum of activities) may procure facilities that are used to carry on their business or provide services (especially in the public sector), they will normally do so on an intermittent basis which is determined by need (such as expansion) or a requirement to update, both of which will be

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<sup>9</sup>It was not uncommon for women (and children) to accompany men who worked on the great civil engineering schemes. The conditions they endured, living in the makeshift huts and shanty towns, being nothing more than hovels, were unsanitary and prejudicial to health.

dependent on finance<sup>10</sup>. A more likely situation involving regularity would be for a client to contractually arrange for repairs and maintenance or a ‘rolling contract’ of refurbishments to modernise their existing premises (which Marks and Spencer is undergoing at the time of writing). The problem for those who wish to consider strategy in construction, especially from the perspective of a manager, is how demand patterns can be similar to those for staple items or services.

There is an inherent difficulty in trying to predict the needs and demand patterns of consumers of construction. As Boyd and Chinyio (2006) suggest, there is a very wide diversity of types of construction client. Using work carried out by Mbachu (2002), they provide a model which presents such categorisation by ‘form and use’:



**Figure 1.1** Categorisation of construction customer (adapted from Mbachu, 2002).

As this diagram shows, the main division is between those clients that are profit-orientated (private sector) and those whose objective is not to make profit (usually in the public sector). Within each of these divisions there are numerous sub-divisions that create particular uses for the final products that will be used (consumed) by particular individuals or groups. From a strategic perspective, it is in understanding how the decision-making process is carried out to satisfy the needs that particular consumers of construction have. As Boyd and Chinyio acknowledge, because the process of arriving at their final decision is both complex and frequently shrouded in mystery (‘either consciously or unconsciously’), it is extremely difficult to develop an accurate understanding (2006, p.11). Nonetheless, for those making judgements about the magnitude of existing or potential markets, it is important to recognise that even though completed buildings are the culmination of the construction process, this will be a long process involving the input of many organisations who will need to supply both products and services. Importantly, their ability to be able to supply will be based on their own assumptions about the potentiality of markets and their choices concerning requisite resources. Failure to correctly interpret indications about the way that particular parts of the construction market will behave (what consumers will need and demand) will create problems of either over- or under-supply which will cause consequential problems for the industry in general.

<sup>10</sup>During periods of rapid expansion some clients can require construction on a very regular basis (as food chain McDonalds did during the 1980s and 1990s).

## 1.7 The structure of this book

Whilst this book is not formally divided into parts, it can be considered as consisting of the following elements:

- An historical overview of both the evolution of strategic theory (Chapter 2) and a socio-historical analysis of the British construction industry (Chapter 3).
- A number of chapters that deal with the background theory for strategic management and which explain concepts that are crucial to understanding how organisations identify the influences in the environment in which they operate (Chapter 4), how they can appreciate the needs of potential consumers and customers (Chapter 5), how an appropriate resource-base can be developed and maintained (Chapter 6) but that the most essential one is their people (Chapter 7).
- The next two chapters are deliberately intended to describe the importance of constant evolution in order to be prepared for the future. Chapter 8 is concerned with how any organisation must be aware of the way in which knowledge, innovation and technology can be used as the basis for strategic development. Chapter 9 describes the fact that organisational development and change have become a constant. In particular, the ‘quality revolution’ has demonstrated the importance of organisational culture and embracing changes that deliver increased customer value (a fundamental of the ‘Egan agenda’).
- Chapters 10 and 11 respectively explain what is involved in considering the development of strategic options and how any option chosen will involve careful management, constant review and adaptation to deal with issues and dilemmas that arise.
- The final chapter is an empirical presentation of a number of contributions that have been provided by managers of construction companies ‘doing strategy’. As such, they provide their reflections and observations on what this requires their organisations to do and, most especially, cope with the problems that have been caused by the economic downturn resulting from what is now referred to as the ‘credit crunch’.

The full list of chapter headings is as follows:

- Chapter 2** – Strategic management theory: its origins, development and relevance to contemporary organisations
- Chapter 3** – A short socio-historical analysis of the development of the British construction Industry
- Chapter 4** – Understanding the environment – markets and competition
- Chapter 5** – Strategy and its connection with consumers and customers – the arbiters of success
- Chapter 6** – Developing and maintaining organisational resources – the basis for delivering strategy
- Chapter 7** – ‘Organisation[al] matters’ – a strategic perspective of the importance of how to manage people
- Chapter 8** – Knowledge, innovation and technology – the ‘keys’ to the future
- Chapter 9** – Change – the only constant in strategy
- Chapter 10** – Considering the development of strategic options
- Chapter 11** – Implementing the strategy – issues, dilemmas and delivery of strategic outcomes
- Chapter 12** – Turning theory into practice – some empirical examples of strategy in construction organisations