Construction Professional Service Firm Management: a Longitudinal Study of Strategic Planning in Irish Quantity Surveying Practices

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CONSTRUCTION PROFESSIONAL SERVICE FIRM MANAGEMENT: A LONGITUDINAL STUDY OF STRATEGIC PLANNING PROCESSES IN IRISH QUANTITY SURVEYING PRACTICES

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ABSTRACT

This paper reports on the ongoing investigation of strategic planning in Irish Quantity Surveying practices. The construction industry in Ireland has undergone a period of significant change in the last five years fuelling a shift in focus from tactical to strategic planning in professional service firms operating within the sector. A previous paper identified the type, scope and extent of strategic planning within Quantity Surveying (QS) practices in Ireland in the years up to and during the economic downturn. The current paper expands on the previous research by identifying changes in approach to strategic management within these professional service firms (PSF’s) during the recovery. In-depth semi-structured interviews were conducted with the managing director of ten QS practices that participated in the earlier research prior to comparisons being made over the time period. A strategic planning process framework is presented identifying key components for consideration by practitioners and the research community.

Keywords: strategic planning, professional service firms, Ireland.

INTRODUCTION

The construction industry in Ireland has undergone a period of rapid change in the past decade. From a prolonged period of economic growth to sudden and severe recession and austerity. All indicators are now exhibiting definite signs of recovery, both in the economy as a whole and specifically in the construction sector.

Much is written about the effect of the economic downturn on the construction industry in terms of impact on employment and output. Significantly less focus has been on the strategic management of firms through the recession in particular, construction Professional Service Firms (PSF’s).

An earlier paper presented to this forum reported on strategic planning within Quantity Surveying (QS) practices in Ireland (Murphy, 2012), concluding that while the strategy process was informal and dependent upon firm ownership structure, the recognition of the need for systematic strategic planning was beginning to emerge. The objective of the research at hand is to ascertain trends in the strategy process resulting from changing environmental circumstances faced by QS practices.

The following section provides a review of current literature pertaining to the construction industry in Ireland and outlines core concepts relating to the approach to strategy formulation. Reference is made to findings from the earlier work in order
provide context for the recent study. The research strategy is subsequently presented prior to an analysis of findings.

LITERATURE REVIEW

Irish Economy and Construction Sector

In the mid 1990’s, the Irish economy was regarded as exemplary by analysts in terms of economic development with growth annually averaging of 7.5%. By 2006 the construction industry accounted for 22% of GDP (24.5% of GNP) and almost 18% of total employment (DKM, 2015).

The growth of the construction industry was fuelled by a housing shortage, low interest rates, lax lending criteria and an infrastructure deficit. The global economic downturn which occurred from 2008, uncovered liquidity issues within the Irish banking system, and in particular revealed the excessive exposure to property developers. This occurred at a time when prices were already overinflated and coupled with international market uncertainty, resulted in the requirement for an IMF/EU bailout leading to austerity for several years thereafter.

The Irish economy has now returned to growth with a 7.8% increase in GDP recorded for 2015 (CSO, 2016) and although legacy issues including a large national debt and high unemployment remain, confidence within the construction sector has largely been restored. QS Practices that survived the recession need to plan for the new phase in the construction cycle.

Strategy Formulation

Strategic Planning is a complex process by which organisations seek to gain sustained competitive advantage over their rivals (Waalwyn & Seggar, 1993). Strategic planning theory has evolved over a number of decades to the extent that a plethora of literature has been published in the field. There is considerable evidence to suggest that engaging in strategic planning improves firm performance (Brews & Purohit 2007), hence it is critical to the success of firms operating in a competitive environment.

Strategy formulation requires consideration of numerous factors that may affect the realization of an organisation’s objectives. The process typically commences with the establishment of organisational objectives following which an environmental analysis is generally undertaken. Factors in the internal and external environment help to inform the strategic choice or overall goal for the organisation based upon the desired future state and the environment within which it operates.

However, the characteristics of the process will vary between organisations as the degree of participation, direction/flow of decision-making and degree of formality will be dependent upon the leaders of the company. Varying strategic types (Miles and Snow, 2003) may have differing approaches to strategy formulation (Mintzberg, 2003) which will ultimately determine the generic strategy being pursued (Porter, 1980). Miles and Snow (2003) contend that although each organisation may have differing strategies based upon their unique characteristics, organisational types (namely
prospectors, analyzers, defenders and reactor) will be a key determinant in the strategy being pursued.

The approach to strategy formulation will govern not only what decisions will be made but how they will be made. While early authors in the field promoted a planned approach with a formal process (Ansoff, 1957), later authors supported an incremental approach to strategy formulation. However, in increasingly complex market and industry environments, it is argued that the optimal approach incorporates elements of both rational and incremental strategy formation, thus the phrase “planned emergence” was coined (Grant, 2003). This approach promotes a systematic process combined with a flexibility to permit organisation’s to respond to a changing environment.

Another school of thought led by Barney (1981), known as the resource based view (RBV) suggests that the ability of an organisation to maintain competitive advantage lies with the internal resources, capability and competencies of the firm. The RBV resonates particularly strongly for PSF’s given the knowledge intensity and product/service intangibility characterizing such firms. For construction PSF’s this is compounded by the high degree of specialist knowledge (Ashworth and Hogg, 2002), customisation (Maister, 2003), and high degree of interaction with clients (Greenwood et. al; 2005).

An earlier study (Murphy, 2012) identified the type, scope and characteristics of strategic planning processes in Irish QS practices from which three distinctive groups within the QS profession became apparent. The division between groups arose from varying firm size and organisation structures which revealed differing strategy process characteristics within each group.

For QS practices that were part of a larger international organisation, the strategic management process was formal, often resulting in a written strategic plan. A more ad hoc approach was revealed for smaller QS practices. Ultimately, it was concluded that Irish QS principals were thinking and acting strategically, however at that time were not always aware of it; a finding that is consistent with that of Hillebrandt and Cannon (1995) in UK construction contractor firms. Importantly, evidence suggested that the realization of the need for a more systematic approach to strategic planning was beginning to materialize.

The relationship between strategy formation, approach and the environment is complex and will be unique to each firm. Brews and Purohit (2007) analyzed the relationship between strategy and the environment concluding that as the extent of environmental uncertainty increased so too did the extent of planning. The extent to which the changing environment in which Irish QS practices have operated, and how the environment has impacted strategic decision making in the last decade thus warrants exploration.

The following section outlines the research strategy used to determine the strategic planning process characteristics of Irish QS practices during a period of acute turbulence.
RESEARCH STRATEGY

At the time of the initial study, semi-structured interviews were undertaken with the Managing Partner/Director in eleven QS firms to gain an understanding of the strategic planning process therein. The principal of each practice was asked to participate as (s)he was best placed to provide insight into the strategic management of the company and to outline the factors shaping the decision making process and strategic choices made. The interviews served to inform a second phase consisting of quantitative research in the form of a widespread survey.

The present study, five years later, replicates the first stage of the original work, in that semi-structured interviews were undertaken. In total, ten semi-structured interviews with managing partners/directors were undertaken; nine of whom had participated in the earlier work. In the intervening period one company had ceased trading however a new company was established by two of the former Directors who agreed to take part in this investigation. One company declined to partake at this time.

Interviews were structured in a similar way to the earlier inquiry, along dimensions outlined Table 1. Questions focused on market conditions and organisational change in addition to identifying the causes, drivers and impact of change. The semi-structured process allowed a flexibility to gain significant insight into individual firm experience during a turbulent period for the sector in Ireland.

<table>
<thead>
<tr>
<th>Interview Section heading</th>
<th>Issues addressed within the section</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Company Information</td>
<td>Organisation structure, number of people employed, sectors serviced, services provided. Strategist Characteristics (e.g. approach, attitude to risk, strategic type)</td>
</tr>
<tr>
<td>Strategic Choice</td>
<td>Corporate level Strategy (stability, expansion, retrenchment), Business Level Strategy (price leader, differentiation, value-based)</td>
</tr>
<tr>
<td>Strategic Planning Process</td>
<td>Strategy formulation formality, strategic plan formality. Strategy formulation process characteristics (including participation, flow, time horizon, environmental analysis)</td>
</tr>
</tbody>
</table>

Interview questions were pilot tested prior to undertaking the main study but were not provided to participants in advance of the meeting. Permission was sought to record the interviews which were subsequently transcribed, coded and analyzed using Qualitative Data Analysis Software, NVivo.

It must be noted that the research presented forms part of a continuing investigation, and while results of this qualitative phase are informative and contribute to knowledge it is not alleged to be generalizable. The qualitative phase has served to inform an ongoing quantitative component.

ANALYSIS AND DISCUSSION

The cyclical nature of the construction sector has influenced the strategic management of QS practices operating within it, both in terms of the strategy pursued along with the approach to the process.
Corporate Strategy
In the six years to 2006, many practices had embarked on an expansion strategy followed in 2008 by a period of retrenchment. By 2014, industry conditions had improved, confidence tentatively returned but a residual caution remained; stability was thus the order of the day with 70% of QS practices confirming stability as the corporate strategy at that time. The three remaining practices had already returned to an expansion strategy both within the domestic market and internationally. The corporate strategy of participant practices over the cycle is presented in table 2.

Table 2 Corporate Strategy in Irish QS Practices

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Economic Boom</td>
<td>Stability</td>
<td>Stability</td>
<td>Stability</td>
</tr>
<tr>
<td>Company 1 Indigenous</td>
<td>Stability</td>
<td>Stability</td>
<td>Stability</td>
</tr>
<tr>
<td>Company 2 Indigenous</td>
<td>Expansion</td>
<td>Retrenchment</td>
<td>Stability</td>
</tr>
<tr>
<td>Company 3 Indigenous</td>
<td>Expansion</td>
<td>Retrenchment</td>
<td>Stability</td>
</tr>
<tr>
<td>Company 4 Indigenous</td>
<td>Expansion</td>
<td>Stability</td>
<td>Stability</td>
</tr>
<tr>
<td>Company 5 Indigenous</td>
<td>Stability</td>
<td>Stability</td>
<td>Stability</td>
</tr>
<tr>
<td>Company 6 Part of global company</td>
<td>Expansion</td>
<td>Retrenchment</td>
<td>Expansion</td>
</tr>
<tr>
<td>Company 7 Indigenous</td>
<td>Stability</td>
<td>Stability</td>
<td>Ceased Trading</td>
</tr>
<tr>
<td>Company 8 Indigenous</td>
<td>Expansion</td>
<td>Stability</td>
<td>Did not participate</td>
</tr>
<tr>
<td>Company 9 Indigenous</td>
<td>Expansion</td>
<td>Combination</td>
<td>Expansion</td>
</tr>
<tr>
<td>Company 10 Part of global company</td>
<td>Expansion</td>
<td>Stability</td>
<td>Expansion</td>
</tr>
<tr>
<td>Company 11 Indigenous</td>
<td>Stability</td>
<td>Stability</td>
<td>Stability</td>
</tr>
<tr>
<td>Company 12 Indigenous</td>
<td>Stability</td>
<td>Stability</td>
<td>Stability</td>
</tr>
</tbody>
</table>

A notable feature of small QS practices is that even during the peak of the boom, many practices had chosen to maintain the practice at a specific maximum size, regardless of potential growth opportunities, thus pursuing a strategy of stability. The rationale behind which was that the principal preferred to remain a “practicing QS” rather than become a business manager. In these firms rather than make staff redundant during the downturn, a reduced working week became the norm such that if and when demand increased they had the capability to respond rapidly.

For the QS practices that formed part of an international group, the downturn in Ireland resulted in some staff working abroad in other divisions thus insulating the Irish practice somewhat from the severity of the recession.

Business Strategy
The market conditions and client requirements resulted in a notable change in business level strategy. No longer was differentiation based largely upon the scope of services offered but a clear move towards a value-based strategy was evident. Client retention through repeat business is an essential requirement and emphasis firmly remained on the provision of a high quality personal service to secure repeat business.

It is possible to draw many comparisons between the experience of Irish QS practices during this five year period to that analysed in New Zealand and reported by Boon (2001, 2008) in this forum including pursuit of value-based strategy reliant on repeat business, expansion of service offering and drive for efficiency gains.
Approach to Strategy Formulation

The role of the strategist is central to the strategic planning process and the extent to which the process characteristics reflect the strategist is visible on examination of the approach to strategy formulation. Senior QS’s increasingly recognise the need for a systematic approach to strategy formulation particularly in the context of a turbulent environment.

There is some divergence, however in the focus of environmental analysis undertaken. It has been noted previously that the environment within which a company operates will directly impact the strategy process (Eisenhardt, 1989). Environmental uncertainty will not necessarily instigate the practice into developing strategy but it will form the context within which strategic decisions are made. For the purposes of the research at hand the extent of both internal (resources, IT, HR) and external (macroeconomic, industry, competitive) environmental analysis was investigated.

For Irish QS practices, internal analysis of staff, IT and finance is comprehensive. Investment in staff training has recommenced and there is an acknowledgement that people are the key to success, with one participant noting that “repeat business is solely reliant upon our people”. Training however has remained within technical aspects of the QS profession rather than focus on strategic management. A notable change in investment in IT was also evident, particularly with smaller QS practices, in part to keep up with industry development such as BIM, but more so for the purposes of creating internal efficiencies from an operational point of view. Investment in IT systems was considered important to “future-proof” firms.

Analysis of external trends in the market, economy and industry, although increasing in regularity, remains less comprehensive than internal analysis. The intensity of external analysis is not significant and involves the consideration of nationally published statistical trends (such as inflation, GDP, employment and industry output) however the frequency with which it is consulted and used to inform the strategy process has increased.

No competitor analysis is undertaken by any firm, regardless of size, and intelligence that is available is communicated either through the grapevine or results from the movement of personnel between organisations. This finding is consistent with the earlier study, and remains a divergence in strategy formulation practice when compared to industries outside of construction (Porter, 1980). There are many possible explanations as to why this is the case, including the prioritization of building relationships with existing customers to ensure repeat work (Price et al. 2003). Participants noted that they are “too busy worrying about ourselves to worry about the competition”.

The approach to strategy has become more systematic and principals are undertaking more regular, organized environmental analysis. The process has not become more rigid, in fact the experience over the last five years has reiterated the importance of maintaining an agility and flexibility to ensure firms can adapt with a changing environment. Respondent companies are very aware of the need to adapt, but make informed decisions on that basis.
Strategic Planning Process Framework

As is evident from the preceding analysis strategic planning in construction PSF’s is a complex and multi-faced process. Based on evidence from both the current and earlier study, a framework for the analysis of the strategic planning process for QS practices was developed (figure 1). The framework serves as a guide to ensure key characteristics of the process are considered. In cases where there is no “parent company” the framework may commence with the strategic type as remaining elements of the process map remain applicable.

The framework is useful to practitioners engaging in strategic planning and also as a guideline in the extension of the research to include a larger sample size such that process characteristics may be analysed and compared.

Figure 1 Strategic Planning Process Map
CONCLUSIONS AND RECOMMENDATIONS

The economic and construction downturn in Ireland has had an immense impact on construction PSF’s resulting in a change in approach to strategic decision making. The emphasis has clearly evolved from tactical to strategic planning. The implication is that principals of QS practices now require additional training in strategic management to develop their ability to collect, collate and make cohesive decisions within the complex and rapidly changing environment within which they work. The strategic planning framework presented may serve as a guide to senior management in deliberating the many facets of the strategic planning process.

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