

Strategic Planning

For today's progressive business owner, strategic planning can be the most effective way to increase productivity, profit and peace of mind.



Developing strategy is now regarded as the key business tool and process by most industries. Over the past decade, a number of high-profile management initiatives such as downsizing, re-engineering, continuous improvement, benchmarking and total quality control emerged. In retrospect, it is clear that the driving force behind these initiatives was to reduce costs.

The main reason most of the construction industry paid little attention to these initiatives is because of its continual focus on lowering and eliminating costs. Witness contractors at the competitive level when they are bidding for work, or at the execution level when they are trying to extract additional profitability by finding new materials, suppliers, time and labour saving equipment or technology to deal with variables beyond their control (for instance, weather).

In ten years of providing strategy, organizational development and human resource consulting services to all manner of western Canadian businesses (including the oil and gas, petrochemical and forest products industry, manufacturing, retail, distribution and services), our consulting firm has observed the following: the industry with the lowest level of strategic planning usage is the construction sector. Throughout the industry, from architects and engineers to contractors, subcontractors and material suppliers (some larger suppliers are notable exceptions), few deploy strategic planning.

Of those in the industry, contractors have the lowest level of interest in strategy. In trying to understand this, I've arrived at some insights about those in this group. Typically, they exhibit the following characteristics:

- Are highly entrepreneurial with one or two owners focussed on the daily business;
- Tend towards "command and control" management styles;
- Run businesses that require strong working capital/lines of credit and have owners who are constantly exposed to risk;
- Believe that focussing on "technical execution" is the primary contribu-

tor to success;

- Can have as few as 10, 20 or 30 "customers" (projects/contracts) in their fiscal year (even though this can translate into millions of dollars);
- Believe their future is more dependent on the economy than anything else;
- Regularly forsake "the important" in order to deal with "the urgent".

From time to time, I ask construction company owners about their business strategy. Most of the time, they start talking about their revenue goals, expense budgets, cash flow needs for the next year and how they will meet overhead costs depending on how quickly (or slowly) their order book fills.

In other words, there is a prevalent sense that the goal or purpose of their business is to make money – this confuses the mission of their business with the reward for achieving it.

Most planning is seen as a budgeting exercise rather than a process of engaging key staff in dialogue, analysis and prioritizing to determine what is needed to sustain, strengthen or achieve a competitive advantage.

Strategy is about asking crucial questions, making tough choices and implementing agreed-upon solutions. For example:

- What is the basis for our competitive advantage, now and in the future?
- What is the scope and emphasis of our services and/or markets?
- What new capabilities do we need to develop?
- How do we structure ourselves to best meet the needs of our clients?
- What is the thrust for new business development and growth?

How do you know if you are following the best strategy possible? Many construction company owners find it difficult to think of real alternative strategies. Their companies have been following a particular strategy for a number of years, and they cannot

imagine doing business any other way. Dare to imagine – the most effective strategic planning requires that you do precisely that.

The Process

Strategic planning involves three stages:

1. A situation analysis of external and internal factors;
2. Development of key strategies, and;
3. Design of an operational plan for implementation.

The real purpose of strategic planning is to find the best strategy for the company to increase its shareholder value and strengthen competitiveness. No matter what your current strategy, the challenge of going through the process on a regular basis is to find an even better one. Only when you cannot find a better strategy will you be sure the one you have is the one you should follow.

The three-step method described below brings discipline and rigour to a company and increases the organization's strategic planning skills:

1. Identify Key Strategic Issues

Identifying strategic issues involves synthesizing what you know about the organization and its changing environment, and distilling that information into the critical questions and issues to be addressed. There are two kinds of issues – external and internal.

- External issues arise out of changes in the business environment that will have strategic consequences for the firm. Examples may include: the effect of interest rate changes on capital investment, changes in material prices, manpower shortages, impending changes to legislation, new entries in the competitive arena.
- Internal issues have to do with decisions that have a strategic impact on the way a firm does business. For example, whether or not to merge or acquire another firm, expand services into a new area (i.e. design-build),

add new positions and staff, change vision, or, how to deal with strengths and weaknesses.

Strategic issues are what keep construction executives up at night – the things they wrestle with both consciously and subconsciously. The most important factor in creating a list of strategic issues is the CEO's gut instinct; the intuitive insight into the existing limitations of their organization and the best growth opportunities in their environment. While there is no limit to the number of strategic issues a firm may have at a given point, it is important to prune the list down to three to five issues in order to identify the most important.

2. Creating Strategic Alternatives

A strategic alternative is one of several ways a firm might compete in the marketplace or achieve its vision. Good alternatives offer variety (i.e. financial, people or process goals, shareholder issues, etc.); sufficient change from the status quo to drive some "stretch"; and a challenge to existing aspirations and long-held assumptions and beliefs.

A practical example of this comes from a construction firm we worked with a few years ago that wanted to radically change the composition of business they were doing. By the end of fiscal 2001, they wanted to have 65% of their revenues coming from private enterprise clients and 35% from institutional clients (municipal, provincial and federal governments). Up until that strategy planning session, they were doing 80% of their work with institutional clients and 20% with private firms. By realizing that the best future opportunities in their particular location would come from private enterprise, they began to learn how to "sell/market" their business and provide design-build and construction management services. In turn, this required them to hire some new staff who were skilled and experienced in these areas. A few years later, they were successfully negotiating work at better margins and had revenue increases of over 40%. I'm forecasting that they will be very close

to accomplishing their stated objective. And already – it's a different business!

3. Implement Strategy

By far the most challenging aspect of planning for contractors, is the implementation – putting wheels under it. This is where management capability is really tested. We have learned that developing clear tactics and action plans is critical to ensure the strategy will be executed. Moreover, people will be accountable if they have participated in the strategy process and are on the same page regarding the firm's priorities. It is the implementation of action plans that leads to accomplishment of the strategy. In our consulting work with contractors, we have observed that one of the main reasons for failure in strategy implementation is not having the right people in place. Construction firms are known for selecting individuals with industry experience, technical skills and education but who often lack the "soft skills" of personality, communication and management. Very often, the lack of these key skill areas ultimately causes a strategy to fail. In a number of instances, we have helped owners identify this issue, helped them make appropriate changes and seen significant business benefits as a result.

Most insights important to the formulation of strategy reside in the heads of operating managers – the management team.

Getting Started

If this all sounds somewhat motivating but also daunting, that's a good sign you would benefit from initiating a strategy session for your firm. At the risk of over-simplifying the process, here's what you can do to start:

- Identify the key people who have the most influence in determining your organization's future and invite them to participate in a planning session (strategy is top management's responsibility);
- Set aside a two-day period and meet outside of the office to minimize interruptions and distractions;
- Retain a facilitator to assist with the design of an agenda based on what

you want to accomplish and who will chair the session for you (owners and managers need to be active participants, and an outside consultant ensures all will be on their best behaviour);

- Let the facilitator guide you through a variety of participative processes to identify issues, craft strategies, prioritize and develop action plans;
- Take the plan that comes out of your session and assign accountabilities and dates for execution. Have monthly reporting on the status of action plans and modify them if conditions change;

Survival depends on how
you use your strengths.

Success depends on how
you deal with your
weaknesses.

- Do it all over again in a year because there will always be new issues (economic factors, competitive issues, technological developments, changing market trends, etc.) to deal with.

Many companies assert that people are their most important asset. I would argue that people are not a company's most important asset, but its most important raw material. Knowledge is valuable only when it is passed on to others and then used to better meet client needs. Therefore, people become an asset only when what they know is deployed on behalf of clients. Unless you commit your organization to the discipline of self-examination and improvement based on client needs, you will always struggle to keep good people and good clients. Strategic planning is the process of making sure you're doing the right things...and doing them right. OM

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