Revaluing Construction - the International Agenda

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BPR (RV)
AND CONSTRUCTION COMPANIES
A WAY TO ENHANCE VALUE?

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“Alas, where is stability in this world?”

Jeremiah, Old Testament, Lamentations
Homer, Iliad, XI Canto
Thomas Occleve (1369?-1426), De Regimine Principum
...

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Financial analysts ... 

... and scientific literature agree:

1. extraordinary changes are taking place in technology and economics
2. changes are not explained with imbalance between supply and demand
3. globalization is a must but affects different countries unevenly with serious impacts

The change...

... is dominated by an evolution of global labour and intellectual work unprecedented in the history of mankind
This presentation... 

... will take into account

a) the present market situation in the building sector and its challenges

b) the concepts and tools proposed by the major BS worldwide to cope with the “Great Change Over”

c) a case study about Reengineering (Revaluing) at work

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a.1) The European skyline ...

... is “globalized”... and slumping at the moment

4 Italy: market less than 7.8% GNP, growth slump from 5.6% to 2.3%, trend to decrease (ANCE)

4 France: 2002 closed at standstill, slump predictions (Doucet, Spie Batignolles, Le Moniteur)

4 Germany: same trend (Sole 24 ore)

0 this trend seems extended to European level (EFTA area included)
   (Groupe Bagnolet, Others)
a.2) Contractors...

... pay dearly
  o non conformities
  o ... the increasing trend in rework
  o requests of indemnities

... A rise in value is a must today

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a.3) Contractors...

... were not inactive in the meantime
  4 not negligible retrenchments are described
  4 ANCE depicts significant organizational changes in Italian companies,
    • both in large companies,
    • and SMEs

This trend is typical of many countries

(E. Campagnac and G. Winch )

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b.1) Are these changes adequate?

Major Business Schools worldwide (MIT BS, HBS, LBS) ...

- ... do not agree
- ... show that the new challenges...
  - are not only European problems
  - are not only contractors' problems
- ... and describe new ways to cope with "the great change over"

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b.2) Actually ...

... non conformities and failures in customer satisfaction are tracked back to...

- ... “function-oriented” nature of construction firms organization
- multi-functional operation
- uncoordinated multi-information transfer

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b.3) Change Management techniques

- ISO 9001:2000
- Total Quality Management
- Value Management
- Value engineering
- Knowledge Management
- ADKAR model (Awareness, Desire, Knowledge, Ability, Reinforcement)
- Reengineering - Revaluing

**the keyword is Process Ownership**

b.4) Analysis / Intermediate Conclusion

- Construction companies will probably be able to overcome this “permanent” crisis ...
  - ... in terms of deep, often traumatic adjustments
  - ... towards a “process-oriented” organization model
c.1) Process-oriented Organization...

- is not an objective in itself
- needs a purpose
- hence, keys to success may be
  1. Reengineering (revaluing)
     - project/job managers are process owners (medium-top level responsibilities for project/job managers)
  2. Reformed Quality policies
     - customer satisfaction-at-once ...
     - ... along with limited reworking or no reworking at all
     - sustainability

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c.2) Our Case study

Starting point:
- as process models are very similar whatever the business concerned is ...
- ... can a car fittings firm (Autokit) “teach” successful revaluing to a building company (Edilkit)?

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c.3) **Successful reengineering...**

... at Autokit was studied and investigated.

- In correspondence, a **reengineered set-up** was sketched at Edilkit
- Edilkit was interested
- ... and **worried** at the same time
  - fear of **reactions** of functions managers
  - lack of applicants as Process Owners

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c.4) **Discouraged?**

... Not completely

- we obtained from Edilkit
  - **uncommitted** help (comments, documents, general support)
  - **conjectural** feedback and simulation joint **review**
  - promise of possible future **commitment upon results**
c.5) A reengineered process...

... was

- worked out (in form of ISO 9001:2000 Quality System)
- ... submitted to Edilkit
- and reworked until “approval”

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c.6) The reengineered process...

... is based upon a twofold set of “ground breaking” changes:

4 “minor” changes (much wider independence in site issues)
- direct contacts with the Client
- responsibility for minor contract modifications
- independent decision-making within limited budget variations
c.7) The reengineered process...

... is based upon a twofold set of “ground breaking” changes:

1. major changes (new responsibilities, traditionally performed by separate functions)
   - purchase process (materials, components and services)
   - binding advice in job pre-planning and contract review

2 Preliminary tools...

... to start with:

- questionnaire (after Bateson, with specific integrations)
  - investigation of company profiles
  - pinpointing of “hard” and “soft” spots

- “Gap Analysis Kit” (again after Bateson with more additions)
  - inclination to adaptive adjustments
  - opportunities to improve competitive position
  - gap in respect of reengineering potential
  - ways for low-impact reengineering process
Conclusion 1

Keynotes of the “implemented” RE model

- a newborn company
- ... centred on a number of self relaying teams
- ... headed by job managers acting as Process Owners

... not so far from Brunelleschi’s Enterprise Model

Conclusion 2

Estimation of “obtained” results is in progress

- an actual job taken into account
- progress and conclusions investigated (cash flow recalculated and plotted, cost of non conformities considered, reworking cost calculated, global financial results evaluated)
- identical job re-run under simulation (same indicators calculated and compared with the original; whenever simulation looks unreliable, experimental use of roleplay in simulated briefs with Edilkit top manager)

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**Conclusion 3**

**“Mid term” results**
- Rework costs before RE: 1.2% of turnover
- Rework reduction after RE: 30% (prudential estimation)
- Further rework reduction after RE: +20% (likely estimation)
- Rework costs after RE: 0.84% of turnover (prudential estimation)
- Rework costs after RE: 0.6% of turnover (likely estimation)
- Saving for Edilkit: 97,000 €; possibly up to 162,000 € of removed unnecessary costs
- ... plus reduction in delivery time of supplies (present, not yet quantified)
- ... plus increased number of bids in construction tenders

**An enduring statement:**

... and he that will not apply new remedies, must expect new evils; for time is the greatest innovator

* Sir Francis Bacon, Essays