Through-life Value Creation: organising for service-led construction projects

Background
Major clients in the public sector domain are increasingly looking to procure built facilities on the basis of added value, rather than capital cost. Growing emphasis is given to whole-life considerations and to the service dimensions of projects (HM Treasury, 2007) - a shift that is accelerated by the current environmental, financial and security challenges (HM Treasury, 2008). Supporting arguments embrace design, production and facilities management and emphasise the need for the construction sector to shift its attention away from product delivery towards the satisfaction of client needs.

These developments are increasingly evident in a number of areas, of which the Private Finance Initiative (PFI) and associated Public-Private Partnership (PPP) projects are perhaps the most noticeable. Since its inception in 1992 whole-life considerations and extended contractual undertakings have been an integral part of the PFI discourse. However, it is only recently that service-delivery and means of benchmarking and market testing the services provided has come to the forefront of PFI procurement (NAO, 2007). Service provision is now central to PFI projects across most sectors and the projects are increasingly becoming service driven. This shift away from established PFI models has served to blur the boundaries between construction and service. The proportional division of costs between capital works and operations in recent PFI infrastructure projects now differ significantly from earlier DBFO road projects. In the housing sector emphasis in the design of PFI schemes is shifting from improving and maintaining social housing stock towards the creation of sustainable communities and services to the local communities (CLG, 2008). Likewise in the educational sector the ‘Building Schools for the Future’ programme was put in place not solely as a financing route for new school buildings, but as a vehicle that ensures that schools are provided that allow for educational transformation (4ps, 2008).

Outside the PFI context public sector clients, and client organisations in regulated markets, have in the past been restricted in their ability to issue long-term contracts due to the centrally imposed need for frequent market testing. Nevertheless, the trend towards a service-delivery focus in projects is easily discernable in several sectors. The progressive privatisation of highway maintenance capabilities has, for example, affected the way in which both the Highways Agency and Local Authorities procure construction work. The Highways Agency has over the last decade introduced a succession of procurement initiatives with associated framework agreements in order to facilitate a service-orientated engagement. Many Local Authorities have similarly adopted the framework approach and have progressively externalised their ‘direct service organisations’. Other areas where the move towards an increase in long-term service oriented contracts and use of framework agreements is clearly noticeable include the power and water utilities. In these markets major investment in upgrading and developing assets is increasingly procured through long-term collaborative contracts.
The changes in procurement strategy, described above, have consequences that go beyond merely adding additional services to traditional construction work. The projects are perhaps best conceptualised as being ‘service-led’ and driven by a localised vision of downstream service delivery based on the client’s strategy and objectives for a new or enhanced service to its own customers. This increases the number of stakeholders and adds a new realm of project complexity that challenges deeply-ingrained working practices.

The challenge
The long-term nature of the service delivery requirements combined with the added risks associated with the extended timeframes and future business environments place new demands on clients and suppliers alike. This raises the question of how client organisations, firms and project organisations best organise to accommodate the added emphasis on service. It seems eminently clear that most organisations, regardless of size and specialisation, will have to acquire new capabilities or at the very least develop their present skill sets. Similarly it goes without saying that adapting to more service-orientated business models puts existing contractual arrangements to test. Progress towards collaborative working in achieving added value has in the past been curtailed by a lack of trust (cf. Leiringer et al., 2009). Thus, such changes need to be contextualised and investigated in relation to the larger portfolio of activities of the involved organisations. Two key issues can be singled out. The first is how construction firms manage and protect the expertise and working relationships that support their excellence in specialised niches and secure their positions in more traditional markets, while realising their remit in service-led projects. The second is the extent to which organisational and structural changes are met by equivalent changes within client, and other relevant, organisations.

The research challenge is to unravel the myriad of practices contained in terms such as ‘adding value’ and ‘service delivery’, as realised in projects, situated in complex, yet specific environments. And to explore the tensions which participation in service-led projects pose for the involved parties and establish the different ways in which these can be managed at intra- and inter-organisational levels. Simplistic models of centralised homogeneous firms, working in a single institutional environment, are not suited for the added complexity of service-led projects. These projects will have a different place in the larger portfolio of activities of various internal stakeholders. The adopted approach for this project is therefore to shift the emphasis from viewing firms as unitary entities and instead capture the dynamics of decentralised firms working in multiple markets on a variety of projects, some of which are service driven. This line of inquiry will lead to a more practical and nuanced understanding of intra-organisational dynamics throughout the project life-cycle. It could also, in turn, lead to a greater appreciation of the working relationships between different organisations at different stages of service-led projects.
Research programme

Service-led projects are complex socio-technical systems comprising combinations of technological and organisational systems that are likely to change over time. By necessity research in this domain cannot be completely rigid and pre-determined. In recognition of this the adopted research will be of an interpretive nature and will incorporate a degree of flexibility in order to adjust to emergent findings and potential changes in the procurement landscape, and in the requirements of collaborating organisations.

To meet the challenge 4 objectives are set for the research, which are to:

i) Study the place that service-led projects have in the larger portfolio of activities of different internal stakeholders.

ii) Identify the tensions which participation in service-led projects pose for the involved organisations and explore the different ways in which these are managed at the business unit, firm and joint venture/consortium level.

iii) Explore the extent to which organisations involved in service-led projects have undergone internal reorganisation/structuring.

iv) Develop a set of practical guiding principles which could be adapted to different settings and circumstances.

Theoretical underpinning

An initial theoretical touchstone will be provided by a combination of elements from neo-institutional and strategic change theory. From neo-institutional theory is taken that markets are marked by distinct logics and characterised by a taken-for-granted set of rules and shared meanings governing commercial practice. These include rules concerning who can participate in a particular type of practice, the relations between them and how they should act (DiMaggio and Powell, 1983; Kostova and Zaheer, 1999). Strategic change theories will be drawn upon to explain the role of managers in manipulating rules and standards in pursuit of legitimacy both vis-à-vis stakeholders and within the organisation (Ashforth and Gibbs, 1990; Fiss and Zajac, 2006). Combining elements from both sets of theories allows for explanations of the processes by which managers and organisations respond to changes in the broader environment.

Relevance to the beneficiaries

The outcomes of the project will have strong relevance to construction firms that are, or are looking to be, in a position to take leading roles in service-led projects and to the public and private client organisations that procure them. At the heart of the project lies the relationship between procurement strategies, commercial incentivisation and organisational behaviour. Key to the research is the tension between the demands of service-led projects for centralised coordination and the benefits in quality and value associated with decentralised organisations and specialist niches. The findings will
therefore help improve our common understanding of the structural challenges faced by the involved organisations and the range of solutions available. It is anticipated that the research will provide an increased understanding of the extent to which procurement strategies are consistent with the current commercial climate. It will also provide a basis for further exploration of the potential avenues of assuring that maximum advantage can be taken of the expertise that exists within the private sector. The research findings potentially provide a basis for more realistic and thus fruitful models of how to realise added value and will help the industrial partners in the development of their own strategies and service-oriented business models.

References


NAO. (2007). Benchmarking and market testing the ongoing services component of PFI projects. National Audit Office. London,
