

NEW ZEALAND QUANTITY SURVEYING PRACTICES – CONTINUING TO ADAPT IN A CHANGING ENVIRONMENT

John Boon

UNITEC, Auckland, New Zealand

ABSTRACT

The management of four New Zealand Quantity Surveying firms is examined using a five part framework. Comparison is made between current practice and that observed during research in 1996. It is concluded that the firms are now more clearly pursuing value added strategies and that they have become less flexible in their structures. In the commentary section the author debates how the firms might further develop their strategies and comments on the dangers of a less flexible structure.

Keywords: practice management, strategy, structure.

1.0 INTRODUCTION

This paper is a follow on to a paper presented at the 1996 Cobra conference (Boon 1996). The original paper, looked at how four leading Quantity Surveying practices in Auckland, had managed themselves through the period 1989-96 and made some commentary and suggestions for the future. In the research that underpins this paper, the author has reinterviewed the same firms to discover how they have prospered since that time, how they have managed themselves and the management strategies they are adopting for the future.

In the earlier paper, the author observed that the firms were competing in an environment where they had survived the property market collapse with its shortage of work. The market had by 1996, regrown to a satisfactory level. However, two significant factors for the firms were identified – fee competition and the growth of small firms (often comprising people made redundant by the larger firms) who had lower overheads and sought to compete on the basis of lowest price. The firms were identified as reacting to the competitiveness of the market in three ways:

- by lowering their cost structures and competing on the basis of lowest price (this approach required carefully defining a restricted service).
- by offering a value added service – typically this placed emphasis on providing extended advice to clients during the early stages of projects.
- by offering alternative services, on new buildings in the form of project management, client representation, advice to banks on property development proposals and on existing buildings in the form of tax depreciation schedules, maintenance management, preparation of asset registers etc.

In addition to these market positioning strategies, the firms were to varying degrees, pursuing strategies concerning the structure of the firm that gave them flexibility in productive capacity which enabled them to meet the needs of their clients without incurring fixed costs they would be unable to carry during periods of downturn.

These strategies generally concerned the use of temporary employees and outsourcing to sub-contractors.

In the commentary section of the 1996 paper, the author used Michael Porter's (1980) thinking on "Competitive Strategy" to argue that the firms needed to clarify their strategy further so that they either competed on the basis of lowest price or of value added. Otherwise they were in danger of ending up, in Porter's terms, "stuck in the middle". Offering a service that is neither the lowest cost nor represents the best value. In addition, the author argued that the firms needed to pursue the issue of structural flexibility further and move towards being an "open firm" with a small core and a network of temporary workers and sub-contractors.

1.1 Research Methodology

The study was carried out using loosely structured interviews. The interviewees were first asked to describe what changes had happened to the structure and ownership of their firm in the period. They were then asked to describe their experience of the market over the last five years and the ways in which the firm had adapted to changing market conditions. A checklist based on the framework for analysis described below was then worked through. The checklist varied from the one used in 1996 in that a question was asked regarding the impact of globalisation, the information technology section was strengthened and a section concerning knowledge management added. The loose structure of the interviews inevitably means that the subsequent analysis is influenced by a good deal of subjectivity on the author's part. The benefit however is that a richer picture is gathered. Both in 1996 and the current interviews, the author found the firms had practices and management priorities which were different from those anticipated and which may not have been revealed by more structured interviews.

As a framework for analysis a five part model is used, this was developed earlier by the author based on studies of architectural and engineering practices in Auckland (Boon 1996) and is summarised below.

1.2 Framework for Analysis

The framework is based on the view that there is no one right way for firms to survive in a market where they experience significant changes in demand conditions. Rather, there is an interaction between, and a balancing of a number of factors, that lead to success or failure. In this framework, the key factors that need to be addressed in the management of the firm are:

- market orientation
- knowledge base
- flexibility in cost structure and productive capacity
- efficiency and price competitiveness
- financial resources.

These factors are seen as being interdependent, movement in one factor affecting the required action within another.



fig 1 Key Factors in the Management of a Professional Firm

1.3 The Firms

The four firms studied are all significant firms in the New Zealand Quantity Surveying profession. All are based in Auckland, a city of 1.4 million people, which is New Zealand’s largest city and premier commercial centre. All four firms are limited liability companies with offices in other cities within NZ. Two of the four firms have strengthened their association with international practices. Three now trade under international names. The fourth has backed off from international links and is currently rethinking this issue. Relatively small changes of ownership and directors have taken place in each firm since 1996. There are a total of about seven significant firms in Auckland i.e. firms that are successful in being appointed to moderate to large projects on a regular basis. The four were selected in 1996 on the basis of their willingness to participate.

1.4 The Market

The New Zealand economy is small (population 3.6m), it is heavily dependant on exporting and importing and is substantially deregulated and open. In the study period the market has been reasonably buoyant.

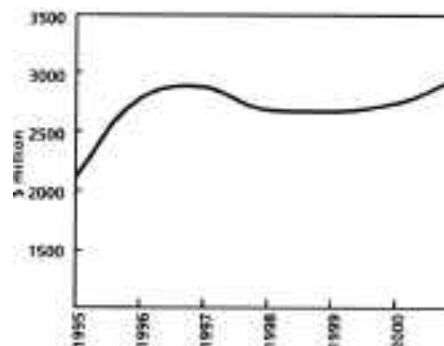


Fig 2 Total Building Activity – non residential buildings
(source Statistics New Zealand)

The interviews all reported shifts in the sectors from which they obtained work. Overall, the major market sectors from which they obtained work were inner city apartments, retail centres, government sponsored work in the healthcare, corrections and education areas, sports and entertainment, including stadium developments, major landmark and city fringe office developments.

2.0 DEVELOPMENT OF THE FIRMS OVER THE LAST FIVE YEARS

The framework introduced above is used here to provide a summary of the firms' activities and management practices over the last five years.

2.1 Market Orientation

The regrowth of property development activity has meant the firms have been able to refocus on their core skills of offering cost management advice to clients involved in new property developments. Three of the four firms have developed along generally similar lines offering significantly expanded advice during the feasibility and design stages of projects which each describe as now forming a significantly greater portion of their business. These three firms all reported that they now get paid adequately for this advice.

A mixed level of Schedule (Bill) of Quantity services was reported ranging from the use of Schedules almost being the norm on projects through to one firm saying they now rarely provide them. Construction phase cost, payment management and final account settlement remain significant services. Provision of Value Management Facilitation is now seen as a normal part of Quantity Surveying practice.

All firms are now doing more work than in the previous periods for banks where the bank is providing the funds for a property development. Not only were the firms involved in more projects but also now provide a wider service, reviewing conditions of contract, time schedules and sale and purchase agreements as well as cost estimate review and draw down supervision. They all reported that this had helped develop business with property developers who had not previously seen benefit in using their services.

The firms were more varied in their approaches to project management and similar services. Approaches varied from viewing such service as a core part of the business, through to providing it via a related company over which they exercised varying degrees of ownership.

One company had developed a significant involvement in providing cost management services to heavy engineering projects such as power generation plants on offshore projects. This had grown out of an involvement in a power generation project in New Zealand. One other company reported significant involvement in offshore business.

As part of their market positioning two of the four firms had changed their name to that of the international group they are part of (a third already used the name). This was done to strengthen the brand value of the trading name, implying that the firm is capable of bringing to bear the expertise of the international group.

At the time of the 1996 study, each practice was looking to develop to some extent, services for owners of existing buildings such as property maintenance schedules, code compliance management and asset registers. Currently, each firm continues to supply this type of service when requested to existing clients however none is seeking

to develop it further. The experience of this market segment was that it was competitive and involved a lot of detailed work for small returns.

Overall three of the firms are now successfully pursuing very clear value added strategies based on their core service of cost advice and management for property development. They are no longer pursuing a mixture of lowest cost and value added strategies (although price remains part of the marketing equation). Neither are they continuing to seek to diversify into services associated with existing buildings. They have evolved to more closely align with Porter's (1980) thinking on Competitive Strategy. The third firm has not so clearly evolved and still appears to be chasing more than one position in the market.

2.2 Knowledge Base

The 1996 interviews did not particularly focus on this issue however, the loose structure of the interviews resulted in the interviewees identifying the importance to them of having the right knowledge to enable them to deliver the required service to the clients. Further, the interviews highlighted that the firms' knowledge was largely in the minds of its people and not contained in databases or formal documentation therefore having the right people was critical to success. In the light of these findings and the growing interest in knowledge management and the "learning organisation", this area was examined in more detail in the current survey. The headings used for analysis are derived from a brief literature review by the author but were particularly influenced by Dixon (2000).

Competency definition and training – Three of the four firms used systems of annual reviews to review the positions and skills of employees and to assess their potential to progress. From these reviews, training needs were defined and provided.

Best practice capture - Three of the four firms have formal quality assurance systems. Only one is ISO 9000 accredited. These systems provide them with standard templates for normal activities such as report formats etc. They each feel this provides them with a base line of best practice. Each felt there was room to expand best practice capture. Those involved with international practices are able to access examples of best practice from the international group.

Expert knowledge transfer - The firms that had international connections all reported being able to access expertise when required from the group they were part of. This was achieved both by being aware of who had specialist expertise through attendance at group conferences etc and by posing questions by email circulation. It was felt that this had enabled the firms to bring significantly better levels of knowledge to work on specialist types of buildings such as healthcare. The three firms also reported transferring knowledge they had developed to other parts of the group. It was felt this is a significant and growing part of the business.

Learning communities - This is a term used in current literature on organisational learning to describe deliberately organised learning by peers sharing current experience (for example Raybould 2000). The survey showed this happening on two levels. First, at a local office level. All except one firm had a system of regular staff meetings at which current issues were discussed and experiences shared. In addition,

two of the three firms with international connections met with senior people from other offices and discussed current issues and future strategies. Two firms did this on a national basis.

Mentoring - All firms reported informally mentoring juniors. None had formal mentoring systems and none had systems for mentoring more senior staff when promoted. Given the small size of the firms, this is not surprising.

Overall, the firms appeared well organised to facilitate organizational learning. Their practices measured up well against current practice as described in the literature. However, the learning is characterised by a “need to know” approach, new knowledge is acquired to meet the demands of a particular project. There was little evidence that the firms were actively seeking to further strengthen strategic positions by gaining new knowledge.

2.3 Flexibility in Cost Structure and Productive Capacity

In the 1996 survey, the author focussed on this area, considering in detail how the firms had managed to survive the volatile period from the property crash of 1989 through to 1996. The 1996 paper described the firms using the following tactics to cope with peaks and troughs in their workload:

- Using post contract work as a buffer
- Staff working overtime
- Transfer of work between offices
- Use of temporary employees
- Use of subcontractors.

The workload in the current survey period has been less volatile. All firms reported workload varying between sufficient and excessive. All firms reported difficulty being able to recruit good employees and most had resorted to recruiting overseas. All continue to use the above tactics, although little use is made of the first one as it does not allow the firms to meet client’s service expectations. Temporary employees are hard to find, they had been available in the early 90s after firms had down sized, most temporary employees from that period now have permanent jobs again. The use of subcontractors is difficult as the services being offered have tightened around the more specialised areas of core quantity surveying. Only the larger firms have this knowledge. Subcontracting is largely restricted to generic services such as project management and preparation of Schedules of Quantities. In the latter case, all reported difficulties in maintaining their quality assurance systems when subcontracting work. Transfer of work between offices is currently the principal means by which the firms deal with peaks in their workloads.

Flexibility in cost structure and productive capacity appears to have been much less of an issue during this period than was predicted by the author in the 1996 paper.

2.4 Efficiency and Price Competitiveness

The current market appears to be competitive but not excessively so. All firms reported the need to price competitively and control costs carefully. However, the market is not as cut throat as in the earlier period. All firms believed they are now more efficient. All believed they had developed their IT capacity to enable them to be

more efficient. None believed they had a significant advantage over their competitors in terms of production costs.

Only one firm had experience of working on a project that used a web based project documentation management system. All used email on projects, some reported projects having limited web pages. All expected to be engaged on projects that did use web based project documentation systems in the near future.

All firms reported currently reviewing their IT systems with a view to moving to the next generation of software. Generally, this was being done as part of their membership of an international group. All firms anticipated there would be significant developments in this area in the near future that had the potential to affect their competitive position either in terms of services offered to clients or cost competitiveness. Not involving themselves in further IT development was not regarded as an option.

2.5 Financial Resources

Having sufficient financial resources to meet the needs of the business, did not appear to have been a significant issue over the period. Some concerns were expressed about the resources that will be required to further develop IT capacity.

3.0 COMMENTARY

3.1 Strategy

Michael Porter in 1985 argued there are only two sustainable positions a firm can establish and sustain:

- Lowest price position – under this strategy the firm relies primarily on competing on price. Porter argues that this is a legitimate and potentially successful way of doing business providing the firm can find a means of actually producing the goods or service at a lower cost than their competitors. If they cannot, they are simply getting work by accepting lower profits than their competitors or incurring losses. Over time this is not sustainable.
- Value added position – in this strategy the firm determines its competitive position by adding additional features to its offering such that the increased price asked is acceptable to the client because it offers a better value for money proposition than the lowest price offering.

Three of the four firms appear to have identified that they are unable to compete on the lowest price position, as they are unable to find a means of lowering their costs below that of their competitors. Instead, they have developed a value added position focussed on providing high value cost management advice and services for property development. The high value coming from a substantive knowledge base that is difficult to emulate. Mintzberg and Walters (1985) characterised this as an emergent (rather than deliberate) strategy. In 1996, the firms had less clear strategies trying to compete on a low price as well as an added value basis, at the same time trying to extend their range of services to cover new market sectors. A clear strategy has now emerged. The fourth firm has also moved in this direction but less clearly so.

However, whilst this strategy has enabled the firms in question to substantially strengthen their position in the market relative to other firms, as a group they are essentially occupying the same space in the market. Porter (1996) has extended his thinking in a way that provides a challenge to each of the firms. Porter now defines strategy as “*the creation of a unique and valuable position involving a different set of activities*” (Porter, 1996 p. 68). None of the firms has yet established such a “unique” position based on a “different set of activities”. This lack of uniqueness must limit both the growth potential and the profitability of the firms. Porter (1996) argues that strategy hangs around “positioning” and “fit”. Positioning being the unique position of value in the market the firm seeks to occupy and fit the way the firm structures all its activities to efficiently and effectively serve that market position. He is particularly clear that strategy – the establishment of a “unique” position requires trade-offs. A firm cannot be all things to all people and must make choices “*trade-offs are essential to strategy. They create the need for choice and purposefully limit what a company offers*” (Porter, 1996, p. 69).

Porter (1996) argues that strategic positions emerge from three distinctive sources, which are not mutually exclusive and often overlap. These are:

- Variety based positioning* - which arises from an ability to produce a subset of goods and services advantageously.
- Needs based positioning* - based on servicing most or all of the needs of a particular group of customers
- Access based positioning* - where the firm is positioned to serve the needs of a segment of customers who can be accessed in a different way.

Porter (1996) further argues that differences in customer needs do not translate into meaningful positions unless the best set of activities to satisfy them also differs. This is where the concept of “fit” comes in.

Whilst Porter’s thinking is initially seductive, it is in practice hard to apply to something like quantity surveying practices in a small market. Niche market concepts tend to fall apart simply because the niche becomes too small and work is only available in it intermittently. This is particularly so in the areas of specialist buildings such as base hospitals or major shopping centres where there is the opportunity to develop specialist knowledge and skills but such buildings are only developed intermittently.

One of the firms surveyed is at one level developing a “variety based” position. Its work on power generation stations appears to have put it in a strong position in this market on an international basis. However, much of its other activities are directed towards the local building market. The firm therefore fails Porter’s test of “fit”. It is not aligning itself totally with that particular position and is probably unable to do so as the volume of work available to it is still small.

Without this ability to establish a differentiated position one suspects the immediate future for the firms is an arena of competing by continually improving the services offered. If this is the case, the winners are likely to emerge as those with the best knowledge base and IT systems. Each firm appears to understand that these are the

grounds they will compete on. However, some of the firms with international connections appear to be better prepared to compete than others.

By contrast there is in the New Zealand market another significant QS firm that was not included in the 1996 survey. It has over recent years radically rethought its positioning using thinking that bears strong resemblances to Levitt's (1991) concepts of "the potential product". Levitt argues that it is possible to radically rethink a product or service so that it substantially exceeds customers expectations and redefines the relationship. This firm has redefined itself as being in the business of helping clients acquire and manage assets. In doing so, it has identified that businesses' major assets are people, IT and (real) property. It has therefore merged into a group that includes human resource management services, IT services and property acquisition and management services. In this way they have substantially differentiated themselves from the firms in this study. Porter's (1996) work suggests that for this differentiation to be a successful strategy, it must first, be of value to the client and secondly, the activities of the firm must be fully aligned to deliver efficiently the differentiated position. It will be interesting to observe over the next period whether such radical positioning proves to be of benefit.

3.2 Structure

In the commentary section of the 1996 paper the author argued that the firms were developing towards becoming "open firms". That is firms with a relatively small core but which were capable of expanding to increase the volume of their outputs and the range of their services through being part of a network which included subcontractors and temporary employees. The author argued the firms needed to develop further down this path in order to provide the required services to their clients but avoid high fixed overheads which might threaten their ability to survive during times of downturn in business.

The firms have not developed in this direction and are using the services of temporary employees and subcontractors less now than in 1996. As discussed earlier, the specialised nature of their business limits the use of such tactics.

However, significantly three of the four firms have strengthened their ties with an international group. This seems to provide a number of potential advantages:

- A strengthening of the knowledge base of the firm. There is a reality (to varying extents) in each international group's ability to make available to its New Zealand partner its more advanced and specialist knowledge and hence the New Zealand firm's ability to compete on the basis of the level of expertise it can bring to a project.
- An expanded capacity – when overloaded the New Zealand firm could get assistance from its overseas partners in the group.
- A sharing of development costs particularly in the IT area.

3.3 The Future

Over the next period the firms in this survey have to find a way through a dichotomy concerning their market positioning and the flexibility of their cost structures.

On the one hand they are pursuing strategies of market positioning which rely on high levels of specialist knowledge. As all four firms are competing on this basis they must continually seek to enhance this specialist knowledge in order to maintain or improve their competitive position. However this knowledge is internal to the firm, therefore the further they pursue this market position the less they are able to use subcontractors and temporary workers to give them flexibility in their cost structure and productive capacity. Further, the use of IT to further develop this position will inevitably incur higher levels of fixed capital investment.

On the other hand they are probably moving into a more difficult economic period during which periods of market downturn may be anticipated. If this is the case this positioning strategy with its inflexible cost structure may threaten their financial viability.

How the firms manage themselves between these opposing tensions of possessing the best knowledge base whilst having a flexible cost structure may determine their success in the next period. It is the author's view that the manner in which each firm uses its relationship with its international partners will be critical. This in turn suggests that the firm that does not have an established international partnership may be most vulnerable.

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