

LEADERSHIP IN CONSTRUCTION INDUSTRY: LEARNING FROM THE PAST

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ABSTRACT

In construction industry there is often a continuous dynamic equilibrium of several 'forces', controlled by several stakeholders in this industry, e.g.: Contractors, clients, governments, consultants, banks, insurers, etc. This means there is a continuous need for review a company's strategy to the existent world around it. Not just only on a local scale (which is often the basis for construction activities) but increasingly on a national and international scale. However, this need for 'glocalizing' thinking (often combined with acting locally) in general is no practice by a large part of construction industry's stakeholders. This paper describes an analysis of an European situation, focussed on Dutch construction industry. In general here, leadership is considered as the ability to build up a strong construction business. Two case studies of entrepreneurs and the way they build their construction business are analysed. On the one hand it represents lessons learned for leadership, based on experiences in the recent past; whereas on the other hand it points at possible influencing factors for succesful leadership, due to e.g. globalization and/or a changing business culture. Results point e.g. in the direction that succesful leadership in construction business is not just following a standard 'format', whereas being considered as a succesful leader or not is still a part of the local (business)culture.

KEYWORDS: *Construction industry, Culture, Glocalization, Leadership, Strategy.*

1 INTRODUCTION

Due to several influences, construction industry nowadays increasingly needs to adapt itself towards the actual situation. This is represented not only in e.g. situations in developing areas like e.g. former East Europe, Far East, etc., but also in the areas of West Europe. Especially, because several companies from these Western areas see their markets increasingly changing towards the developing areas. Such developments seem to cause a need for 'reset' the mindset of those companies, to refocus themselves on a more globalizing attitude, with a local grip. This also leads to an increasing need for doing business 'glocally'.

This paper focusses on some examples of Dutch construction companies, being lead into this new 'era', having different styles of leadership. And having both advantages as well as disadvantages of the way they work.

2 RECENT DEVELOPMENTS IN THE DUTCH CONSTRUCTION MARKET

2.1 Introduction

Some recent developments in the Dutch construction market have lead to changes in several Dutch construction companies. In short, the following three levels of development are being described:

- *Industry level;*
- *Company level;*
- *Professional level.*

2.2 Industry Level

The Dutch construction industry is a dynamic business, especially during the last few years. This, because the construction industry suffered strongly due to the revaluing and restructuring actions, initiated by the Dutch government and large governmental clients. These actions were taken specific on the market for large public infrastructure projects, because the government discovered in 2002 several companies, having practiced collusion, by joining themselves illegally together in tender procedures of public projects [Tijhuis, 2004]. These companies obviously had organised themselves into ‘informal groups’, acting as ‘market-cartels’. Especially in the field of infrastructure-projects this came out. Because of the fact that Dutch public infrastructure departments still are the main clients in these sectors, these departments joined themselves into a branch-wide investigation, organised by the Dutch government. This investigation-commission (the so called ‘Commissie Bouwenquête’) has been investigating these illegal practices very thoroughly. Main results of these investigations were as follows [Vos, 2002]:

- a. There is a need for increasing ‘transparency’ within procedures;*
- b. Efforts on rationalization of construction processes should be intensified;*
- c. Focus on the ‘right price’ instead of just focussing on the ‘lowest price’.*

Ad a:

Most parties in Dutch construction market are convinced that the discussion about ‘transparency’ is a right one. They strive for an improvement of the situation as described in the investigations by the Commission Vos. Especially, because this commission pointed at the fact that the group of companies, acting according illegal procedures, was relatively small, but were still seriously influencing the functioning of the national tender market for infrastructure projects.

Ad b:

Rationalizing construction processes was and is still a key issue in Dutch construction industry. Although the present practices of e.g. building teams and constructability-issues are quite state-of-the-art, there is a continuous drive for improvement processes.

Ad c:

An increased focus on the right price instead on just on the lowest price is still practiced widely in Dutch construction industry. Also the (public) clients do accept this practice. However, until now it still seems that a sound comparison between price and quality (e.g. related to output-performance) is still difficult, despite the serious trend towards performance-based or output-related contracts by the public client, in e.g. railinfrastructure-projects [Tijhuis, 2001].

2.3 Company Level

When looking to e.g. the share-prices of (Dutch) stock-listed construction funds in general, they did not make a lot of growth nor decline between 2002 and 2003. However, in individual cases there are also companies who's stock-price really declined more than ca.20% within one year, basically due to the above described situation of discovered collusion. However, although several of the companies' stock-prices recently rose again even spectacularly (more than 50% is reported recently during the last two years [Cobouw, 2006]), individual companies still suffer in the nowadays market due to e.g. the fierce price-competition. When looking more closely to the business itself, the dynamics in the Dutch construction market are now e.g. [Tijhuis, 2004]:

- (a) *High demand for housing, due to low interest-rates and lack of houses;*
- (b) *Need for improvement of procedures, due to high rate of failure costs;*
- (c) *Decreasing need for office-buildings etc., due to the high growth of new projects finished these periods (2003-2004).*

Although in general the Dutch construction market situation has somewhat cooled down recently (especially on the offices-market) the demand for housing-projects is still high.

2.4 Professional Level

When focussing more closely on individuals in construction industry, one can see that they are continuously being confronted with a changing environment and its regulations. Especially due to e.g. the above described circumstances in Dutch construction industry, regulations in tender-procedures have been adapted, and e.g. the selection procedures for specific project-types became more difficult, or at least more complex. Parallel to that e.g. technical developments have lead to new standards and norms, whereas the ongoing integration of the European Union (EU) results into a further need for harmonization (change!) of e.g. regulations. In general, several of these circumstances have influenced the career of Dutch professionals in construction industry. And not only there; due to e.g. technological developments in general, industry needs more high qualified people, combined with the providing of (low-cost?) construction workers in industry. However, developing professional expertise in industry seems to become an increasingly important item [Van der Heijden, 1998]; and not just in industry in general, but more especially also in construction industry.

3 LEADERSHIP IN CONSTRUCTION INDUSTRY: TWO CASE STUDIES

3.1 Introduction

In general, leadership is considered here as the ability to build up a strong construction business. When looking to leadership more closely, there are opinions that it cannot be taught and/or learned; the practicing of it could be part or not of people's mindset, etc. Although this may be true in several cases, the way leadership is being practiced still differs. In relationship to this, Handscombe and Norman characterize (strategic) leadership as 'managing the missing links'. They describe that leaders need the expertise to 'join' or to 'collaborate', or just being able to facilitate these expertises [Handscombe and Norman, 1993]. And several other authors on this issue are describing also factors needed for being or becoming a leader. Basic distinction between theories are e.g. the following two description types:

- (a) *An 'outside-in' approach;*
- (b) *An 'inside-out' approach.*

Ad (a):

This type is often described by academics as well as practitioners, having analysed practical situations of people who are recognised as a leader; Interesting examples of this type are e.g. the publications “Good to great” from Collins, about the way how to become a leading company [Collins, 2001] and “Built to last” from Collins and Porras [Collins and Porras, 1994].

Ad (b):

This type is often described as an autobiography by the leaders themselves; they give their audience an insight into their daily life and practice. However, these publications often incorporate a way of ‘no guts, no glory’ etc. An interesting recent example of this type is the publication of Baan, about his “life as an entrepreneur” [Baan, 2005], and also “Winning” from Welch and Welch [Welch and Welch, 2005]. Nevertheless, one should also bear into mind that leading persons also can make mistakes. However, that is no problem, as long as one learns from his or her own mistakes.

3.2 Analysis-structure

When looking more into detail, one still can see that practical experiences generally personally based, and may lead to different different lessons for different people in different situations. Nevertheless it is still interesting that they can add (insight) information into the interesting field of *being* or *becoming* a leader. And this introduces an important discussion theme:

- *Can someone learn to become a leader?*

Or:

- *Is leadership part of someone’s character?*

The two case-studies in this paper follow the type (a), an ‘outside-in’ approach, describing the practice of two Dutch entrepreneurs, considered in their own situations as ‘leaders’ in their construction business. The analysis describes the way they build their construction business, using the following analysis-structure:

- *Background;*
- *Practice;*
- *Process;*
- *Results.*

As described, it is considered here in general that leadership is the ability to build up a strong construction business. The descriptions focus on analyzing patterns of the behaviour of these entrepreneurs.

3.3 Case study 1: An Opportunistic Leader.

Background:

This case-study focusses on an entrepreneur in construction business in The Netherlands, being successful in the growing of a private company. It’s roots are based in the The Netherlands, being strongly focused on entrepreneurial activities.

The basis for the expansion of the company was:

- *A small construction company, active regionally;*
- *Not just focussing on construction technology or projects, but also on ‘building business’.*

Practice:

As some of the basic attitudes of the entrepreneur, it was recognized that he has:

- *a 'feeling' for attracting the right people;*
- *the ability to have the right 'timing' for doing business;*
- *an opportunistic approach;*
- *within quite a specific company-culture.*

Parallel to that, he has a hands-on approach. And that proved to be the right attitude, although of course also leaders do need the right persons around themselves, which he has, too.

Process:

The opportunistic strategy of 'building business' had a specific history, described into a few steps as follows:

Early 1980's:

- *Growing capacity of the existing small contractor company (family-business), including project development; focus on housing projects;*

Mid to late 1980's:

- *Take-overs of (nearly) bankrupt contractor-companies;*
- *Reshaping and restructuring them from the viewpoint of own entrepreneurial approach and culture;*
- *Focus on housing, offices, etc.;*

Early 1990's:

- *Merging with stock-listed contractor, resulting into a stocklisting of the company;*
- *Internationalizing into the German market, buying a site-portfolio for project development and construction activities.*

Mid-1990's:

- *Opportunistic into new technology-business, starting in funding venture-capital;*

End 1990's:

- *Merging the contractor-company with another contractor;*
- *Focus on housing, offices and infrastructure;*
- *Decline of the German construction market, also leading to a decrease of the investment-value of the site-portfolio;*

Early 2000's:

- *Stocklisting a own participation in a new technology-company, which lead to a good return on investment; however, due to the fact that the stockprice decreased after the IPO, it also lead to some 'damaging' of the business-image of it's initial participants;*

Early to mid 2000's:

- *Due to the crisis in the Dutch construction industry and effects of the large-scale collusion practices within the infrastructural construction branch (investigated during the so called 'Bouwenquete' [Vos et al, 2002]), the share-price of the stock-listed contractor was decreasing; this resulted into a good timing for an opportunistic approach: Buying the company back from public to private again was interesting, and so it happened. Nowadays there is a slow recovery again, however not in every segment of the market.*
- *Parallel to that, the timing for 'moving' companies from public to private had become more interesting in general for Dutch small caps [Van der Wurf and Mertens, 2001].*

Results:

The results are being analysed and put into some key-issues below, influencing leadership positively and negatively, in the context of a Dutch business culture:

- Positive influences: It is considered that the leadership of this entrepreneur is especially based on some characteristic personal aspects: Having a (1) *'good timing'* and a good (2) *'feeling for choosing the right people'*. And encountering also economic 'dips', he obviously also possesses a (3) *'flexible'* and (4) *'opportunistic attitude'*.
- Negative influences: Especially due to parallel activities into other branches (not being part of the –construction- core-business), his (5) *'reputation'* in e.g. construction-branch was somewhat damaged, probably also not backed-up enough due to (6) *'lack of focus on core-business'*. However, because this 'adventure' still had a good return on investment, one can also still recognize it as an 'opportunistic' approach, being a positive aspect here.

3.4 Case study 2: An Anti-cyclic Leader

Background:

This case-study focusses on an entrepreneur in construction business in The Netherlands, also being succesful in the growing of a private company. The company's roots are based in the The Netherlands, also strongly focused on entrepreneurial activities.

The basis for the expansion of the company was:

- *A small construction company, active locally and regionally;*
- *Not just focussing on construction technology and projects, but also strongly on total site-development.*

Practice:

As some of the basic attitudes of the entrepreneur, it was recognized that he has:

- *a 'feeling' for optimizing the business-process and customer-value of the projects;*
- *the ability to act the right way of doing business in site-transactions;*
- *an anti-cyclic approach;*
- *within quite a specific company-culture.*

He has a hands-on approach, and obviously has the right people around him. The company was not active 'in the spotlights', so he did his strategic (site)transactions mostly in 'silence'. And that proved to be the right combination here for gradually building a portfolio of strategic sites in The Netherlands for project development.

Process:

The anti-cyclic strategy of forming strategic positions had a specific history. described into a few steps as follows:

Early 1980's:

- *Slowly growing of an existing small contractor company (family-business), including project development; focus on housing projects;*

Mid to late 1980's:

- *Still slowly growing of the family-business. No take-overs or whatsoever, but focus on optimizing the housing types;*

Early 1990's:

- *Setting-up a specialist internal department for site-development. Attracting the right people with their respective networks for this business;*

- *Not internationalizing while others were internationalizing; they still stayed focussing on buying site-positions into strategic areas into The Netherlands;*

Mid-1990's:

- *Steady growth of the land-portfolio; turnover into constructon business slowly growing. However, good profits due to optimized housing types and high added value in development activities;*

End 1990's:

- *Due to its strong strategic site-positions (while other companies had losses e.g. abroad) their Dutch site-positions became of growing value;this, because the Dutch construction and development market grew quite strong, also due to governmental housing programmes (which often needed the strategic site-positions, extra pushing the value upwards);*

Early 2000's:

- *Setting up strategic collaborations with other companies for reselling parts of their site-portfolio, combined with construction activities;*
- *Growing turnover in construction activities;*

Early to mid 2000's:

- *Because the crisis in the Dutch construction industry and effects of the large-scale collusion practices were mainly related to the infrastructural construction branch (investigated during the so called 'Bouwenquete' [Vos et al, 2002]), especially companies in the infrastructural branch were hit negatively.*
- *However, the company was hardly active in infrastructure-branch, and was also still private owned. And housing production was still were on a high level. Parallel to that, the value of the site-portfolio still raised, because (housing)projects need strategic building-sites;*
- *As a new venture, they started to invest into strategic sites abroad, joining with an experienced international partner in the market. This, because prices were still relatively low there, but from an anti-cyclic viewpoint interesting to invest in. So they started again a new (anti-cyclic) development activity, but now internationally.*

Results

The results are being analysed and put into some key-issues below, influencing leadership positively and negatively, in the context of a Dutch business culture:

- Positive influences: It is considered that the leadership of this entrepreneur is mainly based on some characteristic personal aspects: Having a (1) good feeling for the '*right product in the right market*', a good (2) '*feeling for choosing the right people*'. But working anticyclic, the attitude is obviously also not to work in the spotlights, but (3) '*keep focussing*' in their experienced market-segments, and (4) '*working in strategic partnerships*'.
- Negative influences: Especially they are used not to work in the spotlights, there may be somewhat (5) '*lack of marketing-value*', although in specific situations the strong balance-sheet still supports the reputation of the company positively. In a dynamic world it seems that the ability of changing activities is increasingly important, although just keeping focus may be also wise. Nevertheless due to the (6) '*less opportunism*' it may reduce risks, but may also miss certain advantages, connected to expanding the business-activities. However, because this attitude still had a good return on investment, one can also still recognize it as a '*focussing*' approach, being a positive aspect here.

3.5 Discussion: Lessons Learned

It can often be seen that books, written by 'leaders', are described by an 'inside-out' approach: As an example of that is the fact that they often contain several (management)'slogans', as a 'condensed form' of experiences of the author(s). However, the audience may than get the impression that it's just all about using these 'slogans' as a kind of tools and/or guarantee for being or becoming a good leader...?! And that seems to be quite often a mistake...!

Nevertheless, an interesting thing in respect of this discussion is e.g. the viewpoint of Rothschild, in which he distinguishes four types of strategic leaders [Rotschild, 1993]:

(1) *Risktakers*, (2) *Caretakers*, (3) *Surgeons* and (4) *Undertakers*.

These represent four phases of growth until decline of an enterprise, being e.g. (1) *developing new business*, (2) *systematic growth*, (3) *restructuring* and (4) *closing/liquidation*.

This indicates that leadership has to do with several essential phases of an organization's lifecycle, and it therefore should be more than just 'slogan management'. It also indicates that the key-elements of leadership may be different for each individual and/or organization, due to different environments, clients, products, timing, phases, etc.

When adding these insights to the analyzed situation within the Dutch case-studies (as part of West European business culture), one can see that in fact three main factors are important for probably becoming or being a good leader. These main-factors obviously are:

- *a good timing (=also feeling) for the market (= enviroment);*
- *a good feeling for choosing the right people (=employees, clients etc.);*
- *a focus on the core business (=core competences), balanced with an opportunistic approach (=taking chances).*

However, learning from the past does not mean that these factors cannot change. Also in Dutch (and West European?) industry probably they may change, influenced by e.g. the *globalization* (which is often on a local scale - 'glocalization' - in construction business) and/or a *changing business culture*. This also means that '*positive*' influences on leadership in the one situation can also be '*negative*' influences on leadership in the other situation. Comparable to this may be more or less the statement, made by the early mathematician Blaise Pascal, who said: '*Vérité en-deça des Pyrenées, erreur au-delà*', being translated by Hofstede in his research on business cultures, as [in: Hofstede, 1980]: '*There are thruths on this side of the Pyrenees, which are falsehoods on the other side*'.

4 CONCLUSIONS

4.1 Conclusions

Regarding the direction of the results, the following conclusions are described:

1. *Successful leadership in construction business is not just following a standard 'format'. It can be reached by several approaches. This means that 'positive' influences on leadership in the one situation can also be 'negative' influences on leadership in the other situation.*
2. *Because also construction business is a people's business, succesful leadership has to do with having the right people available within the networks one works within. However, it needs a vision how to do this in the most suitable way.*

3. *Having a right 'timing' is considered to be an essential need for being a succesful leader. However, 'timing' without 'action' does not make a business. And in practice, 'action' means an entrepreneurial need for focus on the goal(s) set.*
4. *Although diversifying businesses may be a good strategy for spreading risk, it can also weaking its market strenght. Therefore one should still consider its own strenghts and weaknesses, and decide e.g. how to balance 'focussing' and 'opportunism'.*
5. *Being a succesful leader in construction business (or even in general), depends strongly on what one sees as 'indicators for being succesful'. And this often differs between regions and (business)cultures. This means that the way of being considered as a succesful leader or not is still a part of the local (business)culture.*

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