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From Bureaucracy to Value-Based Procurement: The Client as Change Agent

Kim Haugbølle & Stefan C. Gottlieb

ABSTRACT

In recent years, calls have been made for the client to become the change agent of construction. But if we are to base firm strategies and public policies on solid ground rather than loose sand, we need to ask ourselves: how can clients effectively act as change agents of construction?

Anchored in an action research approach and based on a case study of an urban renewal firm, we have tested the eight-stage change model developed by Kotter (1996) as a theoretical framework to guide clients in acting as change agents.

We conclude that the eight-stage change model can be supportive for clients in their attempts to become change agents of construction.

However, the eight-stage change model is in need of a stronger contextualisation reflecting: 1. the dynamism of markets, politics and technical support infrastructures; and 2. the project-based nature of services delivered by clients and construction.

Keywords: Innovation, Urban Renewal, Organisational Change.

1.1 INTRODUCTION

It is a widely recognised that the construction industry suffers from a low level of innovation. It is also widely believed that this problem of innovation is linked to systemic weaknesses. Thus, public policies have played an important role regarding innovation in the construction industry (see e.g. Manseau & Seaden (eds.) 2001).

In recent years, clients have been called upon to become change agents of the construction industry. These calls are now manifesting themselves in various forms like the governmental building policy for public

clients in Denmark, the revaluing construction initiative of CIB, and the establishment of the International Construction Clients Forum (ICCF). Consequently, the issue of using procurement as a driver of change has gained increased research interest in recent years (see e.g. Brown et al. 2005 & 2006; Morledge et al. 2006).

In the late 1990's a Danish urban renewal firm took on the challenge of becoming a change agent of construction. The firm engaged itself actively as programme manager of a large-scale development programme called the Tool Box Programme partly financed by the government. The purpose of the programme was to improve productivity and quality by developing a toolbox aimed at clients, consultants and contractors. The programme included some 10+ projects on 3D visualisation, user involvement, lean construction, new consultancy services, value management etc.

This paper will report on the findings from one of these projects that were engaged in turning the urban renewal firm around from a bureaucracy-driven organisation towards a value-based procurer. More precisely, the purpose of the study was to analyse shared values and norms of behaviour inherent in urban renewal and stimulate organisational change within the urban renewal firm. Thus, the paper will contribute to our understanding of client and construction innovation.

1.2 THEORETICAL FRAMEWORK – EIGHT-STAGE PROCESS

The theoretical framework of the study is based on the eight-stage process of creating major change developed by Kotter (1996: 21):

- 1. Establishing a sense of urgency.
- 2. Creating the guiding coalition.
- 3. Developing a vision and strategy.
- 4. Communicating the change vision.
- 5. Empowering employees for broad-based action.
- 6. Generating short-term wins.
- 7. Consolidating gains and producing more change.
- 8. Anchoring new approaches in the culture.

Kotter (1996: 35) argues that the first step to be taken in any major change is to establish a sense of urgency for change. Identifying and discussing crises, potential crises, or major opportunities are essential ways to raise the urgency level. *"Never underestimate the magnitude of the forces that reinforce complacency and that help maintain the status quo"*, Kotter (1996: 42) warns us.

The second stage is to create a guiding coalition with enough power to lead the change. Since change is so difficult to accomplish, no single individual will be able to accomplish change alone. Instead, a team must be put together with four key characteristics: Position power; expertise; credibility; and leadership. The team needs to create trust and develop a common goal (Kotter 1996: 66).

The third stage is to develop an effective vision and strategy. The process often starts with a first draft from a single individual, which is then redrafted by the guiding coalition or an even larger group of people. Both analytical thinking and dreaming are essential throughout the activity. Vision creation is usually a messy process, which is never created in a single meeting, but may take months or even years. The process results in a direction for the future that is desirable, feasible, focused, flexible, and is conveyable in five minutes or less (Kotter 1996: 81).

The fourth stage is to communicate the vision. The key elements in the effective communication of the vision are simplicity; use of metaphors, analogy and examples; use of multiple forums; repetition; leadership by example and role model; explanation of seeming inconsistencies; and two-way communication (Kotter 1996: 90).

The fifth stage is to empower employees for broad-based action. The key elements in empowering people are communicating a sensible vision to employees; remove structural barriers within the firm; provide the needed training of staff; align information and personnel systems to the vision; and confront troublesome supervisors who undermine needed change (Kotter 1996: 115).

The sixth stage is to generate short-term wins. Kotter (1996: 123) argues that the role of short-term wins is to provide evidence that sacrifices are worth it; reward change agents; help fine-tune vision and strategies; undermine cynics and self-serving resisters; keep bosses on board; and build momentum. Planning rather than praying for short-term wins are essential. Transformations are often undermined because managers don't systematically plan for the creation of short-term wins.

The seventh stage is to consolidate gains and produce more change. But creating change in highly interdependent systems is extremely difficult because ultimately you have to change nearly everything. At this stage, the elements in a successful major transformation includes more change, not less; more help from additional people; leadership from senior management; project management and leadership from below; and reduction of unnecessary interdependencies (Kotter 1996: 143).

The eighth stage is to anchor new approaches in the culture. According to Kotter (1996: 157, original emphasis), the key elements in anchoring change in a culture are characterised by:

- "Comes last, not first: *Most alterations in norms and shared values come at the end of the transformation process.*
- Depends on results: *New approaches usually sink into a culture only after it's very clear that they work and are superior to old methods.*
- Requires a lot of talk: *Without verbal instruction and support, people are often reluctant to admit the validity of new practices.*
- May involve turnover: *Sometimes the only way to change a culture is to change key people.*
- Makes decisions on succession crucial: *If promotion processes are not changed to be compatible with the new practices, the old culture will reassert itself."*

1.3 RESEARCH DESIGN: ACTION RESEARCH

The research design is based on the principles of action research. The study involves a case study of one of the major urban renewal firms in Denmark. A number of methods have been employed using various forms of documentation including:

- Documentary analysis of confidential business strategy documents and reports from development projects carried out by the urban renewal firm (and in some cases also researchers from SBI).
- Participatory observation carried out by the two researchers from SBI during project group meetings, workshops and the annual employees' conference.
- Collaboration with an external consultant appointed by the urban renewal firm to support the management team in strategy formulation and implementation.

1.4 CASE STUDY: URBAN RENEWAL FIRM

The urban renewal firm was established in 1969 and has worked with urban renewal in more than 100 municipalities out of 275 across the country. The firm is acting as consultant for public, private and social housing clients in a competitive market either as project manager or together with the building department of the client. But the overwhelming majority of work conducted by the firm is related to publicly subsidised urban renewal projects.

The firm is a so-called "recognised" urban renewal firm which implies that it is authorized to assist municipalities in analysing urban renewal needs, planning concerted actions and executing decisions on urban renewal. The special feature of the firm is reinforced by its special model of ownership. The firm does not have shareholders or personal ownership but is owned by a partnership consisting of social housing companies and two foundations linked to social housing. Thus, the firm including general assembly, board, management and employees are strongly influenced by welfare state ideals of providing comfortable and affordable housing to all citizens.

Due to the public subsidies a number of complex and lengthy procedures are to be followed regarding financing, hearings of the neighbours, involvement of tenants in the decision-making process etc. Further, the market for urban renewal services is directly linked to decisions made in the Danish parliament on public expenditures for urban renewal as well as priorities made by the local authorities on urban renewal. Thus, urban renewal is a highly specialised field of planning, briefing, consultancy and execution which is strongly shaped by public regulations and decisions.

1.4.1 Sense of urgency for change

The creation of a *sense of urgency for change* is strongly linked to external political and market pressure on the urban renewal firm. Urban renewal in Denmark has undergone significant changes in recent years.

First, the municipalities are increasingly using more differentiated and holistic strategies focusing more on urban redevelopment than the previous dominant focus on technical refurbishment of worn-down buildings. This implies a significant shift in the competences needed by staff.

Second, a number of public policies and public development programmes within building and construction have for a good 10 years put emphasis on the role of the client as the change agent of the construction industry in the strive towards more value for money. Since the usual client of urban renewal is typically a non-professional client, the urban renewal firm felt compelled to step in as an intermediary who could and should take on the role as change agent within urban renewal. Consequently, the firm engaged itself actively as programme manager of the Tool Box Programme. Although the development programme did raise the sense of urgency for change somewhat, the execution of the programme was more driven by a few fiery souls within the firm and a sense of moral obligation than business objectives. But in the autumn of 2001 the sense of urgency for change dramatically increased.

The third constitutive element in raising the awareness was the change in government in 2001. After 10 years of social-democratic rule, the government was replaced by a liberal-conservative government. With the change in government a major shift in policy within urban renewal took place. Emphasising private initiatives, public expenditure on urban renewal was halved within a few years. Being effectively an auxiliary arm of the public sector, the reduction of public funding was putting massive pressure on the urban renewal firm.

1.4.2 Creating a guiding coalition

Creating a guiding coalition came by a bit more by chance than by deliberate design. A senior researcher at SBI and a project manager for development activities in the urban renewal firm originally envisioned a development project with the intention to develop a guideline for value management and change management in urban renewal projects. However, the senior researcher left SBI, and another senior researcher took over the project together with a project assistant. Further, the project manager in the urban renewal firm was assisted by another project manager as well as the head manager of building and development activities.

Bringing in new people in the original project group also meant bringing in somewhat new perspectives on the outcome of the project. In the light of the changing framework for urban renewal and guided by the thinking of the British professor David Gann on innovation (see e.g. Gann

2002), the new senior researcher persuaded the other members of the project group to redirect attention from value management in urban renewal projects to changing the business processes of the firm instead.

Meanwhile the management team had decided to hire a consultant to assist the management team in its change effort. Two other consultants had previously been hired by the firm. One consultant carried out focus group interviews with customers etc. The other consultant had drafted four different future scenarios for the development of the firm. The third consultant was to some extent associated with the project group and participated in some of the activities planned by the project group. Thus, it was believed – at least at the outset – that we had formed a powerful guiding coalition including the four characteristics suggested by Kotter (1996):

- Power and position in the firm to secure necessary backing in the management team was expected to be ensured by the head manager of building and development activities.
- Expertise and insight into the consequences of choices made was expected to be provided by the researchers, the consultant and the project managers' insight into daily routines.
- Trustworthiness was to be delivered by the independence of the external researchers as well as the highly respected project managers of the firm.
- Leadership was to be provided by the head manager and the two project managers to maintain progress and implementation of changes.

1.4.3 Developing a vision and strategy

Having created a guiding coalition the next step was to *develop a vision and strategy*. This involved essentially two steps: First the guiding coalition analysed the shared values etc. of a number of existing development activities aiming at business development, competence building and development of services. Second a future workshop was arranged to help draft a vision and strategies.

Below, Figure 060.1 illustrates the key elements in the analysis. First, the figure illustrates how the eight-stage change process aims at bringing the firm from a non-satisfactory state of bureaucracy to a state of value-based procurement, where the shared values of service delivery is aligned with the organisation's shared values of value-based procurement which in turn is aligned with the shared political/market values of delivering value for money.

Second, the analysis identified values operating at three levels. Due to reasons of confidentiality, it is only possible to give an overall indication of the shift in values to be addressed by the urban renewal firm when moving from bureaucracy to value-based procurement:

- The political/market level: Moving from centralised public funding of urban renewal to decentralised private funding.
- The organisational level: Moving from social responsibility to profitable business objectives.
- The operational level: Moving from being administrator of projects and services for the municipalities to become consultant for private clients.

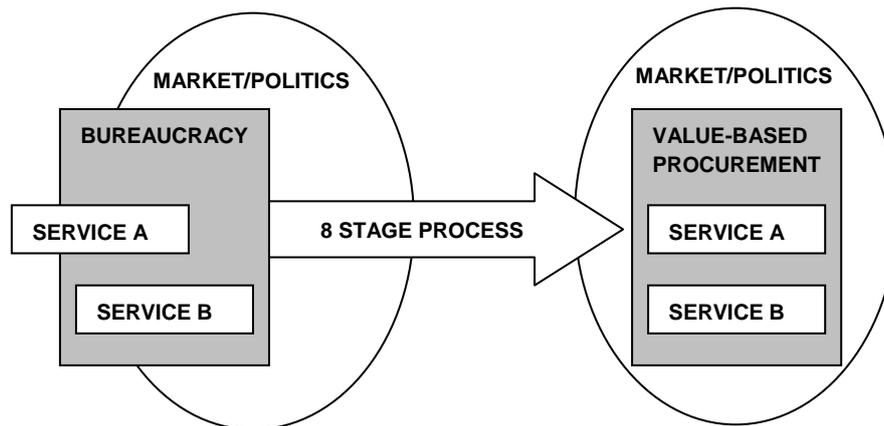


Figure 1.1 Overview of the change process.

Third, the figure illustrates how shared values at operational, organisational and political/market level is compatible with each others. The left-hand side of Figure 1.1 illustrates how certain shared values at both operational and organisational level is more or less incompatible with the shared values pursued at market/political level. One example at the organisational level is the fact that the firm was seriously out of balance with the political decision to cut down public urban renewal funding. Thus, the firm suddenly found itself without a market for part of its services.

In order to analyse the shared values inherent in the development activities etc. the guiding coalition developed a two-page fact sheet to support both analysis and dissemination of information related to the development activities. Based on the analysis at operational, organisational and political/market level, it became possible to compare and evaluate the potential impact and justification of each development activity. Since each of the initiatives was evaluated according to their contribution to either value improvement or cost reduction, the initiatives could then be plotted in a relative scorecard developed by the guiding coalition. The graphical representations gave the firm a strong overview of the relative importance of initiatives given the strategic objectives of the firm. Based on the fact sheet the guiding coalition could prepare a vision and strategy to be discussed with a selected group of managers and employees in a future workshop.

The second key activity was the execution of a future workshop in order to facilitate the development of a vision and strategy (see Jungk &

Müllert 1984 for an introduction). The future workshop was chosen as methodology due to its focus on creativity and democratic ideals. The future workshop was later followed by another workshop. The participants included 12 persons involving top management, shop stewards and a carefully selected group of employees. Among the employees were both front runners and resisters.

The purpose of the critique phase – the first phase of a future workshop – is to have the participants formulate their criticism of existing working procedures and predominant shared values within urban renewal in general and in the firm in particular. Further, the purpose was to increase the sense of urgency for change beyond the small group of employees working with development activities. In a plenary session at the end of the critique phase the participants prioritised the most important issues considered as barriers for the development of the firm.

In the visionary phase the participants formulated their visions for the future direction of the firm and how various development activities could support the business plan of the firm. The visionary phase began with developing a vision for the organisation, which was then turned into a physical layout of the future firm using mini-bricks, corrugated cardboard, adhesive tape and plants. Interesting, the first round of oral expressions of visions brought rather straight-forward suggestions forward. However, this changed dramatically when the two groups were allowed to work freely with the physical layout. Suddenly, a huge stock of improvisations, free-floating ideas and spectacular forms were brought to life.

During the realisation phase the participants was asked to identify actions that could most effectively realise the visions formulated in the previous phase as a response to the critical issues. The results was summarised in one single sheet which was printed and handed out to each of the participants at the end of the day as the visible and very concrete result of the day (see Table 1.1).

Table 1.1 Principle summary of vision and strategy.

	Critique	Vision	Realisation
Politics/markets	Need A	Value A	Action A
	Need B	Value B	Action B
Organisation	Need C	Value C	Action C
	Need D	Value D	Action D
Operational	Need E	Value E	Action E
	Need F	Value F	Action F

1.4.4 Communicating the change vision

Based on the fact sheets, cost/value scorecard and the future workshop, the guiding coalition carried out a SWOT analysis and developed a

proposal for a more coherent change strategy. The strategy and associated action plan based on the eight-stage change model was then discussed with the participants at a new half-day workshop 4 weeks later. At the workshop, the participants recognised the sense of urgency as well as proposed model for implementing changes. However, the three priorities for action refined by the guiding coalition caused renewed debate as to whether the priorities were the most important, most relevant and most ready initiatives to implement.

Despite the renewed discussions at the follow-up workshop, it was decided to *communicate the change vision* at the annual employees' conference taking place less than two months later. The conference was attended by almost all employees at the firm, the senior researcher from SBi and the external consultant. Again the analysis, vision, strategy and action plan (naturally) caused a new round of debate. Without compromising confidentiality it goes without saying that the major debate was centred on striking a balance between maintaining the social responsibility of providing decent and affordable housing and making a sound business.

The conference marked a turning point for the active involvement of SBi in the change process. From hereon the intention was to have the consultant guide the urban renewal firm in the subsequent stages of implementation and anchoring of new approaches in the culture.

1.4.5 Empowerment of employees for broad-based action

The future workshop and follow-up workshop played an important role in *empowering the employees for broad-based action*. But the rapid and continued loss of capital led to further staff reductions and further uncertainty among staff as well as the guiding coalition, which in turn undermined the empowerment of employees. Not only had the researchers left the firm, but within the subsequent year the head manager of building and development activities also left the firm for a new job as did one of the key project managers in the guiding coalition. Further, the other key project manager took two months leave which was then followed by a change of address to the other end of the country. Thus, the project manager was transferred to a regional office and started unwinding the active involvement in most development activities. Consequently, the guiding coalition fell to pieces and so did the scheduled change process.

Changes did, however, occur within the firm – and dramatic too. Going back to the strategic scenarios for the firm proposed by a consultant earlier on, the board and general assembly did not feel confident that the firm could stay an independent and sound business. Thus, the general assembly liquidated the firm as an independent limited holding company. Instead, the firm merged with one of the largest private developers and facility managers. In many ways, the two firms match each other. The developer is also a non-profit organisation owned by two non-profit foundations that allot any surplus for non-profit purposes.

1.5 DISCUSSION

In this study, we have tested the eight-stage change model developed by Kotter (1996) on a case study of an urban renewal firm in Denmark. Clearly, we were not able to test the theoretical framework in all its eight stages. However, we feel confident that testing the first five stages gives a clear indication of the applicability and weaknesses of the model.

We would like to argue that the study supports the importance of creating a sense of urgency in order to stimulate change. Despite the huge dependency of public funding, the firm did not seriously anticipate a strong sense of urgency for change before the change in government. Not only was several of the on-going development activities anchored among a small group of front-runners and managers, some of the activities was also more concerned with the business of other actors rather than the urban renewal firm. Thus, the firm did not prepare itself in any substantial way for a possible and likely change in the funding situation for example by developing a business strategy of diversification into other markets. Consequently, the change in government and public funding hid the firm hard with significant lay-offs and eventually liquidation as the almost inevitable result.

The study also underscores the importance of creating a guiding coalition with power and position, expertise and insight, trustworthiness and leadership. In this study the guiding coalition played an important role in analysing the existing development activities, setting up the future workshop, drafting the vision and strategy, developing various tools for supporting decision making etc. Sadly, we have to acknowledge that the guiding coalition did not stay powerful. The combined effect of not directly involving the CEO and board in the coalition, the withdrawal of the researchers, and the resignation of key players in the firm left the remains of the guiding coalition strongly amputated. Consequently, more attention should be paid not only to create but also to *maintain* the guiding coalition throughout the whole change process.

Further, the study supports the observation made by Kotter (1996: 23): *"Successful change of any magnitude goes through all eight stages, usually in the sequence shown in exhibit 2. Although one normally operates in multiple phases at once, skipping even a single step or getting too far ahead without a solid base almost always creates problems."* In our study, developing a vision and strategy, communicating the vision, and empowering employees for broad-based action was largely an integrated process through the workshops. Thus, it may be more sensible to treat the eight stages not only as practical procedures but as analytical distinctions as well. Consequently, we may treat the eight stages not merely as a rational decision-making process but rather as points of attention.

Although the study has largely confirmed that the eight stage change model can be supportive for the client as change agent, the study has also raised a number of more profound objections or reservations regarding the model. The eight-stage change model is in need of a stronger *contextualisation* reflecting: 1. the dynamism between politics, markets and

technical support infrastructures; and 2. the project-based nature of services delivered by clients.

First, it is apparent from the case study that some market-based organisations are in fact closely and directly linked to political decision-making. But every organisation is embedded in a context of not only markets but also politics and technical support infrastructure. Both shape the boundaries of possible action of the firm in important ways. However, the eight-stage change model does not provide any substantial directions as to how to analyse and act upon the intricate relationship between markets, politics and technical support infrastructure.

Second, the urban renewal firm (and construction in general) operates in a context of project-based services. As noted by Gann & Salter (2000), a major impediment for innovation in project-based service firms is the gap between the project-based processes and the business processes of the firm. The project-based nature of construction implies that the interdependencies are primarily linked to the rather fluently, changing and ad-hoc patterns of cooperation with a rather great number of external firms. However, Kotter (1996) tends to treat interdependencies as internal to the firm. Consequently, the eight-stage change model is in need of an analytical framework that can enhance our understanding of innovation in project-based firms.

Gann & Salter (2000) provides such an analytical framework that can situate change agents of construction in a context of the regulatory and institutional framework on one hand and the technical support infrastructure on the other hand. Further, Gann & Salter (2000) offers a framework that explicitly addresses the linking of business processes of the firm with project-based processes (see Figure 1.2).

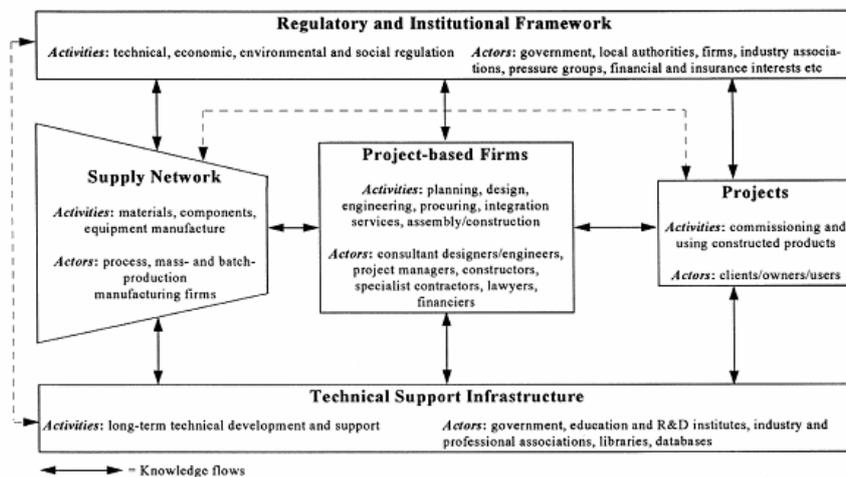


Figure 1.2 Knowledge, information flows and actors in project-based processes.

Source: Gann & Salter (2000: 960).

Although the work of Gann & Salter (2000) provides a stronger analytical perspective on the context of managing innovation in construction, it does not substantially provide practical guidelines for creating change in the construction industry. Thus, it seems fruitful in future research and practice to combine the two perspectives of Kotter (1996) and Gann & Salter (2000).

1.6 CONCLUSION

We conclude that the eight-stage change model can be *supportive* for clients in their attempts to become change agents of construction. However, the eight-stage change model is in need of a stronger *contextualisation* reflecting: 1. the dynamism of markets, politics and technical support infrastructure; and 2. the project-based nature of services delivered by clients and construction.

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