

STRATEGIES FOR RELATED DIVERSIFICATION

By

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CONFIDENTIALITY CLAUSE

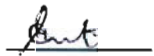
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DECLARATION

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STATEMENT

This dissertation is being submitted in part fulfilment of the requirements for the degree of Masters in Business Administration, and is the result of my own independent work except where otherwise stated.

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Completing this degree required a substantial amount of group work, and in this regard I wish to thank all the members of my groups for their help, motivation and friendship.

I also wish to express my gratitude to my supervisor, Professor Elza Thomson, who has given me direction and insight into the discipline of strategy.

Abstract

“...every related diversification is also fundamentally an unrelated one” (Mintzberg, 1991).

Due to the cyclical nature of the demand for construction, quantity surveyors are forced to contend with large fluctuations in the demand for their services. This has prompted firms to consider diversifying into more lucrative ventures. This study explores the concept of diversification as a means to offset cyclical fluctuations, and to stimulate growth. The available literature emphasises the advantages of related diversification over unrelated diversification. It is argued that this creates synergy between the new business and the core one, thus leading to competitive advantage.

The study is based on BTKM, a medium sized Quantity Surveying practise. Growth opportunities in their core business have begun to decline, and the cyclical nature of demand for construction has led to uncertainty, which makes long term strategic planning difficult. A study of the company's skills and resource strengths shows that it is well positioned to capitalise on opportunities in related businesses. By virtue of their core competencies, Quantity Surveyors possess the ability to solve complex problems and challenges regarding the planning and management of facilities. Organisations have come to realise the importance of ensuring that their buildings, systems and services support core operations and contribute to achieving strategic objectives. This has led to the growth of a new field of endeavour – that of Facilities Management. This is a rapidly growing professional field that provides excellent prospects for suitably qualified personnel. This study explores the option of diversification into this field.

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Chapter 1

Introduction

1.1 Introduction

In this introductory chapter a number of areas will be considered in an attempt to provide a description of the research to be conducted.

This chapter begins by providing a background to the research topic. This is followed by the associated problem statement, objectives, methodology and limitations.

Finally the structure of the dissertation is described in order to provide the reader with information on the general framework within which the research will be presented.

1.2 Background and Context

The construction industry is particularly susceptible to changes in the economy, so much so that it is often used as a leading indicator by other industries. The harsh economic conditions experienced over the last decade - rising inflation, political unrest, high interest rates and lack of foreign direct investment to name but a few, have had devastating effects on the construction industry in KwaZulu-Natal. As such, construction professionals have been forced to seek employment in other provinces, go abroad, or look towards alternative forms of employment.

BTKM Durban is a small to medium sized firm of consultant quantity surveyors operating mainly in KwaZulu-Natal. The core business is construction cost consulting, which chiefly entails contract management and cost control. Apart from property development and construction economics, the company has no financial interests in any other industries. This makes it particularly vulnerable to fluctuations in the economy. The nature of the business cycle ensures that there is no constant flow of construction projects. There are often lengthy pauses between projects, especially during times of recession. Year on year

growth over the last five years has been erratic, prompting management to consider diversifying into more lucrative ventures.

Many companies are becoming concerned with the high overhead costs of operating their buildings and related services and infrastructure, and have realised that in order to reduce these costs and increase their productivity there is a need for maintaining working environments. Quantity surveyors, by virtue of their core competencies, possess the ability to solve complex problems and challenges regarding the planning and management of facilities. Rapid growth and interest in this, the field of Facilities Management, both locally and abroad, has provided a market opportunity for quantity surveyors to exploit.

1.3 Problem Statement

How should Quantity Surveyors in Kwazulu-Natal cope with a declining demand for their services?

1.4 Objectives of the Study

This study will focus on the application of related diversification strategies for a Quantity Surveying practice.

The specific objectives are:

- To comprehensively review and evaluate the subject areas of related diversification and Facilities Management (FM);
- To investigate the challenges facing BTKM Quantity Surveyors;
- To develop a model of related diversification for BTKM Quantity Surveyors in order to pursue business opportunities in the field of Facilities Management;
- To analyse the discipline of Facilities Management in a practical context and evaluate the theoretical consequences of diversification;
- To make recommendations to aid the development of competitive advantage based upon the analysis.

1.5 Literature Review

The literature review focuses on two subject areas that are the focus of this dissertation - diversification and Facilities Management. A thorough understanding of both is required in order to apply the knowledge to the case study, and to evaluate the consequences of adopting the suggested strategy.

1.5.1 Diversification

When organisations diversify, they move away from their current markets and into new areas. This carries a high degree of business risk, which may be minimised if the organisation chooses to diversify into related markets. The term 'related markets' refers to markets that have some existing connection with the value chain.

The concept of the value chain was developed by Professor Michael Porter of the Harvard Business School. Every organisation consists of activities that link together to develop the value of the business: purchasing supplies, manufacturing, distribution, and marketing of its goods and services. These activities taken together form the value chain of the organisation (Porter 1985).

Three types of relationships based on the value chain may be distinguished:

- Forward integration – this refers to a manufacturer's involvement in the activities outputs, such as distribution and logistics.
- Backward integration – in this instance an organisation extends its activities to those of its inputs, for example raw materials, plant and machinery.
- Horizontal integration – here the organisation moves into areas immediately related to its existing activities, either because they are complementary or they compete.

Synergy is the main reason given for related diversification. Lynch (2000, p. 580) defines synergy in terms of the value it adds - "the whole is worth more than the sum of its parts: the value to be generated from owning and controlling more of the value chain is greater because the various elements support each other."

In related diversification, there is evident potential synergy between the new business and the core one, based on a common facility, asset, channel, skill or even opportunity. Porter (1985) distinguishes between intangible and tangible relatedness, the former being based on some functional or managerial skill considered common across the businesses, and the latter relating to shared activities in the value chain.

The concept of relatedness will form the basis for the decision for quantity surveyors to diversify into Facilities Management.

1.5.2 Facilities Management

Park (1998, p. 1) acknowledges the rapid growth and interest in this field when he claims: "Anybody picking up a building or property journal could be excused for thinking that Facilities Management is a new profession, such is the increasing prominence that it is attracting in the technical press." Facilities Management as a profession was first identified in the United States of America (USA). It is indeed still relatively new and many people do not understand what is meant by Facilities Management. Facilities Management is a rapidly growing and very broad professional field in the education, commercial and health sectors.

The following are a few broad definitions of Facilities Management in an attempt to clarify the term:

Alexander (1996, p. 9) defines Facilities Management as "the application of total quality techniques to improve quality, add value and reduce the risks involved in occupying buildings and delivering reliable support services."

An alternative definition is provided by the American Library of Congress, which defines Facilities Management as "The practice of co-ordinating the physical workplace with people and work of the organisation, integrating the principles of business administration, architecture and behavioural and engineering sciences" (Spedding, 1995, p. 3).

These definitions collectively suggest that the principal objective of Facilities Management is to manage property and to collect responsibilities under a convenient functional organisation. According to Alexander (1996) many definitions of Facilities Management place a higher emphasis on technical issues than strategic issues - to increase organisational effectiveness a more strategic and holistic explanation is necessary. Essentially Facilities Management involves the planning, design and maintenance of all the organisation's physical assets in order to sustain optimum quality and efficiency to in order to obtain the highest value for investment.

Patel (2001) makes it clear that there has been a change of focus in the way Facilities Management has been perceived over time. According to him, traditionally Facilities Management was seen as the maintenance and operation of buildings. Today its scope of work has broadened, encompassing space planning, design and management of work environments, technology systems, catering, hygiene, etc.

Many companies are becoming concerned with their high overhead costs and have realised that in order to reduce these costs and increase their productivity there is a need for maintaining working environments. According to Alexander (1996, p. 2), "Facilities Management is first and foremost about organisational effectiveness." This implies that organisations that are effectively planned and have quality support services can achieve high returns.

A popular trend that has recently emerged is the outsourcing of non-core activities to third parties. This practice has become an extension of Facilities Management services. The main objectives of outsourcing are to:

- Reduce costs;
- Handle rapid growth;
- Improve performance;
- Focus on the core business rather than non-core activities.

Facilities Managers should be able to understand the technical components of a building, evaluate buildings and contribute to organisational effectiveness. The design of a building plays an important role in the effective performance of an organisation. Facilities Management is not only confined to the design of buildings; it extends further to the integration of people, technology and support services, all of which play a vital role in achieving the goals and objectives of an organisation. The Facilities Manager's role will be seen as a coordinator of all non-core activities of a business. The Facilities Manager is responsible for co-ordination of resources in the search for the best solution for the organisation. Business entities have realised that in order to be successful, maintaining a well-managed and highly efficient facility is essential.

The Facilities Manager should manage the property in the best interest of the core business and should also raise the efficiency of space management in order to achieve the goals and missions of a firm. The costs of providing buildings and managing them are extremely high. Facilities Management helps the Architect in planning buildings for their required use and assists in reducing the capital and running costs of a building (Spedding 1994).

Facilities Management should be implemented in the early stages of a project by the design and construction team, and as soon as the feasibility studies of the development have been completed. This should continue throughout the life of the building. Facilities Managers are also used by major firms worldwide to restructure their firms in order to provide a competitive edge, improve customer responsiveness and meet business objectives. Facilities in an organisation need to be tuned to meet the organisation's needs. "The successful manager needs the imagination to foresee the consequence of change and power to effect change" (Alexander, 1996, p. 10).

Facilities Management is a core management activity. Facilities Managers are required to:

- Manage the goals and assets of an organization;
- Have the necessary management skills to meet the goals and objectives of an organisation;
- Be accountable for their actions;
- Have leadership and communication skills.

According to Cotts (1999), Facilities Management refers to distinct property principles which have been in existence ever since property has been used. For example, maintenance planning, space allocation techniques, project administration and inventory management have always been a part of the operation of an organisation. From these fundamentals, Facilities Management has emerged as a discipline.

According to Garner (2001), Facilities Management is not only about the maintenance and management of buildings or properties. One of its goals is to enhance the effectiveness and comfort of the occupants of the building. A comfortable office ensures a more productive and happier employee. A shopping centre that is clean and well maintained ensures that customers spend more time there. This results in higher sales for tenants. Effective Facilities Management can be achieved by understanding an organisation in terms of its key goals and main strategic influences.

A wide range of tasks is assigned to Facilities Managers in planning and managing of facilities. Therefore it is essential that Facilities Professionals be equipped with a vast amount of knowledge and the ability to solve complex problems and challenges.

1.6 Benefits of the Study

- Provides a comprehensive review of related diversification and associated strategies;
- Facilitates access for quantity surveyors into more lucrative fields;
- Furthers the professional development of quantity surveyors;

- Provides insight into Facilities Management.

1.7 The Research Design and Methodology

The objectives of this research dissertation will be achieved by employing the following methodology:

Stage 1: A comprehensive review and evaluation of pertinent literature in the subject areas of related diversification and Facilities Management will be performed in order to establish a firm basis for research. The sources will include books, journals and Internet websites.

Stage 2: BTKM, a small to medium sized quantity surveying firm, will be used as a case study. A strategy for diversification towards Facilities Management will be formulated, and the diversification process will be discussed.

Stage 3: The theoretical effect of diversification into Facilities Management for BTKM will be evaluated. This will entail interviews with existing Facilities Management organisations in Durban in order to provide a practical research emphasis. Qualitative procedures will be used in order to justify the decision for diversifying into Facilities Management.

1.8 Structure of the Dissertation

The dissertation is presented in a number of chapters, which logically develop the issues being addressed in relation to this study.

Chapter 2 reviews literature, which aims at analysing, discussing and describing the theory of related diversification and Facilities Management. A model for related diversification is then formulated, which will be used to evaluate the strategic options that are generated.

Chapter 3 presents a case study of BTKM Quantity Surveyors, which consists of the company profile, overall strategy, and long-term prospects. The construction industry in South Africa will then be discussed in order to understand the context within which the firm operates and the forces that it is subject to.

Chapter 4 assesses the effectiveness of the current strategy in meeting the company's needs. To this end, an analysis will be carried out which compares current performance against expected performance outcomes. Should current performance fall short of expectations, the nature of the strategic problem will be identified, and various strategic options will be presented and evaluated. The theoretical consequences of diversifying into Facilities Management will then be evaluated in terms of the benefits offered and the shortcomings that must be addressed.

Chapter 5 states the conclusion of the research, and provides recommendations for BTKM to follow in order to enter the field of Facilities Management.

This is followed by:

A References list of published material cited in the dissertation.

A Bibliography which presents a list of publications not cited in the dissertation, but which have been consulted during the research. Although they are not cited directly they have helped to shape the researcher's ideas and views on the subject.

1.9 Limitations

There is very little published information of South African origin with regard to Facilities Management. A survey of service providers in this field discloses fewer than half a dozen Facilities Management organisations. Only a small number of Facilities Management organisations have offices in KwaZulu-Natal and the interview and results that are recorded in this document reflect their

views only. Time and financial constraints are the primary reasons for limiting the personal interviews to these firms.

Financial data from BTKM Quantity Surveyors was not made available for the purpose of this research.

1.10 Summary

BTKM Quantity Surveyors finds itself in a volatile market with large fluctuations in demand for its services. Management wishes to explore opportunities in related industries to counteract this.

The purpose of this study is to formulate a strategy for related diversification for BTKM Quantity Surveyors based on an analysis of both its internal and external environments, and the subsequent generation of strategic choices and the evaluation thereof. The basis of the study is a review of literature regarding related diversification and Facilities Management.

Chapter 2

Strategic Theory

2.1 Introduction

The objective of this study is to review the current strategy of BTKM and to evaluate the strategic option of diversification into Facilities Management. This entails researching literature in the subject areas of strategic management, diversification, and Facilities Management. A number of authors' works have been perused with a view to gaining insight into the topics, and from this, a customised model has been developed for practical use in evaluating the consequences of adopting the suggested strategy.

2.2 What is Strategy?

Thompson & Strickland (2003) opine that a company's strategy consists of the combination of competitive moves and business approaches that managers employ to please customers, compete successfully and achieve organisational objectives.

Johnson & Scholes (1999) define strategy as the direction and scope of an organisation over the long term, which aims at achieving advantage over rivals through its configuration of resources within a changing environment, thus meeting the needs of markets and fulfilling stakeholder expectations.

Strategic management is concerned with the evaluation of a company's position and assessment of the impact of changing conditions. This entails monitoring the company's external environment and internal capabilities closely enough to know when to institute strategy changes (Thompson & Strickland 2003).

The strategic change being contemplated by BTKM is diversification. From the foregoing, it is evident that an evaluation of this option must be based on an assessment of the internal capabilities of the company, and its external environment. In this regard, a number of tools have been researched,

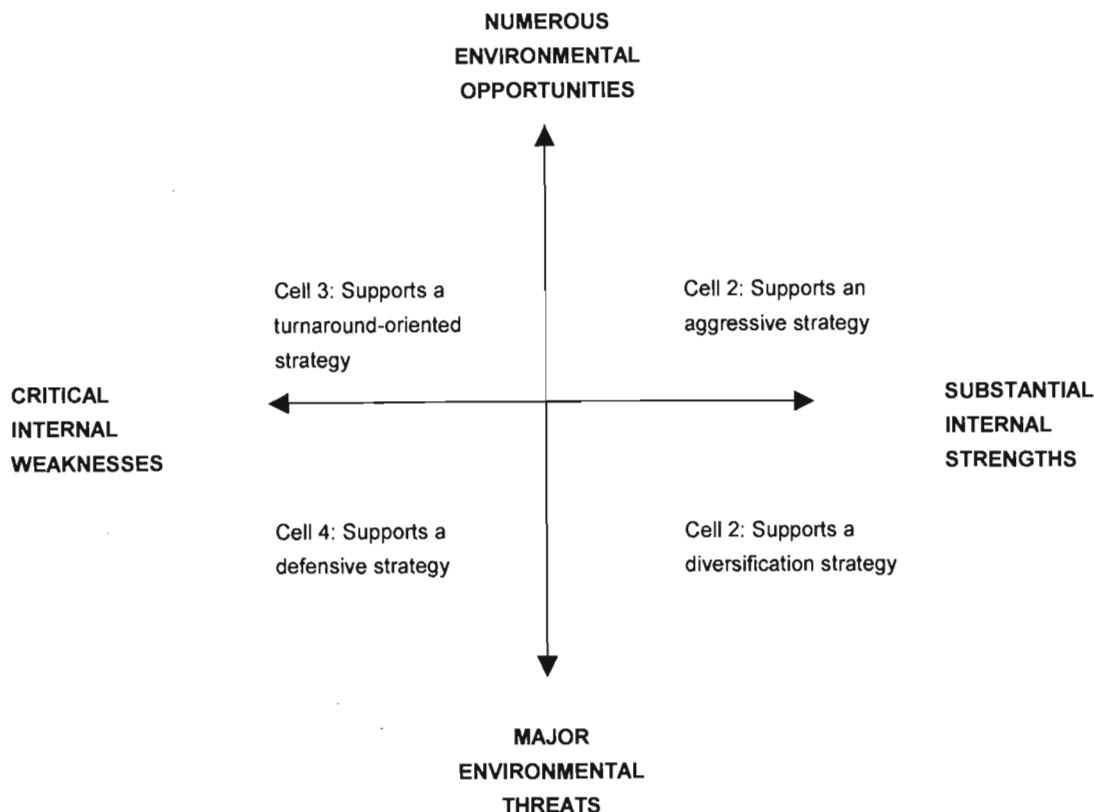
including SWOT analysis, Pearce & Robinson's Model of Grand Strategy Clusters, and Thompson & Strickland's Competitive Strength Assessment.

2.2.1 Evaluating Company Resources & Competitive Capabilities

An industry and competitive analysis reveals the key success factors and competitive capabilities that separate industry winners from losers. A competitive strength assessment is a method to quantitatively assess whether a company is stronger or weaker than close rivals on each industry key success factor and each competitively essential resource and capability. The assessment involves rating the firm and its rivals against a list of key success factors and other measures of competitive strength or weakness on a numerical scale. A weighted competitive strength analysis is conceptually stronger than an unweighted one, as it accounts for the possibility that the different measures of competitive strength are unlikely to be equally important. The results of this analysis may be used to good effect in deciding on specific actions to be taken to strengthen a firm's long-term competitive position (Thompson & Strickland 2003).

An understanding of a company's resource capabilities and deficiencies, as well as market opportunities and threats is essential to the process of strategy evaluation and formulation. For this purpose, a SWOT analysis is performed. "This involves evaluating the company's strengths, weaknesses, opportunities and threats, and drawing conclusions about (1) how the company's strategy can be matched to both its resource capabilities and its market opportunities, and (2) how urgent it is for the company to correct which particular resource weakness and guard against which particular external threats" (Thompson & Strickland 2003, p. 127).

When the results of the SWOT analysis are used in conjunction with Pearce & Robinson's (1991) SWOT analysis diagram, an indication of the type of strategy that the company should pursue emerges.

Figure 2.1 Swot Analysis Diagram

Source: Pearce & Robinson (1991)

2.3 Diversification

The terms “diversified” and diversification can suggest innumerable meanings. Salter & Weinhold (1979, p. 5) quote the one-time CEO of General Electric Company, Ralph Cordiner, who used the term in at least six different senses: ‘developmental (R&D) diversification, functional diversification, product diversification, customer diversification, geographic (international) diversification, and diversification of the means of financing.’ Thus, diversification, according to Cordiner, was a change in any of the above elements of corporate strategy.

Salter and Weinhold (1979) subscribe to a more traditional view of diversification, which is limited to product market diversification. The key to this definition lies in understanding what constitutes different markets, as trying to define diversification on the basis of products alone is not at all precise. Emphasis is therefore placed on the heterogeneity of markets as well

as products in the definition. Market heterogeneity is defined according to two criteria. The first relates to the concept of substitutability – if the products are close substitutes, they belong to the same market. Conversely, low substitutability implies separate markets. The second criterion relates to the concept of immobility of productive resources. When resources can be shifted rapidly from the manufacturing of one product to the manufacturing of others, then the products are most likely very similar. According to this view of diversification, a company's degree of diversification increases as the heterogeneity of the markets served by that company increases.

Rumelt (1974) devised a useful framework for considering diversification options, in which diversified companies were divided into three categories: dominant business companies, related business companies, and unrelated business companies:

- Dominant business companies – companies in this category derive 70% to 95% of sales from a single business or vertically integrated chain of businesses.
- Related business companies – are those companies that have diversified by adding activities that are tangibly related to the collective skills and strengths possessed by the company. No single business accounts for more than 70% of such a company's sales.
- Unrelated business companies - commonly known as conglomerates, these are companies that have diversified without necessarily relating new businesses to old.

2.3.1 Reasons Why Firms Diversify

Diversification is a strategic option available to firms for a multitude of reasons and circumstances, which may be grouped in the following six categories:

Survival

- To offset a declining or vanishing market.
- To compensate for technological obsolescence.
- To offset obsolete facilities.
- To offset declining profit margins.

- To offset an unfavourable geographic location brought about by changing economic factors.

Stability

- To eliminate or offset seasonal slumps.
- To offset cyclical fluctuations.
- To maintain employment of the labour force.
- To provide balance between high-margin and low-margin products.
- To provide balance between old and new products.
- To maintain share of market.
- To meet new products of competitors.
- To tie customers to the firm.
- To distribute risk by serving several markets.
- To maintain an assured source of supply.
- To assure an outlet for the sale of the product.
- To develop a strong competitive supply position by offering several close substitute products.

Productive Utilisation of Resources

- To utilise waste or by-products.
- To maintain balance in vertical integration.
- To make use of basic raw material.
- To utilise excess productive capacity.
- To make use of product innovations from internal technical research.
- To capitalise on distinctive know-how.
- To make full use of management resources.
- To utilise excess marketing capacity.
- To exploit the value of an established market position, trade name, or prestige.
- To keep pace with an ever increasing rate of technology.
- To capitalise on company research and existing techniques as well as its advances in technology.
- To capitalise on a firms market contacts.

Adaptation to Changing Customer Needs

- To meet the demands or convenience of diversified dealers.
- To meet the specific requests of important individuals and/or groups of customers.
- To meet government requests for national security.
- To improve performance of existing products through adding accessories or complementary products.

Growth

- To counter market saturation on present products.
- To reinvest earnings.
- To take advantage of unusually attractive merger or acquisition opportunities.
- To stimulate the sale of basic products.

Miscellaneous

- To realise maximum advantage from the tax structure.
- To salvage or make the best of previously acquired companies or products.
- To maintain a reputation for industrial leadership.
- To comply with the desires of owners or executives.
- To strengthen the firm by obtaining new management abilities.

Dory (1978)

2.4 Related Diversification

When organisations diversify, they move away from their current markets and into new areas. This requires management of the firm to acquire or develop new skills to compete successfully in the markets it enters. These skills relate to various functional areas and to the coordination of other areas. Furthermore, it requires management to understand the needs of the customers, the product and process technology, and their relationships sufficiently so as to determine what skills will be needed in the future (Dory 1978).

This carries a high degree of business risk, which may be minimised if the organisation chooses to diversify into related markets. The term 'related markets' refers to markets that have some existing connection with the value chain. The concept of the value chain was developed by Professor Michael Porter of the Harvard Business School. Every organisation consists of activities that link together to develop the value of the business: purchasing, supplies, manufacturing, distribution, and marketing of its goods and services. These activities, taken together form the value chain of the organisation (Porter 1985).

Three types of relationships based on the value chain may be distinguished:

- Forward integration – this refers to a manufacturer's involvement in the activities outputs, such as distribution and logistics.
- Backward integration – in this instance an organisation extends its activities to those of its inputs, for example raw materials, plant and machinery.
- Horizontal integration – here the organisation moves into areas immediately related to its existing activities, either because they are complementary or because they compete.

Mintzberg & Quinn (1991) define diversification as the entry into some business not in the same chain of operation. They draw a distinction between diversification related to some distinctive competence or asset of the core business itself (also called concentric diversification), or otherwise unrelated (or conglomerate) diversification. "In related diversification, there is evident potential synergy between the new business and the core one, based on a common facility, asset, channel, skill even opportunity" (Mintzberg & Quinn 1991, p. 79).

2.4.1 The Concept of "Relatedness"

The distinction between related and unrelated diversification is not always clear – businesses normally classified as different from each other in a product market sense could require similar strategic, organisational and

operating skills. A diversifying acquisition linking these two businesses together into one company may therefore be viewed by its managements as being related, although the details of technology and marketing may be quite different (Salter and Weinhold 1979).

Rumelt (1974) considers businesses to be related if:

- They serve similar markets and use similar distribution systems,
- Employ similar production technologies, or
- Exploit similar science-based research.

Salter and Weinhold (1979) argue that relatedness has much to do with required management skills as it does with product market characteristics. If business experience and management skills are considered to be the critical elements of success, then it makes sense to classify diversification strategies by these criteria. They define business experience in terms of the company's product market profile. Management skills are divided into two broad categories – general management skills and functional activities. Functional activities are then further divided into research and development, production and manufacturing, and marketing and distribution.

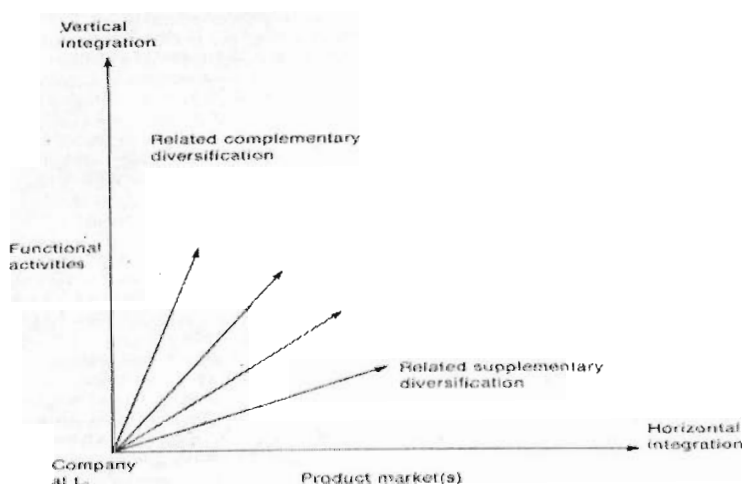
These criteria provide a basis for identifying diversification strategies. "An unrelated diversifier is a company pursuing growth in product markets where the key success factors are unrelated to each other. Such a company, whether an actively managed conglomerate or a more passively managed holding company, expects little or no transfer of functional skills between its various businesses. In contrast, a related diversifier is a company that uses its skills in a specific functional activity or product market as a basis for diversification" (Salter & Weinhold 1979, p. 7).

Salter & Weinhold (1979) divide related diversifiers into two basic types. If a company expands its business by entering product markets requiring functional skills identical to those already possessed by the company, this is referred to as related supplementary diversification. The purest form of this

strategy is horizontal integration, where the expansion involves a minimal departure from key functional activities.

If a company expands its business base by adding key functional activities and skills to its existing set, this is referred to as related complementary diversification. Here the purest form of this strategy is vertical integration, where the expansion involves adding key functional skills with minimal changes in product market orientation.

Figure 2.2 Related Diversification Strategies



Source: Salter & Weinhold (1979)

Figure 2.2 depicts the variety of related diversification strategies that a company may adopt. The horizontal axis measures the change in product market of the company, while the vertical axis measures the change in key functional activities. A diversifying acquisition will involve a change in one or both of these criteria. Acquisitions that involve a greater change in product market than in key functional activities are referred to as related supplementary diversification strategies. Conversely, acquisitions that involve a greater change in key functional activities than in product markets are referred to as related complementary diversification strategies.

2.4.2 Advantages of Related Diversification

Synergy is one of the main benefits offered by related diversification. Lynch (2000, p. 580) defines synergy in terms of the value it adds - "the whole is worth more than the sum of its parts: the value to be generated from owning and controlling more of the value chain is greater because the various elements support each other."

In related diversification, there is evident potential synergy between the new business and the core one, based on a common facility, asset, channel, skill or even opportunity. Porter (1985) distinguishes between intangible and tangible relatedness, the former being based on some functional or managerial skill considered common across the businesses, and the latter relating to shared activities in the value chain.

It is possible for synergy to occur when:

- The products of two or more businesses use common distribution channels, common sales administration, and common warehousing.
- There is an opportunity for tie-in sales that can increase the productivity of the sales force.
- Opportunities for common advertising and sales promotion exist.
- Common facilities can be utilised and overhead spread over larger volume.
- There is research and development carry-over from one product to another.

Diversification via acquisition, merger or strategic alliance often fails because the acquiring organisation does not have the know-how to manage the acquired business. This may be due to the fact that the core competencies of the businesses are dissimilar. The core competence of a business may be defined as its enabling culture, which in turn relates to its applied skills and motivation (Ambrosini et al. 1998). Related diversification may help to ensure that the competencies of the businesses are similar, thus increasing the chances of success.

Related diversification facilitates the choice of diversifying acquisition or strategic partner. Firms following related business strategies should have better access to more reliable sources of information than firms following unrelated business strategies. Often the relationship between markets includes a common set of customers or vendors from which information can be gathered. Furthermore, related markets often are within a common industry for which published and unpublished information is accessible to the firm (Dory 1978).

Extensive research into the field of economic performance amongst firms with various strategic patterns has revealed that the high performers are consistently the related diversifiers. Several explanations are offered for this phenomenon. Firstly, related businesses learn a set of core skills and design an organisation to suit these. When they diversify, the new business has a system of management and organisation that is familiar to everyone, and management is not spread thin. Secondly, most related diversifiers are downstream companies with businesses that have large advertising and research and development budgets, and also operate in markets with higher margins and returns. Thus, the business that 'relateds' happen to be in lends itself towards better economic performance (Salter & Weinhold 1979).

2.5 A Model For Strategic Analysis

In assessing the future strategy of the company, it is important to first determine the effectiveness of the current strategy in meeting the organisations needs. If current performance falls short of expectations, a performance gap exists, and gap analysis is concerned with closing that gap.

2.5.1 Gap Analysis

Gap analysis provides a means to assess the need for change. It is a useful tool for revealing the organisations strengths and weaknesses in relation to the competition, and creates a better understanding of the dynamics of the competitive environment. This in turn helps in the formulation of an appropriate strategy to close the gap (Ambrosini et al. 1998).

Performance gap analysis requires the manager to answer three questions:

1. Where are we now?
2. Where do we want to get to?
3. How can we get there?

In answering these questions, the current strategy, future goals, and modifications to the current strategy are all considered. Ambrosini et al. (1998) recommend three alternative courses of action to address performance gaps:

- Redefine the objectives – if a discrepancy exists between objectives and forecasts, the objectives must first be analysed to determine if they are realistic and achievable. Should this not be the case, they must be revised accordingly.
- Do nothing – it is suggested that employees often take time to adjust to organisational change and need to gain some experience at doing things in a different way. Should this be the case, it may be better to allow some time for the strategy to bear fruit.
- Change the strategy – when the first two courses of action have been ruled out, a change in strategy is the only option that remains for closing the gap. At this stage, it is necessary to distinguish between the three types of gaps that exist, and to identify the appropriate strategies for rectifying them.

Table 2.1 Gap Analysis

Type of Gap	Appropriate Strategy
Improvement Gap	Internal changes to improve the efficiency and effectiveness of existing operations.
Expansion Gap	Internal strategies to increase growth e.g. increasing market penetration, product development, targeting new markets.
Diversification Gap	Growth strategies of diversification or integration, harvesting, divestment or liquidation.

At this stage, the analysis provides an indication of the nature and size of the strategic problem, and provides directions in which to look for solutions (Ambrosini et al. 1998). As the purpose of this study is to evaluate the option of diversification for BTKM, other strategic tools are now used to analyse this strategy.

When To Diversify

According to Thompson & Strickland (2003), diversification is a viable option for firms under the following circumstances:

- To revive a company's prospects when growth opportunities in its core business begin to decline.
- When a company's core competencies, resource strengths or technological expertise are uniquely well suited for competing in other industries.
- When opportunities to gain competitive advantage or add value for customers arise through broadening the present business to include complementary products or technologies.
- Cost saving opportunities can be realised by diversifying into closely related businesses.
- When a company possesses the financial and organisational resources to support a diversification strategy.

2.5.2 Tests For Diversification

The decision to diversify must be based, first and foremost, on the creation of shareholder value. Thompson & Strickland (2003) have suggested three tests that should be administered to determine whether a particular diversification option is capable of increasing shareholder value. "Diversification moves that satisfy all three tests have the greatest potential to build shareholder value over the long term. Diversification moves that can pass only one or two tests are suspect" (Thompson & Strickland 2003, p. 295).

2.5.2.1 The Industry Attractiveness Test

“The industry chosen for diversification must be attractive enough to yield consistently good returns on investment” (Thompson & Strickland 2003, p. 295). The attractiveness of the industry depends on two factors: the presence of favourable competitive conditions, and a market environment conducive to long-term profitability.

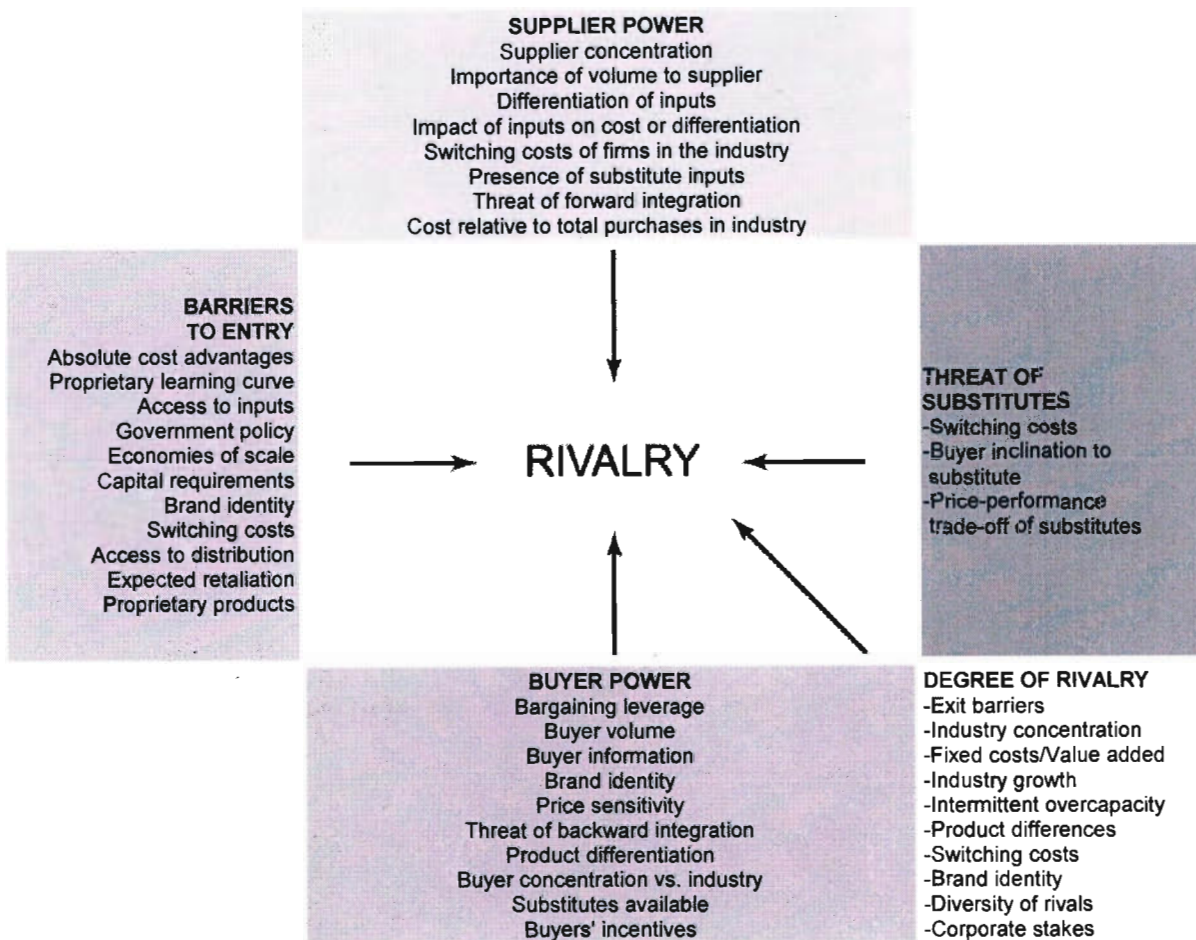
Industry & Competitive Analysis

An industry analysis usually begins with an examination of the forces influencing the organisation. Once these are determined, the information can be used to develop the competitive advantage of the organisation. This analysis is best undertaken using the Five Forces model developed by Professor Michael Porter of the Harvard University Business School, and will be used to determine the attractiveness of the industry.

Porters Five Forces Model

This model will be used to determine the industry's competitive processes, in order to discover the main sources of competitive pressure and the strength of each competitive force. This will be of assistance in developing the organisation's strategy, and the generic model is depicted below:

Figure 2.3 Porters Five Forces Model



Source: (Internet 1)

Porter identified five basic forces that can act on the organisation:

- Rivalry among Competing Sellers – this has been identified as the strongest of the five forces. The challenge facing every company is to develop a strategy that produces a competitive advantage over rivals. The best strategy for a firm is dependant on the strategies and capabilities of other companies. Thus, a strategic move initiated by one firm invites retaliation from other firms. Thompson & Strickland (2003) have identified several factors that influence the tempo of cross-company rivalry. These include the number and size of competitors, demand for product, switching costs, exit barriers and the diversity of competitors.

- Potential Entry of New Competitors – the threat of entry into a market is dependant on two factors, namely barriers to entry and the expected reaction of incumbent firms. “Whether an industries barriers ought to be considered high or low depends on the resources and competencies possessed by the pool of potential entrants (Thompson & Strickland 2003, p. 86). Even if a potential entrant possesses the required resources and competencies, it must still contend with the reaction of the incumbent firms. A good test of whether potential entry is a strong or weak competitive force is to determine if the industry’s growth and profit prospects are attractive enough to induce additional entry (Thompson & Strickland 2003).
- Competitive Pressures from Substitutes – this must be viewed in the context of a service business, where substitutes may exist in other industries. The strength of competition from substitutes is dependant on three factors, namely, the availability of attractively priced substitutes, the ability of customers to switch easily, and whether it meets customers expectations in terms of quality, performance, and other attributes (Thompson & Strickland 2003).
- Competitive Pressures from Buyer Bargaining Power – buyers have more leverage when: they are large and purchase a higher percentage of industry output, when switching costs (to competing brands) are low, when there are a small number of buyers, when buyers are well informed, and when there is a threat of buyers integrating backward.
- Competitive Pressures from Supplier Bargaining Power – a producing industry requires raw materials - labour, components, and other supplies. This requirement leads to buyer-supplier relationships between the industry and the firms that provide it the raw materials used to create products. Suppliers, if powerful, can exert an influence on the producing industry, such as selling raw materials at a high price to capture some of the industry's profits.

The stronger the collective impact of competitive forces, the lower the combined profitability of participant firms. The competitive structure of an industry is unattractive when: rivalry amongst sellers is strong, there are low barriers to entry, the threat of substitutes is strong, and buyers exert bargaining leverage. In contrast, the competitive structure of an industry is attractive when the competitive forces are collectively weak. The ideal competitive environment is one in which customers and suppliers are in weak bargaining positions, there are no good substitutes, rivalry among sellers is moderate, and entry barriers are high. The effectiveness of a company's competitive strategy is dependant upon its ability to provide a good defence against the five forces and to shift competitive pressures away in order to create sustainable competitive advantage (Thompson & Strickland 2003).

2.5.2.2. The Cost of Entry Test

“The cost to enter the target industry must not be so high as to erode the potential for good profitability” (Thompson & Strickland 2003, p. 295). The problem is that the more attractive the industry, the higher the cost of entry. Thus, it is difficult to achieve above average profitability when entry costs are high.

Market Entry Strategies

Strategies for diversification may be viewed as being on a continuum with internal development and acquisition at either end. An organisation may enter into a new business by developing it itself, or alternatively by buying an organisation already in that business. Mintzberg & Quinn (1991) state that there are many possible strategies that lie between these two choices, which include:

- Partial ownership and control – this includes joint ventures, as well as turnkey operations.
- Partial control without ownership – this includes licensing, franchising and long term contracting.

Entry through Internal Development

This involves the creation of a new business entity in an industry, including developing new production capacity, forming distribution relationships, training and employing a sales force, and so on. When contemplating this form of market entry, the firm has to consider the two sources of entry barriers - structural entry barriers, and the expected reaction of incumbent firms. The total cost of internal development is therefore the sum of up-front investments and start-up losses, and the adverse effects of retaliation e.g. lower prices and escalated marketing costs. Thus the decision to enter must balance these costs against the benefits (expected cash flows) that arise from the diversification (Porter 1980). This analysis will provide the answer to the cost of entry test.

Internal entry is most likely to be attractive when:

- There is ample time to launch the businesses from scratch.
- The target industry consists of many relatively small firms, so that the start-up firm does not have to compete with larger and more powerful rivals.
- Incumbent firms are likely to be slow to react to the market entry of a new firm.
- Adding new production capacity will not adversely affect the supply-demand balance in the industry.
- Internal entry has lower costs than entry via acquisition.

Entry through Acquisition

Acquisition offers a far quicker means of diversifying into other industries than internal entry does, while also avoiding entry barriers such as acquiring technological experience, establishing supplier relationships, and becoming big enough to match incumbent firms efficiency and unit costs. Furthermore, the company inherits brand recognition, thus obviating the need for costly introductory advertising and promotions. It often takes years for a company to establish itself as a strong competitor in a market when it adopts the internal entry method – acquiring an established business allows the new entrant to

concentrate on building a strong market position in the industry. Although this seems like the better alternative, the choice of entry strategy must pass the cost of entry test. Successful businesses are usually priced to reflect their future profit prospects, and acquisition of such a business may not provide the required return on investment. Alternatively, one may consider the acquisition of a struggling business and endeavour to turn its performance around, but this has inherent risks (Thompson & Strickland 2003).

Joint Ventures & Strategic Partnerships

A joint venture is the formation of a company whose shares are jointly owned by two parent companies. It usually shares some of the assets and skills of both the parents. A strategic partnership or alliance is a form of contractual agreement or even minority shareholding between two parent companies. It usually falls short of the formation of a separate subsidiary, and can be terminated when one of the partners chooses to do so. According to Thompson & Strickland (2003), strategic partnerships have replaced joint ventures as the favoured method for pooling resources to pursue strategically important diversification opportunities. This is due to the fact that they are able to accommodate multiple partners, and are more flexible and adaptable to changes in technology and market conditions. Strategic partnerships are an extremely useful method of gaining access into new industries when the new business requires a broader range of competencies than the firm possesses. Pooling the resources and competencies of different organisations may generate the capabilities needed for success.

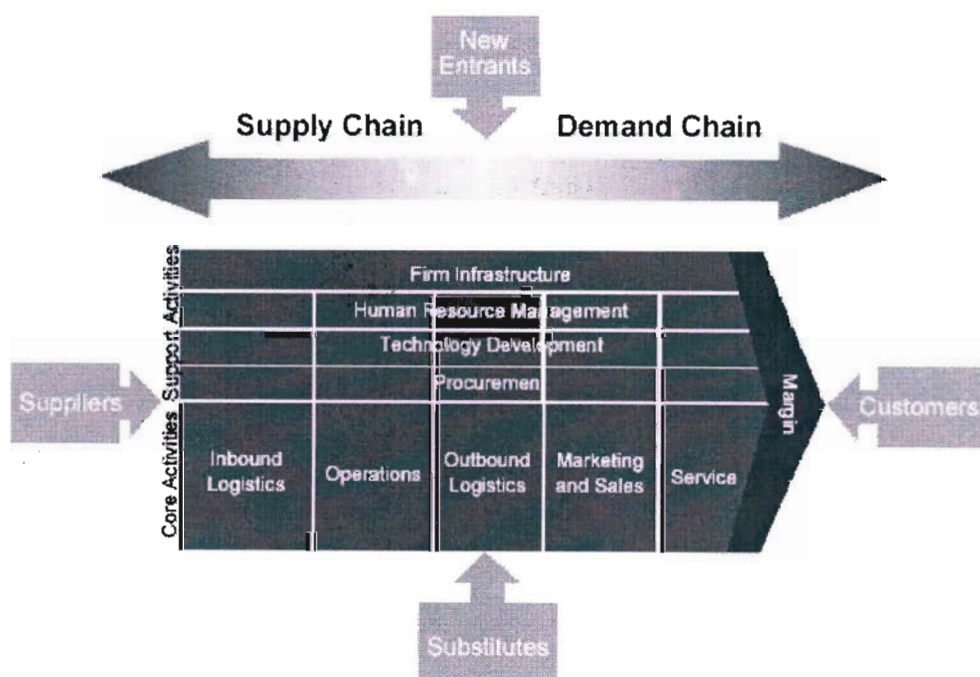
2.5.2.3 The Better Off Test

Diversification must offer potential for the company's existing business and the new business to perform better together than apart. There must be potential for synergy i.e. the whole must be worth more than the sum of its parts. This occurs when "a company diversifies into businesses that have competitively important value chain matchups with its existing businesses" (Thompson & Strickland 2003, p. 295). Without these strategic fits, the diversification option should be treated with scepticism.

The Concept of the Value Chain and Strategic Fit

The concept of the value chain was developed by Professor Michael Porter of the Harvard Business School. Every organisation consists of activities that link together to develop the value of the business: purchasing supplies, manufacturing, distribution, and marketing of its goods and services. These activities, taken together form the value chain of the organisation (Porter 1985). A generic value chain is depicted below:

Figure 2.4 The Value Chain



Source: (Internet 2)

The value chain consists of primary activities and support activities:

Primary Value Chain Activities

The goal of these activities is to create value that exceeds the cost of providing the product or service, thus generating a profit margin.

- **Inbound logistics** include the receiving, warehousing, and inventory control of input materials.
- **Operations** are the value-creating activities that transform the inputs into the final product.
- **Outbound logistics** are the activities required to get the finished product to the customer, including warehousing, order fulfilment, etc.
- **Marketing & Sales** are those activities associated with getting buyers to purchase the product, including channel selection, advertising, pricing, etc.
- **Service** activities are those that maintain and enhance the product's value including customer support, repair services, etc.

Any or all of these primary activities may be vital in developing a competitive advantage. For example, logistics activities are critical for a provider of distribution services, and service activities may be the key focus for a firm offering on-site maintenance contracts for buildings (Thompson & Strickland 2003).

These five categories are generic and portrayed here in a general manner. Each generic activity includes specific activities that vary by industry.

Support Activities

The primary value chain activities described above are facilitated by support activities. Porter identified four generic categories of support activities, the details of which are industry-specific.

- **Procurement** - the function of purchasing the raw materials and other inputs used in the value-creating activities.

- **Technology Development** - includes research and development, process automation, and other technology development used to support the value-chain activities.
- **Human Resource Management** - the activities associated with recruiting, development, and compensation of employees.
- **Firm Infrastructure** - includes activities such as finance, legal, quality management, etc.

(Internet 1)

Support activities often are viewed as "overhead", but some firms have successfully used them to develop a competitive advantage, for example, to develop a cost advantage through innovative management of information systems (Internet 1).

Value Chain Analysis

In order to better understand the activities leading to competitive advantage, one can begin with the generic value chain and then identify the relevant firm-specific activities. Process flows can be mapped, and these flows used to isolate the individual value-creating activities. Once the discrete activities are defined, linkages between activities should be identified. A linkage exists if the performance or cost of one activity affects that of another. Competitive advantage may be obtained by optimising and coordinating linked activities (Lynch 2000).

Strategic fit exists whenever one or more of the activities comprising the value chains of different businesses are sufficiently similar so as to offer the competitive advantage potential of skills transfer, lower costs, common brand names, and stronger competitive capabilities (Thompson & Strickland 2003).

The value chains of both the present business and the new one should be analysed for cross business strategic fits. The activities that should be analysed include:

- Supply chain activities
- Technology
- Operations
- Sales & Marketing
- Distribution
- Customer Service

When opportunities exist to consolidate one or more of the value chain activities of different businesses, related diversification can lead to cost savings, which are termed economies of scope. “The greater the economies of scope associated with cross business cost saving opportunities, the greater the potential for creating a competitive advantage based on lower costs” (Thompson & Strickland 2003, p. 302). The greater the relatedness among the businesses of a diversified company, the greater the opportunities for skills transfer, combining value chain activities to achieve lower costs and creating new resource strengths and capabilities, and hence the bigger the opportunity to create competitive advantage.

“A diversified firm that exploits cross business value chain matchups and captures the benefits of strategic fit can achieve a consolidated performance greater than the sum of what the businesses can earn pursuing independent strategies. The competitive edge flowing from strategic fits along the value chains of related businesses provides a dependable basis for them performing better together than as stand alone enterprises where no such competitive edge exists” (Thompson & Strickland 2003, p. 302). Thus, the greater the strategic fit benefits, the more related diversification is capable of achieving synergistic performance, thereby satisfying the better off test.

2.5.3 Guidelines for Diversification

Mintzberg & Quinn (1991) advocate a step-by-step approach to guide and assess the strategic fits of each internal or external diversification candidate. They also stress the importance of incremental processes, which are required to manage the psychological and power shifts that play such a large role in determining the programme's overall direction and consequences. These processes also help to create broad conceptual consensus, risk taking attitudes, organisational and resource flexibility, and the "adaptive dynamism" that determine both the timing and direction of diversification strategies. They cite the following four processes as being the most important:

- Generating a genuine, top-level psychological commitment to diversification – this entails conducting broad analytical studies and goal setting exercises in order to establish the general directions for diversification, and to build top-level consensus around the need to diversify.
- Consciously preparing to move opportunistically – "organisational and fiscal resources must be built up in advance to exploit candidates as they randomly appear. And a 'credible activist' for ventures must be developed and backed by someone with commitment power (Mintzberg & Quinn 1991, p. 100). According to Mintzberg & Quinn (1991), key success factors for successful acquirers include strengthening the financial controllership capabilities, creating low cost capital access, and maintaining the shortest possible communication lines from the 'activist' to the resource committing authority.
- Building a comfort factor for risk taking – Mintzberg & Quinn (1991) believe perceived risk to be a function of one's knowledge about a field. In accordance with this view, well-conceived diversification programmes should anticipate a trial and error period during which proposed opportunities are analysed and rejected until a suitable candidate is found.
- Developing a new ethos – if new acquisitions or divisions are more successful than the old ones, they should attract more company resources. As their managers move into corporate positions, the

company's competencies and ethos begin to change. The products and concepts that dominated the company's culture may decline in importance or even disappear. These factors must be handled adaptively as the opportunities present themselves, and as individual leaders and power centres develop (Mintzberg & Quinn 1991).

"Each of the above processes interacts with all others (and with the random appearance of diversification candidates) to affect action sequences, elapsed time, and ultimate results in unexpected ways. Complexities are so great that few diversification programmes end up as initially envisioned. Consequently, wise managers recognise the limits to systematic analysis in diversification, and use formal planning to build the comfort levels executives need for risk taking and to guide the programme's early directions and priorities. They then modify these flexibly, step by step, as the new opportunities, power centres, and developed competencies merge to create new potentials" (Mintzberg & Quinn 1991, p. 101).

The objective of this study is to review the current strategy of BTKM and to evaluate the strategic option of diversification into Facilities Management. Having researched the areas of strategy and diversification, attention is now turned towards researching the field of Facilities Management. Should BTKM wish to consider this as a strategic option, it is necessary to first develop a thorough understanding of this subject.

2.6 Facilities Management

Understanding and managing the life cycle costs on buildings and related infrastructure has significant downstream benefits which on today's construction projects frequently calls for quantity surveyors to consider current design methodology in new and innovative ways. This, together with the renewed drive internationally for sustainable structures which co-exist with the environment and the related protection and nurturing of natural resources has led to the growth of a new field of endeavour – that of Facilities Management (FM).

The general trend during the past decade has been towards outsourcing the upkeep of facilities to consultant Facilities Managers. Companies these days have come to realise the importance of keeping their buildings in good shape. In order to remain in this competitive business environment, organisations must ensure that they are responsive to change and able to take advantage of changing technology. Businesses are focusing their attention on a reduction of overheads in order to improve their position in the market place. Facilities Management is not only about the operations and maintenance of buildings or the provisions of cleaning services, it also endeavours to maximize the wealth of an organisation and sustain increased profits (Cotts 1999).

2.6.1 Defining Facilities Management

Several groups have attempted to define the scope of Facilities Management, with diverse results. According to Alexander (1996, p. 1), "Facilities Management is the process by which an organisation ensures that its buildings, systems and services support core operations and processes as well as contribute to achieving its strategic objectives in changing conditions."

The International Facilities Management Association defines FM as the process by which an organisation delivers and sustains a quality-working environment and delivers quality support services to meet the organisations objectives at the best cost (Internet 4).

The definition suggested by Barrett (1995, p. 11) is: "An integrated approach to maintaining, improving and adapting the buildings of an organisation in order to create an environment that strongly supports the primary objectives of that organisation."

A fuller definition according to Park (1998, p. 12) is "The planning, design, procurement and maintenance of all property assets and their associated support and customer services to achieve and sustain optimum environmental quality and efficiency to achieve best value for investment within appropriate resources within the law."

All the foregoing definitions confirm that Facilities Management aims to relieve clients of responsibility for non-core activities enabling them to concentrate on their core businesses, and to ensure that non-core activities provide value for money. Non-core activities can be described as:

- Building services;
- Rent reviews;
- Office services;
- Space management;
- Cleaning and security;
- Catering;
- Purchasing and contract negotiations.

In most current Facilities Management definitions much emphasis is placed on technical issues rather than strategic issues. In order to achieve the highest organisational effectiveness a more holistic and strategic understanding is necessary. An organisation can only be successful in using the market to deliver services when effective quality systems are in place and business needs have been clearly defined (Braner 1999).

2.6.2 The Evolution of Facilities Management

Investments, productivity, business process research and marketing have all been at the forefront of any drive to make business more profitable. What has not been of such high profile are the support services and working environment, which allow organisations to operate. The management of the workspace and the services, which create and maintain that space, has always been secondary at best and usually neglected. This situation is changing (Internet 3).

Some twelve years ago in the UK and Europe, and prior to that in the USA, the management of facilities became a key business issue, as companies began to realise the importance and contribution of having world-class facilities. This led to the development of the FM profession and the

outsourcing market to where it is today. Three main reasons for the growth of outsourcing have been identified:

- Recession & Economy – recession in the USA and Europe drove companies to outsource in order to reduce costs and cut directly employed staff.
- Focus on Core Business – companies realised that many of the services they needed were merely to support their own core business, and a specialist could provide these.
- Public Sector Policy – Government policy to privatise and use the private sector to own and operate facilities.

(Internet 3)

Stages in the Development of Outsourcing

Outsourcing developed initially with single services being contracted out, the first being cleaning, catering and gardening. These were followed closely by maintenance, gardening/landscaping, mailrooms and space planning.

These single outsourced services were controlled and organised by in-house managers, either in property, administration or human resource departments. These single services could be relatively easily specified and tenders obtained. They were for the most part very inflexible arrangements and added little value to the organisation (Braner 1999)

The next stage in the development of outsourcing was to bundle services together and to rationalise some of the services with multi-skilled operators. Responsibilities and roles now moved beyond the previous service delivery boundaries. This development continued into the more strategic services the market now offers - a single company is now able to manage, or manage and provide, all of the facilities support services required by an organisation. The move to a total business support service made it very difficult to adequately describe and articulate what a business wanted from its outsourcing provider. This popularised the strategic role of the Facilities Manager in helping to identify, create and then manage the working environment (Braner 1999).

2.6.3 The Objectives of Facilities Management

According to Graham Tracey, Managing Director of Drake & Scull International FM, the objective of any FM group, whether in-house or outsourced, must be to create and maintain an ideal working environment which adds maximum value to the organisation (Internet 3).

Dominy (2000) believes that the main objective of Facilities Management is to allow the business to focus its attention on its core business by removing responsibility for all its non-core activities and outsourcing them. According to him, "This is achieved by reducing the fixed and variable costs through streamlining non-core functions into efficient processes, which allows the business to track expenditure on asset investment, maintenance and non-core activities and gives greater control of the facilities budget".

He further recommends that property should be seen as an asset to the business and suggests four issues a company should contend with, namely:

- (1) The Accommodation i.e. how well the property supports businesses real needs.
- (2) The Property i.e. the value of the property, which needs to be maintained.
- (3) The Service i.e. relating to the property and its occupants e.g. catering, security and heating.
- (4) Statutory Responsibilities i.e. an ever-growing list of existing and new legislation.

No matter how efficiently a company conducts its core business, all four of the aforementioned issues directly impact on the profitability of an organisation.

2.6.4 Benefits of Outsourcing

Outsourcing allows organisations to concentrate on their core business. Outsourcing organisations can pass savings onto clients due to them having strong relationships with their vendors. Essentially the main objectives of outsourcing are to reduce costs. It also assists in improving a company's performance and enables the organisation to handle rapid growth.

Chapman & Andrade (1998) claim that the main benefits of outsourcing are:

- Reduction in operating costs.
- Improved company focus.
- Enables access to world-class capabilities.
- Internal resources are freed up for more important uses.
- Allows the company to obtain resources not available internally.
- Accelerated reengineering benefits.
- Enables the company to deal with a function that is difficult to manage/out of control.
- Risks are shared.

Shreeveport Management Consultancy conducted a survey of the outsourcing practices of large organisations and found that the following benefits accrued to the company:

- There was improvement in the level of services.
- Reduction in costs.
- There was an increase in management time.
- The organisation had more time to focus on core business.
- The quality of goods and services improved.
- There was cash inflow in the business.
- Flexibility in terms of service delivery.

(Internet 3)

2.6.5 Roles & Responsibilities of the Facilities Manager

The Facilities Manager plays a vital role in decision-making concerning design, development, refurbishment and disposal of assets. He must also be able to translate strategic plans into specific objectives and to create appropriate management systems. One of the components of successful Facilities Management is budgeting and monitoring of expenditure against the budget (Alexander 1996).

Park (1998, p. 9) believes that "Facilities Management is all about collecting and interpreting data on diverse facets of property use". This highlights the role of the Facilities Manager in gathering information about an organisation,

and endeavouring to re-engineer processes in order to achieve the best results for the organisation.

Facilities Management is a very broad field and a continually changing one. The use of buildings is constantly changing, products change, technology changes and businesses respond differently to the various market sectors. The Facilities Manager must be able to adapt to these changes and continually monitor and apply corrective action whenever change occurs (Park 1998).

According to Barrett (1995) the following are typical Facilities Management activities:

Table 2.2 Typical Facilities Management Activities

Facility Planning	Building Operations & Maintenance
<ul style="list-style-type: none"> ▪ Strategic space planning ▪ Set corporate planning standards and guidelines ▪ Identify user needs ▪ Furniture layouts ▪ Monitor space use ▪ Select and control use of furniture ▪ Define performance measures ▪ Computer-aided facility management (CAFM) 	<ul style="list-style-type: none"> ▪ Run and maintain plant ▪ Maintain building fabric ▪ Manage and undertake adaptation ▪ Energy management ▪ Security ▪ Voice and data communication ▪ Control operating budget ▪ Monitor performance ▪ Supervise cleaning and decoration

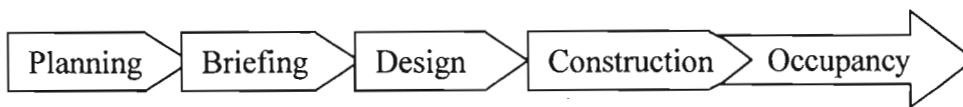
<p align="center">Real Estate & Building Construction</p>	<p align="center">General / Office Services</p>
<ul style="list-style-type: none"> ▪ New building design and construction management ▪ Acquisition and disposal of sites and buildings ▪ Negotiation and management of leases ▪ Advice on property investment ▪ Control of capital budgets 	<ul style="list-style-type: none"> ▪ Provide and manage support services ▪ Office purchasing (stationery and equipment) ▪ Non-building contract services (catering, travel, etc) ▪ Reprographic services ▪ House-keeping standards

Source: Barrett (1995)

2.6.5.1 Facilities Management & Building Design

Building users often complain that their workplace is not adequately designed to meet all their needs. This highlights the need for the Facilities Manager to be involved in the building process from the planning stage, in order to offer advice on how organisational effectiveness can be improved through design. According to Barrett (1995) many organisations implement a linear building process, depicted as follows:

Figure 2.5 The Traditional Building Process

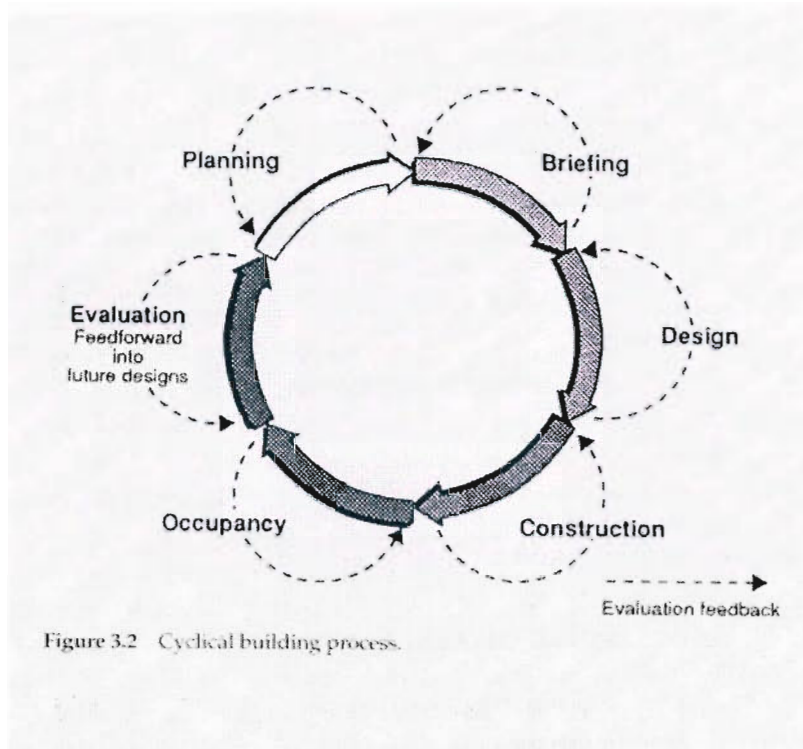


Source: Barrett (1995)

Barrett argues that the process should be cyclical rather than linear and a new important stage should be added which is the evaluation stage. This is depicted in Figure 2.6 below. According to this model, each stage in the design process must first be evaluated before moving on to the next one. This ensures that user needs remain the first and foremost concern during design. A typical downfall of many organisations is the lack of feedback as to whether the building meets the requirements of the staff or other users.

The cyclical method encourages organisations to gain feedback as to whether the building meets the user needs. Information from staff can also assist in improving the performance of an existing building.

Figure 2.6 Cyclical Building Process



Source: Barrett (1995)

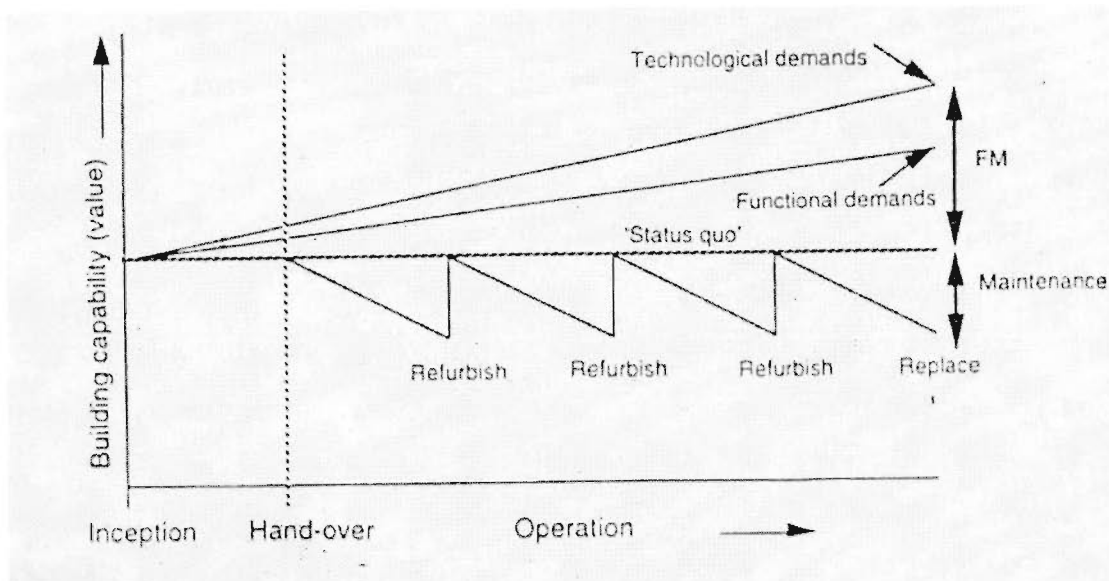
2.6.5.2 Maintenance Management & Facilities Management

“The Facilities Manager represents a ‘manager of change,’ being concerned with preventing the demise of a facility resulting from functional or technological obsolescence” (Alexander 1996, p. 43).

A distinction may be drawn between the role of the Maintenance Manager and that of the Facilities Manager. Barrett (1995) argues that the role of the Maintenance Manager only begins when the building is in use. Furthermore, Maintenance Management aims primarily at maintenance and refurbishment to prolong the life of the existing facility. Facilities Management, on the other hand, begins from the planning stage, and aims at increasing the capability and value of a building to meet changing functional and technological

demands. The following graph of building capability versus time shows the distinction between Maintenance Management and Facilities Management.

Figure 2.7 The Distinction between Maintenance Management & Facilities Management



Source: Barrett (1995)

A distinct feature shown in the graph is that maintenance only arises once the building is in use. Functional and technological demands can arise from the beginning of a project i.e. the briefing stage. The organisation is continually attempting to improve its competitive advantage through improved maintenance.

2.6.5.3 Property Management & Facilities Management

Property Management is essentially routine administration of individual properties and collections of rentals. Traditional Property Management does not provide appropriate strategic management and is not appropriate for the management of property investment portfolios. According to Spedding (1994) the Facilities Manager on the other hand should be able to deal strategically with operational and investment assets.

Spedding (1994) claims that Facilities Managers provide inputs into the work spheres of the developer and property manager. Assets are created through the process of Property Development. These assets need to be managed in order to enhance their operating performance. Facilities Management is part of this management. "The Facilities Manager in context of Property Management is one of the principle providers of strategic information" (Spedding 1994, p. 25).

One of the Facilities Management tasks is to interpret and translate strategic plans into specific objectives. The Facilities Manager must also be capable of making decisions on an asset from the inception stage to the disposal stage and ensure efficient management of the asset.

2.6.6 Skills Requirements For Facilities Management

Successful Facilities Managers possesses a mixture of business, management and technical knowledge needed to provide the best services to their clients. The successful manager must be capable of foreseeing the consequences that are related to changing environments and must be able to bring about changes. Facilities Managers must be capable of handling both short term and long-term problems (Dominy 2000).

Facilities Management is a core management discipline. Facilities Managers are involved with management of operations and acting as overseers for the Client and are seldom actually involved in carrying out the tasks. Facilities Managers must be able to create an organisational vision and be able to manage and control that vision of the organisation (Dominy 2000).

Facilities Managers must have the ability to communicate effectively, set standards for facilities and must be able to accept full accountability for all actions. They must be business leaders and good financial managers. They must know the business they support and be able to speak the language of business (Internet 3).

Facilities Management is a very broad field hence the leaders must be knowledgeable in the operations of the client's organisation. A Facilities Manager must be able to manage quality, value and risks.

The following are recommendations made by the International Facilities Management Association (IFMA) in order to increase the value of Facilities Management:

- Adopting a customer service orientation.
- Frequent and pro-active communication.
- Understanding of an organisation goals and mission and working towards them.
- Successful controlling and cost minimization
- Keeping up with technology and ideas.

(Internet 4)

From the above recommendations one can deduce that in order for Facilities Management to be successful organisational understanding is essential. There must be an effective communication system in place so that both parties understand information.

Facilities Management organisations achieve their objectives by providing management teams for a specific project. An important skill of a project manager is to understand the clients needs and have control over quality and cost through every stage of the project (www.ifma.org).

2.6.6.1 Facilities Management Education

There has been a growing demand for professional Facilities Managers over the past decade. Until recently there were no degree programmes or clearly defined entry requirements into the field locally. The common requirements were similar experience in the field, management or supervisory skills and possibly a tertiary qualification.

The International Facilities Management Association (IFMA) has compiled a list of schools offering Facilities Management Education. These institutions must adhere to standards set out by the Association and must reapply every six years to ensure that the programs they offer continue to meet the standards set out by the Association.

Schools currently recognized by IFMA include:

- Cornell University, Ithaca, N.Y.
- Eastern Michigan University.
- Ferris State University.
- University of Southern Colorado.
- The University of Strathclyde, Glasgow

(Internet 4)

The following South African institutions offer education in Facilities Management:

- Technikon Pretoria is the only tertiary education institution to offer a BTech degree in Facilities Management. The Technikon has developed the degree specifically to suit the South African context. This course, which takes two years to complete, is presented on a block basis with evening classes. After one year of study a student obtains an Advanced Diploma in Facilities Management. After two years of successful study the student will receive a BTech degree in Facilities Management. To enrol for this degree the student needs a three year National Diploma in one of the following fields: construction management, architecture, general management or engineering
- The Real Estate College offers a diploma in Facilities Management.
- The University of Natal has modules on Facilities Management included in their program for Masters of Science in Project Management.
- Technikon Natal has modules on Facilities Management in their BTech degree for Construction Management.

2.6.7 Information Technology & Facilities Management

Information technology forms an integral part of every business particularly in businesses that are constantly changing. "Information management is the process by which quality information is generated, structured and communicated to support its application in decision making" (Alexander 1996, p. 122).

According to Alexander (1996, p. 122) Facilities Management is defined in the Information Technology industry as "the provision of the management, operations and support of an organisations computers and /or networks by an external source at agreed service levels."

Acquiring and developing knowledge and skills in information technology is integral to the effectiveness of Facilities Management teams. Computers assist in simplifying workloads as these become more complex and increase in volume. In order to assist the Facilities Manager a number of computer-aided Facilities Management systems have been developed, which have made a significant improvement in organisational effectiveness. Alexander (1996) defines Computer Aided Facilities Management (CAIFM), as the increase in the productivity and efficiency of Facilities Management by the use of automated equipment and procedures. He states that the system can be used to manage the following categories of information:

- Physical Resources i.e. site, infrastructure, building.
- Support Services i.e. administration, property maintenance, security, health and safety, catering.
- Human Resources i.e. personnel management, recruitment.
- Business Information i.e. processes, documentation, contractual, financial.

E-Commerce has also found its way into Facilities Management and it is used to help manage facilities. It is most frequently used to purchase materials on the web from a specific vendor. In South Africa, E-Commerce is slowly finding its way in, and is expected to grow substantially in the next five years (Internet 3).

2.6.8 The Scope for Facilities Management

The general trend in the past decade has been towards outsourcing the upkeep of facilities to consultant Facilities Managers. Companies these days have come to realise the importance of keeping their buildings in good shape. In order to remain in this competitive business environment, organisations must ensure that they are responsive to change and are able to take advantage of changing technology. Businesses are focusing their attention on a reduction of overheads in order to improve their position in the market place. Facilities Management is not only about the operations and maintenance of buildings or the provisions of cleaning services, it also endeavours to maximize the wealth of an organisation and sustain increased profits. In both the public and private sectors, Facilities Management continues to make a positive impact (Garner 1999).

Facilities Management in the Public Sector

In the public sector facilities management can deliver substantial benefits in government privatisation since an asset is not lost from the government purse, while it frees up available resources. The most obvious public sector examples in South Africa are Telkom, the tollroads, the Inkhosi Albert Luthuli hospital in Kwa-Zulu Natal, and various prisons across the country (Internet 3).

The partnership between Telkom and its service provider Rebserve, is worth R1,4 billion a year, and the services offered include:

- Maintenance of 6 713 buildings.
- Maintenance of 14 000 masts on different sites.
- Management of over 1 000 leases.

- Two thousand design-and-build projects in progress.
- Management of approximately 11 000 utility bill a month to 850 municipalities.
- A 24 hour call centre operating seven days a week, which manages 16 000 calls a month.

(Internet 3)

Facilities Management in the Private Sector

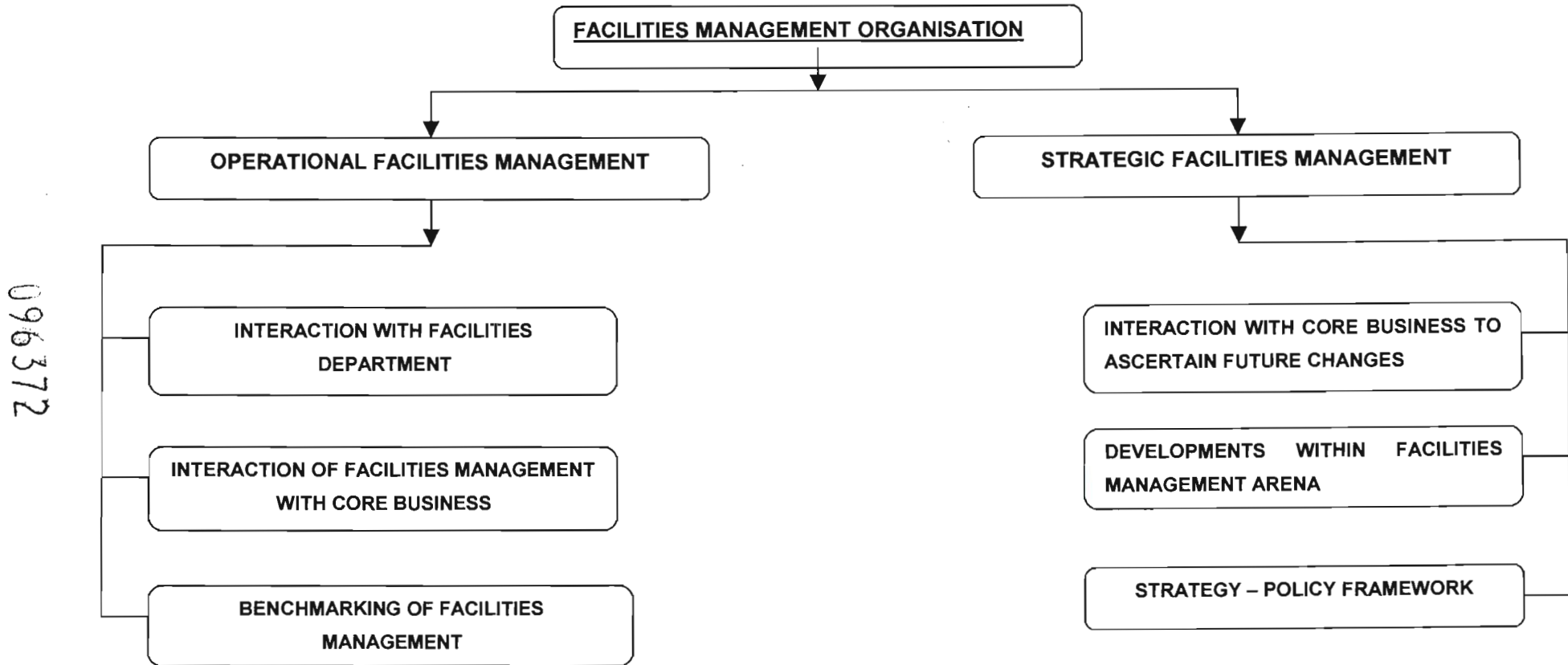
The trend towards outsourcing is particularly evident amongst retail chains, hotels and universities. A partnership between Shoprite Checkers and its service provider WSP Facilities Management sees over 300 of its stores being managed to good effect. It is estimated that Shoprite Checkers maintenance costs have only increased by 3% over the last three years, compared to the industry average of 14% per annum (Currie 2002). The competitive nature of the FMCG industry will no doubt see competitors adopting the outsourcing approach.

(Internet 3)

2.6.9 An Idealised Model Of Facilities Management

Barretts (1995) generic model of Facilities Management is adapted to illustrate the interactions that a Facilities Management Department is involved in. It aims to give organisations a clearer picture of how an ideal facilities department will correspond with the external environment and core business.

Figure 2.8 An Idealised Model of Facilities Management



Source: Barrett (1995, p. 41)

The different interactions identified by Barrett, (1995) are as follows:

Operational Facilities Management

▪ Interaction within the Facilities Department

Interaction occurs between the Facilities Management department and the Functional units. With this relationship the Facilities Manager acts as a coordinator / manager of services. He only oversees projects and is not involved in the implementation. The functional units can be either in-housed or contracted out. They carry out their duties as directed by the Facilities Manager. They must report problems or any changes back to the Facilities Manager.

▪ Interaction of Facilities Managers with Core Business

In order to identify facilities requirements, there must be regular meetings with the Facilities Manager and the core business. This can be done formally or informally. The Facilities Manager should conduct regular checks in order to distinguish whether needs are being met and to identify areas to be improved.

▪ Benchmarking of Facilities Management

In order to identify possible areas for improvement, benchmarking of existing internal facilities services against other Facilities Management organisations is carried out.

Strategic Facilities Management

▪ Interaction with Core Business to ascertain future changes

The Facilities Manager needs to correspond with the core business in order to find out what future changes may occur within the core business.

▪ Developments within the Facilities Management arena

The Facilities Manager, whilst interacting with the client, must scan the environment in order to assess if there may be any possible future changes that may occur.

▪ **Strategy**

The Facilities Manager must have an effective strategic policy in place with regards to decision-making. Strategic Facilities Management ensures the realisation of change that is required. The aim of Facilities Management is to allow the client to concentrate on the core business without having to concentrate on changes in the Facilities area that may occur.

2.7 Summary

The foregoing discussion has defined the concept of strategy, and highlighted the advantages of employing techniques of strategic management to achieve organisational objectives. The management of BTKM Quantity Surveyors is considering adopting a diversification strategy, which is an option available to a firm for a multitude of reasons, including survival, stability and growth. This option carries a high degree of business risk, which may be minimised if the organisation chooses to diversify into related markets. Research has shown the advantages of related diversification over unrelated diversification, and suggests that related diversification is capable of adding value to the organisation through synergy.

In assessing the future strategy of the company, it is important to first determine the effectiveness of the current strategy in meeting the organisations needs. To this end, a model for strategic analysis is developed, which provides a framework for: (a) assessing the current strategy, (b) generation of strategic options, (c) formulation of related diversification strategies, and (d) evaluation of strategic choice.

One of the strategic options being considered by BTKM Quantity Surveyors is diversification into the field of Facilities Management. The literature review has helped to develop a thorough understanding of this subject. Facilities Management may be described as an overall function which includes a wide range of property and user-related functions being brought together for the benefit of the organisation and employees. It helps in reducing costs, increasing productivity and enhancing competitiveness. It is a distinct

management function which requires the Facilities Manager to possess and develop a mixture of business, management and technical skills.

There has been a general trend during the past decade, both locally and abroad, towards outsourcing responsibility for non-core activities to consultant Facilities Managers in both the private and public sectors. This trend seems set to continue well into the future, and the industry is both lucrative and challenging for prospective entrants.

Chapter 3

Case Study – BTKM Quantity Surveyors

3.1 Introduction

In this chapter, a case study of BTKM Quantity Surveyors is presented, which consists of the company profile, overall strategy, and performance related data. The construction industry in South Africa will then be discussed, in order to understand the context within which the firm operates and the forces that it is subject to.

3.2 BTKM Company Profile

The mission of the company, its history, company strategy and the range of services rendered are discussed.

3.2.1 Mission & Vision

“Our track-record and recommendations from clients and consultants reflect our commitment to strive for excellence in Quantity Surveying and we plan all projects ensuring the allocation of adequate and appropriate resources to meet the specific requirements and program parameters of the projects that we undertake” (Internet 5).

3.2.2 Company History

The success story of a small quantity surveying practice began from its establishment as BTK Quantity Surveyors in 1984. From humble beginnings the company is now represented nationally with offices in Johannesburg, Cape Town, Durban, Port Elizabeth and Umtata.

The core business is construction cost consulting, and the company has an enviable record in the industry. It was one of the first non-white quantity surveying practices to be established in Johannesburg, and quickly gained popularity amongst (non-white) clients who felt it to be morally incorrect to transact with white firms during the turbulent apartheid era.

The practice experienced unprecedented growth during the late 1980's, due to the fact that the profession was now firmly established, and public knowledge of the quantity surveyors skills and worth was improving. Whereas

previously the perception was that quantity surveyors were only required on large projects with big enough budgets to justify paying their fees, clients began to realise that smaller projects such as residential developments also merited their appointment. This presented an opportunity for growth, and in 1986, the three partners decided to expand the operation geographically, and opened offices in Durban and then Cape Town (Tayob 2003).

The construction industry was a microcosm of South African society at the time, which made it difficult for the company to penetrate markets that were dominated by white owned QS firms. Thus the lucrative and high profile projects still eluded the company. BTKM's client base consisted mainly of members of the Indian community, and the projects were of small to medium size in terms of value and scope.

However, the apartheid governments hold on power was lost in the mid 1990's, which presented new opportunities for those who were previously disadvantaged.

3.2.3 Company Strategy

1995 to 2000

BTK quickly formulated a new strategy to take advantage of the huge window of opportunity that the new governments affirmative action policies, and reconstruction and development programme presented. The company took on another partner in the form of Thembi Matunda who was one of the few black quantity surveyors in practice at the time. A new office was opened in Port Elizabeth, and the existing offices took on additional resources, and invested in new technology in anticipation of increased demand for construction. The company image was revamped, and aggressive marketing initiatives were undertaken to promote the new look (Tayob 2003).

A constant stream of public sector work came their way from 1995 to 1998, and the company experienced unprecedented growth. Pressure was also mounting on large corporates to exercise equity in their business deals and appointments, and white owned firms were now required to take on "empowerment partners" in order to secure lucrative contracts in certain industries. BTKM partnered successfully with a few of these firms on specific projects, and was thus finally able to enter this sector (Tayob 2003).

However, the favourable market conditions allowed competitors to gain strength, and low barriers to entry attracted new entrants. As such, BTKM began to lose market share in their most profitable segment, which was public sector work. From mid 1998 to 2001 the outlook for the construction industry began to change. The RDP was over, and endemic corruption and bureaucratic red tape forced many potential projects to be shelved. The economy went into recession, and the construction industry was one of the hardest hit, owing to the fact that it is more vulnerable to sudden changes in demand than other industries. The construction industry is characterised by cyclical demand patterns that had been masked by the governments spending patterns after the elections. Now that this had tailed off, the effects of construction cycles was being felt (Tayob 2003)

BTKM now faced declining growth, and large fluctuations in demand. Consolidation was now taking place in the quantity surveying industry, and four key players had emerged: BTKM, LDM, MLC, and Davis Langdon Farrow Laing. LDM took the lead in diversifying their services, adding project management and property management to their offerings. The other firms followed suit, with BTKM being the slowest to react.

2000 to The Present

- The current strategy has the following aims:
- To revive the company's prospects in the face of declining growth opportunities in its core business.
- To offset cyclical fluctuations in demand.

The key elements of the strategy include:

▪ Initiatives To Stimulate Growth

The company has been targeting new markets in foreign countries. BTKM is currently involved with a public works project in Mozambique. The company has also been involved in projects in the United Arab Emirates, Mauritius, Zambia and Nigeria.

Strategic partnerships are in place with UK based quantity surveying firms in which production of documentation (for UK projects) is sub-contracted to

BTKM. The UK firm benefits from this relationship due to the strength of the pound against the rand.

The company has added project management and tenant cost control to its list of services rendered, which is in direct response to initiatives taken by its competitors.

BTKM has increased spending on marketing and advertising over the last eighteen months. Construction related publications have been the main instrument for reaching the target market, which is now the private sector. The company is represented at trade fairs in order to create brand awareness in the minds of potential foreign investors and developers.

Owing to the fact that much of the business that the company receives is generated via referral from other consultants in the construction industry, social functions are often hosted to build and strengthen relationships with developers, architects and engineers.

The strategy takes into account the 80:20 rule, and recognises that much of the business is received from existing clients. In this regard, the company is committed to servicing these clients, performing follow-up reports, determining satisfaction levels, and inviting them to social functions.

Relationships are being fostered with suppliers of construction materials in order to generate business via referral. BTKM has entered into an agreement with a leading tile supplier, in which the supplier offers the client a quantity surveying service to determine the quantity of tiles required.

BTKM had entered into negotiation with a Gauteng based quantity surveying firm with a view to merging operations. This would have allowed BTKM to penetrate markets that they previously had not been successful in. The other company, being Gauteng based, would have benefited from BTKM's national network of offices. The merger did not however take place.

▪ **Initiatives To Stimulate Improvement & Efficiency**

BTKM has invested in advanced computerised feasibility, programming, cost modelling, estimating, measurement, contract administration and final account systems. The development of these systems has been outsourced, and is a continuous process. In-house cost modelling techniques have been developed and designed specifically for retail and other commercial projects.

Staff members have had their salary packages restructured, with a portion based on turnover. This is aimed at reducing fixed overhead and stimulating greater efficiency and marketing from the employees.

Key staff members have been sent for training and refresher courses, and all senior staff members are required to attend practice seminars.

Office equipment has been upgraded to improve efficiency, and the company now boasts the latest computer hardware and software. State of the art photocopying machines in all the offices now enables the in-house printing of documentation, thus saving time and money.

Cost saving exercises aimed at reducing office expenses such as telephone bills, have been implemented.

3.2.4 Core Business & Working Philosophy

The core business is construction cost consulting, of which the main elements are quantity surveying, financial management and contract management.

The working philosophy emphasizes "cost/time" sensitivity and commitment to sound financial management and control of projects, which involves close consultation and interaction with clients, developers, project managers, architects, engineers and specialist consultants. This interaction and consultation occurs throughout the development process from inception to design, design co-ordination, documentation, administration, commissioning and final account stages (Internet 5).

An important objective of the partnership is to draw on the various specialised skills and experiences of partners and staff from the various regions for the benefit of projects that require specialised attention.

3.2.5 Services Rendered

BTKM offers its clients a wide range of professional quantity surveying and project management services and have worked on a wide spectrum of project types, such as office buildings, shopping centres, residential accommodation, sports stadia, hotels, airport upgrade projects, railway station projects and other specialised and complex projects. In addition to traditional skills, the practice has rendered services that required strategic planning and contextual cost modelling solutions, “fast-track” documentation, tenant cost control, complex services and construction methods. The practice provides specialised expertise in project and programme management, project viability evaluations, cost planning and control, cost advice, contractual advice, tender documentation, tender evaluation, cash flow forecasts, contract administration and ancillary specialised services (Internet 5).

The company is supported by advanced computerised feasibility, programming, cost modelling, estimating, measurement, contract administration and final account systems. In-house cost modelling techniques developed and designed specifically for retail and other commercial projects include:

- Feasibility models for commercial developments.
- Land feasibility models for major urban developments.
- Hotel finance and expenditure analysis.
- Residual land value analysis.
- Residual lease value analysis.
- Tenant account cost controls.
- Project payment schedules for total capital cost budgeting & control.
- Management and cost reports incorporating tenant recoveries, etc.

(Internet 5)

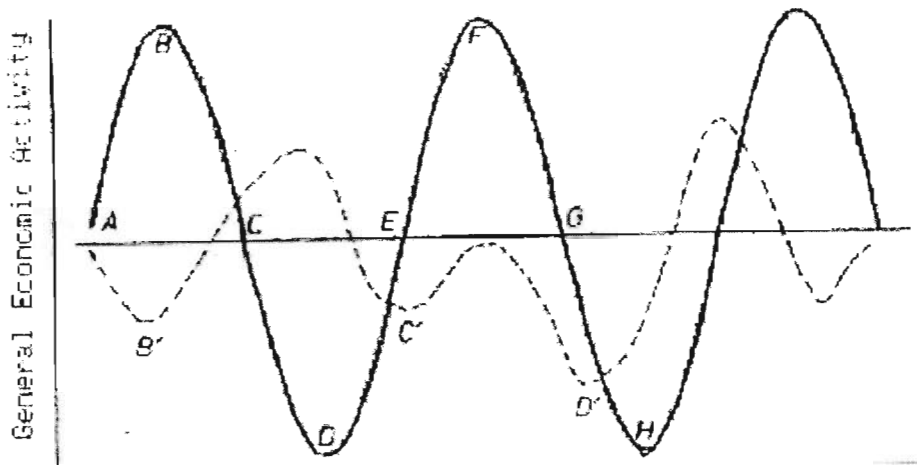
3.3 The Construction Industry

Most of the peculiarities of the demand for construction stem from the fact that it is for the most part, a derived demand, similar to that for other capital goods. The construction industry produces a good that differs from other manufactured goods in its size, its immobility, and its durability. The demand for construction goods is generally influenced by population growth, changes in construction costs, incomes and interest rates.

The structure of the industry is characterised by Kilian (1976) as “a strange admixture of fragmentation and interdependence.” It is not well adapted to meet the variations in demand made on it, with the only flexibility in the system being provided by a relatively small number of suppliers of materials, sub-contractors, and highly skilled executives. There is little substitutability between the different sub-sectors, large and small firms, and labour. Consequently, the construction industry is more vulnerable to sudden changes in demand than other industries. Furthermore, the industry is unable to modify the cyclical flow of demand that it faces on its own – it is an industry which can only react, and this response is quite evident during prolonged recessions, when employer organisations and the professional institutions lobby the government for relief in the form of government spending on construction projects (Kilian 1976).

3.3.1 Business Cycles

Business cycles are described by Dornbusch & Fischer (1991) as more or less regular patterns of expansion (recovery), and contraction (recession), in economic activity around the path of trend growth. According to Kilian (1976), business cycles are recurrent but non-periodic cumulative expansions and contractions in economic activity. It is ironic that the term “cycle” is used which implies regularity, when there is no regularity in the business cycle, except that expansion follows contraction, and vice versa (Van Den Bogaerde 1972). Figure 3.1 illustrates a business cycle in its idealised form. Business cycles in the construction industry almost never follow this pattern, varying enormously in magnitude, timing and length. Thus, the course of activity in the construction industry is best described by the dotted line Figure 3.1.

Fig 3.1 The Business Cycle & The Construction Cycle

Source: Kilian (1976)

3.3.2 Effects Of The Business Cycle On The Construction Industry

Construction turnover in the building industry is dependant to a large degree on the prevailing economic conditions. The general nature of the property industry dictated the fact that during an economic boom there is a high demand for both residential and commercial buildings, as people decide to move to larger residences, and firms decide to expand their operations. At the beginning of a boom, financial institutions have a surplus of funds and thus demand low interest rates. Money is therefore made cheap. Conversely, an economic bust period is characterised by high interest rates demanded by financial institutions, due to an excessive demand for funds. Consequently, the demand for buildings is affected – when money becomes more expensive, people are more likely to make do with what they have, and what is available to them (Lansley 1987). This makes it necessary to ascertain some manner in which participants in the building industry may be forewarned of such cycles. According to Gardner (1990), there is no universally accepted warning device to forecast cyclical movement for the building industry. Thus, the quantity surveyor has little warning of the approach of a cyclical downturn.

The business cycle is felt in different degrees by the various sectors of the economy. The setting of higher interest rates by financial institutions implies that finance for new investments becomes too expensive for the small investor, and so new investments cease to occur, with only large institutions continuing investment on a smaller and more selective scale. A smaller amount of work for a large number of quantity surveying firms results in reduced margin tendering, accompanied by increasing overhead costs associated with tender preparation. Pressure by banks on the volume of brokers' loans results in the funds loaned for investment in the stock market on call tending to be drawn in when business pressure on such funds becomes severe. The rise in rates on call loans discourages some speculators and pre-empts a sale of securities to liquidate loans. The first securities disposed of are those shares in companies that are at greater risk, which include those of construction firms. It is interesting to note that the only types of construction firm shares that do not take such a sharp downturn are those with a strong element of repair and maintenance (Gardner 1990).

Repair and maintenance firms are best equipped to ride the slowdown of a recession. The outlook of business in a recession does not warrant the supply of new capital goods. In all probability there will be an excess supply of existing buildings, as capital goods are usually replaced in good time before they are completely depreciated. Thus buildings will be repaired and maintained to extend their lifespan. Hence, no matter how hard the times, there will always be work for the repair and maintenance firms. The construction firms do not enjoy the same luxury (Lansley 1976).

A report by the Bureau for Economic Research (1995) indicates that the demand cycle for construction in developed economies typically has a duration of ten to twelve years. However, in developing economies, a much shorter duration of cycle is found, one that averages approximately six years. This implies that South African managers have more need to manage demand cycles than their counterparts in developed economies because they will experience twice as many fluctuations during their tenure.

3.3.3 Conclusion

The construction industry's significance in the national economy is declining, and the reactive responses by firm in the construction industry to demand fluctuations is one of the reasons why the industry has developed a reputation for being primitive, where "hire and fire" is the order of the day.

A proactive approach is needed to contend with demand fluctuations, and firms in the industry must continue to live with an uncertain fluctuating workload and plan their actions accordingly. Therefore, it is important for companies to have a portfolio of business strategies, and to develop the necessary skills and competencies to ensure survival in the industry.

3.4 Summary

By taking advantage of changing environmental, social and regulatory factors during the mid 1990's, BTKM was able to become a market leader in its segment, and later establish itself as a key player in the industry. However the key factors for success have changed from the 1990's into the new millennium, and the industry is in decline. The nature of the industry is such that it is subject to cyclical fluctuations in demand. As this is a structural problem, it makes long term strategic planning difficult. The current strategy aims at stimulating growth and offsetting cyclical fluctuations in demand mainly by increasing market penetration, product development, and targeting new markets, whilst also aiming for increased efficiency and effectiveness in operations.

Chapter 4

Strategic Analysis

4.1 Introduction

Charting the future direction of BTKM Quantity Surveyors requires an evaluation of the effectiveness of the current strategy in meeting the company's needs. To this end, an analysis will be carried out which compares current performance against expected performance outcomes. Should current performance fall short of expectations, the nature of the strategic problem will be identified, and various strategic options will be presented and assessed, using the tools of analysis detailed in Chapter 2. The strategic analysis follows a logical progression, and is comprised of the following activities:

- Analysis of the environment within which BTKM operates i.e. the building industry, and of the company's main competitors;
- Evaluation of BTKM's resources and competitive capabilities;
- Gap analysis which considers the goals and objectives of the company and compares these against current and expected performance outcomes;
- Generation of strategic options to address the deficiencies of the current strategy in meeting organisational goals and objectives;
- Evaluation of Facilities Management as an option for diversification.

4.2 Industry and Competitive Analysis

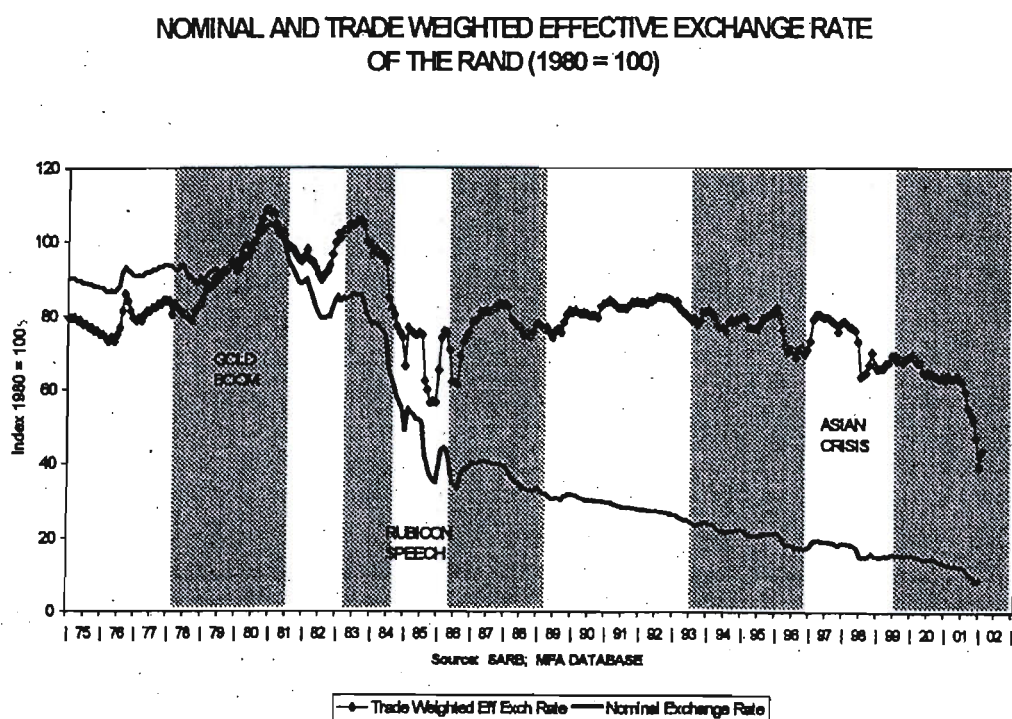
An industry analysis will first be conducted, which begins with a study of the building industry and the forces affecting the organisation. Secondly, a competitor analysis will be carried out to determine the competitive position of the organisation. The results of both analyses together will be of assistance in evaluating the organisations strategy.

4.2.1 Trends in the Building Industry

According to the SA Reserve Bank, the local building industry grew by 2% on average during 2002 when compared to 2001. Figure 4.1 below shows how the rand has fallen against other currencies during the past 20 years, in both nominal and trade weighted terms. The consequences are extremely negative for the building industry for three main reasons. First, transport costs of men

and material to and from site rise. Second, building materials prices rise, especially those where the production process is energy intensive, or where raw materials for local manufacture are imported. Third, labour costs rise once labour unions become aware that a rising inflation rate is eroding the purchasing power of worker's wages. To protect themselves in a generally inflationary environment, building contractors are certain to raise their tender prices (Kilian & Snyman 2002).

Figure 4.1 Nominal and Trade Weighted Effective Exchange Rate of the Rand



Source: Kilian & Snyman (2002)

The outlook for the building industry is bleak. Conditions are still lacklustre on account of relatively high interest rate levels, and generally poor economic conditions. According to the BER Building Cost Index, overall inflation and building costs could rise by between 6 & 9% during coming months (Kilian & Snyman 2002).

4.2.2 Competitor Analysis

BTKM is analysed against its three main competitors in terms of geographic representation and services offered:

Table 4.1 Competitor Analysis

		Services Offered					Geographic Representation	
Company	Status (Previously Disadvantaged)	Quantity Surveying	Project Management	Property Management	Facilities Management	Affirmative Procurement & Empowerment	National	International
BTKM	✓	✓	✓	✓	✗	✓	✓	✗
Davis Langdon	✗	✓	✗	✓	✓	✗	✓	✗
LDM	✓	✓	✓	✓	✗	✓	✓	✗
MLC	✗	✓	✓	✓	✗	✗	✓	✓

The above analysis is now used to generate a weighted competitive strength assessment (Rating Scale: 1= Very weak; 10= Very strong):

Table 4.2 Weighted Competitive Strength Assessment

KSF/Strength measure	Weight	BTKM	Davis Langdon	LDM	MLC
PDI Status	0.1	10/1.0	0/0.0	10/1.0	0/0.0
Project Management	0.2	5/1.0	3/0.6	9/1.8	4/0.8
Property Management	0.1	5/0.5	4/0.4	5/0.5	6/0.6
Facilities Management	0.25	0/0.0	3/0.75	0/0.0	0/0.0
Affirmative Procurement & Empowerment	0.15	9/1.35	0/0.0	7/1.05	0/0.0
International Representation	0.2	0/0.0	7/1.4	0/0.0	8/1.6
Sum of Weights	1				
Weighted Overall Strength Rating		3.85	3.15	4.35	3.00

This overall assessment indicates that BTKM is in a very strong competitive position, but not the market leader. The areas in which it is not represented are Facilities Management and International Representation. Diversification into either of these categories could help the company to challenge for market leadership.

4.3 Evaluating Company Resources & Competitive Capabilities

A company situation analysis is conducted in order to match BTKM's current and future strategies both to its internal resources and capabilities, and to the external market circumstances.

4.3.1 SWOT Analysis

An understanding of BTKM's resource capabilities and deficiencies, as well as market opportunities and threats is essential to the process of strategy evaluation and formulation. For this purpose, a SWOT analysis is performed.

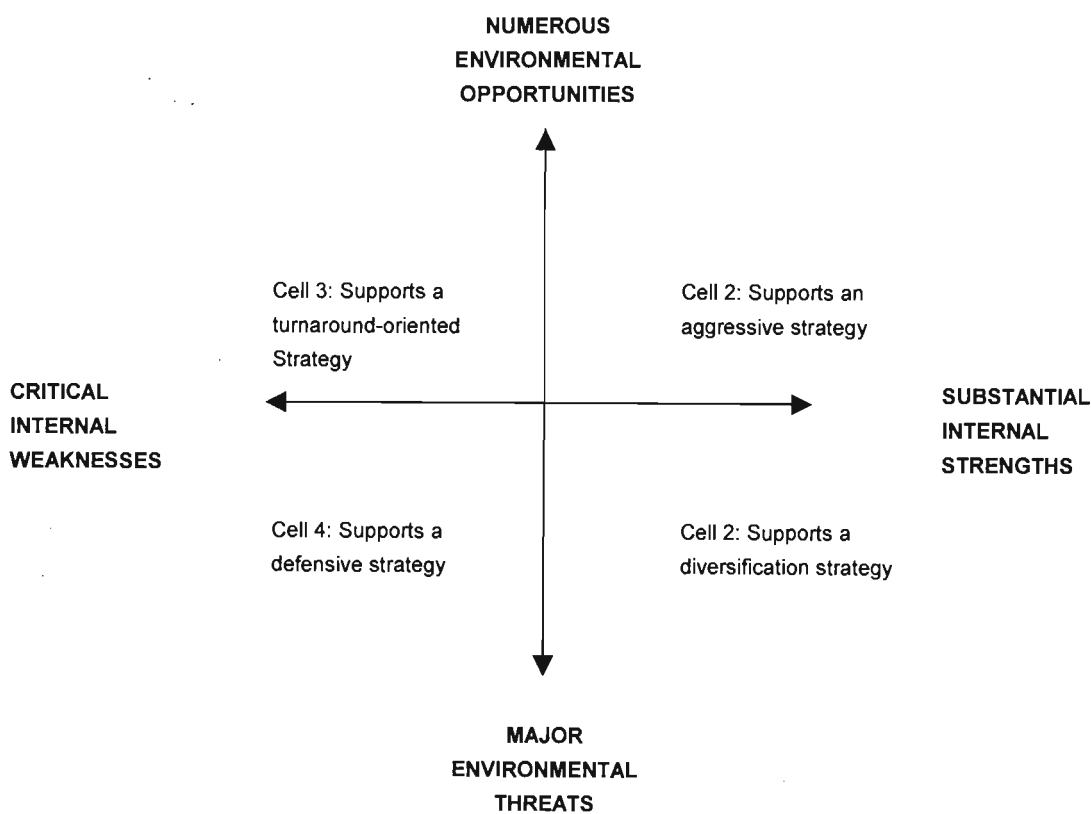
Table 4.3 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ Core competencies and capabilities that may be applied in related industries ▪ PDI status- enables procurement of public sector projects ▪ Well trained staff contingent ▪ Creative and entrepreneurial management ▪ Represented nationally, and are able to shift resources where required ▪ Well positioned in an attractive market segment (Indian consumers) ▪ In a strong competitive position against its rivals 	<ul style="list-style-type: none"> ▪ Not internationally represented ▪ Entirely reliant on the construction industry for survival ▪ Losing ground to rival firms with strong positions in global markets ▪ Trailing in product development (facilities management)

Opportunities	Threats
<ul style="list-style-type: none"> ▪ Facilities management ▪ Property development ▪ Global expansion 	<ul style="list-style-type: none"> ▪ Low barriers to entry ▪ Slow growth in the construction industry ▪ Cyclical nature of demand for construction ▪ Increasing intensity of competition amongst industry rivals

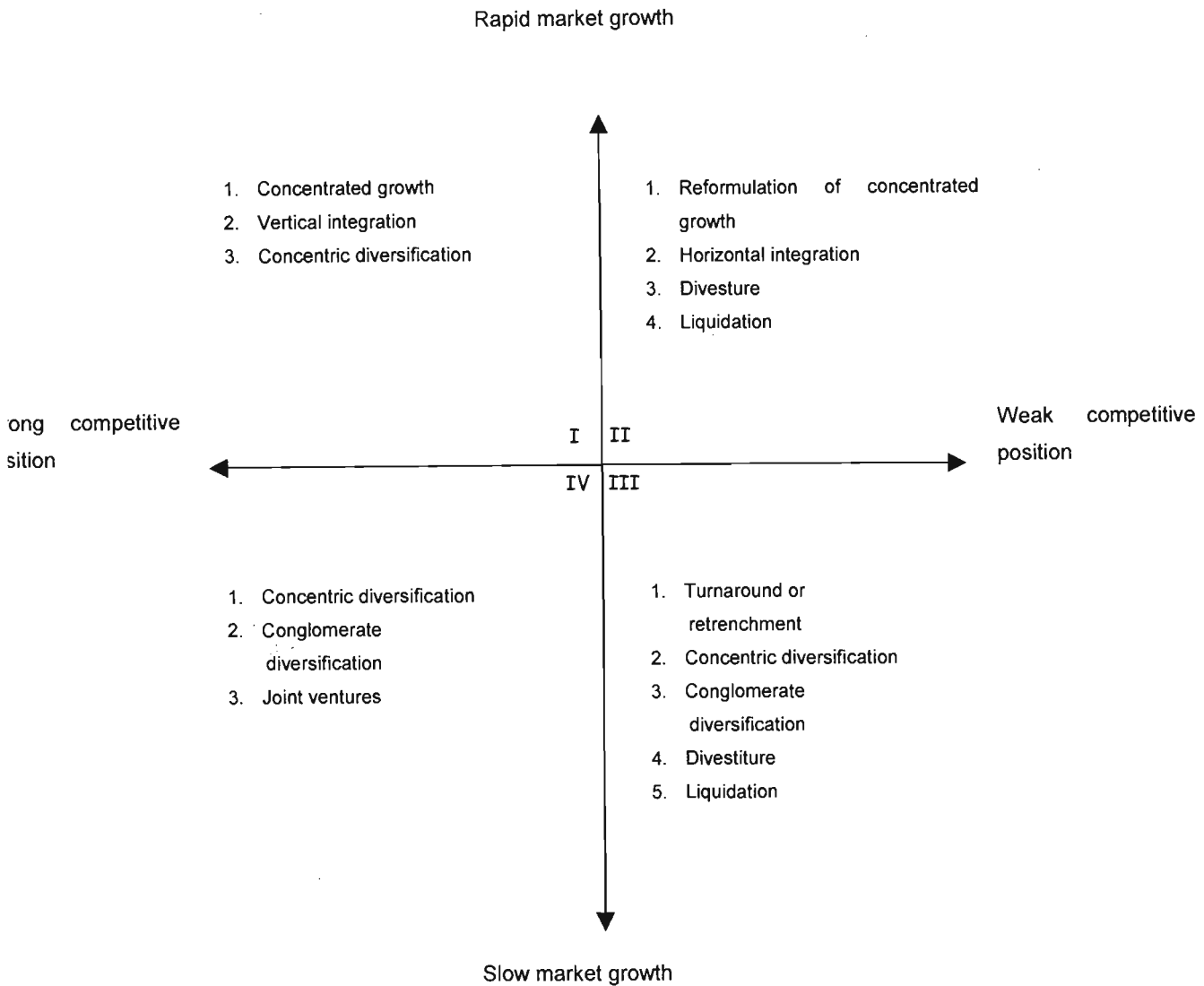
Using Pearce & Robinson’s (1991) SWOT analysis diagram as depicted below, it may be deduced that BTKM lies in Cell 2 as it exhibits substantial internal strengths and the environment presents major threats. Therefore, in accordance with the theory, BTKM should adopt a diversification strategy.

Figure 4.2 Swot Analysis Diagram



Source: Pearce & Robinson (1991)

Figure 4.3 Model of Grand Strategy Clusters



Source: Pearce & Robinson (1991)

Pearce & Robinson's (1991) Model of Grand Strategy Clusters defines a businesses situation in terms of the growth rate of the market and the company's competitive position. In accordance with the foregoing analysis, it is deduced that BTKM is in a strong competitive position in a slow growth market, thus being placed in Quadrant IV. Businesses in this category have a basis of strength from which to diversify into more promising areas, and are in an excellent position for concentric diversification into ventures that utilise their proven business acumen. The suggested options for BTKM are thus

concentric (related) diversification and / or joint ventures. This will enable them to maximise their strengths and minimise weaknesses.

The above SWOT analysis reveals that BTKM enjoys a strong enough position in the quantity surveying industry to be a significant player. Their strengths will stand them in good stead to take advantage of the opportunities available to them, which include global expansion, or diversification into property development or facilities management.

4.3.2 Identifying Skills & Competencies of Quantity Surveyors

The effectiveness of quantity surveyors in meeting the needs of clients in related disciplines is influenced by their recognition and application of context-relevant competencies. A justification for identifying the competencies required of quantity surveyors is that the ability of the quantity surveying profession to meet differing and changing client needs and to grow the market for quantity surveying services depends on the knowledge base of the profession.

Leveson (1996) indicates that quantity surveying competencies lie in the financial and contractual control of the building project. Willis et al. (1994) have described the body of knowledge of the quantity surveyor as incorporating the services of: preliminary cost advice; cost planning including investment appraisal; life cycle-costing and value analysis; procurement and tendering procedures; contract documentation; evaluation of tenders; cash flow forecasting, financial reporting and interim payments; final accounting and the settlement of contractual disputes; cost advice during use by the client; project management; and specialist services.

The Royal Institute Of Chartered Surveyors (1998) set out the requirements and competencies for the assessment of professional competence by listing the competencies required of quantity surveyors in three categories: basic competencies, core competencies and optional competencies, as shown in Table 4.4 below:

Table 4.4 Competencies of Quantity Surveyors

Basic Competencies	Core Competencies	Optional Competencies
Personal & interpersonal skills	Construction contract practice	Arbitration & other dispute resolution procedures
Business skills	Construction technology & environmental services	Development appraisal
Data, information and information technology	Economics of construction	Facilities Management
Professional practice	Procurement and financial management	Insolvency
Law		Insurance
Measurement		Project management
		Property investment funding
		Research methodologies & techniques
		Taxation allowances & grants
		Valuations

Source: RICS (1998)

4.4 Gap Analysis

A gap analysis considers the goals and objectives of the company and compares these against current and expected performance outcomes. Should a performance gap exist, modifications to the current strategy will be considered.

The growth in annual turnover will be used as a basis for judging performance. The annual turnovers for the years 1997 to 2003 are analysed.

4.4.1 Goals & Objectives

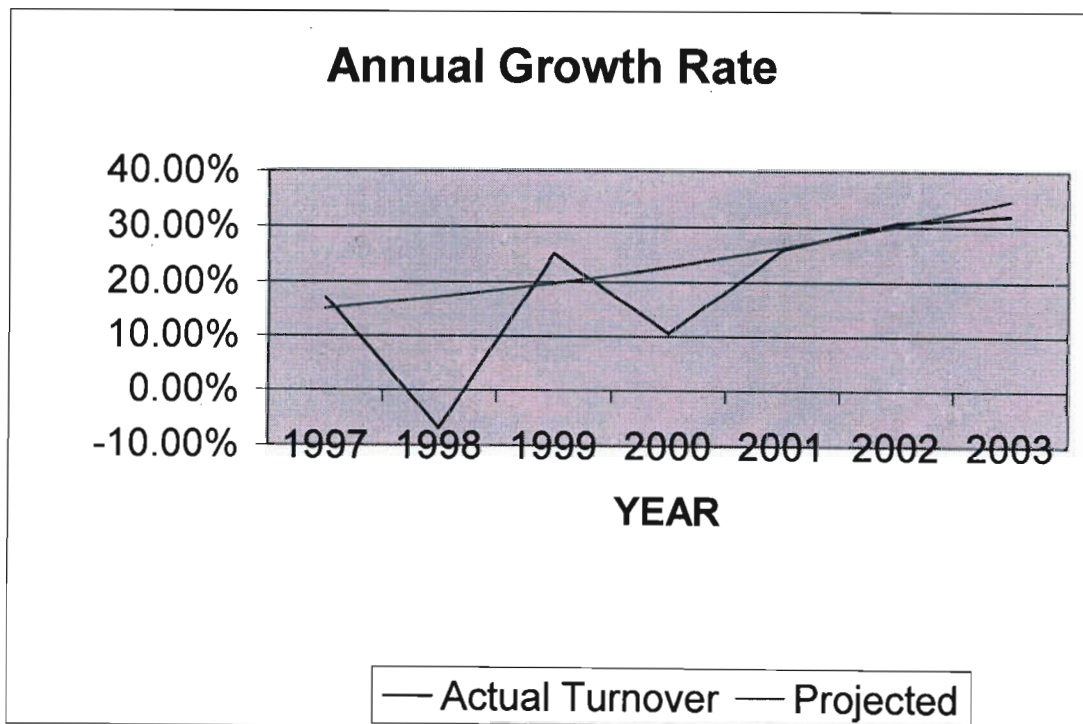
The goal of the company is to achieve constant growth in turnover of 15% per annum. By doing so, it is hoped that the following objectives will be realised:

- Revive the company's prospects in the face of declining growth opportunities in its core business.
- To offset cyclical fluctuations.

4.4.2 Evaluation of Current Position

The forecast v actual turnovers are represented graphically below:

Figure 4.4 Annual Growth in Turnover



Source: Tayob (2003)

The graphical representation of percentage growth in annual turnover depicts an uneven trading record. From the data it can be concluded that BTKM is meeting its targeted growth rate of 15% per annum. However, the demand for quantity surveying services still shows drastic fluctuations. The current strategy has been successful in stimulating and maintaining growth, but has not succeeded in smoothing out the peaks and troughs of uncertain demand.

4.4.3 Addressing the Performance Gap

The gap analysis has considered the goals and objectives of the company, namely to stimulate growth and to offset cyclical fluctuations. These have been compared to current and expected performance outcomes and a performance gap has been identified. Modifications to the current strategy are now considered in order to offset cyclical fluctuations.

4.5 Strategic Options

Three alternative courses of action are available to address this inequity:

- Redefine the objectives – the objective of achieving constant growth in turnover of 15% per annum must be analysed to determine whether it is both realistic and achievable. Management of BTKM are strongly in favour of pursuing the stated objectives (Tayob 2003).
- Do nothing – it is suggested that it generally takes some time for a strategy to bear fruit. The current strategy is effective in stimulating growth, but ineffective in modifying the cyclical flow of demand. Research has shown that this is a structural problem that stems from the nature of demand for construction goods. As such, BTKM must be proactive in dealing with this issue.
- Change the strategy – the above analysis reveals that improvement and expansion strategies have been implemented, and have only been partly successful. It is thus concluded that that the objective cannot be met from existing businesses, and as such, strategies of organisational-level growth must be considered.

The competitive strength assessment conducted earlier showed that BTKM is deficient on two key success factors – international representation, and Facilities Management. The SWOT analysis revealed a further option available to the company, that of diversification into property development.

Management is not considering the option of international representation, as it is felt that the company does not possess the resources required for such an undertaking (Tayob 2003).

The option of diversification into property development may be lucrative, but is still closely related to the construction industry, and will not achieve the objective of offsetting cyclical demand fluctuations.

Many companies are becoming concerned with the high overhead costs of operating their buildings and related services and infrastructure, and have realised that in order to reduce these costs and increase their productivity there is a need for maintaining working environments. Quantity surveyors, by virtue of their core competencies, possess the ability to solve complex problems and challenges regarding the planning and management of facilities. Rapid growth and interest in this, the field of Facilities Management has provided a market opportunity for quantity surveyors to exploit. The balance of the strategic analysis comprises a theoretical evaluation of Facilities Management as an option for diversification.

4.6 Strategic Evaluation

A study of the company's skills, competencies and resource strengths shows that it is well suited to capitalise on opportunities in related businesses. The financial and organisational resources that BTKM possesses will be able to support such a strategy. The theory of related diversification suggests that this could lead to competitive advantage, add value for customers, and offer cost-saving opportunities that may arise from synergies between the present business and the related business that it diversifies into.

Understanding and managing the life cycle costs on buildings and related infrastructure has significant downstream benefits which on today's construction projects frequently calls for quantity surveyors to consider current design methodology in new and innovative ways. This has led to a new field of endeavour – that of facilities management (FM).

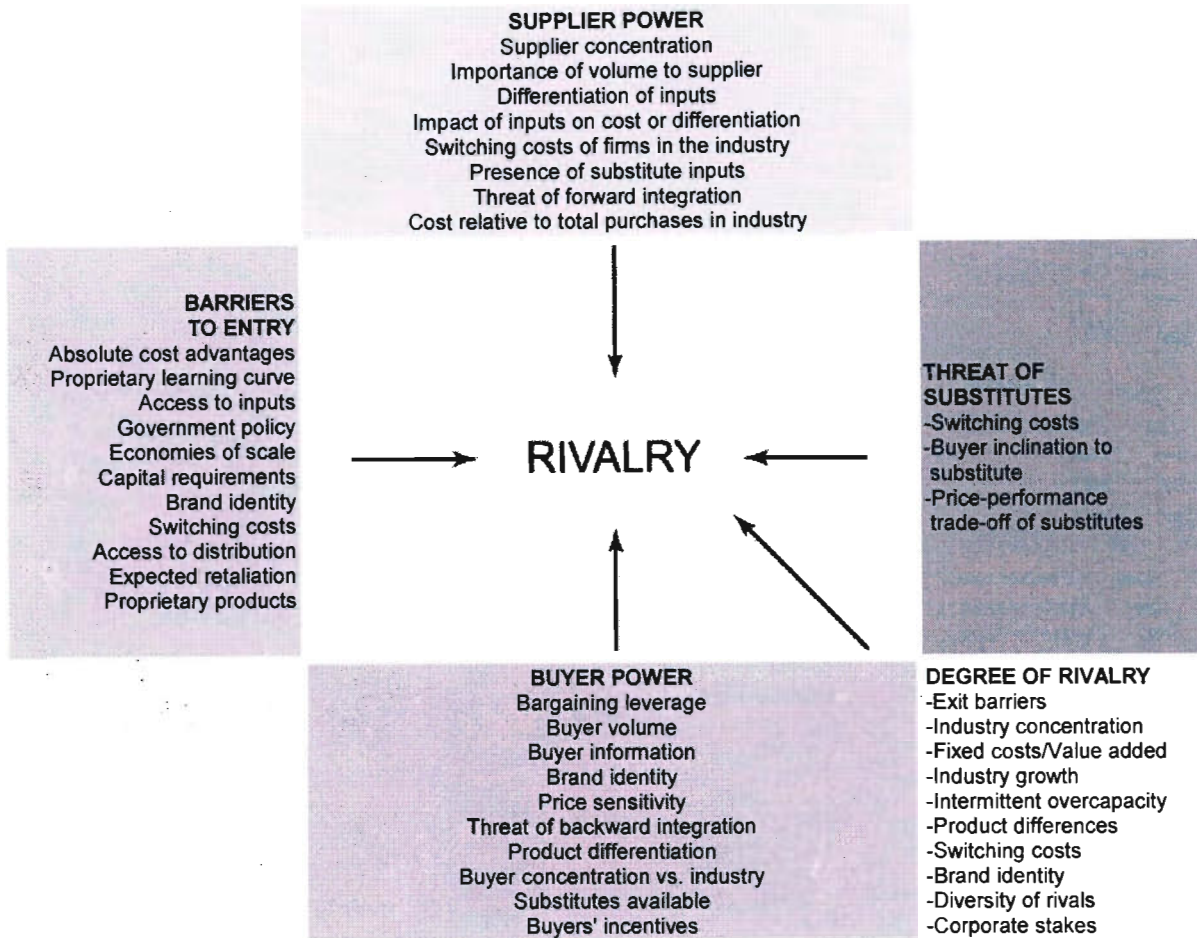
The purpose of this section is to conduct a theoretical evaluation of BTKM's diversification into this field to determine the suitability, acceptability and feasibility of this strategy. In order to provide a practical research emphasis, and to gain valuable insight into FM, interviews with representatives from existing Facilities Management organisations in Durban were conducted.

The decision to diversify must be based, first and foremost, on the creation of shareholder value. Thompson & Strickland (2003) have suggested three tests that should be administered to determine whether a particular diversification option is capable of increasing shareholder value:

4.6.1 The Industry Attractiveness Test

"The industry chosen for diversification must be attractive enough to yield consistently good returns on investment" (Thompson & Strickland 2003, p. 295). The attractiveness of the industry depends on two factors: the presence of favourable competitive conditions, and a market environment conducive to long-term profitability. An industry and competitive analysis is performed to offer insight into the competitive structure of the FM industry, and to thus provide an indication of the attractiveness of the industry.

Porter's Five Forces Model, as displayed in Figure 4.5, is used to determine the industry's competitive processes, in order to uncover the main sources of competitive pressure and the strength of each competitive force.

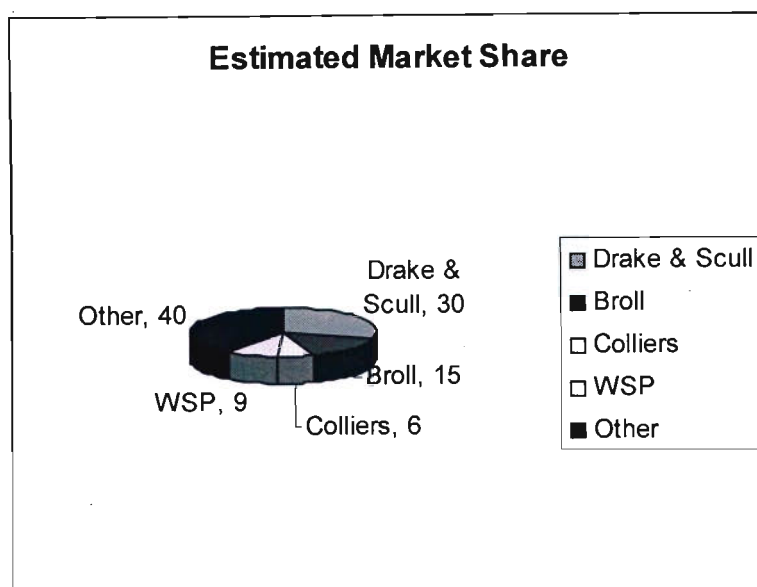
Figure 4.5 Porters Five Forces Model**Diagram of Porter's 5 Forces**

Source: (Internet 1)

4.6.1.1 Rivalry Among Competing Sellers

Economists measure rivalry by indicators of industry concentration. The Concentration Ratio (CR) is one such measure. The CR indicates the percent of market share held by the four largest firms. A high concentration ratio indicates that the largest firms hold a high concentration of market share - the industry is concentrated. With only a few firms holding a large market share, the competitive landscape is less competitive (closer to a monopoly). A low concentration ratio indicates that many rivals, none of whom has a significant market share, characterize the industry. These fragmented markets are said to be competitive (Internet 1).

The market share of the four largest firms in the FM industry with regard to property services and maintenance, and project and design services may be graphically represented as follows:

Figure 4.6 Estimated Market Share of Firms in the FM Industry

Source: McLennan (2003)

The data reveals that four firms hold a large market share, leading to the conclusion that the market is moderately competitive. The concentration ratio is not however the only available measure; the trend is to define industries in terms that convey more information than distribution of market share, such as the intensity of rivalry.

If rivalry among firms in an industry is low, the industry is considered to be disciplined. This discipline may result from the industry's history of competition, the role of a leading firm, or informal compliance with a generally understood code of conduct. The FM industry is a relatively new one, and as such, these conditions have not evolved as yet. Acts by rival FM companies most often elicit counter-responses by other firms, and rivalry intensifies. The intensity of rivalry is moderate to high, based on firms' aggressiveness in attempting to gain an advantage.

In pursuing an advantage over its rivals, firms in this industry engage in the following competitive moves:

- Changing prices - raising or lowering prices to gain a temporary advantage.
- Improving product differentiation – modifying and improving the services rendered, adding new services, and improving service levels.
- Exploiting relationships with suppliers – FM companies outsource building maintenance to contractors (suppliers) on behalf of the client. By choosing the right contractors, FM companies are able to provide clients with high quality standards, at lower prices.

4.6.1.2 Barriers to Entry and Exit

It is not only incumbent rivals that pose a threat to firms in an industry; the possibility that new firms may enter the industry also affects competition. The FM industry possesses characteristics that protect the profit levels of firms in the market and inhibit additional rivals from entering the market. Barriers to exit work similarly to barriers to entry. Exit barriers limit the ability of a firm to leave the market and can exacerbate rivalry - unable to leave the industry, a firm must compete. Some of the FM industry's entry and exit barriers can be summarized as follows:

- High startup costs – FM companies need to invest in effective database systems that aid in information management. When managing a medium to large building, many of the functions may be outsourced. The Facilities Manager has to keep track of all the contracts that are in place, process payments on a monthly basis, schedule routine maintenance items, and log client complaints. The Maximo system is an example of such a database system, and costs in excess of R1 million to purchase and install. This is an obvious restriction for many smaller companies wanting to enter the market.
- National representation – most successful FM companies have national representation, and are thus able to service clients with national interests such as chain stores and hotels. These clients would much rather deal with one FM company than different ones in major cities.

- Brand identification and experience - those firms that have established themselves in the marketplace, or partnered with foreign firms that have strong brands are in a much better position to obtain lucrative contracts. This is because of the long-term relationship that develops between client and service provider, and the difficulty in terminating the contract. Clients are likely to feel much more reassured when choosing a service provider that has strong brand identification and a good track record.
- Specialised assets – the investment in specialised software, and expense incurred in training staff to operate it makes exit a costly option.
- Interrelated businesses – many FM companies have diversified from their base of project management or quantity surveying, and some of their clients may come from these businesses. Exit from the FM industry may damage their prospects in these interrelated businesses.

(McLennan 2003).

4.6.1.3 Buyer Power

Buyer power in the FM industry is influenced by the following factors:

- Significant buyer switching costs exist - products are not standardized and buyers cannot easily switch to another service provider. The Facilities Manager develops in-depth knowledge of the client's facility (for example a building), and in doing so intellectual capital is obtained.
- Buyers are fragmented – there are buyers (clients) in many different industries, for example hotel and catering, manufacturing, public services, and commercial and residential. Buyers have a relatively small number of service providers to choose from, and are limited to negotiating the best deal with one of them. Once a service provider is appointed, it is difficult to re-negotiate the terms of the contract or to terminate it before the term expires.

(McLennan 2003)

4.6.1.4 Supplier Power

Suppliers to the property and maintenance segment of FM consist mainly of building contractors. A large number of suppliers are present, and the building industry itself is highly competitive. Switching costs between suppliers is low. As a result of these factors, suppliers exert very little power over FM companies (McLennan 2003).

4.6.1.5 Threat Of Substitutes

In Porter's model, substitute products refer to products in other industries. In this case, a substitute to hiring a Facilities Manager would be for the client to have this function performed in-house. This only really becomes a threat to a FM service provider upon termination of the contract. This threat is not considered substantial as the trend is towards outsourcing non-core activities.

To summarise, the intensity of rivalry is influenced by the following industry characteristics:

- A small number of firms - the industry is still developing, and as such a small number of firms compete for customers and resources. Rivalry will intensify as more firms enter the market. At present, intensity of rivalry is moderate.
- Rapid market growth - firms are able to improve revenues simply because of the expanding market.
- High switching costs – determining client needs and obtaining data on facilities is a costly and time-consuming process. The Facilities Manager acquires intellectual capital during the term of the contract, which is typically of three to five year duration. During this time the client cannot freely switch from one service provider to another. This moderates the level of rivalry amongst service providers for existing clients.
- High levels of product differentiation are associated with lower levels of rivalry - FM service providers are able to customise their offerings to suit individual clients in a variety of industries. FM could consist, for example of project and design services, property services, soft services (hygiene, waste management, gardening, ground maintenance, and

cleaning), hard services (maintenance, management of cooling systems, main energy systems, fire systems and infrastructure), mechanical services, security, and IT networks, and any combinations of the above.

- Brand identification tends to constrain rivalry - those firms that have established themselves in the marketplace, or partnered with foreign firms that have strong brands are in a much better position to obtain lucrative contracts.
- High exit barriers place a high cost on abandoning the industry - the firm must compete. High exit barriers cause a firm to remain in an industry, even when the venture is not profitable. FM requires investment in expensive database systems to log and keep track of client complaints, building specifications, and contractual information with contractors. The relatively long-term nature of the contract with the client (3-5 years) also constrains exit.

The competitive structure of an industry is attractive when the competitive forces are collectively weak. The weaker the collective impact of competitive forces, the higher the combined profitability of participant firms. The competitive structure of the FM industry is attractive as: rivalry amongst sellers is moderate, there are high barriers to entry, the threat of substitutes is weak, supplier bargaining power is low and buyer bargaining power is moderate.

4.6.2 The Cost of Entry Test

“The cost to enter the target industry must not be so high as to erode the potential for good profitability” (Thompson & Strickland 2003, p. 295). The problem is that the more attractive the industry, the higher the cost of entry. Thus, it is difficult to achieve above average profitability when entry costs are high.

According to McLennan (2003), senior facilities manager at WSP’s Durban office, Facilities Management is a lucrative industry, and firms can expect to earn a net profit in excess of 15% per annum. However, this is regarded as

annuity income i.e. it is a constant stream, and is paid on a monthly basis. It is against this expectation that the cost of entry test will be based. The different market entry strategies will now be evaluated:

4.6.2.1 Internal Development

This involves the creation of a new business entity in the FM industry. When contemplating this form of market entry, the firm has to consider the two sources of entry barriers - structural entry barriers, and the expected reaction of incumbent firms.

- Structural Entry Barriers – these include high start-up costs, the need for instant brand identification, experience, a proven track record, and specialised assets.
- Reaction of Incumbent Firms - the industry and competitive analysis revealed that the intensity of rivalry is moderate to high, and therefore the reaction of incumbent firms is expected to be aggressive in nature. The new firm must expect to encounter price wars with incumbents, and be prepared to spend large sums on advertising and marketing to launch the new venture.

(McLennan 2003)

The total cost of internal development is therefore the sum of up-front investments and start-up losses, and the adverse effects of retaliation e.g. lower prices and escalated marketing costs. The costs of entry for internal development are thus prohibitive, and the costs outweigh the benefits (expected cash flows) that arise from the diversification.

4.6.2.2 Acquisition

Acquisition offers a far quicker means of diversifying into FM than internal entry does, while also avoiding entry barriers such as acquiring specialised assets, and experience in the industry. Furthermore, the company inherits brand recognition, thus obviating the need for costly introductory advertising and promotions. It often takes years for a company to establish itself as a strong competitor in a market when it adopts the internal entry method –

acquiring an established business allows the new entrant to concentrate on building a strong market position in the industry.

Although this seems like the better alternative, this choice of entry strategy must pass the cost of entry test. Viewed in context, BTKM is a medium sized quantity surveying practice, and its net worth is not in assets but in its future profit prospects. As such, significant capital outlay (in excess of R5 million) would be required to acquire a facilities management firm, and gearing would be needed. Thus, acquisition of such a business will not provide the required return on investment.

4.6.2.3 Joint Ventures & Strategic Partnerships

A joint venture is the formation of a new corporate entity, whose shares are jointly owned by two parent companies. It usually shares some of the assets and skills of both the parents, and its duration generally lasts for the length of a specific project or projects. A strategic alliance may involve investment by two or more companies in a specific venture, and involves forms of collaboration over factors that are to the benefit of both companies. It usually falls short of the formation of a separate subsidiary, and can be terminated when one of the partners chooses to do so. This method relies on pooling the resources and competencies of different organisations to generate the capabilities needed for success. Alliances allow firms the opportunity of obtaining benefits from larger market operations without the risks or requirement for high investment (Hussey 1998).

Research has shown that in recent years, strategic alliances have replaced joint ventures as the preferred method of joining forces for corporate diversification because they are more flexible and adaptable to rapidly changing technological and market conditions than a formal joint venture Thompson & Strickland (2003). On this basis, the advantages of market entry through strategic alliances rather than joint ventures are analysed.

Should BTKM choose to ally with an existing FM company, the following benefits would accrue to BTKM:

- The strategic partner would share its specialised assets with BTKM, thus reducing the cost of entry.
- Less money would have to be spent on marketing and advertising, as the incumbent would enjoy a degree of brand identification.
- The incumbent would have the necessary experience and track record, which are prerequisites from the perspective of most clients.
- Skills transfer would occur, allowing BTKM to gain valuable experience and insight into the FM industry.
- Speed of entry would be achieved.

The alliance partner would only accept such an offer if it stood to gain from the venture. Should BTKM choose to ally with a local incumbent, the following benefits would accrue to that firm:

- Access to restricted markets – targeted procurement is a system whereby employment and business opportunities are created for previously disadvantaged individuals in order to redress social inequities (Bizzell 2002). Almost all government sectors award contracts on this basis, and there is mounting pressure on the private sector to do the same. BTKM is able to offer these firms a cultural mix that fulfils the necessary criteria for qualification for PDI (previously disadvantaged individual) status.
- BTKM would bring with it a highly skilled staff contingent that is able to offer essential skills in the areas of construction contract administration, construction technology, economics of construction, procurement and financial management.
- BTKM has a well-established network of contractors that it deals with. These contractors could serve as suppliers to the FM industry, and BTKM would be able to negotiate better deals with them as a result of the relationships that have been forged.

- BTKM will be capable of extending the services offered to current clients to include FM. Instead of the service terminating at completion of the building, it would now extend into full life cycle costing. Thus BTKM would be procuring many contracts for the alliance.

If an alliance is formed with a foreign firm, the benefits to that firm are:

- BTKM is able to offer foreign firms in-depth and valuable knowledge of local market conditions, local customs and cultural factors.
- BTKM is a source of well-trained and highly skilled personnel for the alliance.

The analysis conducted above shows that a strategic alliance, either with a local incumbent or with a foreign firm wishing to enter the market would be lucrative for both parties. On the basis of this theoretical analysis, one may conclude that this entry strategy will maximise profitability whilst minimising the cost of entry, thereby satisfying the cost of entry test.

4.6.3 The Better Off Test

The value chains of BTKM and the prospective alliance partner may possess competitively valuable strategic fits with each other, and there is a good prospect for synergy to occur due to the abundance of common managerial and functional skills. These may be combined to achieve economies of scope, which are savings that arise from the performing certain value chain activities under centralised management. "The greater the economies of scope associated with cross-business cost-saving opportunities, the greater the potential for creating a competitive advantage based on lower costs" (Thompson & Strickland 2003, p. 302). Furthermore, the relatedness of the two businesses provides opportunities for skills transfer and the creation of new resource strengths and capabilities. The Better Off Test will be satisfied if the consolidated performance is greater than the sum of what the businesses could earn pursuing independent strategies.

Strategic fit benefits may be achieved in the following areas:

4.6.3.1 Transfer of Competitively Valuable Skills & Capabilities

Skills transfer that would occur from FM into Quantity Surveying would afford quantity surveyors the ability to view client needs in a more holistic manner. Quantity surveying is essentially about managing the financial aspects of a building contract, and the experience gained from Facilities Management would reinforce these skills, and enable quantity surveyors to provide alternative and innovative solutions to problems. Skills transfer would also occur from Quantity Surveying into Facilities Management, thus providing the Facilities Manager with increased financial, contractual and procurement acumen.

4.6.3.2 Combining the Related Activities of Separate Businesses to Achieve Lower Costs

A host of functional activities are common to both Facilities Management and Quantity Surveying, which may be combined to exploit cost saving opportunities. These include life-cycle costing, contract administration, procurement and financial management, cash flow forecasts, preparation of tender documentation, evaluation of tenders, tenant account cost controls, capital cost budgeting, and residual land and lease value analysis. Opportunities exist for combining advertising and sales promotion activities. Common facilities such as office space, and equipment can be utilised and overhead spread over larger volume. Administration activities can be combined to save costs.

4.6.3.3 Cross Business Collaboration To Create Competitively Valuable Resource Strengths & Capabilities

Building users often complain that their workplace is not adequately designed to meet all their needs. The Facilities Manager needs to have an understanding of the user needs and how organisational effectiveness can be improved. He must also transfer his knowledge to people of the organisation. BTKM has built up considerable experience in hotel, airport and aquarium development. By combining this essential knowledge of user needs with the facilities management skills that the alliance partner would provide, the synergistic benefit could lead to competitive advantage over rivals in these areas.

From the weighted competitive strength assessment carried out in Chapter 4, it was concluded that BTKM was in a strong competitive position but lagged behind the market leader. Diversification into facilities management could boost the company's chances of attaining market leadership. Grouping BTKM with a FM company may enable the alliance to offer clients an attractive set of combined services at a cost that, as a consequence of economies of scope, generally betters whatever can be offered by single-service, smaller businesses.

4.7 Summary

An analysis of the building industry has revealed that BTKM is operating in a slow growth market. A competitive strength assessment has revealed the company to be in a strong competitive position, and diversification into Facilities Management could help the company challenge for market leadership. A study of BTKM's resources and competitive capabilities suggests that the company strengths would support a concentric (related) diversification strategy.

A review of the current strategy shows that it is ineffective in offsetting cyclical fluctuations in demand. Accordingly, a change in strategy is suggested, which supports diversification into Facilities Management.

The decision to diversify must be based on the creation of shareholder value. Thompson & Strickland (2003) have suggested three tests that should be administered to determine whether a particular diversification option is capable of increasing shareholder value: the industry attractiveness test, the cost of entry test, and the better off test.

An industry evaluation reveals that the competitive structure of the FM industry is attractive as rivalry amongst sellers is moderate, there are high barriers to entry, the threat of substitutes is weak, supplier bargaining is low, and buyer bargaining power is moderate.

The cost of entry into the Facilities Management industry would be minimised by forming a strategic alliance with an incumbent firm. The benefits that would accrue to BTKM include skills transfer, speed of entry, and reduced cost of entry. This mode of market entry would thus minimise costs and maximise profitability for BTKM.

The value chains of BTKM and the prospective alliance partner would theoretically possess valuable strategic fits with each other, and there is a strong possibility for synergy to occur due to the abundance of common managerial and functional skills. Strategic fit benefits may be achieved, which would stem from:

- Transfer of competitively valuable skills and capabilities.
- Combining the related activities of separate businesses to achieve lower costs.
- Cross business collaboration to create competitively valuable resource strengths and capabilities.

Having satisfied all three tests, it is concluded that diversification into Facilities Management has the potential to build shareholder value over the long term, and is thus deemed a suitable, acceptable and feasible option.

Chapter 5

Recommendations & Conclusion

5.1 Introduction

The problem statement posed in the opening chapter has formed the basis for this study, and has highlighted the necessity for BTKM to analyse its internal capabilities and external environment in order to choose an appropriate strategic direction. An evaluation of the Facilities Management industry revealed that diversification into this related field has the ability to build shareholder value. This chapter reviews the strategic theory and the results of the analysis, provides recommendations for BTKM to follow in order to diversify, and states the conclusion to the research.

5.2 Review of Strategic Theory

The literature review has highlighted the advantages of employing techniques of strategic management to achieve organisational objectives. This entails monitoring the company's external environment and internal capabilities closely enough to know when to institute strategy changes. The management of BTKM Quantity Surveyors is considering adopting a diversification strategy, which is an option available to a firm for a multitude of reasons, including survival, stability and growth. This option carries a high degree of business risk, which may be minimised if the organisation chooses to diversify into related markets. Research has shown the advantages of related diversification over unrelated diversification, and suggests that related diversification is capable of adding value to the organisation through synergy.

In assessing the future strategy of the company, it is important to first determine the effectiveness of the current strategy in meeting the organisations needs. To this end, a model for strategic analysis was developed, which provided a framework for assessing the current strategy, generating strategic options, formulating related diversification strategies, and evaluation of the strategic choice.

One of the strategic options being considered by BTKM Quantity Surveyors is diversification into the field of Facilities Management. Facilities Management may be defined as the approach to maintaining, improving and adapting the buildings of an organisation in order to create an environment that supports the primary objectives of that organisation.

5.3 Review of Case Study

BTKM Quantity Surveyors was formed in 1984, and is now nationally represented, with offices in most major cities in South Africa. The core business is construction cost consulting, and the company has achieved considerable success in this field. BTKM was quick to react to the changing political landscape during the late 1990's and took full advantage of their previously disadvantaged status, which enabled the company to secure many public sector contracts. A downturn in the construction industry towards the end of the decade resulted in declining growth prospects, which led quantity surveying firms to diversify their services. The current strategy aims at stimulating growth and offsetting cyclical fluctuations in demand mainly by increasing market penetration, product development, and targeting new markets, whilst also aiming for increased efficiency and effectiveness in operations.

A review of the construction industry reveals that it is more vulnerable to changes in demand than other industries, and that it is unable to modify the cyclical flow of demand that it faces. As such, firms in the industry must continue to live with an uncertain fluctuating workload, and develop a proactive approach in order to ensure survival.

5.4 Review of Strategic Analysis

An analysis of the building industry reveals that prospects are lacklustre, with growth averaging just 2% in 2002. This is due in part to the erosion in value of the rand against other major currencies.

A weighted competitive strength assessment reveals that BTKM is in a strong competitive position, and lagging just behind the market leader. Two key success factors that the company is deficient in are Facilities Management and International Representation. Initiatives in either of these categories could aid in the quest for market leadership.

A company situation analysis was conducted in order to determine BTKM's resource capabilities and deficiencies, as well as the market opportunities and threats that it faces. The results show that the company exhibits substantial internal strengths, whilst the environment presents major threats. The company is in a strong competitive position in a slow growth market. These factors lead to the belief that BTKM has a basis of strength from which to diversify into more promising areas, and is in an excellent position to undertake related diversification into ventures that utilise their business acumen. A review of the skills and competencies of quantity surveyors reveals their ability to solve complex problems and challenges regarding the planning and management of facilities.

A gap analysis reveals that the current strategy is effective in stimulating and maintaining growth, but has not succeeded in modifying the cyclical flow of demand. It is concluded that the company's objectives cannot be met from existing businesses, and as such, strategies for related diversification must be considered. The discipline of Facilities Management is identified as an option for diversification. In accordance with the model developed in Chapter 2, a diversification option must satisfy three tests to determine whether it is capable of increasing shareholder value. These are (1) The Industry Attractiveness Test, (2) The Cost of Entry Test, and (3) The Better Off Test.

An industry evaluation reveals that the competitive structure of the FM industry is attractive as rivalry amongst sellers is moderate, there are high barriers to entry, the threat of substitutes is weak, supplier bargaining is low, and buyer bargaining power is moderate.

The cost of entry into the Facilities Management industry would be minimised by forming a strategic alliance with an incumbent firm. The benefits that would accrue to BTKM include skills transfer, speed of entry, and reduced cost of entry. This mode of market entry would thus minimise costs and maximise profitability for BTKM.

The value chains of BTKM and the prospective alliance partner would theoretically possess valuable strategic fits with each other, and there is a strong possibility for synergy to occur due to the abundance of common managerial and functional skills. Strategic fit benefits may be achieved, which would stem from:

- Transfer of competitively valuable skills and capabilities.
- Combining the related activities of separate businesses to achieve lower costs.
- Cross business collaboration to create competitively valuable resource strengths and capabilities.

Having satisfied all three tests, it is concluded that diversification into Facilities Management has the potential to build shareholder value over the long term, and is thus deemed a suitable, acceptable and feasible option.

5.5 Recommendations

Based on the results of the strategic analysis, it is recommended that BTKM diversifies into Facilities Management. The following recommendations may facilitate the diversification process:

- Before diversification is embarked upon, the management of BTKM must recognise that such a move will alter the scope of, and impact on the firm's environment. It will also alter the scope, configuration and value of the resources available to the company. These include not only the company's physical and financial assets, but also the

managerial and technical personnel, the organisation structure and process, and the reputation or image of the firm to its various clients. Changes in the organisation structure may also affect the composition and attitudes of senior management. Management therefore needs to plan thoroughly for the diversification, beginning with an analysis of the impact on the firm's environment. Being in a competitive industry, BTKM can expect rivals to act in a similar fashion. BTKM must also be very wary of losing focus on its core business, and in doing so losing market share to rivals. Hence, current resources must be evaluated, and this level must be maintained for the Quantity Surveying practise.

- A 'credible activist' for ventures must be developed and backed by someone with commitment power, in order to guide the process, help gain consensus from top management, and to prevent the process from stalling (Mintzberg & Quinn 1991).
- The level of resources required for diversification must then be quantified, and the company must begin to accumulate these well in advance of the event. Financial controllership capabilities must be strengthened, low cost capital access must be created, the shortest possible communication lines from the 'activist' to the resource committing authority must be maintained (Mintzberg & Quinn 1991).
- Training and education of staff members with regard to Facilities Management must be implemented, particularly at senior management level.
- Prospective alliance partners must be identified and evaluated, and the criteria that the firm applies in selecting the alternatives must be clearly spelled out. Information to be obtained includes firm resources, managerial values, track record, and environmental trends and conditions. The quantity, accuracy and relevance of information considered in making the decision will reduce uncertainty about expected results.
- Once a prospective alliance partner is identified, the method of approach must be carefully planned. The person or group who are to approach the prospect must be chosen, and they must ascertain who should be approached within the prospects organisation. The potential

for cultural differences that exist between the parties to affect the process must not be underestimated.

- The results that BTKM expect to achieve from the alliance must be clarified first and foremost to BTKM's top management, and secondly to the prospective alliance partner. This must form part of the agenda when negotiating the deal.
- Should agreement be reached, emphasis must be placed on integrating the organisations, especially arranging for personnel orientations, establishing management controls, and implementing appropriate operational changes. Since the companies may choose to operate through their existing structures, this may make it difficult for either party to control what is happening, and some clashes of objective between the parties are bound to occur.
- BTKM should maintain the quantity surveying aspect of the business and operate this as a separate business unit. It is important that management does not neglect the core business, and that the current initiatives to stimulate growth are reinforced and monitored.
- BTKM must be cautious of becoming dependant on the alliance partner for expertise and resources over the long term. Ultimately the aim should be to develop its own capabilities in order to function as an independent Facilities Management company. This should form part of the long-term strategy of BTKM, and specific goals and objectives should be set in this regard.

5.6 Conclusion

A proactive approach is needed to contend with demand fluctuations, and firms in the construction industry must continue to live with an uncertain fluctuating workload and plan their actions accordingly. Therefore, it is important for BTKM to have a portfolio of business strategies, and to develop the necessary skills and competencies to ensure survival in the industry.

Understanding and managing the life cycle costs on buildings and related infrastructure has significant downstream benefits which on today's construction projects frequently calls for quantity surveyors to consider current design methodology in new and innovative ways. This, together with the

renewed drive internationally for sustainable structures which co-exist with the environment and the related protection and nurturing of natural resources has led to the growth of a new field of endeavour – that of Facilities Management.

Quantity surveyors, by virtue of their core competencies, possess the ability to solve complex problems and challenges regarding the planning and management of facilities. Rapid growth and interest in this field has provided a market opportunity for BTKM to exploit.

Entry into this industry is an attractive prospect that offers steady income flows and above average profitability. Market entry via strategic alliance is identified as the most appropriate strategic option to reduce risk and overcome barriers to entry. The value chains of BTKM and the prospective alliance partner possess competitively valuable strategic fits with each other, and there is a good prospect for synergy to occur due to the abundance of common managerial and functional skills.

A cautious approach towards diversification into Facilities Management is advocated which will entail shoring up the existing business, building up organisational and fiscal resources in advance of the event, identification, evaluation and selection of an alliance partner, and organisational restructuring to cope with the new strategic path.

The strategic alliance must be viewed as a medium term strategy for BTKM to gain entry and experience into the Facilities Management industry. Ultimately the aim should be for BTKM to develop its own capabilities in order to function as an independent FM company. This should form part of the long-term strategy of BTKM, and specific goals and objectives should be set in this regard.

It is concluded that the steady income flows that may be generated from diversification into Facilities Management will enable BTKM to revive the company's prospects in the face of declining growth opportunities in its core business, and to offset cyclical fluctuations in demand, thus increasing shareholder value.

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