Abstract

This paper is part of a programme of research work. A lack of cross-functional integration has been reported in four major international contracting organisations both vertically in the management hierarchy and horizontally along project lifecycles. One of the main aspects previously reported was the low level of management coordination and hence integration of value propositions between business development and bid management functions. This paper examines the matter further. It specifically examines business development (BD) and bid management (BM) in two additional major contractors where the two functions are combined under a single functional department. In the department, the same personnel manage BD and bidding. It poses the research question as to whether this leads to greater levels of coordination and integration. Two dimensions are examined in particular, namely understanding client needs to develop value propositions through BD and developing win-strategies during BM to potentially add value and deliver benefits during execution.

The conceptual lens of marketing in construction is used for analysis. There are two main findings. First, the degree of coordination is marginally improved, yet the understanding and effort committed to BD was lower compared to BM. Therefore, the ability to develop win-strategies during BM was compromised by the lower emphasis on BD. Second, it was found that the level of integration between the two functions and with other functions, such as procurement and supply chain management, was low. This compromised the value propositions and delivery of benefits. The outcome is a contractor focus upon survival with sub-optimal strike rates and value propositions.

Keywords: Bid Management; Business Development; Coordination; Integration; Marketing

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1. Introduction

The main contractor in the construction industry is a systems integrator (e.g. Davies et al. 2007). Attention has been given to this conceptual role through integration of the design and project teams as well as supply chain members (e.g. Kumaraswamy et al. 2005). There has been less focus upon the extent of functional integration within the main contractor as a project business, particularly regarding functional roles and departments and the interface with the project front-end. This research examines two significant functional roles at the project front-end: business development (BD) and bid management (BM). The research therefore sets out to investigate under what conditions is a main contractor able to increase integration over project lifecycles from the marketing perspective?

The paper is part of a research programme of work concerning the extent of cross-functional integration applying a marketing lens to project businesses. A low level of management coordination and integration has been found. Applying a marketing lens, this has compromised the ability to develop project business, offer integrated value propositions and deliver these to meet client requirements.

This paper examines the BD and BM functions in two different major contractors in two different countries, the UK and Finland. In both contractors the BD and BM functions are managed under a single service function. This contrasts with the previous research, BD and BM constituted as separate functions or departments (see for example Smyth 2013). This research poses the additional question as to whether functional co-location leads to greater levels of coordination and integration. Using an interpretative approach, supported by semi-structured interviews with key personnel, two dimensions are examined: the ability to develop value propositions at the BM-BD interface and hence win strategies during BM that potentially add value and deliver benefits during execution.

Two main findings are presented. First, the degree of coordination shows a marginal improvement compared to previous research (cf. Smyth 2013), yet does not necessarily translate into greater integration and enhanced value propositions. The reason is that the understanding and effort committed to BD was low compared to BM. Therefore, the ability to develop win strategies during BM was compromised due to minimal understanding of client needs beyond the requirements documentation, hence reduced capability to translate and transfer these needs into pertinent value propositions. Second, it was found that senior management in the firms had abstained from the coordination effort and left responsibilities to individual actors and small functional teams, thus the low level of integration at the BD-BM interface was also echoed in relation to other functions, such as finance. This further constrained the development of win strategies. Further and as a distinct attribute of these cases, both contractors had a pipeline of projects sourced from other business units within the firm, which arguably acted as a disincentive to enhance value propositions through businesses development and potential value configuration. The outcome is that both contractors focused upon survival with sub-optimal value propositions and growth. The research findings present a different business model compared to previous research, but not an enhanced one with any degree of competitive advantage, indeed potentially the opposite as there was an unhealthy dependence upon internal sources of work.

2. Literature Review

2.1. Definitions, Scope and Research Questions

First, a definition of terms. The definition for coordination follows Jarzabkowski et al. (2012), who state that it involves dynamic procedures comprising consistent and systematic processes and organizational behaviour to guide action in relatively stable ways. Integration is defined externally in terms of the main contractor role as a systems integrator (Davies et al. 2007), the main contractor being responsible for coordinating the actions of other parties at a general level and integrating bundled attributes effectively externally, and, internally mobilizing formal and informal routines to bring together functions and value for co-creation effectively through appropriate capabilities operationally (Parmigini and Howard-Grenville 2011). Thus, service and technical inputs can be bundled to create in ways to meet the requirements (value added) and deliver enhanced benefits (added value) (Smyth 2015).

Marketing is defined in project business terms of securing profitable work that delivers valuable propositions to customers that are realized as value through their perceptions and actions. The direct means to achieve this aim is through sales or business development (BD) in project businesses. BM that is responsible for translating the understanding of the client needs gleaned through BD together with the requirements documentation into value
propositions. Successful propositions are competitive in price and have the potential to realize value through co-
creation during service delivery and in use (e.g. Vargo and Lusch 2004, Payne et al. 2008).

The specific research issue focuses on whether a single functional department for BD and BM leads to high
levels of coordination and integration. Previous research has shown that separate functional roles and departments
have led to a lack of coordination and integration (e.g. Smyth 2013). This issue is informed by the general research
question: Under what conditions is a main contractor able to increase integration over project lifecycles from the
marketing perspective? There are three possible ways to address this research question: i) change the mind sets of
decision makers and main actors whose habits are perhaps pre-given to some extent or conditioned by the silo and
functional organizational boundaries that have structured thinking and together act as barriers; ii) have a strategy to
facilitate cross-functional working using existing resources, thus formal and informal routines of coordination; iii)
invest in capabilities: organizational, marketing and project related, at the business-project interface.

2.2. Business Development, Bid Management and Integration

The recent roots for coordination and routines arise from the mechanisms set out by Mintzberg (1980) and
Nelson and Winter (1984). For systematic integration and capability development in project businesses the work of
Hobday and his colleagues has proved influential (Hobday 2000, Brady et al. 2005, Davies et al. 2007). Marketing
has an integrating function (Day 1994, Möller 2006, Davies et al. 2007), especially shaping the project to align it
with client needs (Cova and Salle 2011). Thus integration as a capability of potential value creation and co-creation
is important for main contractors cast in the systems integrator role (Davies et al. 2007). The ability to integrate in
the marketplace is predicated upon internal integration capabilities (Smyth 2015). Acting to transform business
performance has included a slow transition in practice away from transactional marketing towards relationship
marketing among major contractors (e.g. Smyth 2000, 2015, Smyth and Fitch 2007). This is supplemented by a
current conceptual transformation in marketing theory towards the co-creation of value within the service-dominant
logic (Vargo and Lusch 2004, 2008).

The marketing purpose is to identify potential value, guide the configuration of resources into propositions during
bidding and for ensuring delivery to maximize the potential for its realization during the service element of
execution and post-completion in use. This is in-line with the co-creation of value whereby the client directly and
indirectly partakes in experience of the service and benefit realization. This potential is predicated upon integration
of function and content by the systems integrator with the goal of inducing repeat business and enhanced reputation
to grow the construction business (Smyth 2015). This is applicable, including projects for public sector clients.

Previous research has shown that prime and main contractors operate in the role of systems integrators,
coordinating other systems solutions advisors and providers, namely professional, supplier and subcontractor inputs
(Davies et al 2007). This requires high levels of capabilities for integration. In this context, these are organizational
capabilities (Davies and Brady 2000), marketing capabilities (Day 1994) and project capabilities (Brady and Davies
2004). Capabilities facilitate cross-functional integration. Evidence to date shows that project businesses lack
internal cross-functional integration, for example between project marketing and finance (Smyth and Lecoeuvre
2014) and from robust programme management (Lecoeuvre and Patel 2005, Smyth 2015). A study of four major
international contractors recently found a lack vertical integration between the supporting functional departments
and teams responsible over the project lifecycle from for example procurement, supply chain management and
technical departments (Smyth 2013). Main contractors also lack horizontal integration over the project lifecycle
from marketing prior to any project (Lecoeuvre-Soudain and Deshayes 2006, Smyth, 2013), at the front of the front
end (Smyth 2015) and during execution. The findings from previous research reflect the transactional legacy of
marketing in construction and the emphasis upon management for survival by keeping investment, costs and risks to
minimal levels (Skitmore and Smyth 2007). These features encourage ‘silohave informal routines and
individual responsibility emerge as a reaction to low investment in systems and formal processes of integration
(Smyth 2013, 2015).

This paper specifically focuses upon the BD and BM functions at the strategic front end (Morris 1994, 2013).
The transactional legacy tends to leave BD isolated at the front end terminating at prequalification (Pinto and Covin
1992, Turner 1995). A department combining the functional roles could therefore be conceptually expected to
improve integration. This leads to the empirical work in two large construction companies with international interests that have combined BD and BM into a co-located department with shared staff and job roles.

3. Methodology and Methods

An interpretative methodology is used, recognizing subjectivity and value judgments (Sayer, 1992), including how facts are identified and mobilized in different ways (Krige, 1979). Respondents are subjective (Sayer, 1992), yet it is important to respect the information sources and emanating context (Denzin, 2002). Key actors, namely key function decision makers were identified and data was collected using semi-structured interviews. The interviewee perceptions enrich understanding helps understand strengths and weaknesses of the formal and informal firm routines. The data was used to generate patterns of events and outcomes of significance (Smyth and Morris, 2007).

The qualitative method employed a case study approach (Yin, 2003). A case-based approach was applied inductively, although only two cases were selected which falls short of the six or so recommended by Eisenhardt (1989). Taken with the four cases from a previous study (Smyth 2013) the research programme is aligned to her recommendation. The previous study addressed the UK operations of four major international contractors. Thirty semi-structured interviews were conducted from Board level management, marketing and BD, procurement, technical and sustainability management, and project managers. These interviews enabled examination of vertical and horizontal integration applying a marketing lens. This research focused upon horizontal functional coordination and integration that was both co-located but conducted by the same actors.

The two case companies were UK and Finnish owned. The UK main contractor was a business unit (BU) within larger firm (Table 1). The BU is a refurbishment and fit out division, and is a leader in the domestic market. The Finnish firm is a market leader. New build for the public and private sector are the prime activities. While certain aspects of selling are restricted in the public sector, marketing and BD functions regarding value propositions and repeat business apply. Both firms have international interests. Nine semi-structured interviews were conducted in the 2nd and 3rd quarters of 2013 (Table 1). The job titles did not always reflect the breadth of their roles. For ethical and confidentiality reasons, the identity of the firms and personnel are kept anonymous (Table 1).

<table>
<thead>
<tr>
<th>Contractor Alias</th>
<th>Ownership</th>
<th>Primary Activities</th>
<th>Divisions Interviewed</th>
<th>Interview Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>BritCo</td>
<td>UK</td>
<td>Project Management, Management Contracting and Contracting in Building, Civil Engineering and Infrastructure</td>
<td>Main Contracting in refurbishment and fit out markets</td>
<td>1 Procurement Director 1 Head of Bid Development 1 Bid Manager 1 Estimator 1 Marketing Manager</td>
</tr>
<tr>
<td>FinCo</td>
<td>Finnish</td>
<td>Building, Civil Engineering and Infrastructure, and Property Development</td>
<td>Building and Property Development</td>
<td>1 Senior Vice President responsible for marketing and bid strategy 1 Director responsible for bid management and sales 1 Director for Business Premises 1 Chief Estimator</td>
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4. Findings and Analysis

4.1. The Changing Market Context since the Downturn

Since the economic downturn from 2008 the market has become more competitive. Staff have been made redundant in both firms and the BD function took proportionately the highest reduction. It was reported that price criteria at bid stage have intensified. Clients and their consultants were reported as displaying increasing “cynicism”, which is a reflection of the loss of capabilities on the client side (cf. Merrow 2011, Winch and Leiringer, 2013) and loss of capacity among consultants who have to show anticipated value for money improvement to price-driven...
clients. The consequence is an increase in adversarial behaviour at the front end. Therefore, the demand for quality remains high (BritCo Bid Manager). As part of client price drivers and the need to demonstrate anticipated value for money there has been a trend towards clients first negotiating with a contractor and then throwing the bid open after submission.

4.2. Business Development Management and Bid Management in the Firms

In BritCo, senior management and project directors are involved with BD. This is perceived to be 10% of the effort, BM comprising 90% (BritCo Head of Bid Development). Clients say they are less interested in relationship building, yet the contractors reported its continuing importance at a more strategic level, representing a divergence at the project level but growing significance of BD at a strategic programme level. However, there was an absence of relationship building procedures and of a relationship management system. In FinCo they stated that staff “tend to be office based” (FinCo Chief Estimator).

In BritCo, project directors mainly lead the bids, supported by a team responsible for marketing intelligence, coordination of BD, estimators and bid managers. The overall focus is largely technical and inward focused rather than a complimentary service and client focus (cf. Smyth 2000, 2015). This can be reflected in director decision making across the front end regarding decisions to proceed, relationship building, resource allocation, and value configuration for co-creation. BritCo senior management and directors develop strategic client relationships. Management develop relationships with client mid-management rather than counterparts. Marketing and BD provide a supportive information processing role and was reported as being a ‘backroom’ function. Yet competitors were perceived to be more knowledgeable about work pipelines (BritCo Marketing Manager) and more active in relationship building at a number of levels and with design teams (BritCo Project Director).

BritCo processes around 200 opportunities a year from the “go/no go” decision, through prequalification, to a full bid. “Tick box” criteria are applied to the decision, based upon the capability to meet the known scope prior to prequalification. The client demands for reassurance and related documentation is increasing for prequalification (cf. Smyth 2013). There is a “kick off” meeting at the start of each bid. There is varied attempt to incorporate knowledge about the client and their expectations. The ‘tick box’ criteria solicits conformance to internal and external bidding procedure rather than reflective practice to develop win strategies. Each project director has 4-5 bids to manage concurrently and they run bids in different ways: “there’s not really a [BritCo]-way of doing bid management” (BritCo Bid Manager). Bids comprise two elements: technical and commercial content. BritCo reported that they always “go the extra mile on the technical document” (BritCo Bid Manager) yet commercial content was recognized as decisive for clients. Paying less attention to the commercial content means they win where the technical content is good while commercial content merely equals other bidders. Commercial content requires close BD-BM coordination to inform win strategy development. BritCo tend to be reactive in BM (BritCo Head of Bid Management), compounding the increase in ‘last minute’ demands from consultants on scope changes and emergent requirements. There is an absence of feed forward intelligence from BD and feedback from project directors on lessons learned to configure value for co-creation in the bids. Price rather than content has been the emphasis throughout the downturn, although BritCo are not always cheapest having favoured quality at the top of the market (BritCo Estimator). A project director described a win-strategy as having good prior client relationships and getting recommended to the client board. Senior BritCo management sign-off bids, having set the mark up. Bid strike rate is in the range of 1:4 (25%) to 1:7 (15%), the higher rate arising where effective client relationships have been built.

FinCo rely heavily on being one of the largest indigenous contractors, helping to secure a large number of public sector prequalification opportunities. Schools, for example, are put out to high profile design competition and thus build profile and reputation for the main contractor. BD is restricted in certain sales activity, yet has a conceptual role in pipeline management and responsibilities for understanding public clients to help configure value propositions. There are no separate FinCo BD managers, estimators trying to identify project pipelines by sporadically telephoning consultants and potential clients (FinCo Estimator). Data is recorded on the Salesforce® CRM database. Work is supplemented from the in-house property development company. There is a 15-strong real estate sales team, their success feeding the development and construction pipelines. Construction gets ideas from development for value (co-)creation opportunities on tenders for external clients (FinCo Vice-President). They try to understand the “story” behind the space being created in order to lever potential value to address client
organizational problems for which the project is the solution. Working with an architect, they have developed a ‘smart space’ design approach for the real estate market that maximizes service integration in delivery. This is proving an attractive value proposition in developing win strategies in BM in the private sector.

FinCo have a tiered bid decision process by project size. The bid system is primarily structured around public sector processes. They used to have a bid manual but emergent practice has superseded the procedures; flexibility is more appropriate for fast changing client demands and emergent requirements (FinCo Director, Business Premises). Once deciding to bid there are weekly meetings between senior management and the estimators. The main win-strategy is price, sourcing low cost subcontractors from central European countries, such as Latvia and Poland (FinCo Vice-President). They go out to large numbers to put pressure on subcontractor bid prices. The procurement function is sometimes bypassed by the estimators in order to achieve the lowest price (FinCo Director, Business Premises). This successful approach is a medium term strategy as it is being eroded through copycat actions among competitors. There was widespread recognition in FinCo that they “have to listen more” to their clients to configure value propositions to need – the transactional mindset employed is proving a current barrier. The main bid competition is from other Scandinavian contractors operating in Finland. The FinCo strike rate on public sector work is about 1:7 and 1:5 for private sector work. The business model uses public sector work with low rates of return for covering overheads and for profile building. This creates scope for good margins in private sector where the strike rate is high and thus bid costs are low. In-house work estimates and ‘bids’ are managed in a more “open way” with the property development BU (FinCo Director). The highly transactional BD and BM represent a gap with a more considered strategic and reflective approach among senior management.

Overall, BM is emphasized because BD is seen as an overhead, whereas BM is perceived to be operational. This echoes an attitudinal division between financial management and project marketing, echoed in other research findings (Smyth and Lecoeuvre 2014). The ‘silo mentality’ shows a lack of understanding of the actual and potential contribution of marketing and BD to market management and work pipelines.

4.3. Business Development Management and Bid Management Coordination and Integration

BD and BM roles are coordinated up to and including prequalification in BritCo, after which BD roles and criteria are dropped in favour of a reactive BM mode to client requirements. Resources are drawn down depending on who is available and the relative power positions of the prime actors. If a client requires named personnel, they will ‘make it happen’ even at the expense of another client, project or programme of work. FinCo are entirely reactive at the BD stages with an absence of consistent commitment and routines for coordination.

BritCo lacked strategic BD processes at the programme level and there is no relationship management system to guide BD and identify potential (added) value at the project level. It does have a set of procedures in a BM system. Beyond these requirements, there is no standard way of managing bids. Value identification and configuration function for client value realization is minimal and reactive. In FinCo it is solely cost driven except for the ‘smart space’ offer. Overall this represents a gap between FinCo strategy and action on the ground. Managing the BD-BM interface in both firms is left to individual responsibility rather than being managed (cf. Smyth 2015). In BritCo it was reported, individuals tend to be very defensive, mistrusting others to the detriment of coordination and integration (BritCo Marketing Manager). Estimating and BM are co-located in both firms, BritCo claiming a mitigating effect by the informal routines facilitating integration (BritCo Marketing Manager). There is no formal coordination and few opportunities therefore for integration, especially in value propositions at the front end at the BD-BM interface and indeed at any stage of the front-end.

FinCo tries to manage functional interfaces, particularly estimating and project management through co-location. Co-location of teams means facilitation rather than formal coordination, which ultimately relied on individuals and teams taking responsibility to integrate value propositions. The ‘smart space’ design with building services integration is a model they would like to roll out for other design features and for replicating management routines.

There is a lack of coordination and integration between BD and BM in both firms. FinCo shows strategic intent from a marketing perspective, but the extreme transactional action has largely squeezed BD out of the mix based upon stretched resources, reactive behaviour and an over-reliance on in house supply. BritCo exhibits similar features, yet is less polarized. There is a lack of coherent strategy and a lack of functional coordination despite the functions being co-located.
4.4. The Functions in Relation to Programme and Project Management

Client lifetime value and client management functions at programme level are not employed and undermanaged respectively in both BritCo and FinCo. The project is the prime unit of consideration at the expense of the client and transformational leadership and processes to coordinate BD and BM, for example, absence of marketing capabilities (cf. Möller 2006) to develop and deliver added technical and service content as part of value co-creation (cf. Smyth 2015) use of adaptive replication (cf. Davies et al. 2007).

Although BritCo claims repeat business constitutes 70-80% of the turnover, the reason is because a large portion of the pipeline arises from in-house project management and construction management activities of the firm. This is the case too in FinCo regarding the property development pipeline of work from the real estate BU. The internal programmes of work arise ‘automatically’ and do not represent the fruits of effective client management and programme management. It may lead to complacency regarding having BD capacity and capabilities to secure work.

Overall, the management of the project lifecycle at the front end fails to coordinate the functions and integrate value propositions, which constrains the ability to deliver potential value profitably during execution and stymies firm growth. This outcome is not only the result of shortfalls of interface management but also a lack of both senior management support and programme management to coordinate activities consistently across projects.

5. Conclusions and Recommendations

The research had set out to investigate under what conditions is a main contractor able to increase integration over project lifecycles from the marketing perspective? Overall, it has been found that the degree of coordination is similar and at best marginally improved, largely through co-location and informal routines compared with previous research (Smyth 2013). Yet the understanding and effort committed to BD was lower compared to BM. Therefore, the ability to develop win-strategies during BM was compromised by the lower focus on BD. It was also found that the level of integration between the two functions and with other functions, such as finance and procurement, was apparently low. Combined, this constrains the value propositions and benefits delivery. The market outcome is a contractor focus upon survival with value propositions and growth. Further as a distinct attribute, both contractors had a pipeline of projects sourced from other divisions or BUs. This induced an over-reliance upon internal work sources, acting as a disincentive to have coherent BD activities and enhance value propositions. The research findings present a different business model compared to previous research (Smyth 2013), but not an enhanced business model nor strategies for BD and BM.

In addressing the overall research question, three possible ways were identified covering i) mindsets of decision making, ii) cross-functional working, iii) investment in capabilities. The positive features of co-located functions in one department could be expected to reduce barriers. At the detailed level across the two case firms the three possible ways are summarized in reverse order. Concerning investment in capabilities it was found a) there has been a loss of marketing-related capabilities and capacity, yet more intensive competition since the economic downturn; b) the project is the prime management unit of consideration, the programme level and client lifetime value being largely overlooked in both firms; c) organizational and marketing capabilities to articulate BD, BM and the interface are lacking as a result of insufficient strategic intent and resource allocation. Concerning strategic cross-functional working through coordination routines for integration between function and for delivering (added) co-created value propositions it was found a) both firms divested staff resources in the wake of the downturn, disproportionately selecting the BD function, hence compromising the ability to identify and know what value propositions to develop into win strategies and for integration during delivery; b) the firms exhibit tension between a transactional and relationship approach to marketing with a lack of systems and procedures to articulate BD, BM and the interface from the marketing perspective; c) BM is responsive to requirements and cost factors rather than commercial content in general and win strategies to add co-created value specifically, facilitated through functional integration.

Concerning mindsets of decision making and actor habits or informal routines, a) BD is perceived to be largely an information processing transactional function to secure work; b) value identification and configuration is largely absent in BD and for developing win strategies; c) embedded and taken-for-granted assumptions that coordination and integration is a matter left to individual responsibility rather than active management was dominant; d) silo mentalities and defensiveness towards cross-functional working were also in evidence.
In conclusion, combining functions within a multi-functional department does not necessarily lead to greater integration without management commitment in terms of strategy, resources and the implementation of coordinated systems and procedures. For research, there is a need to continue a research programme to examine cross-functional working and the extent of integration using a marketing lens. For practice, the main recommendations concern having a clear strategy for marketing and specifically business development and bid management to addressing the detailed points from the research findings regarding mindsets, cross-functional working and investment in capabilities.

References


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