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Strategic planning practice of construction firms in Ghana

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In Ghana, the operating environment for construction firms is constantly changing in the face of a volatile economic environment, shifting political climate and a highly competitive market. Confronted with such instability, companies need strategic planning to combat the threat to their survival. A survey was conducted to determine how widespread strategic planning is used as a management tool by contractors in Ghana. Construction firms with classification A_1B_1 , A_2B_2 , D_1 and D_2 were used in the survey. Only 8.5% of D_2 firms use strategic planning. The other firms have a combined average of 86.7%. Civil engineering contractors are far ahead of the building contractors in the practice of strategic planning. Strategic plans are drawn to cover an average of three years. There is an urgent need for contractors in the D_2 class to be encouraged to seek insight into strategic planning and employ the technique to enhance their chances of surviving risks in the business environment.

Keywords: Strategic planning, construction, management, environment

Introduction

The construction industry is now a highly dynamic sector, and its operating environment, industry structures and product characteristic are changing at an ever-increasing pace. Activity in the industry is subject to influences resulting from the pace of technological change in other sectors of the economy (Staynov and Baumgartner, 1986), uncertainty in the financial market (Nam and Tatum, 1988) and changing client demands following variations in taste, aspiration and purchasing power (Chow, 1990). The industry is also exposed to the risky conditions that prevail in other industries, and this underscores the need for strategic planning. The need for strategic planning is even more pronounced in a developing country like Ghana which has a highly unstable business environment characterized by rapidly changing markets where funding sources shift, government regulations multiply, business cycles alter, competition tightens and inflation eats away the company's capital. In the face of all these changes, it is increasingly difficult to manage the construction business in today's environment (Friedman, 1984; Betts and Ofori, 1992).

Companies must be forward looking and vigilant to be able to cope with these circumstances.

Construction firms have traditionally had a tendency to neglect strategic planning, with consequent severe results in times of economic recession or political instability (Langford *et al.*, 1993). Against this background, it is important to investigate the strategic planning culture of firms in the country. This study investigates the use of strategic planning as a management tool by contractors in Ghana.

Why strategic planning?

Enterprises in many industries are constantly making efforts to predict how the future may influence their operations, as they become increasingly aware that it is insufficient and sometimes dangerous to neglect strategic planning and simply react to events (Edum-Fotwe *et al.*, 1994). Strategic planning has always been an important part of the business process in all industries including construction. Lord (1993) observes that evidence of strategic activity can be found within the construction industry when one conducts a careful study of the business orientation of companies, their bidding behaviour and the combination and

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variations in the types, sizes and location of projects that individual companies undertake.

Historically, the focus of formal planning in the industry has been on operational planning and elementary forecasting. The external environment did not receive the attention it deserved (Edum-Fotwe *et al.*, 1994); planning just centred on the organization of resources for the execution of specific projects. The concentration on project planning has resulted in the situation where books on construction management deal mainly with the management of the project rather than the management of the firm. The practice of focusing on the project in formal planning has portrayed an image of a short-term orientation for the construction industry. Hillebrandt and Cannon (1990) noted that a number of construction companies only had short-term corporate plans, and suggested that companies ought to be re-directing the focus of their planning activities to reflect the balance needed between the strategic and the tactical.

The informal approach to planning the future of an organization may be considered suitable in a relatively stable industry environment where the need to undertake systematic long-term planning for company survival is not immediately apparent. However, firms cannot escape the reality of instability in important elements of the operating environment like market size, technologies, source of capital, legal elements, domestic and competitive political environment, etc. With shifts in these factors, the immediate environment of the firm become unstable as the firm adjusts to new situations. Consequently, an over dependence on tactical and operational planning without a long-term view exposes the firm to potential detrimental financial distress, under-utilized or over stretched resources, loss of competitiveness and lack of growth.

Following the adoption of free market economic policies in Ghana in recent years, there has been the need for large construction firms to undertake strategic planning to survive the potential onslaught of foreign construction enterprises. Small companies also require longer-term perspectives to face the downward 'plundering' by large firms that get dislocated by market competition.

Strategic planning defined

The subject of strategy has received a good deal of attention in management studies, and there is a general consensus on the key features of strategic planning. It is seen as way of positioning the firm to deal with the external environment in a manner that enhances the probability of achieving desired goals (Andrews, 1990; Edum-Fotwe *et al.*, 1994). This involves the determination of a course of action, and the allocation of

resources to facilitate action in pursuit of set goals. The scope and subject of emphasis of planning, however, vary in the view of researchers. It has been considered in terms of time (Chandler, 1962; Warszawski, 1996), geographical spread (Newcombe, 1990) and diversification of activities (Channon, 1978). For this study, the emphasis is on long term planning. Strategy here embodies a set of plans that outline actions to control or manage the effects of future changes in the operating environment. Strategy is defined as a long-term plan aimed at pre-empting and controlling changes in the firm's operating environment.

The process and environment of strategic planning

The strategy-making process is defined by Segev and Gray (1994) as an ongoing process whereby the business organization's objectives and means to achieve them are determined. The planning process includes both formal aspects (such as analysis) and informal aspects (such as risk and initiative determination). The process calls for a clearly articulated and regularly updated set of objectives. There is also the need to identify the strengths and weaknesses of the company and match them to changing external customer behaviour and competitive trends in the continually changing marketplace. In the marketplace, winners in the long term are those with the commitment to consistently monitor the external market environment, and exhibit the flexibility to adjust policies and practices even when business conditions make this difficult in the short term.

The environment refers to all the factors within or outside the organization, which affect or are affected by the strategic business unit. The environment includes both the unit's internal concerns, and the general economic and political world within which the firm operates. Whereas the firm has control over internal environmental factors, it has little or no direct control over the external environmental factors. The external environment is made up of national and even international political, legal, social, economic, technological, competitive factors.

The effectiveness of strategic planning is affected by the existence of uncertainty that paradoxically underscores the need for its application. As a tool for anticipating and managing changes outside and inside the firm, it would be most effective if future events stayed within forecast limits. In practice, however, it is difficult to predict events with any specified degree of accuracy, and this introduces a limitation on the effectiveness and value of strategic plans in management. Consequently, there is a shift from the analytical programming of planners towards the intuitive, creative

strategic thinking that results in an integrated perspective of the organization. The object now is strategic management, and not just planning. Strategy is not left to planners. It involves managers, executives and others in the organization contributing their insights and experience, as planners contribute analysis and hard data to a strategy-making process. The result is a less rigid direction that is set not as a prerogative task of only planners or top management, but with a greater participation at all levels in the firm (Mintzberg, 1994). Strategic planning is valued in the contribution it makes to the strategy-making process.

Strategic planning in construction

Contractors have been known to plan their survival by using economic, technological and social forecasts as a basis for decisions that shape the company's future. Such planning often involves simple extrapolation of information from past results as part of the informal exercise performed by top management. Strategies resulting therefrom are often ad hoc and hardly comprehensive (Cusack, 1991). The reason for such approach may be found in the type of ownership prevalent in the past when construction firms were predominantly family businesses. Strategy only referred to what the 'owner family' wished to achieve with the company, and the question of how to achieve it was a matter only for the family to decide. Future performance only had to be better than the past, and previous results were simply extrapolated to derive targets for the future (Ansoff and McDonnell, 1990). Strategic planning can be distinguished from this informal approach by its formalized and rigorous focus on the essential entrepreneurial problem of defining and appraising the role of the organization. The future is not just seen as an improvement over the past (and therefore an extrapolation thereof), but as a successful management of risks and uncertainties. Strategic planning seeks to ensure that various sections of the organization support each other to overcome potential adverse environments.

Survey methods

The study was conducted as apart of a larger study on the strategic planning culture of Ghanaian contractors. Data was collected through a questionnaire administered to 210 selected members of the top and middle level management staff of construction firms. Firms were selected from the top two classes of road and building contractors in Ghana. These classes were selected for the study, because they constitute the most organized groups of firms. They have regular offices

and addresses as well as management structures that are readily accessible. The road contractors comprised A_1B_1 and A_2B_2 firms and the building contractors comprised D_1 and D_2 firms. A stratified sample was drawn from the lists of contractors registered with the Ministry of Works and Housing, and the Ministry of Roads and Transport.

Classification of construction firms in Ghana

Construction firms in Ghana are categorized into four financial classes according to the size of individual projects they can bid for from government. Most private organizations also depend on this classification for contractor selection. This classification however, does not put any limit on the number of jobs a firm can undertake in a year and, thus the annual turnover. Road contractors are designated as A_1B_1 , A_2B_2 , etc. and building contractors are designated as D_1 , D_2 , etc. The upper limits of individual projects firms can undertake are given in Table 1.

Questionnaires were delivered to officers in the sampled firms, and arrangements were made to meet the officials involved for collection and further interviews. The questionnaires consisted of fixed response questions, including fixed alternative and multichotomous questions. There were also open-ended questions that allowed respondents to express thoughts and ideas not covered in the fixed format questions. All respondents were given the freedom to answer the questions as they deemed appropriate. However, questions that needed clarification by some of the respondents were attended to, but in a manner that eliminated bias emanating from the researcher's end.

The questionnaires were designed to meet the set objectives. The first part dealt with general information on the respondents and their position with regards to strategic/long-range planning. The second part dealt with the long-term strategy formulation practices by the respondents. The final part was concerned with the personnel involved in the preparation and implementation of the long-term strategies. A questionnaire was deemed responsive where the relevant questions on the firm's application, or otherwise, of strategic planning were fully answered.

Table 1 Financial classification of contractors

Financial class	Road contractor designation	Building contractor designation	Financial limit of projects
1	A_1B_1	D_1	—
2	A_2B_2	D_2	US\$ 500 000
3	A_3B_3	D_3	US\$ 200 000
4	A_4B_4	D_4	US\$ 75 000

Results and discussion

Respondent demographics

Out of 210 questionnaires sent, 132 were returned and 119 of these were responsive. Responsive responses came from all the four classes of contractors. There were 10 from class A₁B₁, 10 from class A₂B₂, 40 from class D₁ and 59 from class D₂.

How popular is strategic planning?

Only 48% of the firms undertake strategic planning. Actually, the combined percentage for A₁B₁, A₂B₂ and D₁ is 86.7%, but in the D₂ class, the percentage is a mere 8.5% (Table 2). Planning done by the majority of D₂ firms is largely project specific. The behaviour of D₂ firms confirms previous observation that traditionally, long-term strategies for survival receive relatively little attention by construction organizations (Cusack, 1991). The majority of these firms are still happy to concentrate attention on project planning to the neglect of long-range planning.

Construction firms are said to be generally ignorant of what strategic planning is about and, hence do not see the need to undertake strategic planning (Hilderbrandt and Cannon, 1990). Results from this study indicate that a significant number of class 2 building contractors do not know what strategic planning is about and do not employ this technique. In sharp contrast, a high percentage of firms in financial classes A₁B₁, A₂B₂ and D₁ employ strategic planning. A high percentage of these firms are subsidiaries of foreign multinational firms that have a hand in drawing up plans for firms to implement locally. The influence of expatriate contractors in this management practice is prominent here, and strategic planning may be a key subject of managerial technology transfer from expatriate contractors in the country. Firms in class D₂ are generally owned by individuals or groups of persons who have little knowledge of construction technology or management and, yet will not employ competent personnel to manage the firms (Owusu, 1999). The

long-term plans of the firms therefore remain in the heads of these individuals who own the firm.

Civil engineering contractors are particularly keen on long term planning as a result of the size and duration of the projects they undertake. Even a single project may extend over such a long time that planning for it alone would require dealing with a broad range of issues that are generally to be encountered in strategic planning.

Firms that undertake strategic planning see it either as necessary (28%) or very necessary (72%) for survival. Significantly, none of the firms that fail to undertake strategic planning saw the need for it in their quest for survival or competitiveness. Within this group, there is a general deficiency in knowledge about strategic planning. Most of them (81%) do not know what strategic planning is.

Length of experience in strategic planning

Amongst the A₁B₁ firms (89%), strategic planning has been a regular practice for as long as the firms have operated in the country. They generally start undertaking long-term planning from their inception. In the A₂B₂ class, 60% of firms that started operation within the last fourteen years employed strategic planning right from the year of registration. Those that started operations 15–19 years ago only started undertaking planning 5–10 years after registration. With the building contractors, the practice has caught up well in the last 10–14 years. Even firms that had been in existence for 24 years only began using the practice within this period.

Figure 1 shows the number of years firms have been practising strategic planning *vis-à-vis* the total period of

Table 2 Respondent demographics

Financial class	No. of questionnaires circulated	No. of responsive questionnaires returned	No. that undertake long-term planning
A ₁ B ₁	12	10	9 (90%)
A ₂ B ₂	12	10	10 (100%)
D ₁	62	40	33 (82.5%)
D ₂	124	59	5 (8.5%)
COMBINED	210	119	57 (47.9%)

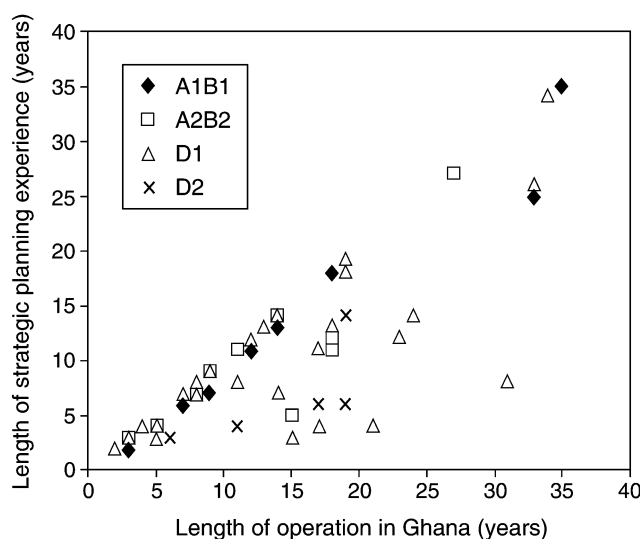


Figure 1 Period of operating with strategic planning

Table 3 Length of planning period

Financial class	1 year	2 years	3 years	4 years	5 years and beyond	Average (years)
A ₁ B ₁	1	2	4	1	1	2.9
A ₂ B ₂		3	3	2	2	3.3
D ₁	3	4	17	3	6	3.2
D ₂		3	2			2.4
Combined	4	12	26	6	9	3.1
Percentage of total	7.0	21.1	45.6	10.5	15.8	

operation in the country. The realization of the need for strategic planning has come strongly in the last 15 years. Apparently, the political upheaval of the early 1980s brought about the awareness of the need for strategic planning, as many companies (not only in construction) collapsed in the violent change of government of the early 1980s.

Duration of strategic plans

Firms in the study have a general orientation towards short-term rather than long-term planning. Strategic plans generally cover periods of up to five years (Table 3). The most popular duration is three years; 75% of firms plan for three years or less. The commonest reason assigned for this short planning period is the uncertainty associated with planning beyond such time periods. The A₂B₂ and D₁ firms have the longest average planning periods of 3.3 and 3.2 years respectively.

Firms that adopt a planning period of one year do so because the construction industry in Ghana is sensitive to the annual national budget. Funds may not be available in a years' annual budget to continue a project started in a previous year, and this makes it difficult to plan over periods longer than one year. To them every year is a unique planning period. This practice can hardly constitute effective strategic planning, because it is rather such uncertainties that strategic planning must cater for. Plans that stop short of tackling uncertainties cannot constitute effective strategic plans.

Personnel involved in the formulation of strategic plans

The firms follow a systematic procedure in the formulation of plans. They follow a top-bottom approach to decision-making. Top management, consisting of the chief executive/general manager and some senior managers of the firm, formulate plans. Plans are then communicated to middle level management who are directly responsible for implementation. For subsidiaries of international firms operating in Ghana,

their strategic plans are formulated by the parent companies in collaboration with the General Manager in-charge of the local subsidiary. In the firms with a board of directors, strategic plans are formulated by the board of directors, often with the chairman of the board heading the strategy formulation team. In firms without such boards, the owner dictates the strategic direction of the firm, and the top- and middle-level management staff do not have much say. Strategic planning is not seen as a total organizational process, but an activity reserved for top management. To ensure effective implementation, the formulation of long-term strategies must involve all parties who have a role to play in the execution of corporate plans.

Conclusion

The study revealed that whereas strategic planning is a common practice with both classes of civil engineering contractors, it is only employed by the highest class (class 1) of building contractors. The technique is virtually unknown among the class 2 building contractors. Firms adopt only a short-term approach to strategic planning (generally 2–3 years), because the high degree of uncertainty associated with the construction industry in Ghana makes longer planning periods unrealistic. The formulation of strategic plans by construction firms is primarily done by top management without the involvement of the middle level management staff who are directly responsible for the implementation of such strategies.

The D₂ class of firms that do not undertake strategic planning belong to the group that is characterized by the absence of proper management structures and qualified personnel. They suffer a general lack of knowledge in strategic planning concepts, procedures and benefits. Firms that do not do strategic planning do not see the need for it. Company registration and classification authorities will therefore have to take steps to ensure that firms engage qualified personnel and employ proper management structures. The D₂ firms stand to benefit greatly from programmes designed to equip prospective managers with the fundamentals of strategic planning.

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