

# **FOSTERING BUSINESS VALUE THROUGH GLOBAL INTEGRATION**

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## **ABSTRACT**

The Global Financial Crisis has revealed major defects in global cooperation, co-ordination and regulation as evidenced by a multitude of failures in risk management across many sectors. Given a backdrop of economic chaos new approaches from governments, corporations and professions are warranted to provide a pathway to stimulate fresh solutions leading to longer-term stability. This paper builds a case for global cooperation and highlights ideas on integration that add value to respective businesses and the profession. The efficiencies gained by the implementation of an integration strategy are identified together with the tactical projects that need to be accomplished to ensure success. A case may be made that cost management professions in a global sense need to develop common cost management methodologies and competencies cooperatively in the spirit of attaining the highest levels of knowledge transfer to professionals nationally, regionally and globally.

Keywords: Cost management, Integration, Competency

## **1. INTRODUCTION**

The Global Economic Crisis has triggered a fundamental review of the world's financial system with respect to roles, responsibilities and regulation in an environment of expansionary monetary policy. Past growth has been triggered by macroeconomic stability, GDP growth, inflation and employment growth. Sustained economic expansion was sustained through monetary policies and free flowing credit. The future looks to be entangled with financial de-leveraging and increased government intervention. Global Coordination has become the catch cry for the G20 even though real commitments are embryonic or non-existent. In a temporal sense the Crisis provides a real opportunity for the Cost Management Professions to provide leadership to the world economic community by developing an exemplary global cooperation and regulatory strategy.

Since its inception in the 90's PAQS has grown and now is an influential global organization with 13 nations making up its cost management forum. It has a large untapped sphere of influence and has a communication brief with other entities such as:

## **2. LITERATURE REVIEW**

CEEC: European Council of Construction Economists<sup>1</sup>

FIG Commission 10 Construction Economics and Management<sup>2</sup>

RICS: The institution of Chartered Surveyors, UK<sup>3</sup>

AAQS - African Association of QS<sup>4</sup>

ICEC: International Cost Engineering Council and the associated AACE International and IcostE UK.

## 2.1 EARLY ATTEMPTS AT MUTUAL RECOGNITION OF COMPETENCIES

In the late nineties the AIQS recognised the importance of competencies as a means of marketing a common skill set in different nations as the profession responded to the international market. Australia was developing a number of free trade agreements in the East and South East Asian regions and establish common standards of practices became increasing more important. The Pacific Association of Quantity Surveyors (PAQS), which has as a major component of its charter the recognition that there is a world market for professional services and employment requiring the mobility of members within this market and particularly the Asia-Pacific region. PAQS was also mindful of the need to enhance their members' existing skills, develop new skills and to encourage high standards of technical and professional conduct.

With this in mind and recognizing the growing needs of international clients in the PAQS region, the minimum level of services and competency clients may expect from professionals who are members of PAQS members needed to be established.

Agreement was reached between the parties that determining the scope, complexity and difficulty of a construction project is fundamental to its operational definition. The quantities of major components and construction materials help determine the scope of the project and its site, as do special services such as environmental impact assessment. Detailed engineering and even site construction (in the case of heavy civil projects) focus scope more clearly, but sound early estimates provide sufficient definition for the timely selection of new and innovative construction methods. It was further agreed that the Cost Manager has a significant and lead role to play in this early part of the process.

It was also further agreed that a fundamental requirement of the professional member is to capture knowledge gained on individual projects. Establishing specific mechanisms for the transfer of information therefore is a high priority. Senior managers can organize meetings to appraise performance (and failure) on a particular project. However, to select a particular innovation or the most appropriate means of transfer requires analysis of the technology itself; its likely application on future projects; existing means of coordination between projects; and its comparative cost advantage. This can only be achieved through the establishment of expert knowledge base shared amongst the profession nationally and internationally.

*The work has been on going and opportunity to move forward presents itself at this important meeting.*

Other professions have advanced the notion of international recognition of qualifications or Mutual Recognition Agreements (MRA). The Engineering community embarked on a number of global cooperation strategies. There are six international engineering agreements governing mutual recognition of engineering qualifications and professional competence.

*The Washington Accord* signed in 1989 recognizes substantial equivalence in the accreditation of qualifications in professional engineering. *The Sydney Accord* recognizes substantial equivalence in the accreditation of qualifications in engineering technology and *The Dublin Accord* is an agreement for substantial equivalence in the accreditation of tertiary qualifications in technician engineering.

The other three agreements cover recognition of equivalence at the practicing engineer level i.e. it is individual people, not qualifications that are seen to meet the benchmark standard. The concept of these agreements is that a person recognized in one country as reaching the agreed international standard of competence should only be minimally assessed (primarily for local knowledge) prior to obtaining registration in another country that is party to the agreement. The APEC Engineer Agreement commenced in 1999 has Government support in the participating APEC economies. The Engineers Mobility Forum Agreement commenced in 2001. The Engineering Technologist Mobility Forum was signed by participating economies/countries in 2003.

### **The Great Debate: MRAs between national bodies help or hinder?**

The world economic crisis has highlighted the need for commonality of professional standards and practice in the international community. The argument that professional service underpinned by education and life long learning is different from country to country can no longer be sustained. As we have seen in the economics and banking communities the principles of practice are, in the main, the same with global agreements rather than specific in country contracts becoming more common and particularly in construction with the continual growth of global clients. MRAs are inevitable as political and economic pressure mounts. Governments are commencing to encourage professional bodies to embark on the development of agreements particularly where trade agreements have been signed. In the foreseeable future a regional trade agreement may be enacted that embraces the professional activities of countries that make up the PAQS so perhaps PAQS needs to be proactive in continuing the process that has already commenced.

## **2.2 THE PROFESSION**

Some Cost Management Professions are currently going through a process of intermediate and long-term strategic planning. Strategic priorities are to “raise the bar” of cost management performance and grow the cost management community internationally. These priorities, along with a number of changes that are occurring in the tertiary education sector (e.g. the emergence of the Bologna Model), have led to fresh thinking in education of cost managers.

In particular, concern has been expressed (or, at least, a lack of clarity) around the capability of existing educational structures to continue to meet the demands of the profession and its stakeholders (e.g. clients and employers). Working together the profession may achieve reliable and objective understanding of:

- The current educational environment and where it is heading (i.e. what we have today and what trends and changes are likely to occur in the future);
- The adequacy of current and likely future educational environments for meeting the demands of the profession; and
- What needs to be done to ensure the adequacy of the educational environment for cost management nationally and internationally both now and into the future.

### **A 2008 Study illustrating the need for common competencies in a global community**

A study undertaken by the Author for the Australian Government Treasury (Dept of Finance and Deregulation) in 2008<sup>5</sup> revealed that whilst the cost management profession has extremely high standards there is case to be made for global cooperation and knowledge exchange.

The research highlighted the high degree of variability in the way budget estimates are prepared both nationally and internationally. In particular the following were evident.

- Disclaimers and exclusions are common practice and often were quite confusing to clients.
- Best practice involves the development of detailed risk management plans that provide a methodology to apportion appropriate contingencies at all phases of the capital works delivery

process however, knowledge in the public domain is limited and vastly different approaches with varying degrees of success were used.

- Risk analysis and contingency setting for intangible endogenous project risks are reasonably sophisticated with supporting tools but knowledge was not consistent across firms.

In addition there was no commonality of approach between individuals and firms with respect the following:

- Monitoring fluctuations in construction output growth and construction inflation often being higher than general inflation;
- Global demands on construction materials;
- Design value considerations e.g. iconic buildings;
- Social community and environmental value considerations;
- Impact of oil price spikes;
- Financial market conditions;
- Beyond project decision making;
- Varying levels of consultant expertise and
- Inadequate allowance for 'design creep' i.e. insufficient design solution to deliver the final product.

As the Global Cost Management Professions address the future agenda individually and severally they will need an extensive knowledge base. They must have a set of developed competencies that are transferable across economies communities and nations,

## **2.3 NEED FOR A GLOBAL KNOWLEDGE BASE**

The Research project referred to above highlighted the need for consistency of approach across the profession in a global community. Competencies varied and often client confidence was undermined by the different approaches to problem resolution offered by different consultants.

Knowledge is the most strategically important and necessary resource for professional members and organizational learning is the most strategically important differentiator for business organizations. Firms are realizing that to remain competitive they must explicitly manage their intellectual resources and capabilities. To this end, progressive companies have initiated a range of knowledge management projects and programs to assist them to develop their capability. The primary focus of these efforts has been on developing a database of best practice projects coupled with information about the industry's performance against moving norms and collective specific industry case studies.

How do we link Knowledge to a global enterprise Strategy?

Every strategic position is linked to some set of intellectual resources and capabilities. The strategic choices that we make regarding technologies, products, services, markets, processes have a profound influence on the knowledge, skills and core competencies required to excel as a profession.

A case may be made for an International Centre for Cost Management (ICCM). A Centre backed by PAQS with international business partners could be a research and innovation centre focused on diffusing new innovative and advanced technologies to the PAQS community. It could also be the hub for information exchange for the Cost management profession. The Constructing Excellence model in the UK is an outstanding example of knowledge exchange for the UK construction Industry. ICCM could be developed into a regional centre focused specifically on Cost Management. The basic model could be similar to Constructing Excellence in terms of knowledge exchange and networking. It could be the

repository for reference class projects where analyses could be diffused amongst member firms and organizations.

## 2.4 IDEAS FOR GLOBAL COOPERATION

Global Cooperation could be the context of the new international centre referred to in the preceding paragraph. The Centre could be the hub for the following global initiatives:

***Common Education Standards need to be agreed nationally and internationally for the cost management professions. Ideally, the commonality will be based on and underpinned by a set of core competencies.***

*The development of a global database of Reference Class Case Studies* is a necessity and this should be shared internationally as the most important information resource for the profession; Reference Class Forecasts made for new projects take a statistical view of any given project. These forecasts are based on a comparison of the Total Budget Costs and Final Outturn Costs derived from a set of similar previous projects.

The comparative advantage of Reference Class Forecasting is most pronounced in non-routine situations, understood as projects that have never been attempted before in that location. It is in the estimating of such novel; local one-off project types that the biases caused by optimism and systemic misrepresentation are likely to be largest.

*Code For Product Classification (CPC)* needs to be developed to improve efficiency of product and process selection to achieve desired project outcomes. The UN Statistic Division Classification Registry does not accommodate Cost management or Cost Engineering. The ISM is providing leadership in this area in developing codes that may be used in Free Trade Agreement negotiations.

*Information search and referral services* for products and technologies often add further value nationally and internationally.

*Collaborative research and technology projects* to address the gaps between technology development and deployment in the cost management community ensuring that the professions are at the cutting edge of technology and knowledge.

*Inter-firm cooperation (networks)* facilitating collaboration to promote technology diffusion. The efforts seek to resolve common problems and share information and learning, achieve scale economies in service provision and technology deployment, and strengthen ongoing business and technology development relationships. Collaborative efforts may be "horizontal" (for example, groups of small firms), "vertical" (suppliers and customers), "sectoral" (firms in the same industry sector) or "lateral" (firms in different industries but with shared interests in a technology).

*Collaborative technology consortia* developing leadership strategies and shared visions, and strengthening links between users, service providers, and complementary public and private clients.

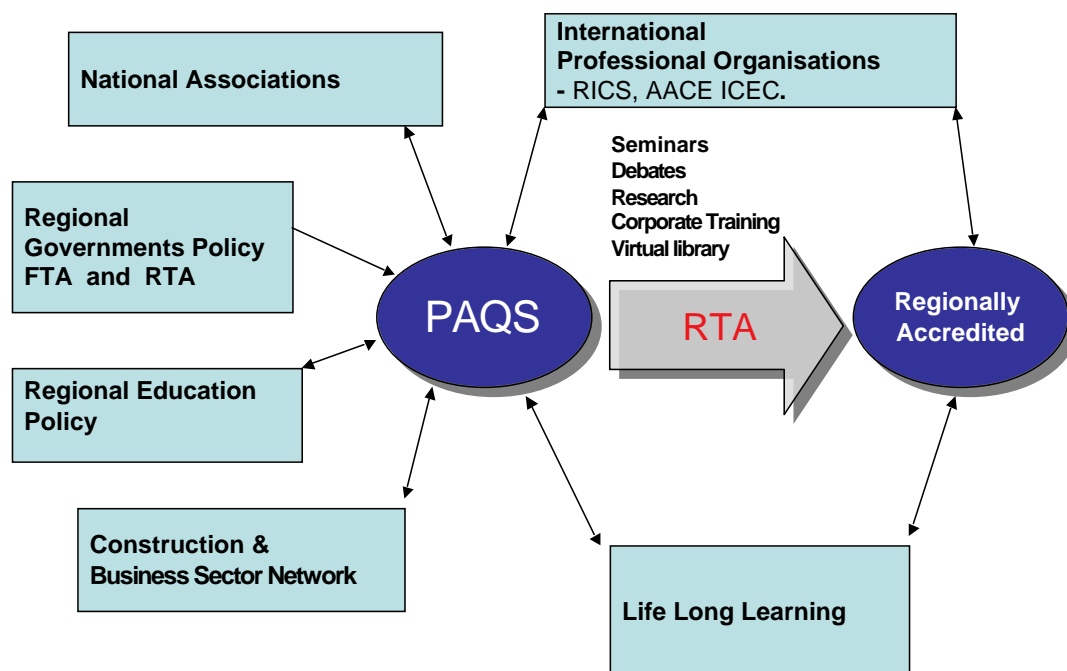
## 3.0 VISIONS AND GOALS FOR GLOBAL INTEGRATION AND COOPERATION

The vision is:

- A unified profession acting nationally and internationally.

- Clarity of education structures and recognition that professional education does not rely on universities alone.
- An extensive national and international database of completed projects.
- More efficient and improved quality of communication
- Improved public image and effective marketing of the profession.
- Identification of capability gaps and
- Creating a matrix organisation structure for the profession internationally and along the lines of the embryonic PAQS organisation. (Figure 1)

## Global Cooperation Model



**Figure 1:** Modelling the Cooperation at the National and Regional Level

#### 4.0 GOALS OF A COOPERATIVE PARTNERSHIP

A partnership organisation structure as set out in Figure 1 for the profession recognises, the real life complexity of our business environment. Geography, function, technology, local business and technology development locally (among others) are important.

In a sense it is a matrix organisation structure for the profession in recognition that we cannot choose which of these professional bodies is more important, so we need a structure that allows them to be balanced and prioritised on a need basis.

What this means is that we choose an organisation structure, with an emphasis on clarity and flexibility. An organisation structure itself, does not attempt to solve anything but indicates the pathway for cooperation.

The goals for the profession through using such a structure include:

- Improved ability to access resources across and national and professional silos.
- Better coordination of the dissemination of technological developments across the profession (improved access to a diverse range of skills and perspectives).
- Improved access to global or regional projects
- Broader and more multiskilled people development internationally
- Increased communication and coordination across the profession and
- Reflects the needs of global or regional customers

## 5. CONCLUSIONS

It is clear that the primary focus of the profession, without exception, is excellence in professional performance. PAQS has succeeded in recent years with a clear and coherent partnership between professional bodies throughout the region. These successes varied from information exchange, to networks, to research considerations. It is also felt that potential breakdown and tension can occur when either partner misunderstands the culture within which the other works in a national and regional sense. These cultural issues often lead to misunderstandings and tensions, which must be recognised and addressed if harmony for mutual benefit is to be achieved.

Problems will arise and these are identified below.

- Incompatible timescales
- Potential lack of respect from both sides
- Ad-hoc (even anecdotal) knowledge development which does not permeate the system or allow the growth of a body of knowledge
- Incompatible goals and expected outputs
- Different styles, language, culture and approach
- Lack of continuity between research projects and confirmation of milestones reached.
- Negative connotations of 'research' within industry and is seen to be outside the innovation process
- Shallow dissemination
- Danger of 'dumbing down' knowledge

### **Strengths in Strong Collaboration**

- Constant search for new ideas/technologies/processes/innovation
- Contract research through universities is relatively cheap
- World leading knowledge in several areas

- Good international networks of knowledge
- Good scholarship based on development of knowledge
- Ability to meet a global research agenda

The surveying professions need to embark on an innovative program of Mutual recognition to fall in line with developing national and regional policies for free exchange of professional services. While multilateral trade negotiations are in progress all over, agreements between groups of nations are developing to free up the portability of professional services incorporating free trade on a regional level. The North American Free Trade Agreement (NAFTA) and the European Union (EU) facilitate portability of professional services whilst still retaining some quality control to protect domestic practice. The boom in RTAs and their increasingly expansive scope spark new debate on the effect of regionalism on multilateral recognition of professional services and we need to respond accordingly.