

FIDIC Management Training for Young Professionals

DRAFT REPORT

Final version to be published by FIDIC in October 2004

The conference planning team of the Management Training Programme for young professionals is honoured to present you our results and findings of the programme.

All participants experienced the seven-month training programme even more interesting and intensive than they assumed prior to its start. The facilitation and guidance by the team of DIEU was essential to reach the previously set goals and we experienced their presence as professional and constructive.

The results consist of the final reports (including one report with Management Summaries) on the 4 cases. The contents are:

Contents

1. Management summaries of cases

2. Cases

- Case I Organization & HR development
- Case II Ownership structures
- Case III Marketing of Consulting Services
- Case IV Development: new technologies, cultural changes and globalization

3. Summaries of discussion topics:

- Cross cultural differences & assist and support by FIDIC
- Overall conclusions and recommendations (in progress);
- A business case on 'the engineering firm of the future' (in progress).

Amersfoort,
8 September 2004

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MANAGEMENT TRAINING PROGRAMME FOR
YOUNG PROFESSIONALS
SUMMARIES ON CASES 1 TO 4

FIDIC 2004

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8 September 2004

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CHAPTER

1

Summary case 1: Organisation & HR development

By: M. Hehenkamp et. Al.

1.1 INTRODUCTION

In this summary the results of the first case study of the FIDIC 2004 Management Training Programme for Young Professionals will be presented. In the period of February 20th and March 26th 2004, participants in the course have given their analysis and vision regarding this subject. In the report, we have summarized the contributions and give a final conclusion. In this summary, we will give the main findings.

1.2 TYPES OF ORGANISATION

1.2.1 TRADITIONAL CONSULTING ORGANISATION

The traditional organisation is a division in different departments i.e. structural, civil, electrical, mechanical etc. and is over time being subdivided into departments each of which by growing reaches higher and higher degree of specialisation. It is nice for the staff to be surrounded by colleagues within the same field, team spirit is easily developed, competition between departments comes by itself, and profit centres are easily defined. When firms grow bigger the traditional organisation model is simply repeated in another town, region or country, as may be.

1.2.2 THE MATRIX ORGANISATION

The matrix organisation is developed to cater for individual projects on the basis of putting all required disciplines together in one group and having this as the operational unit. A broader understanding of different disciplines becomes necessary, and the Project Manager type of generalist is leading development. In the matrix organisation the Project Manager will inevitably focus on his or her project, and expect a marketing department to provide the next project.

1.2.3 THE FLEXIBLE ORGANISATION

The flexible organisation is a future system where staff, resources and information are drawn from all over. The large company structures may still remain on an ownership basis, but operation wise the units will be independent. The quality is more important than the price, and the same applies to the staff. The firm will have its own project and risk management staff; specialist may be recruited on an interim basis, or from sub-consultants.

1.3 PRESENT SITUATION

1.3.1 ORGANISATION OF CONSULTING FIRMS

With regard to the present situation of the different organisations that attend this FIDIC course, it is remarkable to see so many similarities in the organisational structure of the companies. As can be seen from the various descriptions, large companies in engineering consultancy tend to form a mix between traditional, matrix and flexible structures. Either the traditional version is the basis, or the matrix. Flexible organisations are not present as a base yet, but flexibility in assigning staff from public field or other firms within one project is happening.

It can be seen in the descriptions of the various companies, that there is a tendency to be very close to the client. Problems arise with copies of offices when workload is declining and competition within the company starts. Matrix structures would be the answer to this problem, because the default position of this structure is decentralisation. On the other hand, one should only restructure into another form when the market ask for it. Due to the shared responsibilities within a company and the lack of clarity about the respective responsibilities, matrix structures might collapse. In all organisations (traditional, matrix, flexible or virtual) information is a very important factor.

1.3.2 HUMAN RESOURCE DEVELOPMENT

Except for YEC (Korea) all participants have the idea that human resource development is an important factor in maintaining a knowledge base within a company. A company where knowledge is the main product and the organisation is traditionally organised, the knowledge has to be improved, maintained and secured.

Human resources management is taking form in:

- Transferring experience from old to young;
- Providing courses i.e. project management, time management etc;
- Coaching;
- Yearly staff appraisals;
- Setting realistic targets, in consultation with direct manager.

The idea is that increasing loyalty and 'good feeling' of employees within the company, will lead to a higher productivity. Apart from that, knowledge transfer from senior employees to younger ones will keep the knowledge within the company or within the country and is therefore very important. In traditional organisations this is easy to achieve, in matrix it is more difficult to organise and flexible organizations simply assumes that other organizations take care of the human resources development.

1.4 FUTURE SCENARIOS

1.4.1 ORGANIZATION OF CONSULTING FIRMS

The following boundary conditions can be determined:

- Information management and allocation and maintenance of resources;
- Sustainability of the company in the market place;
- The scale of projects carried out.

With the constant advancement in information technology, there are significant opportunities for both small and large companies to have access to information. Proper resource allocation and information management gives an opportunity to establish a level of consistency between each office with respect to quality and

documentation.

Marketing is a critical part in the operation and development of a firm, because engineering and consulting is a people's business. When it comes to business development, large consulting firms have to find new value added markets. An example of this is PPP/PPI projects. Specialized small firms have to focus on R&D investment to maintain their own market share.

Based on sustainability factors, size of projects and information management, it is foreseen that in the future consulting firms will develop into either large multidisciplinary firms (international player, 5,000 + employees) or into small-specialized firms ('lean and mean', occupying niche markets).

Large multidisciplinary engineering firms have the following benefits and drawbacks:

Benefits

- Internal flow on work from other groups;
- The ability to perform large engineering design and construction projects;
- Personnel development (learning) from other group experts;
- The ability to move between offices (relocate but stay with the same company).

Drawbacks

- Not as competitive on smaller scale projects;
- Potentially higher overheads/charge out rates.

Small-specialised engineering have the following benefits and drawbacks:

Benefits

- Competitive on small-mid scale projects;
- Employee promotion may be accelerated;
- Potentially lower overheads/charge out rates.

Drawbacks

- May have limited marketing potential (i.e. only within speciality area).

1.4.2 HUMAN RESOURCES DEVELOPMENT

Future human resources development has to be seen in the light of both resources available and staff allocation. These two boundary conditions determine whether a company has to:

- Invest in training of new personnel;
- Consider a merger with another locally based engineering firm;
- Consider a reorganisation.

As a basis for future human resources development the company must have:

- A reliable base of (older) specialists with wide experience and skills;
- Some young professionals with multidisciplinary skills and project management attitude;
- More young professionals training their experience and skills in a specific branch.

As communication lines are improving and technology is not a real obstruction anymore, future development towards flexible project teams will become more and more a custom. This requires for the employees a flexible attitude. Besides that, the consultant will become, more than he already is, someone with an extensive network.

In general the employee will be satisfied if the following are maintained: adequate workload, enjoyment of the assigned, acceptable remuneration, praise of good work and the ability to grow professionally within the

organisation. For monitoring these aspects yearly staff appraisals have to be performed where also staff development issues has to be discussed.

1.5 VIRTUAL ORGANIZATION

One of the questions asked is: Is a virtual organisation at all a realistic scenario? All the participants in the course are sceptical towards the scenario where all communication runs via high-tech channels. Some participants feel that in the future a virtual organisation can be possible in the IT industry or in higher levels of the consulting industry. If, however, the word 'virtual' is explained in a way where an organisation functions as a flexible organisation with project managers on the payroll having a database with CV's of specialists, we think that this might work.

CHAPTER 2

Summary case 2: Ownership structures

By: T. Franke; S. Skov; L. Rieman.

This summary is a short abstract of the comprehensive report of the results of Case 2 from the “Management Training Programme for Young Professionals”.

The case study deals with different ownership structures in different consulting firms in various countries. Shareholding structures are categorized in, (i) Shares are held by management and key staff and “sold” internally only based on an internally assessed value, (ii) Shares are held by a foundation linked to the company and with its main purpose of supporting the company’s activities, (iii) Shares are held by institutional investors and (iv) Shares are quoted on the stock exchange.

Advantages and disadvantages of the mentioned models were discussed and are itemized in the report. The internal shareholding (1) for example makes it difficult to raise capital for expansion. The foundation ownership (2) maintains the independence of a company. On the other hand it makes it difficult to raise capital for expansion and acquisition. For Institutional investors (3) it’s fairly easy to provide additional investments. A disadvantage is that institutional investors in principle dislike shares that are not easy to dispose of, and therefore will have as a future aim to float the shares on the stock exchange with all the inconveniences this entails. To be quoted at the stock exchange (4) entails that the value of the shares is known at any time and buying and selling shares is easy. It is also easy to raise capital for expansion and acquisition.

Looking back in time, most companies -some of them are more than 100 years old- are started as small businesses with one or a few owners namely the founders. The companies that exist today are the result of these companies growing either organically or with means of acquisition.

It’s been elaborated that the development of ownership structures depends on the size of a consulting firm and that there are differences between countries. Independent from the ownership structure the country or size of the company, the most important issues to secure the survival of a company is the investment in skills and technologies. Both single freelancer and large stock exchange listed companies have to invest and reinvest in developing skills. Especially in the consulting business, which is a people based business and therefore can’t be compared with other industries like manufacturing industry, the developing of skills and promoting the staff, which is an essential asset, is a crucial and very important point to survive in the market as a company.

An elaborately discussion considering pros and cons lends to the following conclusion considering a 3-400 employee company as an example: If the strategy is to grow into one that is much larger, an ownership structure with a separation of investors and management is the best way to run a company.

CHAPTER

3

Summary of Case 3: Marketing of consulting services

By: Y. Kim

Consultancy is a people's business and increasingly in connection with marketing. Human relationships and ability of communication through human resource management is a critical part of any problem solving. The marketing of consulting business therefore is focused on human relationships.

Marketing is a direct activity to provide services and a tool to maintain and expand a company. Branding is an asset and image for a company's quality developed for long-term. Furthermore the "Name Value" by successful branding has two major benefits (1) to take a price premium and (2) to recruit competent staffs. Firms must consider the inter-relationships among sales, marketing, and branding to ensure a successful business.

It is important to establish a "trusted relationship" between clients and consulting firms. The main marketing body of consulting services is not a specific marketing department, but all the company's staff. The firms have to maintain reliability and friendly relationship with past and potential clients.

Triple bottom line (financial, environmental and social accounts) marketing is no doubt one of the important factors for marketing, but marketing strategy is generally focused on project and technology-based marketing. If project and technology based marketing is successful then a company's reputation and 'brand' benefits. This in turn feeds and aides successful triple bottom line marketing. Project and technology based marketing, generally, is used to secure further workload.

On account of the delivery structure of consulting business, most of the countries have a similar way of the marketing activities.

- § The Forum has proposed a prioritised activity list for the marketing, which is available for medium sized, and multidisciplinary consulting firms.
- § Corporate philosophy (vision and marketing strategy);
- § Branding instantly recognisable logo, words, picture;
- § Definition of business portfolio;
- § Marketing procedures;
- § Marketing education for all staffs;
- § Marketing brochures and new letters;
- § Web based marketing;
- § Profile of the practise;
- § Articles in magazines;
- § Client marketing phone calls and meetings;
- § Sending company capability statements to prospective clients;

- § Developing a company brochure, key project summary details and technical statements as required, and;
- § Presenting technical papers at selected conferences

Besides, the proposed global branding for the hypothetical consulting firm is:

One World - One Company

It is envisaged with the above proposed branding, for clients to develop the idea that the consulting engineering firm is the only company in the world to engage

CHAPTER

4

Summary of Case 4: new technologies, cultural changes and globalisation

By: M. van Dongen

In this case we discussed four points of interest:

- Constraints and opportunities
- Managing the (a) change process
- Globalisation
- What do we aspect from FIDIC

In contrast with the other cases we also got a little insight in the constraints and opportunities of an Afri-can country: Tanzania. This gave opportunities and us a total different view on our "western" constraints.

4.1 CONSTRAINTS AND OPPORTUNITIES

One thing we agreed on was that constraints can be opportunities and vice versa. A company who can turn a constraint into a opportunity will be successful. We also learned that constraints can be internal or external as can opportunities. An internal constraint is for example the organization structure of a company. Especially the constraints were surprisingly the same in most of the western countries.

Constraints:

- § Contract conditions Bad or nonsensical contract conditions are of all countries. Legal issues relating to professional indemnity, liability (Especially the demand of clients for unlimited liability);
- § Price undercutting In all countries price undercutting is seen as a negative constrain. Price undercutting does not com-ply with an increasing demand of professional quality and liability;
- § Organization structure of engineering firm and client. Constraints can be found in the way current organizations are set up: traditional organizations are steady, but slow organizations. Ability to change rapidly is an important factor in development; the organizational structure can thus be a constraint. Constraints can also be found in the way clients are organized and the way in which they split up different major strategic projects into oven-ready partial and simple projects. This takes away possibilities for experimentation and keeps both organizations in a tight grasp: a standstill.
- § Country specific
 - The Netherlands:
The fraud of construction companies in the Netherlands and the reaction on this of the public organizations.
 - Tanzania:

- Having a policy of zero participation in corruption.
- The AIDS crisis.
- Italy

In Italy since 1994 there is a new public works regulation (based on professional experiences, skills and CV of consultants) that requires mid-sized or big engineering organization (companies or temporary associations of companies and freelancers architects and engineers) to have the possibility to award some public projects.

Opportunities

- New markets
 - Identification of new and upcoming markets and trying to move into them
 - Breaking into markets of up coming countries or parts of the world (and deal with the cultural differences):
 - Asia
 - Eastern Europe

- Italy

From all western countries the Italian engineering market is a special one. In this country a big change is going on. The actual Italian situation of freelancers and little firms won't last much longer. The future is getting together and starting new firms that will grow with the passing of time. International companies and investors (often from USA, but also from England and Asia) are opening offices in Italy. The most promising opportunities for engineering services in Italy is the opportunity to work and grow with them.

- Tanzania
 - Stable political situations with emphasis on continued privatization
 - Decentralization of key donor's procurement of services
 - Increased numbers of well educated local professionals

4.2 MANAGING THE CHANGE PROCESS

Managing a change process is complex. A couple of things we all agreed on:

- Companies have to change to develop;
- Companies have to follow the market to survive;
- A successful change is only possible when the staff takes part in the change process;
- Communication and Transparency are the key words.

One of the most important changes consulting engineers have to go through is the change from project designer to a provider of solutions. This change of scope of the consulting engineering market demand more and more engineers with a broad view, being able to look over the borders of their natural technological habitat. They also need to be able to sense the customer's desire to get a full solution instead of a technological service, and need to be able to respond to this desire in an appropriate way. For some engineers working in a traditional type of company, this change of mentality will be hard to achieve.

The statement of change

It's funny to see that most of the engineering companies are able to design communications processes for, say, a community with a future railway line, but are not able to communicate behind their own doors!

4.3 GLOBALISATION

The debate in the Forum on the issue of globalization was centered on the following topics:

- Globalisation versus Internationalisation

- Globalization versus Continentalization

Globalization versus Internationalization

It was the general opinion that there should be made a clear distinction between Globalization and International work. The opportunity of working internationally is very real but whether this can be transformed into becoming globalized would appear to be a much larger task.

International work was used as term for consultants winning jobs abroad from their home country and carrying out the assignments by going abroad for the duration of the projects. Internalization and subsequently globalization were terms used for further steps towards international integration.

Tree models were introduced:

- Internationalizing by moving (parts of) complementary competences
- Internationalizing by copying (parts of) national competences
- Globalization by synergy between international competences

The statement of globalization

" I think globalization is the free (not for free...) exchange of knowledge between countries or (if you like) area's in the world. So not only selling YOUR knowledge in other countries but also use THEIR knowledge somewhere else (or within the country). This knowledge exchange can be within one company, but also between companies (cooperation)"

Globalisation versus Continentalization

In the Forum the issue of "limited" globalization in the form of globalizing into chosen geographical segments was debated. The term "continentalization" was introduced as a label to the idea of expanding to geographical markets relatively close to home base with respect to culture as well as distance. It was generally accepted that this could be an intermediate step between internalization and globalization.

4.4 ASSIST AND SUPPORT BY FIDIC

This part introduces the ideas and discussions in the forum on "How FIDIC can assist to support the above discussed subjects".

FIDIC – The common address for gathering and communication

The major stress is on the proposed merging and unifying role and function of FIDIC, where companies and professionals can have the chance to find a common platform to meet each other and consequently exchange ideas and investigate the opportunities to make cooperation. This is found to be most important function for FIDIC for companies seeking to develop their business and act more internationally (and therefore globally).

Professionals agree that in order to develop their business and have the ability to act globally, they need to communicate and exchange ideas. It is suggested that FIDIC be the basis for this, as the professionals and companies would have a wider opportunity of whom to contact and/or cooperate with. From the ideas given, it can be concluded that, professionals are in the need for a common platform for gathering for the above.

Ways in which FIDIC can assist to support such development is by:

- Providing a forum in which member companies can exchange and share experiences and knowledge.
- Providing updates on relevant company issues such as professional indemnity, litigation etc. In most instances the understanding and implications of these issues are becoming more important to the survival of engineering companies.
- Advice on opportunities in foreign markets and how to approach these markets.

FIDIC can provide:

- FIDIC as an organization should be the platform for the companies to gather and communicate;
- Insight in the changing world(s)
- Insight in the changing clients
- Insight in the changing markets
- A mirror for its current member engineering companies
- FIDIC can help further develop contract management, essential for tomorrow's demands.

It is an idea that:

FIDIC facilitates a platform where we (and others) exchange information about projects in our country or part of the world. Especially information about the knowledge we need to do the project. Maybe this kind of information exchange will result in new partnerships between engineering firms all over the world; on project base in a tender or even structural.

FIDIC assistance to reduce technical trade blocks

FIDIC should have a long-term ambition of reducing technical trade blocks in the form of country specific (and non theoretically backed) regulations and codes and work for an international acknowledged engineering registration, like FEANIs European Engineer.

FIDIC 2004 Management Training Programme for Young Professionals

Results of Case 1: Organisation and Human Resources Development

Draft

FIDIC

Grontmij Advies & Techniek bv
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1 Introduction

1.1 General

In this report the results of the first case study of the FIDIC 2004 Management Training Programme for Young Professionals will be presented. The first case study is about Organisation and Human Resources Development.

In the period of February 20th and March 26th 2004, participants in the course have given their analysis and vision regarding this subject. In this report, we have summarized the contributions and give a final conclusion.

1.2 Analyses

Regarding the subject of Organisation and Human Resources Development several questions arise:

- What is the present situation in consulting firms and what are the strong and weak sides of this?
- How can one see the future development of consulting firms, small specialised, large multidisciplinary, large specialised or ? Which benefits and drawbacks can be noted?
- What is the present situation as regards human resources development and what will be some future scenarios?
- How is all of this seen from an employee's point of view?
- What would be seen as an attractive employment as regards staff development?
- Is a virtual organisation at all a realistic future scenario?
- Can one think of a general guideline for developing organisation and human resources?

In chapter 2 the most likely types of organisation of consulting firms are described. In chapter 3 the present situation regarding organisation and human resources will be analyzed, and in chapter 4 some possible future scenarios.

Chapter 5 will be an evaluation of the findings of this case study.

2 Types of organisation

2.1 The traditional consulting organisation

Consulting organisations are traditionally based on engineering disciplines. The growth of the organisation or firm – as it may over time become – will therefore often be based on this structure. The traditional division in structural, civil, electrical, mechanical etc. is over time being subdivided into departments each of which by growing reaches higher and higher degree of specialisation.

The structure is logical and forms a good basis for developing the firm's expertise. It is nice for the staff to be surrounded by colleagues within the same field, team spirit is easily developed, competition between departments comes by itself, profit centres are easily defined. For any given project each department will contribute their part within their fixed limits.

When firms grow bigger the traditional organisation model is simply repeated in another town, region or country, as may be. In this process the organisation is losing some of the good reasons for specialising in individual units, as speciality are now being duplicated in different towns, regions or countries. The individual unit is not getting any more capable by having a sister nearby.

2.2 The matrix organisation

The matrix organisation is developed to cater for individual projects on the basis of putting all required disciplines together in one group and having this as the operational unit. The individual project becomes the focal point and the profit centre. The staff develops loyalty to their project and the firm as such rather than to their individual department. A broader understanding of different disciplines becomes necessary, and the Project Manager type of generalist is leading development. The matrix organisation is serviced by expertise centres, which means that individual disciplines are not necessarily duplicated in each and every subsidiary. Co-operation takes place on a broader scale with built-in conflicts related to human resources development, profit centre criteria and marketing.

The traditional organisation would survive if each department could do its own marketing, staff development and contribute nicely to the bottom line. In the matrix organisation the Project Manager will inevitably focus on his or her project, and expect a marketing department to provide the next project. Staff training and cutting-edge expertise is also seen as somebody else's problem. Inter company charges for staff and other services will be required, and competing profit centres may arise. In theory a higher degree of efficiency should be obtainable in a matrix based organisation. On the other hand internal competition may well jeopardise that.

2.3 The flexible organisation

The flexible organisation is a future system where staff, resources and information are drawn from all over. The large company structures may still remain on an ownership basis, but operation wise the units will be independent. Companies specialising in delivery of certain projects, may not have an expert pool of their own for these; but they know where to get the resources, how to manage the process and how to control the risks.

Routine work will be performed by small firms, where the costs are low, because this type of standard services will generally be contracted based on price competition.

Complex tasks are undertaken by larger firms on OBS basis. The quality is more important than the price, and the same applies to the staff. The firm will have its own project and risk management staff, specialist may be recruited on an interim basis, or from sub-consultants. Agency staff or free-lance consultants will be required because most firms cannot afford to employ on a permanent basis the cutting-edge specialists required by the clients.

Developing own human resources is only undertaken to a limited extent as it is faster and cheaper to employ free-agents with the required skills and know-how.

3 Present situation

3.1 Organisation of consulting firms

Within this survey, employees from varying countries are participating. In order to determine a proper organisational structure and an optimized human resources development vision, the present situation in the various countries is assessed.

3.1.1 The Netherlands

In this FIDIC course, four participants are of Dutch origin, working in three different companies. Two companies are quite alike in size and structure, whereas the third is smaller. All three work in almost the same line of work: consultancy on infrastructure, environmental, water (management and treatment), buildings, communications etc.

Arcadis, with a total employee number of 8500 is the biggest of the three. This is an international company with sub-companies in different countries. In the Netherlands, the division used to have a matrix structure, but switched to a traditional structure in 2001. It has a central office, and some regional offices. Although organised in a traditional way, regional offices and big projects are manned by employees from different expertise and put together physically, thus creating a matrix structure.

Advantages:

- Specialists' knowledge is secured (by traditional (central) structure)
- Due to staff personnel being responsible for marketing and acquisitions, work load is secured
- A clear picture for the client

Disadvantages

- Multi disciplinary assignments are hard to control
- Interdivisional billing for projects takes up a lot of energy (inter division competition?)
- Difficult to reach a high level of flexibility in tendering procedures at multidisciplinary projects

Grontmij, the second in line as it comes to the amount of employees (4000) is also traditionally organised. With divisions in every province, the philosophy is to be close to the client. Each office has specific knowledge and skills units at the lowest layer. Each but one. One is organised in a matrix organisation, due to the specific situation in that province regarding contracting services (golf courses / construction of houses).

In the rest of the company, matrix organisations arise in contracting business as well. Big projects tend to become an organisation on itself.

Advantage of geographical organisation:

- Close to customer
- Knowledge and skills at lowest structure (HR development)

Disadvantage

- Time consuming ad hoc project group formation
- Geographical organisation: cannot prevent double work on knowledge building
- Competition between sister departments (when workload is declining)

Flexible organisation works on project basis, with people you do not employ or do not want to invest in. CAD drawers (quick in adapting) might be an example of fields the company does not possess but necessary in certain projects (economy specialists in large (international) projects).

Grontmij sees a shift in selling 'hours' or 'project-parts' towards presenting solutions for entire projects / problems (i.e. PPP).

Witteveen+Bos employs 680 employees. Their organisation is a mix between traditional, matrix and flexible organisation. The company consists of 17 product market combinations (PMC). The head office is responsible for line management and finance management whereas the regional offices exist to be close to the customer.

Strengths:

- No competition between local offices
- Less staff (local office has only one office manager and nothing else)
- When market declines in a certain region, the PMC moves to another

Weakness:

- Pulling back PMC is not good for structural basis in regional market
- Employees in regions have no proper communication lines with head office

In the above strengths and weakness points, it is marked that the flexibility of being able to pull back PMC's is both an advantage and a disadvantage.

Witteveen+Bos does not have all the capacity in-house. When certain capacity is needed, they cooperate with others. In that way, they operate as a flexible organisation.

3.1.2 Italy

The Italy section is represented by Michele's company (together with his father) and PRAS.

Michele's company is a small firm, traditionally organised. The advantages of this are:

- Lower costs (small overhead)
- Nearness to consultant
- Flexible in time management

Disadvantages:

- When recruited in a big project, not involved in the whole process (although this might not be a disadvantage for everyone)

PRAS is an architecture company that employs 35 professional employees. The organisation is a mix between the traditional and matrix organisation. The company started traditional (with three partners) and later shifted to matrix. Their experience is that the best results are performed by multi-discipline groups, providing proper project management. Their company is an architecture company and considered large due to 'architecture' being a profession linked to a person, not a company.

Advantages:

- Well coordinated work and design for whole project
- Easier project management
- Easier operating contact with client
- Lower costs and faster work

Disadvantages:

- Need for professionals with multidisciplinary skills and large experience
- Difficult to improve and maintain highly specialised skills in each branch

3.1.3 Australia

Two companies from Australia join this course. Norman Disney & Young (NDY) is a building services consultancy firm located in the major states around Australia and New Zealand. United Resources Services (URS) has headquarters in San Francisco, but has also an office in Brisbane. URS operates in a broad field, comparable with the Dutch firms, varying from planning, engineering and architectural design to water(treatment) and petrochemical projects.

NDY, has around 500 people, with 80 people in Sydney. Their company is matrix organised:

- Promotes interaction between teams
- With small teams and a resource manager it is possible to keep good track of work load and resources

The way a company is organised is generally in response to its needs, numbers of employees and work base. In order to properly organise this, the company needs:

- Constant communication between employers / employees
- Feedback on workload / commitments (information)

URS, is a huge international company, although Brisbane employs 50 people. As their work field is comparable to the Dutch companies, so is their structure, which is traditional in general, but matrix for larger projects.

Advantages:

- Uniformity of the organisational structure
- Ability to draw on internal expertise
- Productivity and profitability can be clearly defined

Disadvantages

- Team-spirit for being one company maybe lost due to competitive nature of local offices

3.1.4 Korea

Yooshin Engineering Cooperation (YEC) employs 1300 engineers and 200 registered professional engineers. Design and construction of long spanned bridges (speciality) and infrastructural works (railway) are considered their most important fields of work. The organisational structure is defined as a composite organisation, which means a mix of matrix and functional, where matrix organisations are especially used in turn-key projects.

3.1.5 Denmark

COWI is a company with 3400 employees of which 2000 work within Denmark. Their divisions vary from 'Developing Planning' and 'Economics and Management' to 'Water and Environment' and 'Industry and Energy'. The organisation is a matrix organisation, where divisions have business units and projects on two main axes.

Due to the geographical spread location of their divisions, the employees operate close to the local market. They have the same cost price in between divisions and charge an internal overhead for export staff.

Within their matrix organisation, versions of a flexible organisation come up when foreign projects are executed, financed by donor organisations and partly staffed by external professionals (freelances or employees from public sector).

3.2 Human resources development

Human resource development is an important factor in maintaining a knowledge base within a company, is the overall idea of the participants. Only YEC (Korea) says they are not investing in human resource development, which has a relation with present Korean economical condition. They simply are not recruiting fresh engineers. This results however in low loyalty, which results in increasing overhead and inevitably losing of competitiveness.

The companies of the other countries say to invest in human resources. This is important in order to maintain the level of knowledge in the company, and thus the level of competition towards others.

Human resources management is taking form in:

- Transferring experience from old to young
- Providing courses i.e. project management, time management etc.
- Coaching
- Yearly staff appraisals
- Setting realistic targets, in consultation with direct manager

All the above mentioned points are important in order to keep the employees motivated and loyal. This will ultimately result in an improved work attitude which then results in higher productivity. This is of course a theory, especially formed in times when economy is flourishing. Still, in a company where knowledge is the main product and the organisation is traditionally organised, the knowledge has to be improved, maintained and secured.

4 Future scenarios

4.1 Organisation of consulting firms

4.1.1 General

In this paragraph the future development of consulting firms will be explored. There will be two key factors in the analysis: size and specialisation. These two factors give four possibilities for future development: small and specialized, large and multidisciplinary, small and multidisciplinary and large and specialized.

4.1.2 Boundary conditions

Boundary conditions that determine the future development are:

1. *Information management and allocation and maintenance of resources*

With the constant advancement in information technology, there are significant opportunities for both small and large companies to have access to information. The company does no longer have to be large or multi-national in order to gain access to information. Via the tools of email, internet and teleconferencing, different offices of a company or even different companies can get together to share and exchange ideas. Another opportunity for both small and large companies is to completely outsource their low-value work to sub-consultants, i.e. from developing countries.

For smaller companies in particular advances in information technology provides them opportunities to sub-consult their specialities to other firms. Vice versa they can call on other specialists to assist them in their projects. Discussions can be undertaken via video or voice teleconferencing. It provides opportunities for companies to expand their work base into areas they would not normally seek.

For larger companies with multiple offices, whilst they may operate under one company umbrella, in most instances each office operates in a slightly different manner. This also depends if the various offices of a company are wholly owned by a group of directors or whether each office is a franchise. Proper resource allocation and information management gives an opportunity to establish a level of consistency between each office with respect to quality and documentation.

Similar to the idea for smaller companies, larger companies can use resources such as a company intranet to source questions and ideas from other colleagues located locally or within other offices. An example of this is using a referee system where certain individuals are allocated as specialists in a field and all employees are able to send them questions or queries if they have a particular technical question. A referee system also gives an opportunity to prevent competition that arises between different specialized branches of one multidisciplinary company when being involved in a large project.

2. Sustainability of the company in the market place

Regarding sustainability of the company in the market some trivial key factors can be listed: profitability of the company, marketing, identifying opportunities, business development, improving client management (i.e. facilitating client feedback on performance to enable continuous improvement). Marketing is a critical part in the operation and development of a firm, because engineering and consulting is a people's business. When it comes to business development, large consulting firms have to find new value added markets. An example of this is PPP/PPI projects. Specialized small firms have to focus on R&D investment to maintain their own market share.

3. The scale of projects carried out

In general it is seen that only large companies can carry out large projects and small companies can only carry out small projects. Development of project management skills is key when it comes to the possibility for large companies to perform small and mid-scale projects and for small companies to perform mid-scale or large projects.

A group of small companies may form a temporary organisation that carries out a large project. In this case, project management becomes an even more crucial part, since conflicts among the various specialized firms are not managed by a board of directors.

4.1.3 Conclusion

Based on sustainability factors, size of projects and information management, it is foreseen that in the future consulting firms will develop into either large multidisciplinary firms (international player, 5,000 + employees) or into small specialized firms ('lean and mean', occupying niche markets).

Large multidisciplinary engineering firms have the following benefits and drawbacks:

Benefits

- Internal flow on work from other groups;
- The ability to perform large engineering design and construction projects (internally);
- Personnel development (learning) from other group experts;
- The ability to move between offices (relocate but stay with the same company).

Drawbacks

- Not as competitive on smaller scale projects;
- Potentially higher overheads/charge out rates.

For small specialised engineering firms the following benefits and drawbacks can be noted:

Benefits

- Competitive on small-mid scale projects;
- Employee promotion may be accelerated;
- Potentially lower overheads/charge out rates.

Drawbacks

- May have limited marketing potential (i.e. only within speciality area);

Project management and networking skills are key factors when it comes to the possibility for small companies to carry out mid-scale and large projects.

4.2 Human resources development

When it comes to human resources development and future scenarios, some aspects have to be considered. The background for these aspects is formed by the idea that 'the consulting profession is a specialized field and the success of many companies is based on their market perception and on how they deliver their product, be it quality, quick response or consistent approach. In such a specialized field there will always be a fine line with respect to resources (available) and staff allocation'.

So, future human resources development has to be seen in the light of both resources available and staff allocation. These two boundary conditions determine whether a company has to:

- invest in training of new personnel. One has to consider that training costs money and time and if the company is unable to sustain the workload it means that after a while that person may become redundant. It is therefore difficult to simply decide to get more people on board when there is an increase in workload;
- consider a merger with another locally based engineering firm to develop its potential;
- consider a reorganisation. A negative side effect of this can be that some of your employees will leave unwantedly (including employees with contracts for an indefinite period), so a lot of knowledge can be lost.

Whether or not a company is expanding or decreasing, as a basis for future human resources development the company must have:

1. a reliable base of (older) specialists with wide experience and skills;
2. some young professionals with multidisciplinary skills and project management attitude;
3. more young professionals training their experience and skills in a specific branch.

From these last two groups the general management has to select future key employees for specific branches and / or for project management.

"Managing a medium or big firm is quite similar to managing a soccer team. You may have the best management and the best trainers, but the players play the matches and win the competitions."

The above sentence is a quote from the view of Marco Fantozzi. Soccer is also quoted in relation to a matrix organisation and the improved version of it. See "Exhibit 2" in Structured Networks. [Goold, Campbell, 2003]

As communication lines are improving and technology is not a real obstruction anymore, future development towards flexible project teams will become more and more a custom. This was already seen by Michael Brooke. [Brooke, 1979] His vision in the early days of advanced communication, he noted that multinationals could operate with local offices, clearly to provide them with information. In the 21st century, communication and access to information is not a problem anymore, thus giving also relatively small companies the chance to expand abroad. Flexible project teams will be further explored.

This requires for the employees a flexible attitude. Besides that, the consultant will become, more than he already is, someone with an extensive network.

5 Evaluation

5.1 Reflections on the organisational structure

It is remarkable to see so many similarities in the organisational structure of the companies. As can be seen from the various descriptions, large companies in engineering consultancy tend to form a mix between traditional, matrix and flexible structures. Either the traditional version is the basis, or the matrix. Matrix structures usually do very well in big projects, with multidiscipline staff and a long term range of the project (i.e. turn-key assignments). Flexible organisations are not present as a base yet, but flexibility in assigning staff from public field or other firms within one project is happening, as can be seen from COWI, Grontmij and other.

It can be seen in the descriptions of the various companies, that there is a tendency to be very close to the client. Small companies are close to a client by default. Large companies want to spread its tentacles to other geographical areas, and usually doing this by starting another branch. Problems arise with copies of offices when workload is declining and competition within the company starts. Probably, too many people have been recruited. This is always a neat balance between workload and growth of the company.

Matrix structures would be the answer to this problem, because the default position of this structure is decentralisation. Virtues of a matrix structure can be described as ways to create a balance between global product groups and national operating companies.

Although a matrix structure is not always beatific, it is another approach of the market. And there is the main focal point: one should only restructure into another form when the market ask for it. Due to the shared responsibilities within a company and the lack of clarity about the respective responsibilities, matrix structures might collapse. [Goold, Campbell, 2003]

Another issue is that a matrix structure may require a lot of relocation of personnel. Some individuals may have difficulty coping with these activities. [Merwe, 2003]

In all organisations (traditional, matrix, flexible or virtual) information is a very important factor. With clear responsibilities for managers and motivated and educated personnel, every form of organisation might work. Just as long as these conditions are present. As this is not always the case, organisations are always in motion.

5.2 Reflections on human resources development

Why does a consulting firm have to invest in human resources development? The idea is that increasing loyalty and 'good feeling' of employees within the company, will lead to a higher productivity. Tools for this are coaching, productivity monitors and yearly target setting discussions with i.e. a team leader. This will raise the ability to grow professionally, create abilities to the adjust workload and to be able to appraise executed 'good work'.

Besides the constant development of the already contracted personnel, a company has to invest in its new employees. The focus should be on:

- Knowledge transfer from senior employees to younger ones (this will keep the knowledge within the company or within the country);
- Identification that selling knowledge is the core business of the company. In order to do so, young employees must get experience in executing work in a smaller time period, thus being more profitable. This has to be in balance with his salary, of course.

The marks above have to be seen in the light of the traditional organisation. Matrix and flexible organisations do not want to invest in human resources development (in theory). We want to stress that, in a broader context like on a national level, there must be companies that invest in human resources development. 'Oldies' must transfer their skills and experience to the 'young'. In a traditionally organised firm, this can easily be achieved. In a matrix, this is more difficult, but not impossible. In a flexible organisation, apparently, one assumes that an entirely different organisation or pool of experts takes care of human resources development. This will inevitably mean that a country with only flexible organisations will not survive.

5.3 General guideline

Having an organisational structure allows the employee to see where they fit into the firm's hierarchy, lines of communication etc. In general the employee will be satisfied if the following are maintained:

- Adequate workload. An important thing is that both employers and employees have to provide feedback as to their level of workload;
- Enjoyment of the assigned tasks and the organisational structure the employee is fitted into. Especially within the consulting profession, people enjoy the challenges of new tasks or projects. If this criterion is violated, or if the organisational structure doesn't fit the employee (i.e. after a reorganisation), the employee can become unmotivated;
- Acceptable remuneration;
- Employer or client acknowledged praise of good work;
- Ability to grow professionally within the organisation.

For monitoring these aspects yearly staff appraisals have to be performed in which the employee's prior year performance is reviewed and targets are set (technical leaning, chargeable hours, business development and marketing targets) for the forthcoming year. Staff development issues have to be discussed within the yearly staff appraisals and on a regular basis with the employee's group leader / office manager.

It is considered that an attractive employment with respect to staff development would consist of setting realistic staff development targets that the employee can meet and promotion of the employee if the targets were achieved.

5.4 Virtual organisation

One of the questions asked is: Is a virtual organisation at all a realistic scenario? The problem with this question is that the word 'virtual' can be explained in various ways. Reading the material of the participants, everybody felt that a virtual organisation is an organisation in which all communication runs via high-tech channels (Tele-conferencing, internet, e-mail, etc.) and that no face-to-face contact is taking place.

All the participants in the course are sceptical towards this scenario. The main comment is that consulting business is a people's business. Face to face contact is a very important factor in it, since it comes to building mutual trust and respect.

Some participants feel that in the future a virtual organisation can be possible in the IT industry or in higher levels of the consulting industry.

If, however, the word 'virtual' is explained in a way where an organisation functions as a flexible organisation with project managers on the payroll having a database with CV's of specialists, we think that this might work. This form of organisation already exists on an ad hoc basis in large companies. And even some small companies with good contacts exist. Networking is key, these days.

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FIDIC 2004 Management Training Programme for Young Professionals

Results of Case 2: Ownership Structures

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1. Introduction

1.1 General

This on hand report is a result of the discussion and contribution in cases study 2 among the participants of the FIDIC Young Professional Management Training. This case study deals with different ownership structures in different consulting firms in various countries.

1.2 Background

The main assets of a consulting firm used to be the staff, and consequently the key staff was also in some way considered the owners of the consultancy. For practical reasons, decision making and legal formalities it became necessary to define a form of leadership, which became the “Partner” concept of ownership. Over time “Partner” status was something that leading staff members earned through their employment as an addition to their income. Remaining staff members became employees with a more or less fixed salary and the whole legal protection accorded to employees. Partners, on the other hand, became financially responsible for the firm’s activities and their personal wealth was inseparable from the financial assets of the company. This is still the situation in many places.

It was considered rather suspicious when the first consulting firms established themselves as shareholding companies, because the essence of a shareholding company is a limitation of financial responsibility, and consultants were not meant to shy away from the full responsibility for their activities.

The main reasons for establishing a shareholding company were:

- Limiting the financial exposure of the Partners
- Enabling the “partnership” to be capitalised by making it possible to sell the shares of a retiring Partner to new Partners
- Enabling the transfer of ownership to company foundations and thereby protecting the independence of the business from outside financial interests

1.3 The present situation

Partnerships still occur in some countries and for small firms, however, shareholding structures of different forms are being used in most places for the very reasons outlined above. The assets of firms today are not only their staff but in as much their name or “brand” and their track record. Companies invest in buildings, office and other equipment, computers, cars and much more. The capital invested per staff member is growing and growth through acquisition involving payment for good-will requires increased financial strength.

1.4 Analysis

According to the below mentioned questions the discussion has been conducted and each participant of the course have had the opportunity to contribute:

- Assess the development in your country as regards ownership structure in consulting firms of varying size
- Discuss the key problems seen from a staff and management point of view.
- Is a substantial management and key staff ownership a condition for successful development of a consulting business?
- Should employee shares be purchased at “market” price or should they be used as bonus given on top of a “competitive” salary.
- Is the inherent necessity for developing skills and technology compatible with the requirements for a commercial return on investments from professional investors or the stock market?
- In case key staff is not “tied” to the company through shareholding, do you need other contractual ties in order to safeguard the know-how of the company?
- Develop the future ideal ownership model for a medium to large sized company, say 3-400 staff considering the need to maintain your key staff, develop your technologies and expand the company either through organic growth or through merger/acquisition.

2. Types of Ownership Structures

2.1 Different shareholding structures

Shareholding structures fall in four main categories:

1. Shares are held by management and key staff and “sold” internally only based on an internally assessed value
2. Shares are held by a foundation linked to the company and with its main purpose of supporting the company’s activities
3. Shares are held by institutional investors
4. Shares are quoted on the stock exchange

Some companies even mix two or more of the above models. All models have their inherent difficulties.

The internal shareholding makes it difficult to raise capital for expansion, and it might be difficult to find buyers if the value has gone up very much or the company is losing money for that matter. In a stable financial situation with reasonable organic growth it might be a suitable model.

The foundation ownership is in many ways to be preferred. It solves the succession problem, it maintains the independence of the company and the “owner” is only a little concerned if times are bad and the company less profitable. The “owner” will most often also have professional interest in developing the technology of the business. On the other hand it makes it difficult to raise capital for expansion and acquisition. It also provides less incentive to management and key staff to increase profits, unless a profit sharing scheme is built into the model.

Institutional investors can be insurance companies, banks, investment companies and similar. The advantage is that additional investments are fairly easy to provide, and that the investors to some extent are patient in the sense that short term short-fall in profits are of less importance. The drawback is that institutional investors in principle dislike shares that are not easy to dispose of, and therefore will have as a future aim to float the shares on the stock exchange with all the inconveniences this entails.

Many of the very large consulting firms have chosen to be quoted on the stock exchange. This entails a number of advantages and disadvantages. The main benefits are that the value of the shares is known at any time and buying and selling shares is easy. It is also easy to raise capital for expansion and acquisition. The drawbacks are that the share price may fluctuate depending on short term results, that comprehensive and costly reporting is required and that the company may be subject to hostile take-overs (unless certain countermeasures are built into the shareholding scheme).

2.2 Other types of ownership structures

There are other types of ownership models than the shareholding model. In Australia a company can depending on its size, financial turn over and its liabilities choose from one of the following legal types:

- Sole Trader
- Partnership
- Proprietary Limited Company
- Trust

In this case study we only consider the shareholding model, which can be considered a partnership, when only the management holds the stock; it can be considered a Proprietary Limited Company, when the company is owned by institutional investors or when the company is listed on the stock exchange and finally it can be considered a Trust in case a Foundation owns all the shares.

3. Developments in ownership structures

“Assess the development in your country as regards ownership structure in consulting firms of varying size.”

Editors’ elaboration: This issue is about the development – the changes over time – of the consulting industry with the focus on the trends in each country and how the type of ownership is depending on the size of the companies.

It is evident when looking back in time that most companies are started as small businesses with one or a few owners namely the founders. The oldest consulting firms are about 100 years old. The companies that exist today are the result of these companies growing either organically or with means of acquisition.

The differences between the sizes of consulting firms in different countries seem to be significant. In some countries such as the Netherlands and Denmark big companies dominate the consulting industry. In countries like Italy and Germany a consolidation process has not yet taken place and there are still today mainly smaller companies.

In the following the development in some countries has been outlined:

3.1 Australia

Typically the following ownership structures are applicable in Australia:

- Small Sized Firms (say less than 100 employees) – generally privately owned by working director/s (i.e. partner/s).
- Medium Sized Firms (say 100 to 500 employees) – either privately owned by working director/s, or shares are held by management and key staff and sold internally.
- Large Size Firms (say greater than 500 employees) – generally a shareholding structure.

3.2 The Netherlands

There are only three engineering companies (Grontmij, Arcadis, Fugro) listed at the stock exchange in the Netherlands. These are also the three largest companies. Most of the smaller and medium sized firms are private limited companies (DHV); only some are organized in a partnership structure (Witteveen+Bos). Thus larger companies tend to be organized with a supervisory board and an executive board, with either shares on the stock exchange or in a foundation. Smaller organizations are somewhat differently organized.

3.3 Korea

There are a few very large consulting firms with more than 1000 employees in Korea. These are listed on the Stock Exchange. Most of the small and medium sized firms are privately owned companies, but several companies are employee owned.

3.4 Germany

Most of the German consulting firms (small and medium sized) are private owned companies like in other industries. In general the German consulting companies (most of them are not so large) are not listed at the stock exchange.

3.5 Denmark

Denmark is dominated by 3 large international consulting firms (Rambøll, COWI, Carl Bro) covering about half of the Danish market. There are a few middle-sized and some smaller companies. Virtually all Danish companies are based on shareholding structures. In most of the large and middle-sized companies the majority of the shares are owned by a foundation. When this is not the case an institutional investor owns the shares. For smaller companies partners often own the shares. No consulting firm in Denmark are listed on the stock exchange.

3.6 Italy

As the organization structure is different from other countries, so is the ownership structure. In Italy there are mainly freelance and smaller firms, so the typical legal structure is a sole trader or a partnership. Usually a sole trader develops his structure into a partnership when he doesn't want to loose an employee and so he makes him a partner, or when two or more sole traders join together in a merge in order to be able to widen their business

4. Key issues in connection with ownership structures

“Discuss the key problems seen from a staff and management point of view.”

Editors’ elaboration: This issue is about the advantages and disadvantages connected to the different types of ownership structures. We primarily consider shareholding companies and disregard the “sole trader” model.

4.1 Management owned shares

Shares are held by management and key staff and “sold” internally only based on an internally assessed value

The key problem of a participation system is that the most senior-partners have to get money from the bank to buy their share. They are depended on the dividend to pay their interest and payback. If the dividend drops there might be a problem. On the other hand the senior staff is so focused on a high return that this maybe never happens.

There are ownership models where new partners go in “clean” and go out “clean” meaning that they don’t have to bring money to finance their partnership. Such a model is preferred rather than taking a huge bank loan in order to finance a partnership.

Advantages are:

- Knowing that the ability to become a “partner” or financial owner within the company is a realistic goal motivates the employees.
- Most employees take pride in having shares in the company they work for. However, employees who do not have major influence on decisions probably do not want to have major investment tied to the company

Disadvantages are:

- Management might be inclined to take short-term decisions in order to show good results and maintain the value of their shares (Enron).

4.2 Shares owned by a foundation

Shares are held by a foundation (trust) linked to the company and with its main purpose of supporting the company’s activities

This is the most stabile ownership structure for a company. Even in periods with low financial results the company can be run as usual or with very modest

changes, as the foundation does not demand a very high dividend. Sometimes the foundation channels all the money back to the company anyway.

The company is impossible to take-over for competitors and the long-term investments are not hard to approve.

It is however very hard to finance acquisitions, and the growth of the company will therefore in most cases be slow and organic. Never the less there are examples of very large acquisitions financed with bank loans (Rambøll acquired Scandi-aconsult in 2003 in this way).

From a staff point of view the security of their job is very important. For the key personnel that would like to own a share, a combination of foundation and management ownership is preferred.

4.3 Shares held by institutional investors

Institutional investors think in most cases in the long perspective. In this sense they are much like a foundation. They do however require a dividend and there is also the risk that they will sell the company to an undesired competitor.

4.4 Shares listed on the stock exchange

Advantages are:

- Shares sold on the stock exchange can finance the growth of the company be it through acquisitions or organic growth
- The demand from shareholders and the attention of analysts force the management to have a constant focus on the financial results.

Disadvantages are:

- High costs regarding reporting and accountancy
- High cost of membership of the stock exchange
- Constant risk of hostile take-overs
- Image problems when stocks are in some periods temporarily 'unwanted'. No clear relationship between the stock value and the performance of the company. Sometimes it seems that stock analysts have more control on the stock value than the board of directors. If analysts change their advice from 'hold' to 'buy', this has more influence on the stock value than the presentation of good financial results of last year.
- Lack of long term investments because the short term financial results are so much in focus.

From a staff point of view:

- The job situation can be more uncertain when a company has to act on the value of the stock or if the company experiences a hostile take-over.

5. Staff ownership

“Is a substantial management and key staff ownership a condition for successful development of a consulting business?”

No! At least not for large companies.

However, key staff ownership is an important factor not only for the successful development of a consulting business but also its sustainability. One of the responsibilities of the management team is to identify staff that is able to move forward within the team structure and form an integral part of the company structure.

A successful business has to have a succession plan in place where staff are developed and elevated within the business. Succession planning appears to be more of an issue with small companies where there is either one owner or a few partners. In this instance it is difficult for the owner to relinquish their role without financial impact and by the time they decide to move out of the business they are either too old or are not able to find a suitable person for the role.

6. Ways to award shares to employees

“Should employee shares be purchased at „market“ price or should they be used as bonus given on top of a „competitive“ salary?”

Summarising all the contributions from the participants it seems to be that there are no major country specifics. The answer to the question couldn't be given in general. The following topics were given as crucial points, which have to be considered:

- legal aspects
- tax aspects
- structure and size of the company
- position of the beneficiary within the company
- kind of business

It is stated that for example in Holland (probably there are similar/some regulations in other countries) this topic is regulated by legal rules. Stocks have always to be purchased at market price even from employees. Furthermore it's said that there is a maximum amount an employee may obtain during the period of one year.

In other countries like Denmark and Germany this matter has additionally to be analysed under tax aspects. If they are given as a bonus one has to be careful that this doesn't cause a lower direct salary. That means that the answer to the question, if shares from employees should be purchased at market price or as bonus on top of the salary has to be decided as the case arrives and always implying the complete compensation package.

Anyhow a “share bonus” beside other incentives is one opportunity to try to tie an employee to the company.

Another point, which has also to be considered is the structure and the size of the company. If a company has the appropriate size and structure to be listed at the stock exchange, the allocation of shares within a company should be limited to key staff. Only staff, which plays an important role for the growth and the consolidation of the market position should be considered in the described way. Beside structure and size also the kind of business plays a role whether it makes sense to allocate shares among the employees or not. E.g. on the field of developing assistance the projects are more linked to the company and not so much personal linked. In this case including staff in the group of shareholders is not so deciding like in the field of IT projects on the private sector, where the appropriate persons play an important role from the acquisition phase till the end of the project.

7. Investments in skills and technology

“Is the inherent necessity for developing skills and technology compatible with the requirements for a commercial return on investments from professional investors or the stock market?”

Everybody agree that this is one of the most important issues to secure the survival of a company. If a company doesn't take this issue seriously it would be left behind. It's not a question of country or size of the company; both a single freelancer and a large stock exchange listed company has to invest and reinvest in developing skills.

Especially in the consulting business, which is a people based business and therefore can't be compared with other industries like manufacturing industry, the developing of skills and promoting the staff, which is an essential asset, is a crucial and very important point to survive in the market as a company.

Traditionally companies develop most of their new technologies and skills during project work. In addition a company needs training and education programmes for younger employees and repatriates (from long-term projects abroad). The cheapest way however is to let inexperienced employees be coached by senior staff, while working on real projects. However this will also take time and cost money, but in this case the costs will be hidden.

Furthermore innovation is seen as a key issue, which has to be supported and as a way to include all employees in the company's efforts, e.g. giving them the chance to work out their ideas and announce some bonus for good ideas, which can be turned into a companies profit.

The challenge is to find a balance between reinvestment in developing skills and new technologies and distribute gained profit among the shareholders. The art is to convince the shareholders or investors always to reinvest a part of the earnings in developing skills and technologies, to ensure a top position at the market, which is a prerequisite to receive a good return on their investment.

Beside this the management of the firm, if the company is listed at the stock market, has always to be aware of the duty to show growth of the company. Otherwise the shares will lose value, which would be the worst case. In fact it often seems as if the management itself is the most short term decision makers, who tends to postpone investments in order to keep to the budgets. A lot of pressure is put on the management to cut costs and keep to the budgets.

8. Ways to tie key staff to the company

“In case key staff is not “tied” to the company through shareholding, do you need other contractual ties in order to safeguard the know-how of the company?”

It is difficult to tie key staff through contractual agreements. Commitment and loyalty should be maintained through an attractive working environment. If an employee is tied through shares or a contract and he gets dissatisfied with his work place, the employee might harm the company and the ties will be useless.

There are different opinions among the participants on how to secure the know how of the company. The basic assumption is that employees maintain and develop the “know how” of the firm. To a certain extent employees are replaceable but it is important that the rate in which key staff is replaced is low.

9. The ideal ownership model

“Develop the future ideal ownership model for a medium to large sized company, say 3-400 staff considering the need to maintain your key staff, develop your technologies and expand the company either through organic growth or through merger/acquisition.”

This issue has generated the most comments in the discussions. There are two groups of participants voting for each of their model. The two models are described below.

9.1 The Board of Directors Model

Relative small firms with simple operations have an optimal ownership structure in which the owners or partners are part of the executive management. In these situations the management should act in accordance with the long-term interest of the firms without costly control structures.

In larger firms with complex operations such as operations in which the transfer of knowledge between employees is expensive, should be managed by a professional management who are controlled by a board of directors. This separation of decision management (executive directors) and decision control (board) should be most effective in these cases as the firm has the freedom to choose the desired management irrespective of these people's ability or desire to be major shareholders. This set-up can be expanded to several layers of management (divisions, departments, teams etc.) in which a defined responsibility is delegated to a given level and decision control carried out by the level above.

The risk of the board of directors taking decisions based on personal gains is limited by having several persons on the board and by having board members who would lose a lot by being caught in collusion ie. by having management positions in other companies.

This is a quite traditional set-up but should facilitate the situation in which a large company is owned by a number of people who do not have the time or ability to monitor the management directly. Similarly the setup should give some reassurance to creditors and thereby result in lower interest payments, which could be crucial if expansion by acquisitions is to be financed by debt.

An engineering company of 3-400 employees is a large company with complex operations especially if the ambition is to grow substantially by acquisitions. Consequently a corporate structure in which the ownership and daily management is separated is suggested. The board of directors could include substantial owner's or

representatives as well as a broad range of professionals with management skills from other professions (banks, international accountants, industry, universities).

As the daily management in this set-up is not a substantial owner one could combine a direct salary with incentive payments in order to ensure that the directors push the company in the direction chosen by the board. Great care should be taken set up the incentive system so the interests of the firm and directors (by way of incentive payment) are coinciding.

In this model key staff can be maintained through employee shares, through bonus schemes or simply by making the staff feel satisfied in their job position.

New technologies are developed through reinvesting some of the profit. The board should decide a constant level of reinvestment and this level should be benchmarked to competitors in order to make sure it is adequate.

Organic growth could take place without changing the ownership structure of the company.

9.2 The partnership model

The other model that would suit a company of 3-400 employees is the partnership model. Some participants does not believe that a company at “only this size” could support two separate operation structures – the board of directors and the executive management. Splitting the management operation would not be a viable solution.

It is suggested that at some point in the process of growth (let’s say at 1000 employess) the Board of Directors model is preferred. However the change of ownership model will be a major revolution in the company and to minimize the impact the change should be done as early as possible.

This leads to the conclusion that if a company of 3-400 is satisfied with its size and has no plans to grow, the partnership model is ideal. If however the company has a wish to grow, it should change its ownership structure when being at the size of 3-400.

Key staff is maintained by awarding them a partnership in the company.

New technologies are developed by reinvesting – this is not influenced by the ownership model.

Organic growth can take place to some point, but eventually the company has become too big for the former management too steer and partition between owners and management comes into focus.

In some cases the owners have been managing a company for too long. The owners of an engineering company are often engineers themselves. And engineers are usually not trained to guide large companies through silly comments of shareholders' meetings, let alone that they feel like it.

9.3 Conclusion

If your strategy is to grow your 3-400 employee company into one that is much larger, an ownership structure with a separation of investors and management is the best way to run the company.

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FIDIC2004

Management Training Programme
for Young Professionals

Case 3 - Marketing of Consulting Services

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1. Introduction

1.1. General

This report presents the results of the 3rd case study of the FIDIC 2004 Management Training Programme for Young Professionals. The 3rd case study deals with “Marketing of Consulting Services”. During the period 30 April to 11 June 2004, participants in the course have given their analysis regarding this subject, and as such this report summarises the participants contributions and provides conclusions for each analysis topic.

Prior to analysing the questions raised, the following points were considered:

1.2. Advertising Banned

Advertising consulting services was once completely banned, at least for members of the national FIDIC organisation. Consultants were supposed to be identified and selected through their reputation and projects executed. This may even today be the case in some places. As many other traditions this one is being transformed, and marketing – not to mention branding – has become a necessity in relation to most consulting services.

1.3. Branding

Today the most important element is probably branding, creating an image that in itself promises the clients quality, efficiency, intelligent solutions etc. Avis were light years ahead of the consulting business when they invented “We try harder...” but the list of similar mantras from our own business circles is today very long.

A brand name is a promise, but how to fulfil the promise and how to maintain the name? It is a difficult and risky process, most often because there is a wide difference between what the consultants would like to provide/sell and what the clients would want/expect to buy. The role of the mantra is to bridge that gap and in a short form tell the story and give the solution. Failing repeatedly to fulfil the promises of the brand is an important risk that needs to be taken into account.

1.4. Selection of Media

Once we have decided what kind of general image, we would want to convey, we arrive at the problem of advertising our specific products. A whole range of media is available and today all of them are more or less being used. From the immediately up-to-date press releases, over company brochures, home page presentations, annual reports to name cards with enclosed mini CD-rom.

Much emphasis is put on consistent graphic identity. There is no end to the money that may be spent on this and awfully few are able to ascertain the cost-efficiency their promotion efforts and the relative advantages of the different media.

1.5. Marketing Projects or Solutions

A key question is whether to promote individual projects as examples of company activities and capabilities or solutions/problem-solving as a branding effort, which especially may be addressed to the less technology oriented buyer or the politically elected decision maker, who may not be concerned about technology at all.

The trend is that problem solving in the sense that the consultant is relieving the client of a burden, taking away his problems and taking the responsibility for the outcome, is becoming more and more a selling point, and hard core technology is becoming less interesting. However, marketing problem solving is even more difficult, because the “history” is complicated to tell and the outcome may not be so easy to describe. Presenting a picture from a project is a lot easier.

1.6. A People’s Business

Consultancy is a people’s business, and this is increasingly in focus in connection with marketing. Basically, most of a company’s know how is embedded in the staff, and much competition for projects are related to staff resources.

But the increasing emphasis on staff in marketing probably also relates to the fact that human relations and ability to communicate is seen as an important part of any problem solving. Today technology is a computer issue supplied as software. The qualities of a consulting business lie with the staff and its ability to provide the best:

- Organisation
- Communication
- Procedures

1.7. Analyses

- ÿ What is the tradition for marketing of consulting services in your country/region?
- ÿ What can be done to secure that clients have an optimal knowledge of service providers, their merits, their qualifications, their results, their reliability, financial standing etc?
- ÿ Discuss marketing of triple bottom line (financial, environmental and social accounts) versus project and technology-based marketing.
- ÿ Would a specific branding limit your scope of projects to be undertaken, in other words can for instance low cost design be combined with high cost technology, within the same brand?
- ÿ Prepare a prioritised proposal for marketing a medium sized, multidisciplinary consulting firm, including a global branding proposal! It should be easily recognisable; it should signal quality, leadership and reliability.

2. Definition of Marketing and Branding

2.1. Defining the Client

Consulting Firms ultimately provide a service that adds value for a client. Defining the market and client is fundamental to a firm's success. Marketing and branding are methods by which the firm can identify itself to potential clients and maintain a profitable business.

The clients of manufacturing businesses are defined as unspecific persons and/or organizations, whereas the clients of consulting businesses are more defined and may come from contractors, the private and public sectors.

2.2. Marketing

Marketing is a direct activity that is generally focused upon providing a service or set of skills for a particular client, sector or project. It is a tool used for maintaining and expanding a company's workload and sales.

In general, the marketing strategy of engineering and consulting firms is "Relationship Marketing" because the engineering and consulting industry is a people business where the "good will" of individuals is of paramount importance.

The structure of a manufacturing business is based upon prior production and subsequent sales of products. On the other hand, an engineering and consulting business requires a sale prior to the production or delivery of the engineering services.

2.3. Branding

Branding provides a positive image and association with a company. A brand signifies a quality product or service. Often a brand is considered an equity that may have been developed over many years via successful marketing with a proven record for success.

Especially, in the case of companies listed on the stock market such as Arcadis, Grontmij, URS, Yooshin, etc., branding may assist in marketing activities and the growth of these companies.

Even though marketing and branding are close and interconnected activities, there is a theoretical difference that successful branding should create "name value" which should make it possible to charge premium fees to the market rate for a specific service.

It is considered that the primary aim of branding is to be able to sell services at a higher price than possible without branding. Supplementary effects of branding include the ability to attract competent staff due to a well-respected company reputation.

Branding is also used to increase and maintain the name value of consulting firms. Consequently, the effect of name value is to increase company image and cost premium compared with competitors.

2.4. Inter-Relationships

A consulting firm must carefully consider the inter-relationship between sales, marketing and branding to ensure a successful business is maintained and developed over time.

3. Tradition of Marketing

What is the tradition for marketing of consulting services in your country/region?

3.1. Denmark

Marketing of consulting services is a rather new part of Danish companies' business strategies. Only for the last 10 years this has been on the agenda. Today most of the big companies are focusing on marketing - a few don't consider it at all.

Overall the level of investment in marketing is very limited - perhaps 0.2 - 0.3% of the companies overall turnover. To compare: the investment within certain consumer products is 10 - 20%. Today most of the marketing is done as traditional targeted marketing i.e. direct marketing or broader marketing as follows:

- Advertisement in industry magazines;
- Advertisement in newspapers; and,
- Advertisement on taxis and banners at sports events.

3.2. The Netherlands

Witteveen+Bos is one of the old fashion consulting firms from the time advertising was banned. It is considered by publishing articles (potential) customers are going to see the company as a frontrunner. In addition, marketing in the consulting business is all about relationship management.

The tradition in the Netherlands is to generally market consulting services in the following ways:

- Keeping relationship with customers to mutual trust;
- External presentations of the company;
- Advertisements in specific magazines;
- Presenting at conferences and fairs;
- Sponsoring of sporting events;
- Art awards; and,
- Special occasion gifts (art pieces or books), etc.

3.3. Germany

In the years before the 90's, it was not very popular to invest in marketing in Germany. The market was big enough and the necessity of doing advertising was not existent. Only in the last ten years with the growth of the Internet and business competition, companies are marketing in the following ways:

- Publishing success stories;
- Organizing events and small exhibitions for their clients; and,
- Publishing articles in appropriate magazines.

3.4. Italy

Advertising is very rare, also because it was forbidden until a few years ago in Italy. The most common marketing strategy is public relations. Because the technical engineer is often the same who deals with marketing, it is important that the engineer is not only good technically but also good in social relationships/marketing, by way of:

- Keeping a good relationship with customers;
- Publishing articles within technical journals and magazines about particular projects; and,
- Sponsoring relevant conferences (i.e. generally only larger firms).

3.5. Korea

Marketing of consulting services in Korea is a passive activity. The typical marketing is to advertise within relevant technical journals and magazines and sponsor relevant conferences. In general, relationship marketing or face-to-face client contact has priority. Hence, the main marketing tools in Korea are as follows:

- Face-to-face client contact;
- Sponsoring conferences and presenting technical papers;
- Advertisements within engineering magazines etc;
- Internet web page;
- Brochures (marketing & technical); and,
- Company technical journals.

3.6. Australia

Within Australia various marketing techniques are used to win/generate work in the consulting engineering profession, such as:

- Client marketing phone calls and meetings,
- Client functions (i.e. client lunches, dinners and client Christmas parties etc),
- Company websites;
- Company branding;
- Company capability statements sent to prospective clients,
- Company brochures, key project statements, technical statements,
- Monthly company magazines,
- Sponsoring conferences and presenting technical papers,
- Sponsoring sporting activities (i.e. golf days),
- General advertising (limited) within engineering magazines etc.

The above marketing techniques are in addition to completing projects within the agreed client's budget and time frame, as generally a very satisfied client will return or recommend the consulting engineering company to other clients.

3.7. United Kingdom

Norman Disney & Young founded our London Office just 5 years ago. Consequently we are new players within a very well established large market.

As consultants, we recognise that our business is founded on relationships and that our biggest asset is our people. However, the development of the business within a new location required a reasonably aggressive marketing and branding strategy to be adopted. This required that 2 to 3% of turnover be allocated to marketing ventures.

Marketing of a consulting service within London is similar to that in many other regions – Trust and 'good will' is developed with clients through proven success on projects. This leads to referrals to new clients and extra opportunities with existing clients. It is acknowledged that '80% of work comes from 20% of clients'.

The media by which we market our business include:

- Attendance at industry conferences / fairs – branding for recognition and marketing;
- Sponsorship of events – useful at promoting new technologies and successes on projects;
- Publish articles – again focuses on technical issues and projects;
- Business to business evenings / lunches – getting key people from two or more businesses in a less formal atmosphere; and,
- Individual relationship building – attending social events with key personnel.

Our engineers and consultants do most of the marketing whilst undertaking their day-to-day activities, as opposed to having separate business development people who do not possess a technical background.

Some of our competitors have dedicated business development people (even some ‘beautiful blondes’) but these companies are considerably larger than our practice in London.

Finally, we look for feedback from our clients. This is most often done informally, but sometimes by independent confidential surveys.

Like most consultancy practices, we hope our ‘brand’ is recognised with quality and as such, we can demand premium fees.

4. Client Knowledge

What can be done to secure that clients have an optimal knowledge of service providers, their merits, their qualifications, their results, their reliability, financial standing?

An optimal knowledge of service providers by clients will only be generated by establishing a “trusted relationship” between the client/consulting engineering company. The client’s trust is built from the consulting engineering company completing the client’s projects/assigned tasks within the agreed budget and time frame. In addition the consulting engineering company also needs to produce technically sound work.

A distinction between the passive and active “knowledge transfer” approach is as follows:

Passive approach -

- Regularly update the knowledge of clients by media - via newsletters, email, an up to date homepage, etc;
- Produce an annual report that outlines the company’s achievements and financial status.

Active approach -

- Involve clients into your research and development, organise a workshop to learn about their fears and wishes, and show that you respect their opinion;
- Involve clients into the companies’ precious moments, like the opening of a new office, a jubilee, etc - in order to strengthen the client/company bond;
- Present onsite to support the client in the best way.

The main marketing body of consulting services is not a specific marketing department, but all the company’s staff. The firms have to maintain reliability and friendly relationship with past and potential clients.

When communicating with clients, staff may explain market and R&D trend. At this time, they could propose new technologies and/or methodologies for clients’ interest. Hence, it may lead a firm to a new project and/or market.

Avenues available to ensure clients have an optimal knowledge of the services we offer, reliability and our financial security can either be ‘project specific’ or directed at a ‘broader’ audience:

Project Specific

- Periodic discussions and meetings with clients on past or current projects;
- Promotion of new technologies and successful projects via newsletters, technical papers and publications; and,
- Proposals addressing tenders on specific projects.

Broader Audiences

- Annual reports;
- Invitation to industry colleges for technical seminars, project promotions;
- Events / parties to thank clients for their support in a less formal atmosphere.

It is also noted that the method and manner by which clients are kept abreast of a consultants abilities may also be sector specific (e.g. private, public, institutional).

5. Marketing Method

Discuss marketing of triple bottom line (financial, environmental and social accounts) versus project and technology-based marketing.

The marketing method will naturally depend on the consulting engineering company's market sector/client industry. As engineering firms though, the main marketing driver is still project and technology based. Most clients are interested to know what the company's relevant experience is and what advancements there have been in technology.

It is considered that the marketing of financial, environmental and social accounts is aimed much broader than project and technology based marketing. Triple bottom line marketing is important to ensure a company is accountable to both its shareholders and the public / industry. Triple line marketing is generally pitched at a broad audience to bring 'good feeling' to the brand.

Therefore, firms might market the social responsibility of a company in a branding campaign, whereas you would market your projects and technology aiming at specific clients.

Branding or more traditional marketing based on projects and technologies depends on the type of consulting services offered. Probably within the field of IT consultancy, you advertise much more a "feeling" and perhaps a kind of "lifestyle" (by branding), than within the field of construction engineering.

Triple bottom line marketing is probably more important for larger companies where their accountability is monitored more than for smaller companies. Never the less, this issue is becoming more important for the sustainability of smaller companies where they can be differentiated in the market by their level of environmental and social account marketing.

In most cases, clients want to further know what personal experience and clients have selected a company not based on the company's history but on the quality of the individual.

For instance, clients generally select consultants by detailed procurement criteria. Although the criteria, generally, consists of market trust, financial conditions, company experiences, individual experiences, and commercial proposal, the majority of evaluation points is company experiences, individual experiences, and commercial proposal. Even if many projects are competition bidding, firms can have a competitive price on the basis of technical predominance.

In summary, triple bottom line marketing is no doubt one of the important factors for marketing, but marketing strategy is generally focused on project and technology based marketing. If project and technology based marketing is successful then a company's reputation and 'brand' benefits. This in turn feeds and aides successful triple bottom line marketing. Project and technology based marketing, generally, is used to secure further workload.

6. Specific Branding

Would a specific branding limit your scope of projects to be undertaken, in other words can for instance low cost design be combined with high cost technology, within the same brand?

A consulting group must be careful to ensure they do not limit opportunities by specific branding if they wish to expand into other sectors or vary the scope of work to cater for tightening economies.

Branding should promote the corporate philosophies, breadth of experience and a quality service. Branding should not limit the scope of projects but promote the ethics of the company, its quality of service and project history.

This should not stop a company from being involved in a low cost design project. Markets and market perception change, and successful companies have to change with it in order to maintain their market presence.

If a company cannot accept low cost design projects, the company may seek other solutions such as outsourcing and/or partnering.

For example, Witteveen+Bos had a couple urban planners/designers, but they couldn't generate a constant workflow, because of the simple fact that for a large urban design, clients generally wouldn't engage W+B. As such, finding the right partnership (joint venture) in this case is more important than having every-thing in house.

GOPA Consultants are well known as a leading company in the field of development aid in Germany. Since the 90's they tried to get into the market of IT and Management Consulting for the private sector, where they also have good expertise, but with the "brand" as a consulting company from the field of development assistance this is quite difficult.

As such, before firms use branding as a marketing instrument they have to balance carefully between the advantages and disadvantages.

Marketing problem solving is difficult. Firms generally sell experience in solving a specific kind of problem, not the solution. Every customer thinks that his problem is unique and in most cases his problem is unique in one way or another (at least in more complex and integrated problems).

You have to convince the customer that you can manage the process to the solution. It is in most cases just a matter of trust and the company's problem solving ability.

It is reasonable to be able to offer varying degrees of consultancy scope to clients (i.e. low cost design or high cost technology) provided the service is tailored to suit the client's needs. If the client understands and agrees to such flexibility, damage to a brand can be mitigated.

Micro Branding

“Micro Branding” is an interesting way of formulating addressed marketing to secondary or even tertiary parties. In terms of an oil company, for instance, it could be used to ‘soothe’ people’s worries for an emerging oil plant near their homes by telling them that the industry is safer and cleaner than e.g. a highway or airport; that, in fact, they should feel lucky with the upcoming industry (which they won’t, of course).

To illustrate this with Arcadis. They have recently moved to a new office, near a residential area. During construction, the people living there had quite some inconvenience with construction works, some houses even had to disappear. Next to financial satisfaction we decided to offer cakes and a small party to the whole residential area when our office opened up. This fits the definition of ‘micro branding’.

The consequence of the cakes and small party for the residential area near our office was that it made it into the local news. This is not only convenient, but it was also foreseen. Which makes it major branding after all. It is have to do with damage control, which would be a negative way of defining branding as such. Branding does not imply that one has to focus on one group, but that doesn’t mean it rules directional branding out.

Branding as the term usually as used is too expensive and not profitable for the average consultant.

To conclude, "micro branding" is as branding/creating "name value" to a targeted group as opposed to usual branding aimed at the general population. The above example with branding the company to the local residents is a good example especially if Arcadis or branch office has work for the local authorities and a good local name therefore will have an impact on sales (maybe indirect). The focus on a specific local group of people must be more cost effective than spending the same money on a nationwide TV commercial.

7. Prioritised Proposal for Marketing

Prepare a prioritised proposal for marketing a medium sized, multidisciplinary consulting firm, including a global branding proposal. It should be easily recognisable; it should signal quality, leadership and reliability.

In order to prepare a prioritised and strategy for marketing, a firm has to define a value chain based on business domain and portfolio and take account into its own brand value in the future. It is considered that the function of the “brand” is as follows:

For a Client -

§ Judgement basis.

For a Corporation -

- § Corporation image;
- § Distinguish from competitor;
- § Price premium;
- § Opportunity for a new market.

The condition to increase brand value is as follows:

- § Long-term and consistent marketing activities;
- § Consistency between brand and services.

Based on the company’s capabilities (medium sized, multidisciplinary consulting firm), it is proposed to target the company’s market sector by way of:

- § Corporate philosophy (vision and marketing strategy);
- § Branding instantly recognisable logo, words, picture;
- § Definition of business portfolio;
- § Marketing procedures;
- § Marketing education for all staffs;
- § Marketing brochures and new letters;
- § Web based marketing;
- § Profile of the practise;
- § Articles in magazines;
- § Client marketing phone calls and meetings;
- § Sending company capability statements to prospective clients;

-
- § Developing a company brochure, key project summary details and technical statements as required, and;
 - § Presenting technical papers at selected conferences.

The above are in addition to completing projects within the agreed client's budget and time frame, as generally a very satisfied client will return or recommend the consulting firm to other clients. In addition, technically sound engineering work needs to be produced.

The proposed global branding for the hypothetical consulting firm is:

One World - One Company

It is envisaged with the above proposed branding, for clients to develop the idea that the consulting engineering firm is the only company in the world to engage.

FIDIC2004

**Management Training Programme
for Young Professionals**

Case 4

**Development: new technologies,
cultural changes and globalisation**

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1. INTRODUCTION

1.1. General

This report presents the results of the 4th case study of the FIDIC 2004 Management Training Programme for Young Professionals. The 4th case study deals with “new technologies, cultural changes and globalisation”. During the period 11 June 2004 to the 23rd of August, participants in the course have given their analysis regarding this subject, and as such this report summarises the participants contributions and provides conclusions for each analysis topic.

Prior to analysing the questions raised, the following points were considered.

1.2. There is no alternative to development!

Developing your consulting business consists of creating new and improved “technology based intellectual services”. The key resource in this process is the staff which means that developing your business means developing and/or changing your staff. Development is driven by society and in this consultants also play an important role. On the one hand as the creators of ideas and opportunities, on the other hand as the service providers enabling the implementation of new ideas. The same change process is required for your staff resources, either by training your present staff or employing new staff with the required skills. Training your own staff in new technologies is time consuming and costly, on the other hand it is essential for maintaining a good working environment and supporting fundamental social responsibilities. The temptation is to recruit new staff with the required skills and thereby shortcutting the development process, at the expense of working environment and staff relations.

1.3. Managing the change process.

The changes required by development will not only be changes to technologies, but also changes to the way services are provided, and changes to client types and project locations. The change from the traditional project designer to provider of solutions including not only the technological problem solving, but also adaptation of the project to the needs and requirements of the public, means a fundamental change to the perception of a consultant’s role. The change of responsibility being only connected to technology qualities to being responsible sustainability and fitness for purpose is a dramatic change.

1.4. Developing new client relations.

Another important cultural change is the result of the changes in clients’ organisations, where the engineering departments have disappeared and the clients are less knowledgeable in technological matters. The consultants are today to a large extent communicating with clients being administrators with no relevant technological background, which obviously requires an entirely different approach to selling, contracting and delivering projects. The market demands suppliers of a broad spectre of technology based intellectual services, which requires quite a “development” of the minds of engineers that used to see themselves as designers of bridges, buildings and infrastructure only.

1.5. Globalisation.

Globalisation of services is another important challenge requiring development of staff and procedures. Expanding activities to other countries require changes to your own staff and very often also to the staff you recruit somewhere else. The success of associations, joint-ventures and mergers is very much dependent on the parties’ ability to develop cooperation and a common culture. In emerging economies consultants are at different stages of evolution in management and ownership, and quite often representing a fairly new industry in their country. Consulting firms in developing countries often face considerable obstacles to their development in terms of inefficiencies in project delivery, discrimination in selection procedures, poor technology transfer, lack of legal, insurance and contract infrastructure and corruption.

If you come from a highly industrialised, high-salary-costs country you will over time loose jobs to companies in low cost countries or have to involve your business with theirs.

2. CONSTRAINS AND OPPORTUNITIES

2.1. Introduction

In this chapter we discuss the constrains and opportunities for the development of an engineering firm in the different parts of the world. In contrast with the other cases we also got a little insight in the constrains and opportunities of an African country: Tanzania. This gave us a total different view on our “western” constrains and opportunities.

One thing we agreed on was that constrains can be opportunities and vice versa. A company who can turn a constrain into a opportunity will be successful. We also learned that constrains can be internal or external as can opportunities. An internal constrain is for example the organisation structure of a company. Especially the constrains were surprisingly the same in most of the western countries.

The parallel between constrains and opportunities and the SWOT analysis was a strong point. In the words of Patrick: *Constraints play the same roll as Weaknesses and Threats in the SWOT analysis, alike opportunities play the same roll as Strengths and Opportunities: there is an internal and an external aspect to both properties.*

2.2. Constrains

2.2.1. Contract conditions

Bad or nonsensical contract conditions is of all countries. Legal issues relating to professional indemnity, liability (Especially the demand of clients for unlimited liability) and the like together with contract conditions and professionals who accept these conditions that are nonsensical or cannot be legally enforced. By people accepting these contracts it places a big burden on other firms who try to play by the rules. Both the companies in Australia and Europe have had instances in where they have not accepted to be involved in a project because of the contract conditions not being legally binding or sensible yet other consultants accepted them.

In general the increasing influence of lawyers and legal matters on the daily work was something of all countries.

2.2.2. Price undercutting

In all countries price undercutting is seen as a negative constrain. Price undercutting of projects by competitors which only acts to bring down the perceived quality and perception of the industry. Price undercutting does not comply with an increasing demand of professional quality and liability,

2.2.3. Organisation structure of engineering firm and client

Constraints can be found in the way current organisations are set up: traditional organisations are steady, but slow organisations. Ability to change rapidly is an important factor in development, the organisational structure can thus be a constraint. Constraints can also be found in the way clients are organised and the way in which they split up different major strategic projects into oven-ready partial and simple projects. This takes away possibilities for experimentation and keeps both organisations in a tight grasp: a standstill. At the contact point between client and engineering company is the project contract. The way this contract is set up determines the creativity, and thereby possibility to evolve, in working out the project.

2.2.4. Country specific

- The fraud of construction companies in the Netherlands and the reaction on this of the public organisations. Resulting in a much more strict contracting regime and much more a focus on price, and less focus on quality and innovativity.
- constrains from the Tanzania connection:
 - Having a policy of zero participation in corruption. With widespread corruption a lot of contracts are rewarded on basis biased decision makers. The policy costs job opportunity in the short run.
 - The trend for donors to use toward budget support and basket funding in stead of funding specific projects

As more and more donors fund development by budget support (however sensible this might be) results in more local decisions and the effects of corruption increases.

- The AIDS crisis.

With 10-20% infection rate there is a high "turnover" in key positions both within the company and with clients. The costs for the society is high both with respect to reduction in financial growth and personal strain. Going through time sheets I observe more use of emergency leave (people going to funerals) in one week here than usually observe in Denmark in one year; staff numbers being quite similar.

- in Italy since 1994 there is a new public works regulation (based on professional experiences, skills and CV of consultants) that requires mid-sized or big engineering organization (companies or temporary associations of companies and freelancers architects and engineers) to have the possibility to award some public projects.

This kind of regulation makes the big (and old) companies bigger and the small (and often young) companies smaller.

2.3. Opportunities

2.3.1. New markets

Most of the opportunities mentioned were quit country specific. There we two main directions:

- identification of new and upcoming markets and trying to move into them:
 - the steep increase in large infrastructure projects including tunnels and rail in Australia
 - in The Netherlands the move to development planning. Instead of looking at one project, you look at the development of a whole area. This gives the opportunity to not only develop economic interesting spots (houses, industrial are-as) but also develop the more money consuming but essential parts of an area (infrastructure, nature conservation, water storage). The idea is that the benefits cover the costs. Apart from the money-thing it is a challenge for an involved consultant to come to (technical) integrated solutions.
- breaking into markets of up coming countries or parts of the world (and deal with the cultural differences):
 - Asia
 - Eastern Europe

2.3.2. The Italian connection

From all western countries the Italian engineering market is a special one. In this country a big change is going on. The actual Italian situation of freelancers and little firms won't last much longer. The future is getting together and starting new firms that will grow with the passing of time. The factors push us to grow are:

- physiological needs to grow
- international companies opening offices in Italy
- University reform: now it's easier to become an engineer and it takes less time
- new laws that force public councils to carry out little-medium projects with their own technicians and outsource only the big ones
- getting similar to other countries: in Italy the average size of a company is 1.7 person per company

International companies and investors (often from USA, but also from England and Asia) are opening offices in Italy. The most promising opportunities for engineering services in Italy is the opportunity to work and grow with them. With the increasing knowledge of the European and International Codes and of the international procedures of design and construction, an Italian mid-sized engineering company could be a good competitor (or a good local partner) for a bigger international engineering company, due to our lower costs in comparison with our USA and North European colleagues.

2.3.3. The Tanzania connection

Opportunities in Tanzania are of a whole other dimension:

- Stable political situations with emphasis on continued privatisation

- Due to a relatively stable political situations for a number of years private investors are not discouraged. The focus on privatization the economy picks up speed and consultancy services are needed. With vast natural resources mining is the fastest growing industry. Several of the big mines are owned or run by Canadian or Australian firms with managers appreciating quality engineering services and knowing this has a corresponding cost. Similar argument could be made for other industries with international ownership ore stake.
- Decentralization of key donor's procurement of services
- There is a trend for donor organisations to decentralise procurement decisions to the local embassies or agencies. This favours relatively large international consultants with local subsidiaries (i.e. COWI Tanzania) as it is difficult for the smaller consultants in Denmark to maintain close client relations without being in the country. The effect has been significant.
- Increased numbers of well educated local professionals
- With increasing numbers of well educated and clever local professionals design work could be carried out at lower costs in this country than in Europe. The use of internet might lead to design work partly being done in low cost countries as it has been seen in the IT business (India).

3. MANAGING THE CHANGE PROCESS

3.1. Introduction

Managing a change process is complex. A couple of things we all agreed on:

- Companies have to change to develop;
- Companies have to follow the market to survive;
- A successful change is only possible when the staff takes part in the change process;
- Communication and Transparency are the key words.

3.2. Changing the organisation

- choose an identified organisation structure
- define the best ownership structure
- invest in new technologies
- Advise people of the proposed changes and let them comment. It provides everyone with the feeling that they are involved in the change process rather than simply having it imposed on them.
- Make the change positive – try and highlight the benefits (not all changes are positive but most are required for the survival of a company)
- Train the staff and constantly inform them of what the new direction is
- Make the change definite - do not change halfway through as this creates instability and uncertainty.
- Invest mainly on human resources, not only on branches, groups or specialisations; - Professional experiences are to be shared with all the staff as much and as soon as possible, quality systems or similar company organisations are to be developed;
- Improve team spirit: in a multi-disciplinary group the clients don't want to know how much the various designers are skilled in their own specialization and who is the best in the design team.
- Exchange informations: internet is a wonderful media and we could work together with colleagues from other town and countries, we need only to be open to listen each other and to share experiences. We are different each other, this may be a great opportunity to groove and to find new professional solutions

3.3. The social aspect

- Advise people of the proposed changes and let them comment. It provides everyone with the feeling that they are involved in the change process rather than simply having it imposed on them; make the staff involved, part of the decision. Do not only explain the change, let them also bring in their ideas.

3.4. From project designer to a provider of solutions

- Engineers working in the company definitely need to have a broad view, being able to look over the borders of their natural technological habitat. They also need to be able to sense the customer's desire to get a full solution instead of a technological service, and need to be able to respond to this desire in an appropriate way. For some engineers working in a traditional type of company, this change of mentality will be hard to achieve.
- A consulting company needs to have people in the company that can handle communication, legal aspects etc, or needs to be able to acquire these types of resources.
- When providing a full solution is an initiative of the consulting company, then the client has to be the type of client to accept a proposal for a full solution.
- the big consulting companies in the Netherlands are moving slowly towards full service providers, although the type of projects that have to do with full service (i.e. PPP constructions) fail to survive. We see an increase of the amount of lawyers, communication specialists and economists in companies in the last couple of years, and an increase of the type of projects that involve full service.

3.5. The organic change

Some believe in organic change. The market for engineering firms does not change radical, so why should a engineering company change radical.

By organic change is meant that the companies work field or even the organisation structure changes by the projects you work on and the projects you want to work on.

The statement of this case:

It's funny to see that most of the engineering companies are able to design communications processes for, say, a community with a future railway line, but are not able to communicate behind their own doors!

4. GLOBALISATION

4.1. Introduction

The debate in the Forum on the issue of globalisation was centred on the following topics:

- Globalisation versus Internationalisation
- Globalisation versus Continentalisation

4.2. Globalisation versus Internationalisation

It was the general opinion that there should be made a clear distinction between Globalisation and International work. The opportunity of working internationally is very real but whether this can be transformed into becoming globalised would appear to be a much larger task.

International work was used as term for consultants winning jobs abroad from their home country and carrying out the assignments by going abroad for the duration of the projects. Internationalisation and subsequently globalisation were terms used for further steps towards international integration.

Three models were introduced:

- Internationalising by moving (parts of) complementary competences
- Internationalising by copying (parts of) national competences
- Globalisation by synergy between international competences

The first can be described as outsourcing to a set up/ bought part of the company abroad. The motive is merely financial and has nothing to do with the settlement other than local people working for projects concerning the organisation's mother country. This model can be found in the constellation 'developed countries developing countries'.

The second model can be described as the first steps for a nationally organised organisation into international work. It can be seen spreading of risk and often involves only developed countries. Every country is responsible for their own budgets and results. Often the nationally organised organisations belong to a holding that acts as an umbrella.

The third model can be seen as the borderless organisation, the global village, in which the exchange of knowledge is stimulated actively by intensive communication, serving the globalised clients effectively. Unfortunately I did not find any engineering company that meets this description.

Perhaps the most clear statement in the Forum on the distinction between Internationalisation and Globalisation was the following:

" I think globalisation is the free (not for free...) exchange of knowledge between countries or (if you like) areas in the world. So not only selling YOUR knowledge in other countries but also use THEIR knowledge somewhere else (or within the country). This knowledge exchange can be within one company, but also between companies (cooperation)"

4.3. Globalisation versus Continentalisation

In the Forum the issue of "limited" Globalisation in the form of Globalising into chosen geographical segments was debated. The term "continentalisation" was introduced as a label to the idea of expanding to geographical markets relatively close to home base with respect to culture as well as distance. It was generally accepted that this could be an intermediate step between Internationalisation and Globalisation.

5. ASSIST AND SUPPORT BY FIDIC

5.1. Introduction

This part introduces the ideas and discussions in the forum on “How FIDIC can assist to support the above discussed subjects”.

The discussions can be summarized in two groups as follows:

- FIDIC as an organization should be the common platform for the companies to gather and communicate;
- FIDIC assistance to reduce technical trade blocks.

5.2. FIDIC – The common address for gathering and communication

The major stress is on the proposed merging and unifying role and function of FIDIC, where companies and professionals can have the chance to find a common platform to meet each other and consequently exchange ideas and investigate the opportunities to make cooperation. This is found to be most important function for FIDIC for companies seeking to develop their business and act more internationally (and therefore globally).

Professionals agree that in order to develop their business and have the ability to act globally, they need to communicate and exchange ideas. It is suggested that FIDIC be the basis for this, as the professionals and companies would have a wider opportunity of whom to contact and/or cooperate with. From the ideas given, it can be concluded that, professionals are in the need for a common platform for gathering for the above.

The following ideas were introduced during the discussions :

Ways in which FIDIC can assist to support such development is by:

- Providing a forum in which member companies can exchange and share experiences and knowledge.
- Providing updates on relevant company issues such as professional indemnity, litigation etc. In most instances the understanding and implications of these issues are becoming more important to the survival of engineering companies.
- Advice on opportunities in foreign markets and how to approach these markets.

FIDIC can provide:

- FIDIC as an organization should be the platform for the companies to gather and communicate;
- Insight in the changing world(s)
- Insight in the changing clients
- Insight in the changing markets
- A mirror for its current member engineering companies

Furthermore, FIDIC can help further develop contract management, essential for tomorrow's demands.

It is an idea that:

FIDIC facilitates a platform where we (and others) exchange information about projects in our country or part of the world. Specially information about the knowledge we need to do the project. Maybe this kind of information exchange will result in new partnerships between engineering firms all over the world; on project base in a tender or even structural.

5.3. FIDIC assistance to reduce technical trade blocks

FIDIC should have a long term ambition of reducing technical trade blocks in the form of country specific (and non theoretically backed) regulations and codes and work for an international acknowledged engineering registration, like FEANIs European Engineer.

MANAGEMENT TRAINING PROGRAMME
FOR YOUNG PROFESSIONALS
CROSS CULTURAL DIFFERENCES & ASSIST
AND SUPPORT BY FIDIC

FIDIC 2004

ir.P.R.Piepers
8 September 2004



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CHAPTER 1

Cross cultural differences

By: All participants

In total 9 different nationalities (Australian, British, Danish, Dutch, German, Italian, Japanese, Korean and Turkish) were represented, all with their own professional cultures. During discussions on different professional topics some cultural differences came to light.

Summarizing the differences between the countries we noticed differences in Career Development, Sizes of firms and cooperation between them and in Level of Development, all of which are described below.

1.1 CAREER DEVELOPMENT

In Korea they have an engineer management system form a national policy. In order to participate in a national capital project, both the engineers and firm have to register in a national agency. The national agencies have established a database of the CVs of engineers to pre-vent that an unqualified engineer can participate. The engineering firms have to specifically manage the experience of the firm and the career of the engineers and the registration in the government agency. Therefore, it is important to manage the career path of engineer in Korea. Besides that a Korean government certificated engineer has to go through a qualifying examination to get one of the following titles:

- Professional Engineer
- Engineer
- Industrial Engineer

Because of the importance of the government registration of engineers most of the Korean firms prefer to recruit experienced engineers and not fresh engineers. In this way they don't have to invest in human resources development. As a result engineers by themselves continue to study and specialize.

1.2 SIZES OF FIRMS AND COOPERATION

In Italy there are the phenomena of the small firms. The average size of a company is 1.7 person. Though, the actual Italian situation of freelancers and little firms won't last much longer. Since 1994 there is a new public works regulation (based on professional experiences, skills and CV of consultants) that requires mid-sized or big engineering organization (companies or temporary associations of companies and freelancers architects and engineers) to have the possibility to award some public projects. This means that the Italian engineering market is going through a quit radical change in which the Italian engineering firms and freelancers have to compete and/or work together with the big international firms coming in from abroad.

One of the most amazing facts about the engineering market in Italy was to find out that in Italy (until a few years ago) architecture and engineering activities were related to the name of the designer(s) in charge, and pure engineering companies (private LTD or similar companies) were forbidden. For sure this has been the bigger problem for the development of big private firms in Italy.

In Germany there is a similarity with small firms: The Germans have on the one hand small/medium sized and private owned companies, which is (was) certainly the backbone of the German economy and on the other hand they have some big(ger) consulting and engineering companies like "Laymeyer International".

Single entrepreneurs founded many of the companies in Germany after the world war. The companies grow in a organic way and in the last 50 years there was no reason for those companies to grow faster for example by merging. The German companies have to change their attitude and have to be more open for merging or at least cooperation with companies also from abroad. Perhaps in this case we should learn from our Scandinavian or Dutch neighbours.

1.3 LEVEL OF DEVELOPMENT

Talking about "cultural" differences between countries, the difference between Tanzania and the rest of the countries involved in this training programme is the most stunning. Issues like AIDS, corruption, funding policy of donors and political (in) stability are things we don't have to think about (anymore) in "our part of the world", but are very actual when thinking about globalisation and internationalisation of our work field.

There are also different and subtler cultural differences. As for 'the Dutch' other companies and governmental organizations abroad find them quite direct and strait forward. Questions about things one wants to know are just simply asked. Information that is needed for a certain assignment needs to be gathered, and within the Netherlands almost all information is for the general public. One only needs to ask. Everybody knows. But these qualifications are very important when expanding into other countries, especially where information is not to be accessed by just everyone and where more indirect routes have to be followed. Other qualifications are that they often are not very polite or diplomatic. More like 'an elephant in a china cupboard'. Within the Netherlands, this is not a problem, whereas in other countries this could mean the end of your professional career.

CHAPTER

2

FIDIC

Assist and support by

By: M. van Dongen

2.1 INTRODUCTION

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- FIDIC assistance to reduce technical trade blocks.

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The major stress is on the proposed merging and unifying role and function of FIDIC, where companies and professionals can have the chance to find a common platform to meet each other and consequently exchange ideas and investigate the opportunities to make cooperation. This is found to be most important function for FIDIC for companies seeking to develop their business and act more internationally (and therefore globally).

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