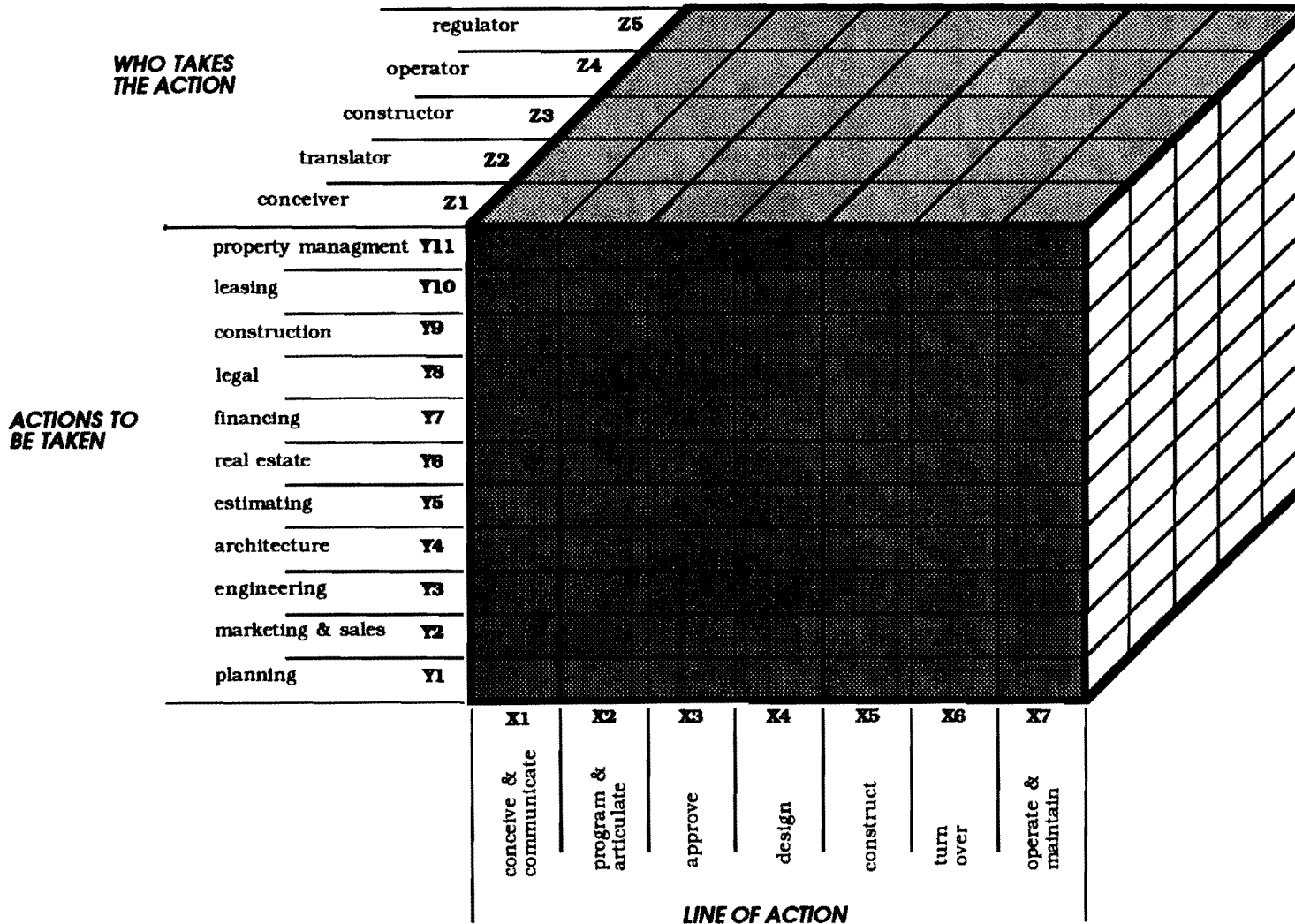


Michigan AGC annual meeting talk

- I. Date of meeting - Friday, December 4, 1992
- II. Location - Sheraton Hotel, Lansing, Michigan
- III. Time of meeting - 10:30 am to 12:00 noon
- IV. Number of attendees expected - 20 to 30
- V. Title - *The Importance of Strategic Planning for Contractors*
- VI. Speaker - Ralph J. Stephenson, P. E.
- VII. Subject outline
 - A. Introduction to the concept of strategic planning
 1. The macro matrix - a three dimensional reference view of the construction industry. - attachment A
 2. Contains 385 drawers or boxes requiring some form of construction related activity within the entire project.
 3. The three axes of the macro matrix.
 - a) x axis - Line of action - those actions that are usually taken to accomplish the project from concept to full operation and maintenance.
 - b) y axis - Functional actions to be taken in moving the project from concept to full operation and maintenance.
 - c) z axis - Those who are involved in providing the functional actions to implement the line of action.
 4. Planning is the process of deciding what you want to achieve and how you want to achieve it.
 5. The *macro matrix* can help you decide what you want to achieve.
 6. The *business model* helps show you how to achieve what you want.
 - B. Questions to ask and answer that are of help in strategic planning - a starter list at random
 1. Overview considerations
 - a) Where do we fit in the macro matrix of the construction industry now?
 - b) Where do we want to fit in the macro matrix of the construction industry in 5 years?
 - c) What businesses are we in now?
 - d) What businesses do we want to be in 5 years from now?
 - e) What changes might we have to make to achieve our 5 year from now position
 - f) What is the nature of our relations with our vendors?
 - g) What is the nature of our relations with our subcontractors?
 - h) What is the nature of our relations with other prime contractors?
 - i) What is the nature of our relations with planners, architects, and engineers?
 - j) Where are we at a disadvantage in comparison to our competitors?
 - k) Etc.
 2. Market characteristics
 - a) What market do we serve?
 - b) Where is our market?
 - c) Where is our market heading?
 - d) What qualities define our clients?
 - e) Who are our indirect clients?
 - f) What share of our market do we presently obtain?

MACRO MATRIX BOUNDARIES OF DESIGN & CONSTRUCTION



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- g) What share of our market do we want?
- h) How do we measure the effectiveness of our marketing effort?
- i) Etc.

3. Capabilities

- a) What project delivery systems should we be developing
- b) What does our organization have to offer our prospects?
- c) What does our organization have to offer our present customers?
- d) What improvements should be made?
- e) What improvements can we make?
- f) What are the resources we use in our business?
- g) How effective are the resources we use in making us successful?
- h) What is our principal product?
 - i) What is our most profitable product
 - j) What do our present clients think of us?
- k) What are our major competitive edges over others in our business?
 - l) What kind of work do we do the best?
- m) What kind of work do we do the worst?
- n) What do our employees think of our organization?
- o) What is the quality of our employee relations?
- p) How should we improve our employee relations?
- q) How do we measure the effectiveness of our capability management
- r) What education and training should we be providing our employees?
- s) What services should we be offering at no charge?
- t) What services should we be offering for a fee?
- u) What kind of people should we be recruiting as employees?
- v) Etc.

4. Financial

- a) What should our return on investment be?
- b) What is the division of income into expense, overhead, profit, and reserves?
- c) What other income divisions should we consider?
- d) What are our budget limitations?
- e) How do we plan money flow in our organization?
- f) How can our money flow management be improved?
- g) What should be our practices in respect to surety?
- h) What should be our practices in respect to insurance?
 - i) What are the industry financial ratios for organizations in our business?
 - j) What are our financial ratios and how do they stack up with others in our business?
- k) How do we measure the effectiveness of our financial operations?
 - l) How do we finance desired growth?
- m) What financial controls do we need to achieve our plan?
- n) What are the sources of money to finance growth?
- o) Etc.

5. Management

- a) How do we properly manage and allocate risk in functional and project operations?
- b) What are our major organizational strengths?

- c) What are our major organizational weaknesses?
- d) How do we manage to our strengths?
- e) How do we achieve a balance of management strengths?
- f) How do we measure the effectiveness of our management?
- g) What types of organizational structure are best for us now?
- h) What types of organizational structure will we need for desired growth?
- i) What project delivery systems should we be using now?
- j) What dispute resolution policies should we encourage and use?
- k) Etc.

C. The business model as a base for strategic planning - attachment B

1. Boxes #1, 2 and 3 - The nature of the organization

These are the premises upon which your business is built and which to a great extent determine its character.

a) Box #1 - Socio economic purposes

- Socio economic purposes state the obligation that your company has to society and the corresponding return on this investment you expect from society. The socio economic purposes state your justification for being in business.

An example of a socio economic purpose might be:

To design and construct competently, adding value for our clients, for the community, and in such manner that the profits from such efforts will accrue to the employees of our company.

b) Box #2 - Strengths, weaknesses, opportunities, problems

- Strengths are those characteristics inherent within the organization and the individuals in the organization that convert opportunities into profitable realities.

Example - Staff has good understanding of conceptual, and design and build estimating techniques.

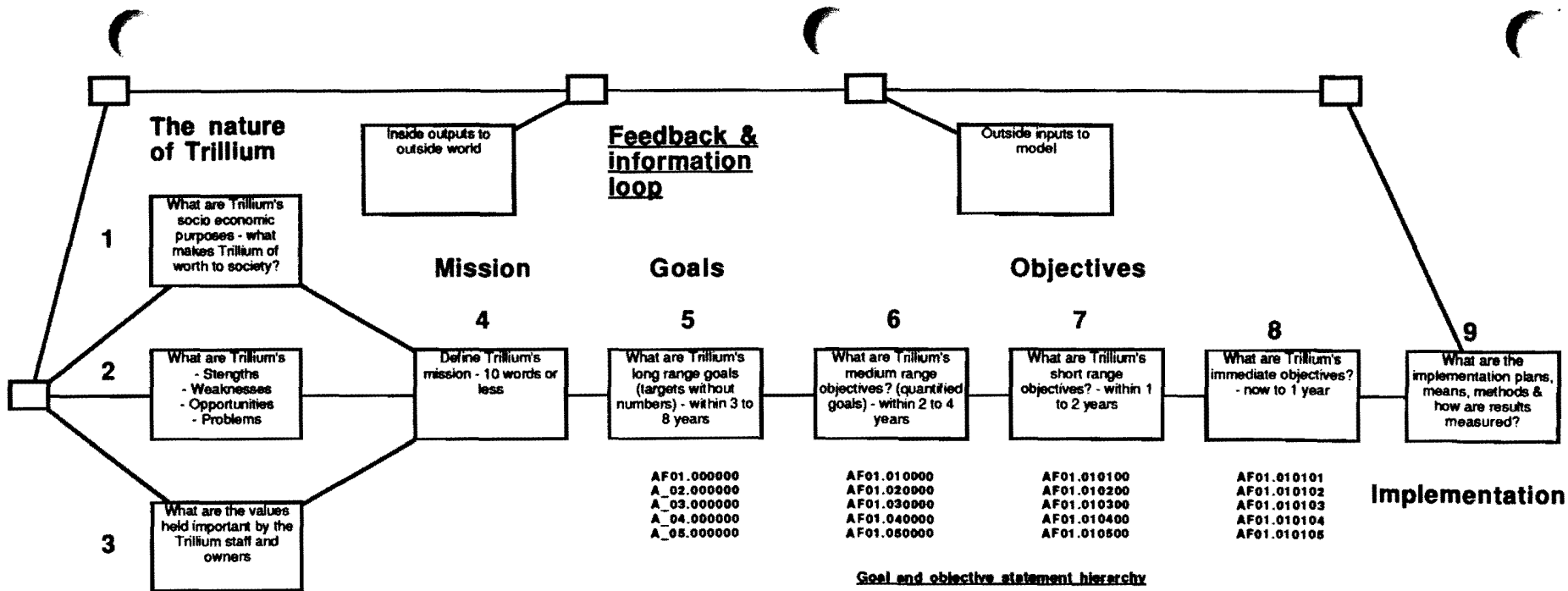
- Weaknesses are organizational and individual inability to effectively solve problem that lower the success potential of the organization.

Example - Organization staff overly dependent on president for decisions and implementation of growth.

- Opportunities are the chances to convert a potential for improvement and success into the actions needed to make the conversion.

Example - Can purchase sizable and well located real estate acreage at below market price?

- Problems are specific deviations from expected standards of performance that are weakening chances for success.



Goal and objective statement hierarchy

Major functional areas within which Trillium's goals & objectives could be framed.

- A. Administration
- B. Construction
- C. Corporate planning
- D. Development - real estate
- E. Fee (& perhaps internal) services
- F. Marketing & sales
- G. Training & education

Trillium Company Model

Issue #1 - 1/3/89
Issue #2 - 12/12/90
2gen business model
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Example - *Poor middle management structure.*

c) Box #3 - Values of importance

- Those traits and actions by the organization and its employees that paint a picture of the organization's attitudes. What employees consider to be of high value will ultimately be reflected in an appreciation of that same trait in others with whom they do business.

Example - *Belief in straightforward, honest buying procedures.*

2. Box #4 - Mission

- The single most important goal to achieve by being successful in the organization's principal efforts.

Example - *To add value for the public, our clients, our associates and ourselves in all business services we provide.*

3. Box #5 - Goals

- Goals are unquantified targets to achieve within a period of time that may or not be defined.

Example - *We will structure our company to generate prospective projects to give us a defined balance of work in medical facilities, transient housing, heavy industrial process programs, and total design/build of light industrial buildings.*

4. Boxes #6, 7, and 8 - Objectives

- Objectives are quantified targets derived from established goals. Remember the construction industry is an objective based operation. It is very important to set objectives as we determine our goals.

The objectives to be defined in boxes #6, 7 and 8 are of varying time length from now to as far as eight years in the future. They can be established from short range to long range or in the reverse sequence.

Longer range objectives are usually achieved by defining and reaching intermediate and short term objectives.

Medium and long range objectives are defined in strategic plans. Short term objectives are often best achieved by tactical planning.

Example - *To expand geographically within the next three years to an area defined generally as 150 miles from our main office in Trial and Error, Iowa. Sales efforts will be concentrated for the next year on generating level 1 prospects.*

5. Box #9 - Implementation

- What are the implementation plans, means, methods and results measurement methods to be used in achieving success through the business plan.

Example - Over the next 6 months the principals of the organization will call on prospects in the targeted sales area in accordance with a travel schedule to be determined jointly with the marketing task force.

D. Supplemental concepts of importance in business planning

1. The 4I's of the improvement cycle - attachment C
 - a) Inertia - resistance to change that hinders starting up the improvement cycle.
 - b) Initiative - Removal of inertia as a barrier to learning. Once the reasons for inertia have been removed the desire to learn will begin to appear.
 - c) Insights - Key elements of a subject that deal with the intellectual, the physical and the procedural requirements of learning. Insights can be intellectual, physical or procedural.
 - d) Improvement - Accelerated learning gained by overcoming inertia, taking initiative, & gaining insights.
2. Types of questions to ask yourself and your staff in the planning process - see definitions
 - a) Closed
 - b) Direct
 - c) Open
 - d) Overhead
 - e) Relay
 - f) Reverse
3. Routes of dispute resolution - attachment D
 - a) Non binding
 - (1) **Prevention** - produces maximum harmony - usually least cost.
 - (2) **Internal negotiation** - parties involved conduct negotiations - requires consensus - relatively cost free.
 - (3) **Informal external neutral** - preselected external neutral serves as a informal dispute-resolver - relatively low cost.
 - (4) **Formal external neutral** - preselected external neutral(s) serves as formal dispute resolver - relatively low cost - usually requires considerable preparation, and may require legal assistance.
 - b) Binding
 - (1) **Outside of court** - dispute given to knowledgeable third party - moderate cost - may require legal assistance
 - (2) **In court - litigation** - court decided lawsuit - most expensive - usually requires legal assistance.

VIII. Definitions

As planning proceeds a glossary of commonly used words and phrases is of great help in avoiding time consuming repetition of their meanings to those newly involved. It also aids those already involved to express themselves in constructively consistent terms.

- A. **Alternative dispute resolution**
A method of resolving disputed construction claims outside the courtroom.
- B. **Conservative organization - attachment E**
One that collectively is moderate, prudent, often cautious, and usually traditional in their conduct of business.
- C. **Destructive conflict**
Animosity or disagreement which results in lowering the potential for an individual or organization to succeed.
- D. **Direct clients**
Those with whom you maintain formal arrangements, usually by contract, and to whom you provide direct services.
- E. **Dysfunction - Organizational**
An organizational problem that hinders or prevents achieving objectives. May be temporary or permanent.
- F. **Effective**
Of a nature that achieves identifiable goals and objectives in accordance with an action plan, and achieves worthwhile peripheral goals through intermediate accomplishments.
- G. **Forerunner organization - attachment E**
One that collectively is aggressive, intelligent, often willing to take higher than usual risks for higher than usual returns, and frequently is unorthodox in the conduct of their business.
- H. **Goals**
Unquantified desires of individuals or organizations expressed without time or other resources assigned.
- I. **Indirect clients**
Those decision makers who influence your performance and its acceptance, but have no direct service or contractual relation with you.
- J. **Issue resolution**
A method of reaching agreement and closing out disputes and problems at the lowest possible management level, in the shortest possible time, and with the lowest potential for residual hard feelings.
- K. **Manage**
To define, assemble and direct the application of resources.
- L. **Mission**
The single most important goal to achieve by being successful in the organization's principal efforts.
- M. **Objectives**
Quantified targets derived from established goals.
- N. **Partnering - Associated General Contractors**
A way of achieving an optimum relationship between a customer and a supplier. A method of doing business in which a person's word is their bond, and where people accept responsibility for their actions.

Partnering is not a business contract, but a recognition that every business contract includes an implied covenant of good faith.

- O. **Positive conflict**
Hostility that is managed so its resolution raises the potential for individuals or organizations to succeed at being excellent.
- P. **Profit - Educational & Training**
Fulfillment of learning and teaching goals held by individuals and their companies.
- Q. **Profit - Financial**
Fundamentally, the difference between organizational cash income and organizational cash expense. Further definitions of financial profit are complex and often unique to an organization or project.
- R. **Profit - Self Actualization**
Personal fulfillment realized after basic needs of shelter, safety, protection, love and freedom from hunger are achieved.
- S. **Profit - Socio Economic**
Company, group or individual achievement of social objectives within a financially profitable set of activities.
- T. **Profit - Value System**
Company and project fulfillment of personal, professional, technical, social and financial values held important by individuals and groups related to the company.
- U. **Project Delivery System**
A method of assembling, grouping, organizing & managing project resources so as to best achieve project goals & objectives.
- V. **Prospects**
Those with whom you are engaged in discussions or business negotiations leading to a contract, but with whom you have no contract relations as yet for the work under discussion.
- W. **Question - Closed**
Questions that can be answered with a yes or no, or with a simple statement of fact.
- X. **Question - Direct**
Asked with strong indication as to who or whom should answer.
- Y. **Question - Open**
Questions that cannot be answered with a yes or no, or a simple statement of fact.
- Z. **Question - Overhead**
Asked of a group without indication as to who or whom is to answer.
- AA. **Question - Relay**
Passed along to someone else by the party originally asked.
- AB. **Question - Reverse**
Returned to the questioner by rephrasing or rewording the original question.
- AC. **Standard of Performance**
A well defined, explicitly stated, approved and accepted statement of the measurements to be used as a gage of performance, and goal and objective achievement.
- AD. **Strategic plans**
Plans by which medium and long range objectives are reached.
- AE. **Tactical**
Short term objective plans that concern immediate future operating methods to be used.

Michigan Chapter AGC
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AF. Ultimate Decision Maker (UDM)

The individual or group at the lowest management level that has the authority to make a final binding decision in any job related matter.

AG. Value added

The improvement in the worth of anything that results from the efforts, contribution and involvement of specific people, processes, materials and ideas.

Notes on Forerunner & Conservatively Managed Companies

- What are alternative names to forerunner and conservatively managed companies? Proactive & reactive, positive & negative, front & back, do & wait, high risk & low risk, maximum & minimum, go & no go, try & no try, run & walk.
- The forerunner managed company tries to optimize the probability of being right.
- The conservatively managed company tries to minimize the probability of being wrong.
- It is critical to understand that both types of companies can be, and often are successful or unsuccessful. The style of forerunner or conservative is merely an indication of the way the organization achieves success or goes through the twinges of failure.
- Some characteristics of the forerunner vs the conservative company are:

Forerunner

- Aggressive in their field of work
- Young
- High risk takers
- High leveraging of all resources
- Good morale
- General absence of recognizable management structure
- Healthy cooperation among lower management
- Strong competitive drive at all levels of management
- Strong sensing (not necessarily knowledge) of total purpose about
 - Financial return on investment
 - Social obligation
 - Professional integrity
 - Technical excellence
 - Ethical behavior
- Provision of sense of worth to projects
- Provision of sense of exciting flux to staff
- Maintenance of an exciting environment
- Constant forging ahead in their business arena

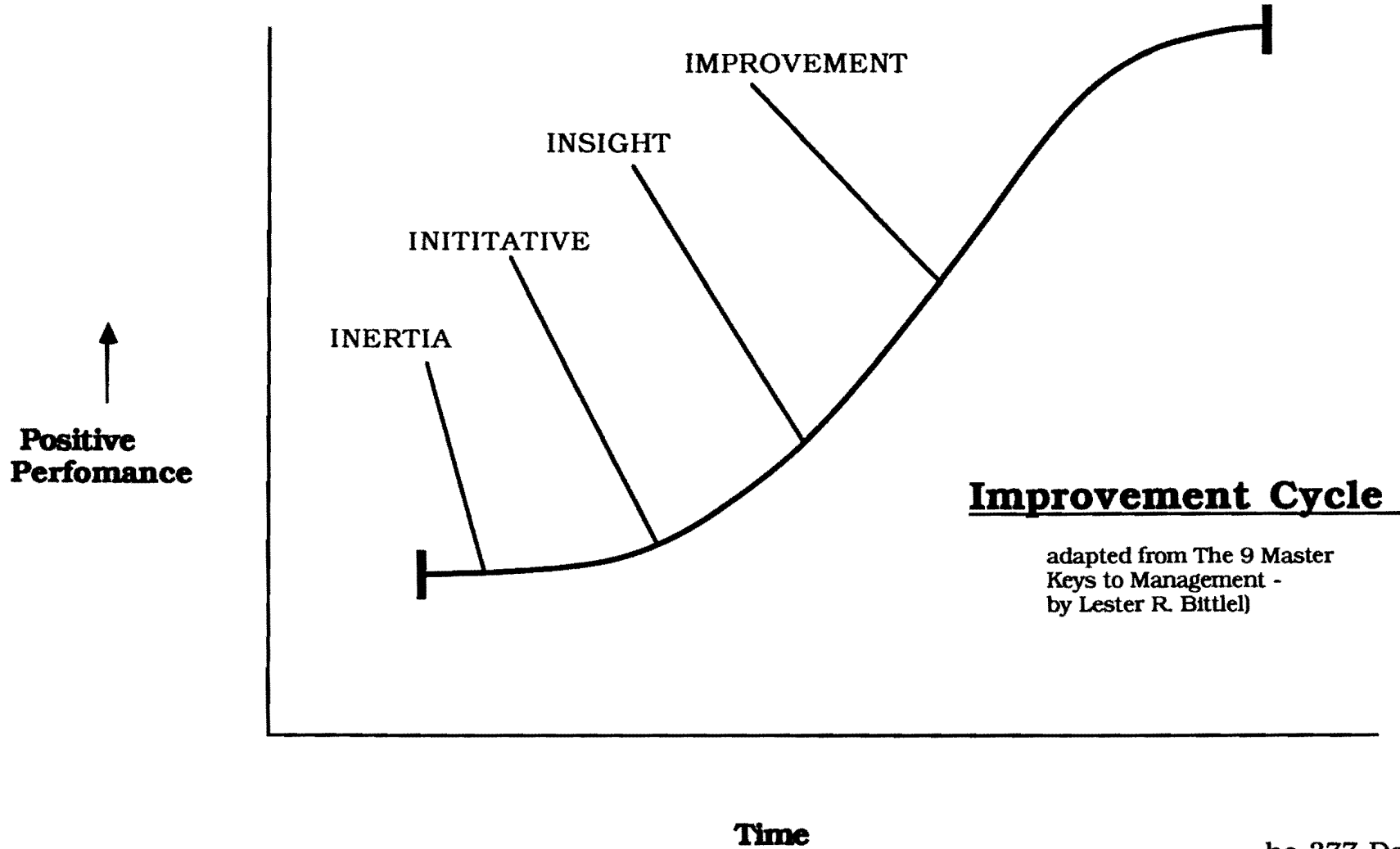
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- Desire & ability to adapt to positive change
- Desire & ability to institute change
- Desire & ability to accommodate change
- Medium to low levels of incompetence tolerance
- Strong leaning toward high individual performance levels
- Low level of interest in business planning
- Often learn by mistakes

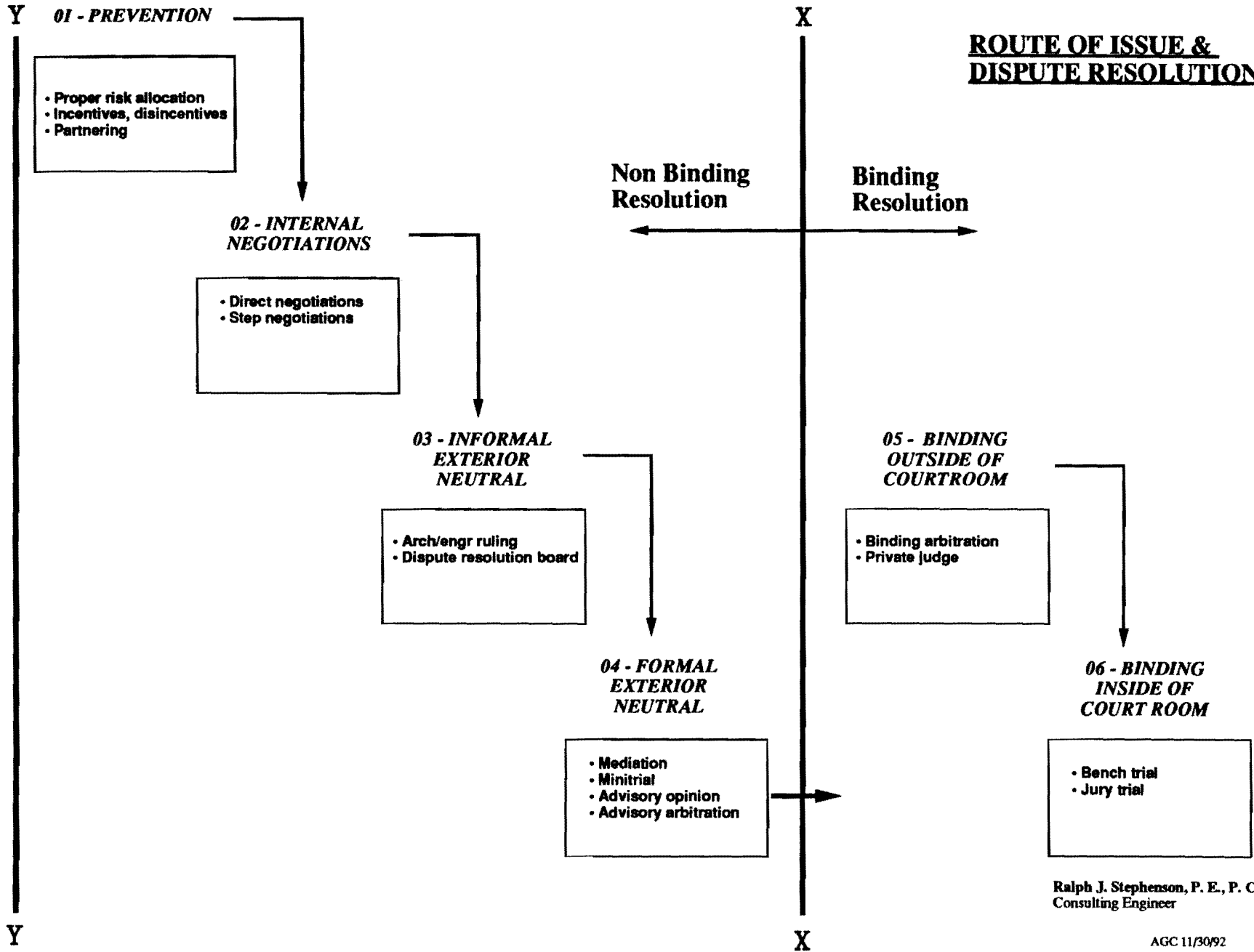
Conservative

- Usually well managed from top down
- Moderately well managed from bottom up
- Tends toward paternalistic management
- Major decision making centered in top management
- Good financial strength, if mature
- Dependable
- Predictable
- Closely controlled employee training
- Modest salary structure
- Good standard employee financial benefits
- Usually stress hygiene as opposed to motivational drive
- High levels of employee loyalty in those who like the system
- Provision of employee security
- Generally pretest decisions at executive management levels

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ROUTE OF ISSUE & DISPUTE RESOLUTION



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