

Building The Sum Of The Parts

**How Nordic
Construction Group
Ncc Started To Get
The Best From Its
Business Units**

The Challenge

How can a large corporation capitalize on the benefits of its scale to achieve profitability and growth?

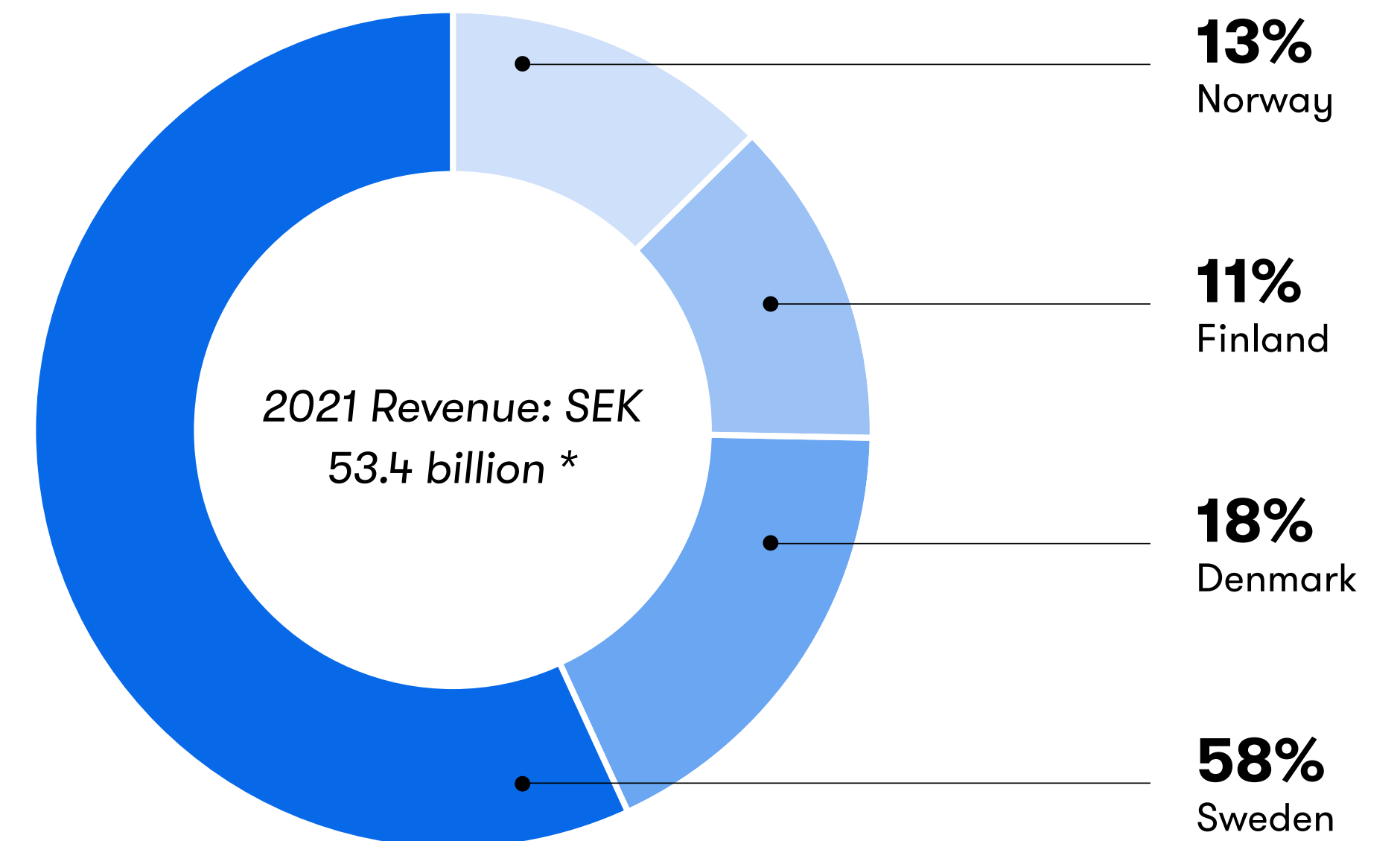
NCC, a Nordic leader in construction and civil engineering, had enjoyed steady revenue growth for years. But margins had been shrinking at a time when new opportunities were emerging with the rise of “smart cities” and urbanization. That’s because the business was not fully maximising the strengths of its different units to partner as effectively as it might with customers to develop integrated solutions in this new environment.

This included tendering for projects with restricted margin potential, diverting resources and focus from growth segments, having siloed project teams and not sufficiently leveraging cross-functional expertise. In addition, business units were not systematically tapping into the group’s scale and scope to win complex mandates.

NCC turned to IMD in 2019 for help finding the solution to the key challenge: how to ensure it could, on a group-wide basis, capitalize on the benefits of its scale and scope to achieve sustained profitability and growth. After a 15-month journey, including in-depth work on developing new internal behaviors as part of cultural change, the impact and results are showing.

Building Strength In Numbers

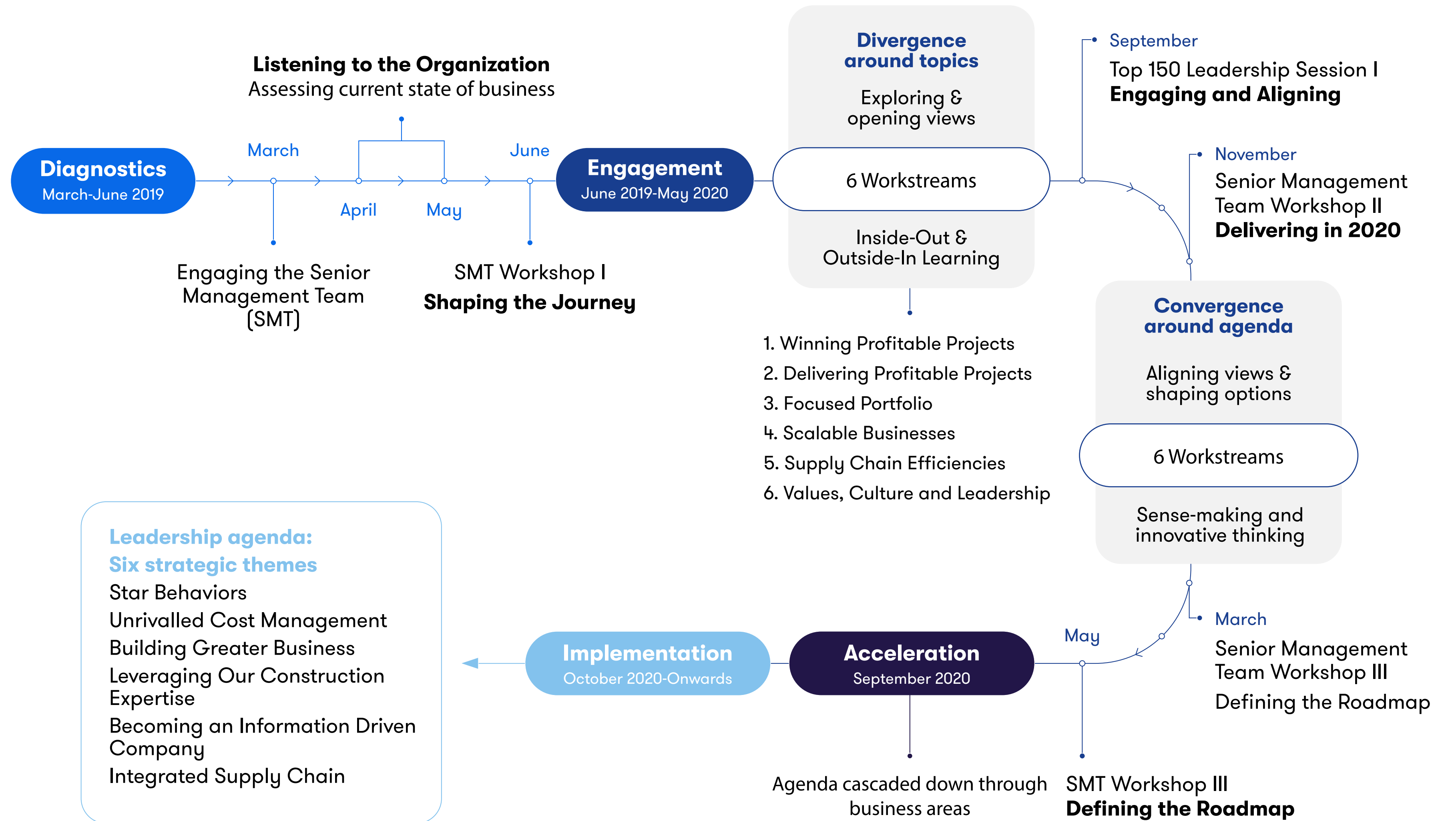
NCC’s operations include commercial property development, building and infrastructure project contracting, and asphalt and stone materials production, commercialized under multiple brand names.



* Source: NCC Annual Report 2021

How We Partnered: The IMD Pathfinder Journey

Two parallel and interconnected journeys engaging the top leadership team and 150+ employees from across regions and functions.



Building The Sum of The Parts

When NCC's Head of Strategy Fredrik Vernersson was in a "listening exercise" with colleagues in 2019, he made a discovery that was crucial to figuring out how the Swedish-based construction company should rethink its operating model for success.

"One of the managers from our asphalt division asked how many of the 20-30 or so people in the room had visited an asphalt plant and knew what he did on a daily basis, and for anyone who did to raise their hand," he said. "I was the only one who did."

This was neither a boastful gesture on his part nor a sign that his colleagues were shy. He was surprised to find that he had been the only NCC colleague in that group to have visited one of the company's asphalt facilities because, ideally, there would have been more shared knowledge and understanding of the different business models at each line of business within a construction group such as NCC, one of the Nordic region's largest. Operations include commercial property

development, building and infrastructure project contracting, and asphalt and stone materials production.

In 2021:

NCC had sales of SEK

53.4bn

NCC had

14,500

employees



Identifying The Issues

The insight gleaned from the listening exercise by employees and management at NCC was that too few people at the company had a good understanding of parts of the business other than their own. This was not ideal in a company dependent on the various elements of the construction business coming together to make projects happen smoothly, from raw materials like asphalt for roads, to buildings and infrastructure such as bridges, tunnels, and hydropower.

In the construction and infrastructure business, it typically helps to persuade prospective clients in a tender that your business understands not only the engineering challenge in relation to an office building but also the earth-moving and foundation aspects associated with this. The ultimate goal is being able to draw on different business areas and different skills within a group to build a set of packaged, distinctive capabilities to tackle complex projects — and go to market as such.

Essentially, NCC was functioning as a collection of businesses and not as a coherent, interconnected group capable of going to market as such, fully leveraging synergies and cross-learning opportunities within the organization, which was still built around relatively independent business areas.

“We always had the notion that there should be value in being a large corporation,” Vernersson explained at the time. “I think that’s one of the things we have started, but not managed to sufficiently to nail down into actual behaviors.”

This and other issues, including insufficient attention to cost and risk management and how tendering was approached, had started to be reflected in the financial performance of the company’s core construction business, which had suffered from declining profitability and margins until, in 2018, the whole NCC group swung into an operating loss of SEK764 million, compared with a profit of SEK1.24bn a year earlier. The dividend to shareholders was halved.



Engagement With IMD

NCC's subsequent year-long engagement with the International Institute for Management Development (IMD), named "Foundation for the Future", was designed to help the company reassess its value proposition to customers – and its operating model – and explore ways in which NCC could fix some of the basics while extracting the full, long-term potential of the business by leverage its scale to best effect.

The program NCC engaged with is called IMD Pathfinder®. This transformative approach enables companies to accelerate current growth while exploring and shaping options for the future by empowering the organization's own people and talent to remove barriers and identify opportunities for the business.

The Process of Transformation

The listening workshop Verneresson and his colleagues participated in is a key component of the Pathfinder diagnostics phase, which in the case of NCC involved five such discussions with more than 150 staff from across the group's business areas and support functions.

In these sessions, executives reflected on what the "blockers" were in the organization that were preventing NCC from acting as a group, as well as the "enablers" which helped the business to capitalize. This was when Verneresson and his colleagues made their discovery about how little managers in general knew about other business units within NCC.

The insights from these diagnostic sessions helped to create a shared understanding among senior leadership about the group's current state, to prioritize opportunities to explore and issues to address, and to shape future direction. Next, senior leadership engaged teams from different parts of the business in six exploration workstreams: winning profitable projects, delivering profitable projects, economies of scale in supply chain, scaling the business, values and culture, and portfolio.

"There are strong arguments for using an approach that empowers the senior management team and a broader layer of top managers to co-create the strategic direction," observed Tomas Carlsson, NCC CEO. "This way of working not only secures commitment, but it also makes implementation smoother and the 'time to market' faster."

Learning From External Organizations

A second key element of the Pathfinder program is so-called “outside-in” learning, which saw the NCC teams dispatched to visit other companies, often in unrelated sectors, to learn from them. This aimed to get participants out of their day-to-day mindsets and find out how other leading companies tackle specific challenges.

These conversations with external companies are driven by the idea that learning from businesses in different sectors and geographies can be a valuable way to generate fresh thinking in the formulation and creation of a new or evolved aspiration and strategy.

Mathias Eriksson, Head of Strategy & Market Analysis at NCC’s infrastructure division, highlighted a visit to a leading global manufacturer of construction and mining equipment to explain how NCC team members learned from the exchange. “How they regarded projects, and how they developed their methodology for how they work with their projects, was very interesting and applicable to us,” he said. “We felt we could quite easily translate this into what it could mean for NCC.

“It was also an eye-opener to some people, going beyond classroom learnings so that you actually could learn from other industries, while discovering that there were very relevant insights that didn’t need a lot of translation to be applied to our business.”



Becoming More Holistic, With Knowledge Sharing

Another important discovery in the Pathfinder process was the need to build a holistic, customer-driven approach to winning and delivering projects, which would prevent spending too much time on internal debate. Instead of working together as a unit on a project or tender, individual business areas within NCC would sometimes negotiate with each other, treating each other as internal suppliers rather than working together instinctively towards a single goal – such as winning the tender.

This and other work ultimately helped NCC to develop new ways of operating. One example was in the infrastructure business, which reviewed and improved the ways in which information was shared between different parts of the business, focusing on specific prioritized areas. The objective was to ensure that knowledge gained from previous projects with similar characteristics was shared across the organization.

A key learning from the IMD journey was knowledge sharing, explains Eriksson. “Effective knowledge sharing leverages the benefits of being a large company. By sharing knowledge gained from previous projects, we continuously strengthen our ability to manage the complexity of the construction process. That creates great benefits for our customers as well as for NCC.”

Another decision was to review and adjust how NCC monitored business performance to reflect the focus on knowledge sharing. The results of these and other improvements to the way the organization worked are now monitored regularly as part of following up to ensure clarity of strategic direction.



Implementing Six Strategic Themes

When it came to implementation of the outcomes from Pathfinder, the first step was for the senior leadership team to communicate to the broader organization in December 2020 six “strategic themes” that had been developed following the journey with IMD, and which were designed to create a transformation program for NCC. In a move to deepen organizational engagement and set clear accountability for the implementation process, NCC decided that each of the six themes would be driven either by group, business area, or corporate function with support from cross-functional teams. As work has progressed, NCC has cautiously but purposefully rolled them out, rather than overloading the organization with too much implementation all at once.

Another key theme was cost management, which was identified as fundamental to running complex projects and operating as a group. As Head of NCC Industry Ylva Lagesson explained, “Cost management delivers true value to our customers because it’s not just about us reducing the cost, it’s about having control of the cost. If we can do that in any project, no matter whether it’s an infrastructure or a construction project, we will be in control of the delivery phase, which ties to risk management, logistics and purchasing. This will strengthen and leverage our ability to run complex projects.”

This insight led to the implementation of a strategic theme called “unrivaled cost management”, which aims to ensure that NCC carefully assesses and controls costs right across procurement, supply chain, logistics, and project delivery.

This is as much an element of culture as process. Verneresson said that NCC learned a great deal about aligning strategy with structure, systems, and behaviors as part of driving change. This was a key insight captured by the values and culture workstream in one of the “outside-in” meetings with a large European industrial conglomerate.

“The team that visited the conglomerate spent time with a successful CEO known as a hard-nosed, numbers guy, focused on performance,” he remembered. “Surprisingly, he talked to them about culture as the key to driving change. We knew from the outset that values and behaviors would play an important role, but this helped our people to realize how going back to our values was fundamental, and that our culture and behaviors were going to play an essential role for making this transformation a success. That was a real moment.”

The “Star Behaviors”

The findings from this workstream gave rise to four guiding principles for how NCC operated internally and externally in relation to its clients. Dubbed Star Behaviors, they included Build Together, a principle that ensures effective collaboration between business units. As Eriksson explained, “The implementation of our Star Behaviors is where we saw by far the most engagement by our people and where we have seen positive change, although it is too early to assess the full impact.”

In the coming months, NCC will conduct its first post-implementation culture survey to assess progress. They say there is already evidence that these principles have helped unify the company and encourage new ways of working. As Head of NCC Property Development Joachim Holmberg explained, “The Star Behaviors have become well-known now. It’s a language we internalized and use equally within NCC and with our clients.”

Reflecting on the role of behaviors in the company’s transformation, NCC CEO Tomas Carlsson added, “We started implementing the strategy by immediately addressing the cultural aspects of change, packaged as the four Star Behaviors. The reason is obvious: if we allowed flawed behaviors to continue, these would stand in the way of necessary strategic changes. Looking at it the other way around, strengthening certain behaviors is a strong driving force when implementing a new strategic direction.”

Looking To The Future

Significant progress has been made since Pathfinder ended and NCC started to roll out its strategic direction in 2020. “First, we took several measures and prioritized initiatives we believed had an impact in the short-term. Then, the strategic themes gave us direction when it came to what kind of company we wanted to be, and how we wanted to develop our business in the long term,” said Eriksson.

The company seems to be on the right track, as reflected in its financial performance, which has seen steady improvement since 2019, the year it returned to operational profitability. 2021 saw a 34% jump in that metric to SEK1.83bn. Earnings per share (EPS) also increased to SEK 14, a major stride towards NCC’s goal of delivering SEK 16 EPS by 2023.

“We are operating in a more structured manner jointly as a company, rather than as different businesses,” said Vernersson. “We have started moving in the right direction, but there’s still a lot of focus and grit needed to ensure we get the ultimate benefit and value of being a group. Are we there already? Not yet. But we have taken huge steps forward.”

[Watch the journey here](#)



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