How Nordic construction group NCC started to get the best from its business units.

Building the sum of the parts.
When Fredrik Vernersson was in a “listening exercise” with colleagues from NCC 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 those 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. I was the only one who did,” explains Vernersson, NCC’s Head of Strategy. This was neither a boastful gesture on his part nor a sign that his colleagues were shy. Vernersson 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 — surprised 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:

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<th>NCC had</th>
<th>sales of SEK</th>
<th>53.4bn</th>
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<td>NCC had</td>
<td>employees</td>
<td>14,500</td>
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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 too much 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. And I think that’s one of the things we have started, but not managed to sufficiently to nail down into actual behaviors,” as Vernersson explains the situation in 2019.

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. This 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 re-assess its value proposition to customers and operating model, with a view to exploring 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 in which NCC was engaged is known as IMD Pathfinder®. This is an approach that 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 session in which Vernersson and his colleagues were participating was one of five “listening workshops”, a key component of the Pathfinder diagnostics phase, which engaged more than 150 staff from across the group, business areas and support functions.

In those 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” on which to capitalize. This was when Vernersson and his colleagues made their discovery about how little managers in general knew about other business units within NCC.

The insights from the diagnostics session 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 some 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. This way of working not only secures commitment, but it also makes implementation smoother and the ‘time to market’ faster,” observes Tomas Carlsson, CEO of NCC.

A second key element was so-called “outside-in” learning, which saw those 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 job mindsets and to find out how other leading companies tackle specific challenges.

Such 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, highlights a visit to a leading global manufacturer of construction and mining equipment, explaining 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. 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 NCC.”

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”, Vernersson says. 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 is 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 is 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 monitors 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.
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.

Cost management was a key theme, because it was identified as fundamental to running complex projects and operating as a group. As Ylva Lagesson, Head of NCC Industry, explains: “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 “unrivalled 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. Vernersson explains 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. Surprisingly, he talked to them about culture as the key to driving change,” says Vernersson.

“We knew from the outset that values and behaviors would play an important role, but our people realised that 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 findings from this workstream gave rise to four guiding principles for how NCC operates internally and externally in relation to its clients. Dubbed “star behaviors”, they include “Build Together”, a principle that aims to ensure effective collaboration between business units. “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,” Eriksson says. In the coming months, NCC will conduct its first post-implementation culture survey, to assess progress.

There is already evidence, NCC leadership says, that these principles have helped unify NCC and encourage new ways of working. As Joachim Holmberg, Head of NCC Property Development explains: “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, Carlsson says: “We started implementing the strategy by immediately addressing the cultural aspects of change – in NCC packaged as 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.”

Significant progress has been made since Pathfinder ended and NCC started to roll out its strategic direction in 2020. “First, we took a number of 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,” says 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. Last year saw a 34% jump in that metric to SEK1.83bn. Earnings per share (EPS) have 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,” says 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? No. Have we taken huge steps forward? Yes.”