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## Organizational Configurations and Project Capability Development: Lessons from Construction

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### Abstract

Project capabilities have been described in the literature as the appropriate knowledge, experience and skills to perform pre-bid, bid and project execution activities. Embedded within the organizational context of the project-based organization (PBO) that possesses them, their development often requires reconfiguring structures, redesigning processes and even renegotiating organizational norms. This paper explores the relationship between the organizational configurations PBOs adopt, and the effectiveness with which they develop their project capabilities. The paper is derived from a qualitative, comparative case study research, undertaken in the tradition of critical realism and within the context of construction. Two multinational engineering-procurement-construction organizations were examined through the analysis of documentary and semi-structured interview data. Their cross-case comparison and discussion of emerging findings in light of the extant literature suggest that the divisionalization inherent in multi-business-unit PBOs influences negatively their effectiveness in developing project capabilities. At the same time however, it emerged that: i) integrating organizational learning mechanisms with reporting routines, ii) the presence of a corporate-wide 'techno-structure' with executive authority and iii) standardized processes related to project selection, team formation and project execution, contribute to overcoming the barriers that divisionalization creates. Due to the nature of the organizations studied, the significance of this paper and its findings lie with the fact that they contribute both to our knowledge regarding the management of PBOs, as well as our knowledge regarding the management of multinational corporations (MNCs), widely examined within the field of mainstream strategic management.

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## 1. Introduction

The concept of project capabilities was introduced and described by Davies and Brady (2000) as the appropriate knowledge, experience and skills necessary to perform pre-bid, bid and project execution activities. Although receiving much attention during the last decade, there is still widespread belief within the academic community that many related issues remain unexplored (Söderlund *et al.*, 2008; Melkonian & Picq, 2011).

This paper explores the relationship between the organizational configurations of project-based organizations (PBOs) - that is, organizations where projects are the dominant form of activity, value creation and sources of revenues (Hobday, 2000) - and the effectiveness with which they develop their project capabilities. It does this through a comparative study of two multinational engineering-procurement-construction (EPC) organizations. The paper first reviews literature on project capabilities and their development. Second, the nature of PBOs as organizations and the challenges this poses to project capability development are discussed. Third, the paper's research issue is brought forward. Fourth, the epistemological approach and methodology deployed are discussed. The presentation of the individual case studies ensues, followed by their cross-case comparison and discussion of emerging findings in light of the extant literature. Finally, conclusions are drawn.

## 2. From Organizational Capabilities to Project Capabilities and their Development

Within the field of mainstream strategic management, Chandler (1990) distinguished between 'strategic' and 'functional' capabilities of organizations, describing the former as referring to a firm's ability to move into growing markets more quickly and out of declining ones more rapidly than its competitors. He described functional capabilities as those required to improve a firm's functions (e.g. R&D, production, distribution, purchasing and finance). Drawing from Chandler (1990), Davies and Brady (2000) introduced the concept of project capabilities for the case of PBOs. They described them as the appropriate knowledge, experience and skills to perform pre-bid, bid and project execution activities, stressing that they are additional to, and not a substitute of, strategic and functional capabilities. In fact, they argued that PBOs can use project capabilities to develop these two, through project-based learning. They advocated that opportunities for project-based learning exist especially for firms that undertake similar categories of projects (e.g. turnkey, design and build, build-operate-transfer for the case of construction firms) due to 'economies of repetition'. Economies of repetition arise, as similar categories of projects involve repeated cycles of activity, where recognizable patterns of organizational behaviour tend to occur. Brady and Davies (2004) went on to propose a model of 'project capability building', which consists of two interactive levels. One level of three bottom-up, 'project-led' learning phases:

- An 'exploratory' vanguard project phase to capture lessons learned;
- A 'project-to-project' phase to disseminate lessons learned across projects;
- A 'project-to-organization' phase, during which the organization builds on lessons learned to develop capabilities it can apply to deliver many projects.

The second level is that of 'business-led' learning that occurs when top-down strategic decisions are taken to create and exploit company-wide resources and capabilities required to perform increasingly predictable and routine project activities. This paper focuses on the first, project-led level.

Project-led learning has been the subject of a number of research efforts. DeFillippi (2001) investigated how people learn individually and collectively within projects. Prencipe and Tell (2001) found that personal relationships, possibly developed through participation in formal and informal networks, contribute to effective project-to-project learning. Scarbrough *et al.* (2004) examined the embeddedness of project-led learning within the context of communities of practice, but found no evidence

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