

## **DECISION MAKING IN THE GREEN HOME CONSTRUCTION BUSINESS: VALUE DRIVERS**

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### **Abstract**

*Today, green home building is an emerging market which involves analyzing the national economy, and market segment consumers. This necessitates the need to identify, map, and describe the strategic drivers for green home construction business which encompasses developing a strategic market engagement framework so that an innovator considering a local project can measure consumer demand, understand the prevailing setting, form partnerships in the home construction business, and plan a marketing and positioning strategy suitable to the location. Green home construction is one of the most intricate industries today because housing markets are unstable; the cost of building homes are high and selling can be a challenge in the current market economy. Hence some viable business strategies and a global business model in green home construction are evaluated. Also, a set of competitive decision-making criteria for use are suggested.*

*Keywords: Value Drivers, Strategic Approach, Green Construction, Market Matric, Decision Making, Global Business Model*

### **INTRODUCTION**

According to the United States Green Building Council (USGBC) sustainable or green design means reducing the negative impacts on the environment; the health and comfort of building occupants; and improving building performance. Green building is one that is designed, built, renovated, operated or reused in an ecological and resource-efficient manner (USGBC, 2010). So, green design, green construction, or sustainable design used interchangeably involves reducing consumption of non-renewable resources, minimizing waste, and creating vigorous productive environments (Sayigh, 2013). However, a home may be green but not sustainable; only a home meeting net-zero energy standards can be considered sustainable (Hootman, 2013).

Decision making strategy involves the vision a company has of where the organization wants to be and how to get there (Keast & Towler, 2009). This includes successful implementation of strategy as a balanced approach that can easily be adapted to the needs of consumers in order to maintain a competitive advantage (Kim & Mauborgne, 2005; Thaggard, 2001). In the green home construction business, the market is viable for expansion when several stakeholders drive for increases together.

## **GREEN HOME CONSTRUCTION BUSINESS OPPORTUNITIES**

Green initiatives promoted by the US government under the leadership of the current president, Barack Obama and the European Union's drive toward energy efficiency have energized research and development (R&D) activities in the field of biofuels (USGB, 2010). The allocation of funds and the implementation of energy policies that mandated the adoption of green technologies in new buildings brought about radical changes in terms of cost effectiveness and efficiency in the renewable energy segment (Sayigh, 2013). Also, tax benefits and incentives are driving technologies such as heat pumps and building-integrated photovoltaic (BIPVs). Also, government policies have enabled the phasing out of energy inefficient incandescent bulbs, leading to the promotion of energy saving compact fluorescent lamps (CFLs).

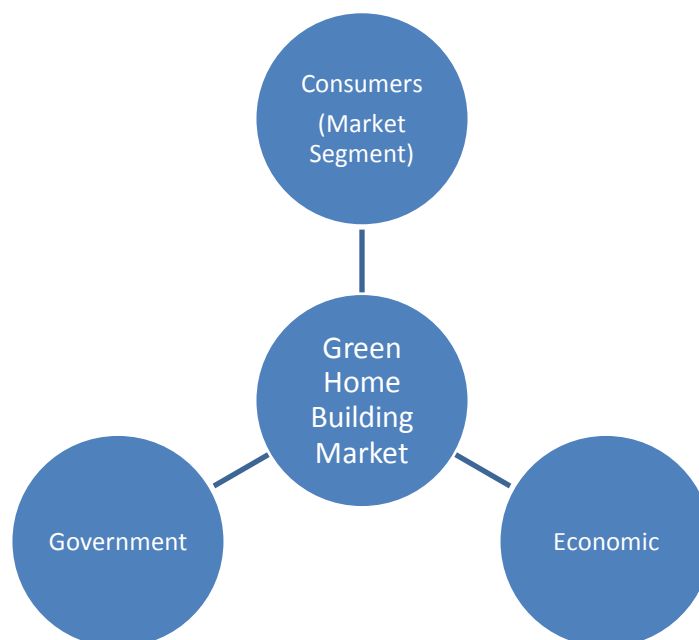
Legislative policies greatly influence the top ten technologies in green buildings domain. There is a pressing need to increase R&D efforts to reduce costs and ensure photovoltaic (PV) cell readiness for rapid development. It is the responsibility of the government and construction industry to support long-term technology innovations for facilitating the reduction of carbon dioxide emissions across the board (USGBC, 2010). Market prospects are looking good for green home opportunities, but there are some challenges hedging its push. The economic crisis that began at the end of 2008 in the United States led to the slowing down of the construction industry. This diminishing of infrastructure development led to the acceptance of green and smart technologies into buildings subsequently witnessing a slowdown (National Association of Home Builders (NAHB), 2009). Apart from this, the construction industry in general is very conservative, preferring proven and reliable technologies to new ones. This poses a serious threat for the development of green and smart building technologies. However, policy driven green initiatives, along with tax benefits and subsidies, have so far lured building contractors and developers to utilize smart and green technologies. For instance, in the case of lighting, the old generation would have preferred the use of incandescent bulbs instead of CFLs if the phase out legislation was not implemented (USGBC, 2010).

Furthermore, green buildings have economic, social and environmental benefits. As green construction becomes more popular, the financial benefits for developers and homeowners will become clearer. The majority of savings from green building are in maintenance and utility costs. For example, NAHB (2010) noted that in Massachusetts, the average annual cost of energy for buildings is \$2.00/ft. A green building will use about 30% less energy. When applied to a 100,000 sq. ft. state office building, there is a reduction of \$60,000, with a 20-year present value expected energy savings at a 5% real discount rate worth about three quarters of a million dollars.

## VALUE DRIVERS

The green building industry is greatly influenced by consumers, government as well as resource and economic pressures as depicted in Figure 1 below. For example, an innovator planning to compete in the home building industry business must have a comprehensive strategy aimed at analyzing and exploiting the components specific to the prospective location development (Partridge & Perren, 1994). Support of government in the national economy for green home construction is crucial. Government and industry officials must map out a strategy for market segment penetration and growth with necessary incentives for green home buildings. By collaborating, cooperating, developing, and supporting new strategies effective changes can occur (Marcus, 2011). This will involve creating customer awareness on green homes in all domestic market locations globally.

Figure 1: Value Drivers



This shows that the demand and strategic drivers for growth in this sector of the economy and governmental involvement can be either comparatively weak or strong based on the geographical location. For example, Houston has a relatively strong industry element, but ranked weakest in government and consumer elements. Strategies here must include developing partnerships and alliances to aid growth in the industry, increasing consumer awareness, and reaching purchasers of residential green homes and green high designed manufactured homes through a motivated sales and marketing program (Kats, 2010).

### Five P's Strategic Approach

Mintzberg, Ahlstrand, and Lampel (1998) five P's strategic approach of Plan, Ploy, Pattern, Position, and Perspective is one strategy that can be utilized. With a plan, strategy must first be developed with a purpose in mind. For the ploy, strategy is a way of beating other competitors in the market. Strategy as a pattern means realizing that past successes can lead to future success. In terms of position, this is based on how the green home industry relates to other competitors in the national market and building unique homes with value. Perspective highlights the significant effect that organizational culture and shared thinking can have on strategic decision making within a company.

### Porter's Generic Strategy

Porter's generic strategy of cost leadership is where the low cost leader in any market gains competitive advantage from being able to produce at the lowest cost possible (Porter, 1985). This means that in this industry, green homes will be built and maintained, employment opportunities will be created with necessary training to provide the lowest possible costs of production for cost advantage. Manufacturers must price at competitive equivalence, exploiting the benefits of a bigger margin than competitors. Focus or market segmentation is where an organization can afford neither a wide scope cost leadership nor a wide scope differentiation strategy, a niche strategy could be more suitable here. Competitive advantage is generated specifically for the niche (Porter, 2008). The green home industry can use either a cost focus or a differentiation focus.

Figure 2: Sample Porter's Generic Strategy

| <b>Element of Porter's Generic Decision Making Strategy Implication</b> |                                                |
|-------------------------------------------------------------------------|------------------------------------------------|
| Cost Leadership                                                         | Low cost leaders                               |
| Differentiation                                                         | Creating distinctive products and services     |
| Focus or Market Segmentation                                            | Niche Strategy (Defined segment of the market) |

### **Blue Ocean Strategy**

This is another business strategy that can be incorporated in green home building for competitive advantage. It is the untapped market space; demand creation, with opportunity for highly profitable growth. Value innovation as a blue ocean strategy, can be effectively utilized continuously in green home building and manufactured homes at any time for sustainable competitive hedge (Kim & Mauborgne, 1997; Kim & Mauborgne, 2005). Adding the concept of multiple production in the green home building industry, and giving customers a reason to come back more frequently due to the unique products and services in the industry will increase customers demand.

### **Value Discipline Strategy**

A universal framework identified by Treacy and Wiersema (1993) for gaining competitive advantage is value discipline. Here, a company usually chooses to highlight: (1) Product leadership (top overall product); (2) Operational excellence (top overall cost); (3) Customer intimacy (top overall solution). This means that customers in the green home building industry would want to buy good value homes in terms of cost, customer service, product or technology.

### **Positioning Strategy**

This is where consumers place the products of one company in terms of needs relative to other competitors in the market. Customers' perception determines the success or failure of the home building industry today. So, product positioning must be imposing and impressive. Porter (1985) describes strategic position influencing companies as: (1) Variety-based positioning which involves choice of product or service varieties rather than customer segments. This shows that it makes economic sense when a company can produce particular products or services using unique sets of activities such as Pennzoil for auto lubricants only; (2) Needs-based positioning where there are groups of consumers with different needs. Here, a personalized set of activities can serve those needs in an unsurpassed way such as Ashley furniture to meet all home furnishing needs of a particular segment of customers; (3) Access-based positioning involves market segmentation of customers who have the same needs, but the best structure of activities of influence differs such as Lowes cinema house for theaters in small towns (Porter, 2008). This shows that it makes economic sense when green home building industry can produce particular products or services using unique sets of activities.

## RECOMMENDATIONS

Green home building industry must systematically use a balanced approach for competitive edge by using a combination of various strategies based on industry needs (Keast & Towler, 2009). A combination of all the approaches evaluated can be utilized by the green home building industry to gain competitive edge. Blue ocean strategy is based on reducing costs and simultaneously increasing value for customers which would result in an increase in value for both green home building companies and the customers. It incorporates the range of the company's functional and operational activities (Chan & Mauborgne, 2005; Kim & Mauborgne, 2005). Differing perspective highlights the significant effect that organizational culture and shared thinking can have on strategic decision making within a company.

Value innovation is more than just innovation, it is a strategy that is achieved when the whole system of the industry's utility, price, and cost activities are all well aligned. The key is to understand and use each element in the development of strong, realistic and achievable business strategic drivers (Mintzberg, Ahlstrand, & Lampel, 1998; Marcus, 2011). Green home building industry can consequently incorporate the principles of: (1) Restructuring market boundaries; (2) Focusing on the picture not numbers; (3) Reaching outside current demand; (4) Getting the strategic system correctly; (5) Overcoming strategic organizational difficulties; (6) Building execution into strategy (Kim & Mauborgne, 2005; Jones & Schneider, 2005). Green home building industry must offer excellent customer service, provide a variety of functional homes with affordable pricing to maintain a competitive advantage.

## UNDERSTANDING GLOBAL BUSINESS MODEL

A global business model is a universal, reliable, economically sound structure of the foundations involving venture goals, strategies, processes, technologies and organizational structure, considered to create and constantly add value for identified consumers in order to successfully compete in a targeted market segment. In other words, it is the whole system that allows venture to supply value to targeted customers in a profitable business activity (Mintzberg, Ahlstrand, & Lampel, 1998). This means searching for ideas not only within one industry sector, but also at other industries especially fast-growing companies that are capitalizing on new trends and technological changes (Marcus, 2011).

Understanding global business model is based on the assumption that greater value can be developed through the careful arrangement, implementation, and management of unique elements learned in other existing ventures. The global construction industry is forecasted to register consistent growth in terms of construction spending with developing countries such as China and India leading the growth chart. In current times, the global economic recession has

negatively impacted prospects in the construction sector due to rigorous credit conditions and decline in business confidence. Today, China is set to emerge as the leader in the worldwide construction market, exceeding the United States and Western Europe in the process. Rapid growth of construction sectors in emerging markets is largely attributable to increased emphasis placed on infrastructure development activities (USGBC, 2010).

Furthermore, developing countries like, China, India, Nigeria, and Vietnam are expected to be leading in building industry spending. Saudi Arabia, the largest construction market in the Middle East, is forecast to grow robustly driven by rising oil prices across the world. Therefore, global growth exists in the home building industry. Most American home building industries are not global, so global diversification in this market segment must be explored. The future is expected to witness increasing number of realty developers and investors building smaller, compact, functional homes based on consumer needs because of economic pressures that requires cost reductions (Sayigh, 2013). The concept of using green building materials is fast growing across markets worldwide. Green materials in the global building industry market also have tremendous growth potential. As more consumers become educated on the benefits of this concept, demand for green building materials will increase.

## CONCLUSION

Successful implementation of decision making strategies in the home building industry is based on a variety of balanced approach that can easily be adapted to the needs of consumers for competitive advantage (Keast & Towler, 2009). Porter (2008) contends that careful analysis of the competitive field by use of the five forces model will help companies select a competitive strategy for successful competitive improvement. Again, Porter's generic strategic matrix offers only two alternative routes to competitive advantage: cost leadership and differentiation. Porter (1985) argues that there can only be one cost leader in a market, but several cost leaders in the same industry have been identified which has made Porters specialized strategy controversial.

However, Blue Ocean strategy for value innovation is ultimately based on reducing costs and simultaneously increasing value for customers which would result in increased value for both green home building companies and the customers (Kim & Mauborgne, 2005). It incorporates the range of the company's functional and operational activities. Here, value innovation is more than just innovation, it is a strategy that is achieved when the whole system of the industry's utility, price, and cost activities are all well aligned.

Largely, the market for green home buildings and green high designed manufactured homes market is still rapidly growing and developing. Learning is still ongoing on the changing aspects of strategic market elements, possible buyer preferences, as well as the most effective



marketing and sales strategies that need to be implemented (Mintzberg, Ahlstrand, & Lampel, 1998; Marcus, 2011). The key is to understand and use each element in the development of strong, realistic and achievable business strategic drivers.

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