**TRAINING IN FINANCIAL AND BUSINESS MANAGEMENT FOR ROAD CONTRACTORS**

**MODULE THREE SESSION FIVE PARTICIPANTS’ NOTES**

**VALUE FOR MONEY AND BUSINESS PERFORMANCE**

1. **Session Objectives**
2. To emphasize value for money issues in road construction
3. To create awareness of quality assurance standards
4. To set Key Performance Indicators (KPIs)

By the end of this session trainees will be familiar with value for money issues in road construction, aware of the need to develop quality assurance standards and be aware of key performance indicators in road construction.

1. **Value for money concept revisited**

The achievement of a value for money outcome in the use of public funds is a key consideration in the procurement and delivery of each public investment in roads. One of the expected outcomes is that the community will be able to access markets and increase household income and that the investment will serve communities for a considerable period in the future. Value for money (VFM) is a term used to assess whether or not an organization has obtained the maximum benefit from the goods and services it both acquires and provides, within the resources available to it. There are a number of stakeholders in road construction with differing concept of what to them is value for money. Who are the key beneficiaries of road projects and do construction companies deliver this value?

1. **VFM challenges**

VFM not only measures the cost of goods and services, but also takes account of the mix of quality, cost and resource use, fitness for purpose, timeliness, and convenience to judge whether or not, together, they constitute good value.

In respect to benefits, stakeholders expect to see:

1. Community- unshoddy work and no hazards of road construction
2. Contractor – improved profitability and repeat jobs
3. Government – completion of work in time, within budget, compliance to specification and popularity to society.

However, there are too many variations which increase costs, is this due to poor estimation or trickery? How about the rampant manipulation in tender procedures? Does the tender process allow for competitiveness and improved value for money or a limit to it?

1. **Achieving VFM**

In achieving and seeking to achieve VFM, there are many objectives for organizational behavior and activity to be taken into account. These include:

1. The culture of the organization, for example, continually striving to do more at the appropriate quality for less money (value for money consciousness)
2. Adopting good practice and compliance to procedures
3. Accountability and transparency
4. Effective communication
5. Staff development
6. Internal check and risk management
7. **Key performance indicators (KPIs) and targets**

Road construction Key Performance Indicators (KPIs) help road construction firms understand how well they are performing in relation to their strategic goals and objectives. They help in providing the most important performance information that enables firms or their stakeholders to understand whether the firm is on track or not. All businesses need to monitor profitability and cash flow carefully and use management accounts for this purpose. To boost profitability and cash flow owners also need to understand and monitor the key ‘drivers’ of construction business. A driver is something which has a major impact on the performance of the business.

The indicators focus on key result areas which:

* Reflect the performance and progress of business.
* Are measurable.
* Can be compared to a standard, such as a budget or an industrial average
* Can be acted upon (are controllable).

These Key Performance Indicators should include the following:

* Meeting output targets – the volume of works for a quarter or year.
* Being on time – Output per day.
* Being within budget – Standard Unit Cost.
* Equipment productivity – Output per day or consumption per machine hour.
* Employee productivity – Output per employee per day.
* Investment – Return on Investment (ROI)
* Solvency – Liquidity and quick ratios
* Credit – delinquent debt ratio, average debt holding ratio.

Good scores in KPIs also indicate good assessment of VFM.

1. **Quality assurance strategy**

In order to deliver better value for money, the quality of works must be focused upon and managed well from inception to completion of works. A successful road construction business therefore must put in place and document quality assurance procedures that will set the standard for performance of critical activities of the business. Such standards will include:

1. Unit of output mix
2. Customer service
3. Process time
4. Manpower skills
5. Supervision and approval
6. Inspection and testing
7. Design and implementation planning
8. Quality measurement
9. Equipment functionality
10. Safety and health standards
11. **Group discussion**
12. Identify stakeholders in road construction and state their perception of value for money
13. List tactics you can use to ensure quality control without compromising profitability;
14. Identify quality assurance challenges in road construction and state how quality service impacts business growth;
15. Discuss advantages and disadvantages of a high quality business strategy.
16. Discuss the factors that lead to compromising value for money delivery.