How to Develop an Effective Strategic Decision-Making Framework

By Rick Tison and Jay Bowman

Companies that avoid a nearsighted view and take a holistic view of new market opportunities will be best positioned to succeed in 2021 and beyond.

After enjoying nearly a decade of economic growth, engineering and construction (E&C) organizations have had to revamp their priorities quickly. That means moving beyond traditional strategic planning, which assumes a relatively known or static future and doesn't work in times of continual disruption. As any business leader whose operations survived a prior industry shakeout can attest, times aren't easy right now. Some companies could pivot quickly; others have chosen not to. This is normalcy bias (i.e., wishing the present away long enough for things to return to normal).

As E&C companies begin to get their arms around how 2020 will ultimately unfold, many are focusing on the potential opportunities and the big moves they need to make now to avoid a repeat performance in 2021. Whether they're chasing new types of clients, entering new markets or pursuing new types of work, the ones that put the right work into their planning process will face the best odds when it comes to actually enacting those changes.

Avoiding the "Big-Two" Mistakes

Strategic decision-making is a critical first step in setting your business apart from the competition. This type of decision-making requires problem-solving from multiple angles (e.g., not just looking at a market that is growing and assuming it should be pursued). In today's volatile and uncertain environment, the weight of these decisions is even more important. And the insights that feed into these decisions are both critical and challenging to develop.

Two of the more common mistakes that companies make when developing their strategies include:

- ***Taking too narrow a view.*** Some companies base their decisions on a single or limited number of inputs. As a result, they miss the "big-picture" view and instead deploy a tunnel-vision approach to what's going on in their world. For example, executives may rely on a single forecast, react in response to a competitor's actions, or assume that they can take on something they've never done before. This type of shallow thinking usually results in confirmation bias (i.e., we've already made the decision and are looking for only those things that support it). The moral of the story aligns with the famous Mark Twain quote, "It's not what you don't know that gets you in trouble the most. It's what you know for certain that just ain't so." This mistake is also influenced by the fear of missing out. In other words, "If we don't move now, we will miss our chance. We can figure it out later once we have our first project."

  Companies that take too narrow a view don't conduct the rigorous analysis needed to be able to make good decisions. This oversight can be fatal in a volatile, uncertain market. Assuming, for example, that an expansion into the Phoenix market will work because "it's a big market" is not reason enough to make that substantial move. On the other hand, a more appropriate evaluation would factor in not just the size of the market, but also an understanding of how that market operates; how well the company would be positioned in that market; who the key owners and decision-makers are; and what the competitive landscape looks like. An internal evaluation that addresses the company's readiness to move into the new market, the available resources to support the move, and whether the right leadership structure is in place are equally as critical.

- ***Relying on disconnected viewpoints.*** This happens when companies base decisions on multiple sources without developing a single, composite picture incorporating those inputs. The result is siloed decision-making that, while better than the narrow view, still doesn't take full advantage of the various sources of information and intelligence that are right at the company's fingertips. The disconnected viewpoint can lead to competing—if not opposing—activities, thus reducing or eliminating the likelihood of success. Finally, it can also lead to too much "busy work" and a rush to check off the boxes and get everyone involved in strategies that don't advance the organization's overall mission.

  Relying on disconnected viewpoints is a classic mistake that E&C companies make when assessing new market opportunities. We often see company leaders look at the overall market size of those opportunities and then determine whether or not to pursue them. Right now, for example, the fact that construction was deemed essential in most markets has left many firms feeling as if they dodged the COVID bullet. They have a pretty healthy backlog because the economy was doing great at the beginning of the year. A lot of those projects are still on the books right now, but some of them will probably disappear (the longer the pandemic drags on). The reality is starting to set in that 2021 will be more challenging than 2020, and companies are, unfortunately, basing their decisions and strategies on singular data points (as opposed to making holistic evaluations).

This disconnected view often leads to confusion, and those with the strongest voices win (i.e., force of personality). Anecdotal evidence is often presented as fact, and competing viewpoints are shut down. Remember, "Ego is concern about who is right. Truth is concern for what is right."

Three Key Elements of Good Strategy

Strategic decision-making is important in any business environment, but it's especially critical during volatile, uncertain times. In most situations, great strategic decisions incorporate an understanding of three key elements: market potential, market position and state of readiness. Here's an in-depth look at each and the role they play in a good strategic decision-making framework:

1. ***Market potential describes your market's expected addressable opportunity over the near and long term.*** How well do you understand the characteristics that determine your addressable opportunity as part of understanding your overall market potential? Examine the historical performance of the market to gain a firm understanding of how consistently it has performed in the past. Look at key points like growth rates (slow, steady, declining, volatile?), the forecast, the market composition (which segments are growing? which ones are declining?) and market resiliency (based on current and future market conditions).

   Market potential can be measured several ways, with the most important being an understanding of the project types that make up those most won or successfully delivered. Key points to consider include:

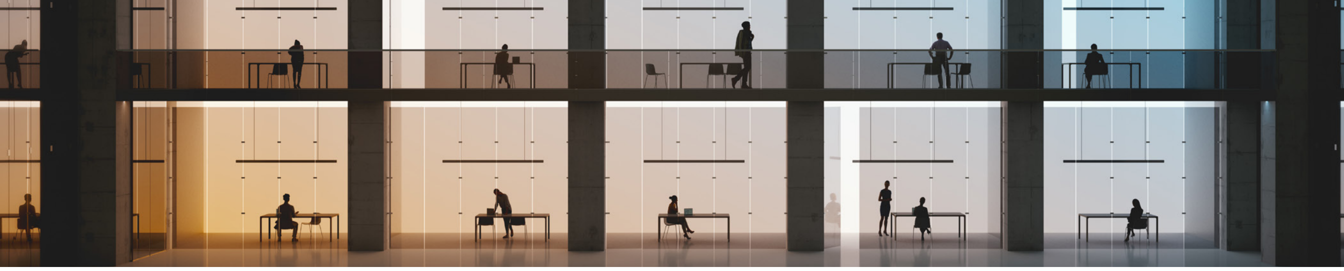
   - Project value
   - Contract or delivery method
   - Union, nonunion
   - Owner type

   With this exercise, your ultimate goal should be to understand not only the total market opportunity but also your addressable market and how well that market is expected to perform over the next few years.

2. ***Market position is your ability to access your potential market.*** Your market position views the potential market through the lens of prospective clients and competitors relative to your current value proposition and capabilities. Questions to ask include:

   - Do your prospective clients "buy" the way you "sell"?
   - Are they receptive to your value proposition?
   - What are the market opportunities and how can we access them?

   Once you've answered these questions, assess the overall structure of the competitive landscape. Is it highly fragmented? Or is it heavily consolidated to the point where there are just one or two dominant players that you'll be competing against?



Digging down into these details helps you understand how to best respond when attempting to access the potential demand.

3. ***State of readiness describes how well you can achieve your strategic objectives, drive change and perform in the market, given the current state of the business.*** A great market opportunity is only as good as your ability to act. Your state of readiness reflects your ability to adapt your business to changing demand drivers, buyer preferences and competitive threats. In other words, can you adapt your business to current market realities? Here's where you'll look carefully at how your existing skills and capabilities align with the potential market opportunity; whether you have the resources to get out there and pursue it; and if you have the right business practices or systems in place to support this move.

   Finally, given that you may need to change the way you go to market—particularly in our current, volatile business environment—do you have the leadership and management systems in place to set direction around that change (and then have the accountability in place to see it through)? These are all important points to consider when developing your strategic decision-making framework. Your state of readiness exercise should include these key considerations:

Current capabilities. How well do our skills and abilities align with what is valued by owners (e.g., are we really great at delivering quality when owners value schedule)?

Internal business practices. Will our existing business practices align with the requirements of this market opportunity?

Culture and engagement. Does the nature of this work align with our culture? (e.g., does it cater to a travel model when our people are used to working locally?) And how engaged is our team? Will engagement support or hinder our ability to drive change?

Financial condition and investment capacity. Be sure to factor in balance sheet strength, financial performance on existing work, and financial condition to make investments. Make sure you have the financial capability and the necessary investments to be successful.

Leadership and management systems to drive change. Consider the depth and breadth of your leaders, their success record for driving change, and whether you have the management systems in place to be able to drive accountability for progress while ensuring agility.

Combined, these elements help companies evaluate the attractiveness of different strategic options and prioritize future investment in any market conditions (also see our article on The Changing Game of Strategy).

Forging Ahead

The sense of urgency to act is high, but the cost of failure could be even harder to bear. Whether your company entered 2020 with an ample war chest or not, the key points outlined in this article will help you devise a strategic framework that fits your own company's needs. Remember that market potential is really about what you can reasonably expect from your future revenue opportunities. Understanding your market potential includes, but is not limited to, the overall size, shape and direction of your market.

Also, remember that a single forecast can be a dangerous thing, and the wrong assumption about market size or opportunity can quickly derail your growth plans. Composition is a critical element when interpreting a forecast, which may reveal a growing market that is, in fact, declining for the specific type of work that your company pursues. Keep these important points in mind as you assess new opportunities, review historical data, get honest about your company's current position, and forge ahead with new initiatives.

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