

Bid/no-bid decisions as a vehicle for organisational strategy

The ill selection of projects has been identified as one of the top eight common causes of construction project failure English Office of Government Commerce (OGC, 2005). Bid/no-bid decisions are seen as necessary due to resource allocation issues with respect to both formulating the bid response and performing the resulting work. However, the bid/no-bid decisions have a much larger role to play within organisations – in particular with the implementation of strategy.

Strategic planning is generally undertaken by top management and concerns the choices an organisation faces with respect to the allocation of resources, long-term objectives, and alignment of organisational activities with the environment. Despite this, research indicates that organisations “realize only 63% of their strategies’ potential value and ... that 66% of corporate strategy is never implemented” (Meskendahl, 2010, p. 807). This indicates that daily businesses decisions are not aligned with the strategic intention set for the business.

Bid/no-bid decisions are subject to standard decision making challenges. Decisions are the process of determining risk. That is, assessing and attempting to predict the possible costs and benefits of a project with respect to likelihood and severity. Assessing these elements is challenging as the human decision maker suffers bounded rationality and a limited capacity to process information: further the data required to make these decisions has interrelationships that are complex, intractable and not easily quantified. While there may be several processes in an organisation around bid/no-bid decisions they are, for the most part, made according to subjective reasoning; often made using a large amount of guesswork.

A review of the literature by Bagies and Fortune (2006) identified 94 unique factors across 10 categories have been identified as the key elements considered when making a bid/no-bid decision. The 10 categories are: project characteristics, business benefits, the client characteristics, type of contract, project finance, company characteristics/situation, firms’ previous experience, bidding situation, economic situation and competition. Only one of the identified factors directly addresses strategy: ‘the project is matching the company strategy and future vision’ which is in the company characteristics/situation group. However, strategy can also be addressed indirectly through the consideration of factors such as, for example,

reputation, experience in industry and with site, the type of contract, and market conditions. First, the factor the directly consider strategy does not determine how strategy is considered. These factors are comparative with the past and present and do not adequately consider how a project would position the company in relation to where it wants to be. Further, the factors identified are factors that managers and those responsible for bid/no-bid decisions have identified that they consider. Not all factors are considered all the time nor has it been identified what weighting each factor receives when making bid/no-bid decisions.

Several bid/no-bid decision making models have been developed with varying success¹. Models are, and have been, developed to enhance the decision making process through the control of human limitations, biases and uncertainty. Most models appear to have high internal reliability but weak external validity. That is, many of these models are not generalizable outside the single-organisation case studies within which they were developed.

The solution is not necessarily to find a model that works across organisations but for each organisation to find a model that works for them. Research summarised in *The Harvard Business Review* (Drucker, 2001) and supported by anecdotal evidence suggests that “*the effective executive has to start out with what is ‘right’ rather than what is acceptable precisely because a compromise is always necessary in the end. But if what will satisfy the boundary conditions is not known, the decision maker cannot distinguish between the right compromise and the wrong compromise – and may end up by making the wrong compromise*”. This highlights the importance of determining the role of a decision within its context and with respect to why such a decision must be made. The literature focuses on streamlining the bid/no-bid decision-making process in order to, essentially, substitute a model for an individual. Strategy provides a reference point against which members of an organisation can use to guide decision-making – in particular bid/no-bid decisions.

Bringing bid/no-bid decisions closer to strategic planning will, in theory, force an organisation to be more cognizant of the strategies they develop and projects they bid for. As a business this would mean a higher rate of return with less waste on bidding and troublesome projects.

¹ References available on request.

References

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