NAC Executive Insights

Leadership—
Win Work, Do Work, Make Profit

Key Points

- Exercise extreme rigor in the go/no go stage of the bidding process.
- Sometimes the most prudent business decision is “no go.”
- Recognize and understand all risks associated with each project.
- Qualified leadership at the corporate and project levels is vitally important for overall organization success.

Win Work, Do Work, Make Profit

The phrase “win work, do work, make profit” can be used to describe the engineering and construction business, but perhaps simplifies what can become complex. The purpose of this Executive Insight is to help guide the business process when there is a risk of losing sight of the simple fundamentals expressed in the phrase.

The string of high-profile performance failures in the industry over the last several years, including from some best of class firms, warrants a re-examination to confirm that the fundamentals are being adequately addressed.

Win Work

I have written extensively about the tactics of “winning work” in the engineering and construction industry,[1] but a review of a couple of aspects is needed. These include:

1. **Inadequate rigor in the go/no go stage of the bidding process.** At least two contributing factors are involved here. First is *inadequate or incomplete risk reviews*. These reviews are likely compounded by a risk assessment and modeling process that gives inadequate attention to low probability/high consequence events[2]. A second contributing factor is *the set of systemic risks common to a class of projects* (gas-fired power plants are one example) that grow exponentially with each new “successful” bid.

2. **Weakened contracting rigor**. Senior leadership teams lacking adequate capability in the management and oversight of large complex projects compound this innate challenge by being all too ready to grant waivers to established, proven corporate practices in order to drive top-line growth or fill the order book when market conditions are slow. Executive management bears the responsibility of monitoring and controlling these waivers, with the CEO and CFO particularly responsible. In a number of recent performance failures, this granting of waivers to corporate practices was often the source of the problems. Boards should have seen the pattern of degrading contract margins and growth in receivables and days sales outstanding (DSO) long before project margin erosion became corporate losses.

Do Work

In the "do work" area, remember that projects are complex.[3] Managing a portfolio of ever more complex projects is an even greater challenge. Here are some recurring basics from recent performance failures:

- **Projects were not well founded.** A range of contributing factors appear to be present, with many having their origins in the lack of rigor at the "win work" stage. A weak understanding of the risks the projects were likely to face stands high on this list. In many instances, competitive low-margin markets created a challenged risk management strategy with inadequate risk reserves. The selected contract form allowed risk to be transferred to parties unable to best manage that risk. Management and board did not understand their capability and appetite for risk.

- **An adequate focus on project flows failed to happen.** Management structures suffered from an inadequate depth of experienced resources. Well-established management practices were ignored or poorly or irregularly implemented. The result was inadequate visibility into project flows. In many cases, an integrated, resource-loaded schedule did not exist. In other cases, little leadership attention was given to the extensive interfaces required between engineering and construction in design-build delivery[4]. Importantly, systemic risks were manifested in a performance-degrading wave across the broader project portfolio. Management attention to schedule recovery (to minimize liquidated damages) contributed at least in part to the quality challenges (manifesting in rework) that many of the troubled projects faced.

- **Inadequate appreciation of the project's true condition.** There was often an inadequate appreciation of the potential impacts of project externalities on the entire supply chain. This was particularly true across certain industry segments and geographies. Similarly, the shift to engineer-procure-construct (EPC) or public-private partnerships (PPP) delivery forms was not adequately met with the addition of strengthened management oversight capabilities. Appreciation of the true condition of projects weakened the further one got from the project.

Make Profit

"Make profit" is the bottom line of the engineering and construction industry, yet it is the one part of the phrase, "win work, do work, make profit," that has most suffered over the last several years. It is true that unique market conditions have existed. Certainly unique, company-specific management failures have occurred. However, as a group, the industry's collective performance has suffered in the extreme.

In simple terms, profit is revenue less cost. If it were only so simple. Making profit consistently requires the following:

- **A strong corporate culture and operating system.** These must be rigorously enforced and continuously improved.
- **Strong corporate governance practices.** These must permeate well into a firm's various levels of management.
- **Qualified leadership**, receptive to constructive criticism and alternative views.

In some of the recent performance failures, one or more of these core attributes seemed unduly weak and, in some instances, almost nonexistent. I am proud of what our industry does and the good works we create, but we can and *must* do better.

References

[1] Vision, Focus, Drive: Ingredients of Successful Professional Services Sales (2017); eBook ISBN 978-1-387-41795-7

[2] Prieto, B.; Improbability of Large Project Success; *PM World Journal* Vol. IV, Issue II – February 2015; https://pmworldlibrary.net/wp-content/uploads/2015/02/pmwj31-Feb2015-Prieto-improbability-of-large-project-success-Featured-Paper.pdf

[3] Prieto, B; Sources of Complexity; https://www.slideshare.net/rpstrategic/sources-of-complexity

[4] Prieto, R.; Management of Engineering in Design/Build; National Academy of Construction (NAC) Executive Insights; July 6, 2019; https://www.naocon.org/wp-content/uploads/Management-of-Engineering-in-Design-Build.pdf

About the Author

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