2000-01-01

Scenario Building: a Suitable Method for Strategic Construction Industry Planning?

John Ratcliffe
Technological University Dublin

Follow this and additional works at: https://arrow.dit.ie/futuresacart

Recommended Citation

This Article is brought to you for free and open access by the Futures Academy at ARROW@TU Dublin. It has been accepted for inclusion in Articles by an authorized administrator of ARROW@TU Dublin. For more information, please contact yvonne.desmond@dit.ie, arrow.admin@dit.ie, brian.widdis@dit.ie.

This work is licensed under a Creative Commons Attribution-Noncommercial-Share Alike 3.0 License
SCENARIO BUILDING:  
A Suitable Method for Strategic Construction Industry Planning?

John S. Ratcliffe  
Director  
Dublin Institute of Technology  
Dublin  
Republic of Ireland

Abstract

This paper is primarily about the Scenario Method. How scenario building, planning or learning exercises can profitably be used to identify, develop and test alternative plans, policies and practices that might be proposed in exploring and preparing for strategic decision-making in the construction industry. The method has been widely used in business, industry and government for over thirty years as an unrivalled technique to learn about the future before it happens. The paper examines the principles, practice and pitfalls of Scenario Building with the prime aim of presenting the technique as one singularly relevant to the study of the construction industry. It also identifies some of the driving forces, societal issues and policy strategies that confront Ireland in devising a suitable approach towards learning about and planning for the future.  
Keywords: scenarios; construction; driving-forces; strategic; planning.
INTRODUCTION

The construction industry worldwide designs, produces and maintains the physical infrastructure for the functioning and welfare of society and the continuing growth and development of the economy. Its basic structure reflects the three main components of operation: the design of buildings and facilities; the manufacture and importation of the necessary materials and components; and the on-site construction process. The product of the construction process includes all surface buildings for uses such as housing, industry, commerce, health, education, leisure, public utilities, underground installations, transportation routes and facilities, drainage, water supply and waste disposal. Strategic thinking and planning is, therefore, central to the future wellbeing of all societies.

In the Republic of Ireland, the current profile of the construction industry can be characterised as follows:

- Output in 1997 representing IR£7 billion or 17.5% of GNP and 62% of fixed capital formation.
- Direct employment of 90,000 or 7% of the workforce.
- Exports of IR£800 million and imports of IR£1,000 million.
- Funding apportioned roughly 35% public sector and 65% private sector.
- Some 6,000 geographically dispersed firms of which 60% employ less than five people and the top 34 companies account for a third of the output.

Currently this places the industry in prime position in the Irish economy ahead of agriculture and tourism in output terms.

In the above context, this paper has two prime aims:

1. To explore and promote the use of Scenario Building as a general method for researching future planning and development policies for the construction industry.

2. To identify some of the driving forces of change, the societal issues and the strategic policies that emerge from a first exercise in a Scenario Building process for Ireland.

The contents are essentially those of the author in respect of scenario building in general, and those of the Enterprise Ireland Technology Foresight team with regard to the specific application of the approach to the Irish construction industry.

SCENARIO BUILDING AND LEARNING

Nothing is more obvious than the unpredictability of the future. Uncertainty has become so pronounced as to render futile, if not downright counterproductive, the kind of planning traditionally employed by governments and corporations – forecasting based on probabilities. Experience has shown us that no unique forecast can be relied upon. Yet, however good our research methods may become, we shall never be able to escape from the ultimate dilemma that all our knowledge is about the past, whilst all our decisions are about the future. Indeed, studying futures is not really a question of knowledge and facts at all, but rather one of conjectures.

A special approach towards projecting potential futures, so as to improve present decisions, is thus required. Scenario building, and the learning process that goes with it, is such a technique. This paper, therefore, suggests that ‘scenario building’ offers a methodology for understanding the whole range of forces, factors and possibilities that present themselves in planning for the construction industry. By learning to use and develop such a scenario approach, all those organisations and agencies involved in construction can take actions to make a desirable future occur; quickly adapt to unfavourable environments; and efficiently implement strategies that will succeed in a variety of social, economic and political circumstances.

Origins

Scenario building has enjoyed a rich, though somewhat chequered, history over the past thirty years or so, in business, government and the military. The technique was developed, with much enthusiasm, by the legendary Herman Kahn, first when working at the RAND Corporation in the 1950’s, then as founder of the Hudson Institute during the 1960’s, when he coined his trademark phrase “thinking the unthinkable”.

No paper on scenario building would be complete without mention of the pioneer work performed by Royal Dutch Shell during the 1970’s and thereafter to the present day. The little known role played by Shell in
constructing and exploring the alternative scenarios facing South Africa during the period of political transition between 1992 and 1996 cannot be underestimated.

Successive champions of the methodology included Ted Newland, Pierre Wack, Arie de Geus and Kees van der Heijden [Schwartz, 1996]. Also during the 1970’s, the consulting firm SRI International (formerly Stanford Research Institute) devised a structured approach to scenario writing that supported strategic planning under the leadership of such luminaries as Willis Harman, Arnold Mitchell, Oliver Markley and Marie Spengler. Other consulting firms and agencies offering scenario planning services sprang up, most notably Battelle, Datar, The Futures Group, Global Business Network and Northeast Consulting. Public attention towards the use of scenarios was initially drawn by the publication of the highly contentious The Limits to Growth by Dennis and Donella Meadows (1967); early professional impetus was provided by Jay Ogilvy, Paul Hawken and Peter Schwartz in their seminal text Seven Tomorrows (1980); and wider acceptance gained by the work of such leading figures as Michel Godet (1986) in France, Martha Garrett (1966) in the States and James Robertson (1983) in the UK.

More recently, scenario building has been used in a variety of situations such as European Commission future planning, the global telecommunications industry, East Asian economic emergence, the French iron and steel industry, the US defence industry, new business models, British Airways, Cable and Wireless, ICL, United Distillers and the UK National Health Service, which are described elsewhere [Ringland, 1998]. As well as using the technique for exploring the future of the construction industry, the author is currently preparing a major scenario building exercise to examine future global real estate strategy and is involved in another to study the future of the sustainable heritage of cities.

What stands out, however, is that while the scenario approach has spread throughout many fields of industry, commerce and government over the past thirty years, virtually no serious use has been made of the method in the related worlds of city planning, construction or real estate development.

**Purpose**

The prime purpose of scenarios and scenario building is to enable decision-makers to detect and explore all, or as many as possible, alternative futures so as to clarify present actions and subsequent consequences. They should, thus, be prevented from making strategic decisions before they have done some strategic thinking!

According to Michel Godet (1987), scenarios should aim to detect the key variables that emerge from the relationship between the many different factors describing a particular system, especially those relating to the particular actors and their strategies. In doing so, they provide a context for thinking clearly about the otherwise impossible complex array of factors that affect any decision; give a common language to decision-makers for talking about these factors and encourage them to think about a series of ‘what-if’ stories; help lift the ‘blinkers’ that limit creativity and resourcefulness; and lead to organisations thinking strategically and continuously learning about key decisions and priorities [Schwartz, 1996].

Ultimately, however, the purpose is not just about constructing scenarios, it is about informing decision-makers and influencing, as well as enhancing, decision-making. In this context, it has been suggested that the purpose of scenario building is to [Fahey & Randall, 1998]:

- Augment understanding by helping to see what possible futures might look like, how they might come about, and why this might happen.
- Produce new decisions by forcing fresh considerations to surface.
- Reframe existing decisions by providing a new context within which they are taken.
- Identify contingent decisions by exploring what an organisation might do if certain circumstances arise.

In this way, scenario building can create a learning organisation. But that organisation must have the will, the insight and the stamina to undertake such a learning process, as well as making available the resources to make the necessary investment to develop the skills required to construct and employ those scenarios to identify, analyse and manage uncertainty. Good scenarios, moreover, always challenge and surprise - bad ones merely confirm current conceptions and perpetuate personal prejudices.
Process

A variety of processes by which scenarios are constructed have been developed over the years, but certain common characteristics and elements can be discerned. The methodology, for example, shares several important premises:

- The scenarios should be focussed on the needs of some issue, decision, strategy or plan.
- The scenarios should be logically structured and internally consistent.
- The process should be highly flexible and capable of adaptation to the needs of the given situation.
- There should be a high degree of ‘ownership’ of the final product.

The methodology employed in this exercise comprises a seven-stage process which has evolved from a number of different sources. The terminology varies and the number of stages differs in alternative models, but the basic elements and process remains the same.

Stage 1: Task Identification and Analysis
Stage 2: Key Decision Factor Appraisal
Stage 3: Driving Forces
Stage 4: Ranking
Stage 5: Alternative Projections
Stage 6: Scenario Development
Stage 7: Interpretation

Operation

Methods of projecting and analysing possible futures invariably are received with more than a little scepticism, and over the past couple of decades the use of scenarios has met with mixed results. Experiences drawn from a wide range of applications in diverse industry, business and policy fields has produced some common recommendations and warnings as to the operation of scenario building. These can be summarised as follows:

Participants. Scenario building is essentially a team exercise, and it is important that team members are drawn from a representative cross-section of the organisation. Top management must be supportive, fully involved, subscribe to the logics evolved and committed to the outcome. A balance of line and staff personnel should be achieved, with staff confined to supporting line managers in shaping the scope and focus of the scenarios. Specialist or exceptional outside inputs should be invited. Experts on particular topics can be involved at specific stages of the scenario building process, and the part played by ‘remarkable’ persons intermittently or throughout cannot be understated. A diversity of views is a prerequisite. Participant’s individual roles must be made clear at the outset, and a core group, with supporting players, is normally established at the beginning. An author, or pair of authors, should also be assigned to write the scenarios at the start. Ideally, authorship should be the task of an internal decision maker, and not an outside facilitator or consultant.

Expectations. Scenarios will not work if they are seen as a gimmick. The expectations must be realistic. Understanding is a more likely outcome than a plan, and it often takes time for an organisation, especially a large one, to learn that the future will not resemble the past. Appropriate time-frames should be set, both for the horizon of the scenarios, as well as time taken to build them. Many organisations find it hard to look far enough ahead, and most underestimate the resources required to conduct the process properly. A particular problem frequently encountered in scenario building is getting decision-makers to confront the key beliefs, challenge conventional wisdom and look at the prospects of ‘breaking-out-of-the-box’.

Number of Scenarios. It has already been stated that between two to four is the normal bracket of scenarios sufficient to explore the possible futures within which decisions will have to be taken, but there is the danger of always ending up with three scenarios (though, in practice, this is often the case). Inexperience with scenario building tempts those involved to generate a ‘good’ and a ‘bad’ at the extremes, and an ‘average’ in the middle, with a tendency to drift towards the middle, and treat it as the ‘most likely’ single-point forecast. All the advantages of a multiple-scenario method are then lost. At the same time, it is important to avoid drafting several scenarios that are simply slight variations on the same theme. An underlying danger, moreover, is that
the participants endeavour to construct the ‘right’ answer in a single scenario. The true value of the scenario building exercise is stressed as being the experience of exploring a set of distinct and plausible futures that could unfold [Schwartz & Ogilvy, 1998].

Naming Scenarios. It is important to choose an evocative and memorable name for each scenario which succeeds in portraying the essential logic or story driving it. Vivid and meaningful titles stand a much better chance of becoming accepted and used within the decision making and implementing parts of an organisation. Good names become useful shorthand when planners and managers meet in groups; they also stimulate interest and lead to better questions being asked. Each of the scenarios constructed, however, should attract the same degree of imagination and creativity in finding a name, so that the most picturesque is not necessarily the most preferred.

Policy. It is vital that the scenario building process is not an isolated one, but is firmly linked into existing planning, managing and budgeting processes within the organisation. At the same time, the distinction between the use of scenarios as thinking and learning frameworks, as opposed to employing them as a means of evaluating actual proposed projects needs to be drawn, and requires careful control. Again, it cannot be overstated that the stories told in the respective scenarios must be relevant to the key policy makers. The main objective, after all, is to alter the mind-set of decision-makers about future possible opportunities, threats and actions, so that they are not caught by surprise.

Process. It has been found that the scenario process may start to drift if participants do not have what has been called a “clear road map” [Shoemaker, 1998]. This should set definite milestones and deliverables for the process together with the relevant dates, tasks and people concerned. A preoccupation with trends should be avoided as they simply project the past forwards and foster tunnel vision. The main focus should be placed upon examining the drivers of change, and great care taken to avoid internal inconsistencies that might otherwise arise in the scenarios. One of the most problematic areas concerns quantification. It is difficult, but essential, if the scenarios are to be taken seriously within an organisation for numbers to be attached wherever possible. However, quantification can easily reduce the scenario exercise to a simple sensitivity analysis unless there are highly significant qualitative differences between the scenarios [Schwartz & Ogilvy, op cit]. Nevertheless, probabilities should not be assigned to the scenarios, nor should they be identified or ranked as ‘least’ or ‘most likely’ too early in the process.

Conflicts. A well-crafted set of scenarios is said to lure the decision-makers outside the comfort and familiarity of their traditional mind-set and mode of operation. In so-doing, a number of conflicts are described by Fahey & Randall, (op cit), which tend to characterise scenario building:

- **Present versus Future** – decision makers have to respect and reconcile simultaneously present realities with the logic of plausible futures which demands a thorough understanding and analysis of the driving forces of change.
- **Closed versus Open-Ended** – scenarios can be constructed with very specific strategy decisions in mind, or they may be developed to ascertain which strategy decisions should be analysed.
- **Grounded versus Imaginative** – good scenarios are both thoroughly researched and thoroughly imagined, whilst bad scenarios rely too much on uninformed speculation and are poorly researched. A balance between detailed study and unfettered creativity needs to be struck.
- **Intellectual versus Emotional** – in similar vein, scenarios are necessarily an intellectual or analytical activity, but they must also capture the emotions of those who develop and implement them.
- **Advocacy versus Dialogue** – good scenarios are likely to be forged when individuals advocate their point of view, argue how a plot might evolve, demonstrate the logics that underpin it, and illustrate its implications for the organisation’s current and future strategies. Once scenarios have been selected, however, a reasoned dialogue among all those concerned is required to secure effective strategic planning.
- **Scepticism versus Expertise** – expertise is naturally essential in the analytical process of scenario building, but because the future can be so different from the past a healthy scepticism should be maintained about the pronouncements, judgements and assessments of experts. This scepticism compels decision-makers critically to reflect upon each scenario’s logics and its strategic implications.
- **Quantitative versus Qualitative** – as essentially constructs of the imagination, scenarios are fundamentally qualitative in nature, but some estimate of the extent of quantitative differences between scenarios is important if strategy is to be correctly calibrated.
- **Probability versus Plausibility** – one of the most contentious debates concerning the use and development of scenarios rages around the assignment of probability to the final scenarios. One school of thought (Battelle Management Consulting, for example) argues that not assigning probabilities is a ‘cop-out’ because probabilities give decision-makers important information on which to base their strategies. Another school (Global Business Network and SRI, for example) believes that assigning probabilities is a ‘hangover’ from the days when forecasters really thought they could predict the future [Fahey & Randall, ibid].
Unashamedly, this author views probability assignment as a “dressing-up of prejudices” which can lead to a distortion of the process and a detraction from the basic purpose and function of the scenario building.

**SCENARIOS FOR IRELAND**

As part of a Technology Foresight exercise for studying the future planning and development of the Irish economy three alternative scenarios have been constructed by Enterprise Ireland. These are very simply described below to give some idea of how they emerge:

**Scenario 1: Island Ireland – The Sustainable European – (Equality)**

*2015:* Europe has expanded to the East. Ireland, now a net contributor to EC coffers, suffers mild paranoia about peripherality. Payback time has arrived for some of the short-termism of the former ‘Tiger Economy’. The social divide continues to widen, with high levels of exclusion and unemployment.

However, since 2012 we have had a pragmatic government with the political will to do something about all of this. The platform is to upgrade our national capacity to participate fully in the European opportunity. This mainly through self-help. Among other things this recognises that the creation of a sustainable quality physical infrastructure underpins our ability to become contributing citizens of Europe. After all next year is the centenary of the Easter Rising!

**Scenario 2: Ireland – Keystones in Fortress Europe – (Liberty)**

*2015:* Europe on the defensive. The weakened American and Asian economies tried to use Europe as an economic dumping ground. Europe raised the drawbridge. Selective trade barriers, a halt to economic migration from outside, the expansion of the community to the east halted and administrative decentralisation to mark the boundaries. After all this is the bicentenary of the treaty of Vienna where Europe’s boundaries were redefined after Napoleon left.

Ireland is seen as a good citizen of Europe – a contributor to the Community’s technology, culture and sustainable development. The new eurocredits system means we remain a nett financial beneficiary. Construction and infrastructural development is now a networked European activity. The government can afford to be laissez faire.

**Scenario 3: Ireland – The Global European – (Fraternity)**

*2015:* An enlarged and confident Europe goes global. Capitalism with an evolving conscience, aid and trade, an open economy, partners of the world. Since 2011 the Community was operating in a sustainable manner and quality of life issues are to the fore – in the global village a dawning awareness that most of the villagers are not doing anything like as well. In the developed world post materialistic fluidity is setting in and with it comes an economically acceptable conscience. Europe’s skills and resources could develop the social and economic infrastructures of the second and third worlds. Trade could follow aid. After all it’s 60 years since the Marshall Plan started to rebuild Europe after the war!

In the exercise itself, very much more detailed pictures of these alternative scenarios are painted, against which various policies, proposals or possibilities related to the construction industry can be tested.

**Issues And Driving Forces**

The following issues and driving forces were identified and are listed in approximate order of perceived importance in each category.
**Economic**

- Cycles in national economy
- Competitiveness, speed, sustainability and value
- Joint public / private finance
- Security / replacement of EC funding interest rates, EMU, convergence
- Growing investment in repairs, maintenance and rehabilitation
- Affordable housing
- Mobility of capital
- Change emphasis from first cost to life cycle cost (low cost ownership)
- Growing markets leisure / tourism
- Energy costs of construction process and building use
- External competition from EC partners
- Design / construction management a tradable commodity
- Remote geographic location in Europe
- Industry to become more involved in socio-economic policy debate
- Future ownership of Irish construction companies
- Potential involvement in third world

**Operational**

- Increased client expectations and in particular, those of multinationals and funding institutions
- Competition and partnering
- Client as part of team and process
- Quality and total quality management
- Integration of contractor and design team
- Skills availability
- Integration of design, build, maintain, operate
- Claims / litigation culture inhibiting design and innovation
- Partnering for skills, scale, competitiveness
- Entry standards to contracting
- Registration of professionals, technicians and skilled operatives

**Regulatory**

- Physical planning policy and efficient operation of planning system
- Integration of regulatory process for infrastructure
- Development of regulatory environment associated with full implementation of EU Construction Products Directive
- Registration of contractors, architects, engineers, surveyors and skills
- Public procurement regulations

**Technological**

- IT in design, manufacture, construction management, procurement and operations
- IT in partnering and integration of process
- Apparent low level of R&D in industry
- Integrated training and education for industry from clients to crafts
- Efficiency in provision of infrastructure
- Differentiate between R&D and innovation and learning
- Recognition of design as having a high R&D component
- Information on technology developments
- Building services proportion of construction to increase

**Social**

- Environmental impact of process and end product CO\(^2\) emissions
- Health and safety on construction sites
- Increasing urbanisation
- Construction waste management / recycling
- Commercial and industrial building to cater for 30% to 50% of all jobs which do not exist today
- Destruction of rural scale
- Affordable housing
- Safety, security, vandal proofing of buildings
- Buildings for ageing population, disabled and socially excluded
- Growth in population – economic migration
- Mobility of work force
- Consumer orientated performance based markets
- Home working – change from industrial to information society
- Transportation issues

Uncertainty

All strategic planning is bedevilled with uncertainty and the following factors were identified as possessing a potential future impact:

- Changes in structural funds
- EC legislation and regulatory environment
- Changes in demand
- Land use zoning and availability
- Population and demographic change
- Impact of IT on construction
- Ability to recognise and implement technological change and opportunity
- Changes in national economy
- Skills and labour availability
- Changes in EC economy
- Impact of essential sustainable requirements
- Social / customer expectations
- Rural / urban balance
- Balance of public / private and public & private funding
- The industry’s choice between gradual progression (more of the same) and significant strategic change
- North / South Ireland economic integration
- Political / industrial will to implement radical strategies for change
- Transportation policy and developments
- A significant proportion of 2015 technology does not exist
- 2015 buildings to cater for 20% to 50% of jobs that do not exist
- Changing client base
- Energy costs

Strategic Questions

Two strategic questions were addressed in the exercise.

(a) How best can the Irish Construction Industry meet the requirements of the market together with the economic, social, environmental and regulatory conditions of the world of 2015?

The basic elements of strategy required were identified as the need to:

- Prepare and maintain a SWOT Analysis of Construction and Infrastructure in the run up to 2015
- Undertake market studies to establish customer profiles needs and expectations and the associated regulatory environment in the run up to 2015
- Identify and develop niche quality capability skills and products and networking and partnering skills for domestic and European markets
- Develop quality, competitiveness and international tradability of the knowledge based activities of the industry (e.g. design, management)
• Create and market more development partnerships between the construction and financial services sectors
• Develop the capability to integrate the construction process to the extent appropriate to the project type
• Make the process of compliance with the planning and regulatory process more efficient and user friendly
• Implement state of the art operating and business systems and provide the associated construction related education and training programmes
• Implement IT application in all sectors of construction from marketing to maintenance in an integrated manner
• Progressively reduce construction costs in real terms by 25% by 2015
• Improve the on-site working environment particularly in terms of health, safety, job satisfaction and social esteem

(b) How best can the Irish Construction Industry make strategic use of technology and product possibilities, including those from other industries to develop and sustain a competitive market in the world of 2015?

Likewise, the basic elements of strategy required were identified as the need to:

• Source and adopt the new technologies where relevant such as smart materials and products based on new sciences (e.g. Biotechnology)
• Use virtual reality in design, build and marketing of construction and infrastructure
• Assess and transfer appropriate processes and technologies from other large-scale assembly industries such as shipbuilding
• Develop leading edge, niche, globally certified products and specialisations
• Develop and use technologies for low energy and high recyclability construction process and product
• Develop customised dedicated electronic data interchange (EDI) for the industry
• Improve safety and job enrichment on site by increasing off-site prefabrication starting with design. More brain less brawn on site
• Develop technologies and practices for safety and sustainability in construction and infrastructure
• Encourage innovations in the construction product and process by increasing incentives for R&D and technology acquisition
• Develop stronger operational and commercial links between 3rd level research and education
• Provide integrated education, training and technology dissemination programmes including an infrastructure element in school curricula
• Establish a joint industry, government and third level research innovation and information centre for construction and infrastructure

CONCLUSION

The future will always be unpredictable, but it has been shown that by adopting the right approach and by using appropriate techniques it can be imagined, planned for and managed. Scenario building, in all its forms, has proved to be a powerful and effective component in the strategic planners tool-kit. Scenarios generate a distinctive kind of knowledge and promote organisational learning; they provide a process for enhancing decision-makers’ understanding of how to prepare for and manage change; they increase the comprehension and acceptance of uncertainty by engaging all concerned in creative thinking; and they demonstrate to ‘stakeholders’ in an issue, activity or organisation how they and it could thrive in future environments that may be strikingly different from the present.

This paper concludes, therefore, where it commenced, by proselytising the role of the scenario approach in learning about, and planning for the future of the construction industry, and predicting that scenario building, or variants of it, will become the principal behavioural technique for determining public and private sector strategy within the next few years.
REFERENCES


