

# FMI Quarterly

2010 ISSUE 4

## DO RIGHT

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# This Quarter: Do Right

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## Dear Reader:

Do right. Don't we all?

Well, it depends. It depends upon our values, our worldview, our life experiences, what we read, what we talk about, what we think about, how our leaders lead, regulations, laws, spiritual perspectives and education. All of that fuels our notions of *what's* right. Even then, right isn't always easily settled. William Safire, the late columnist, former White House speechwriter and college dropout, proposed that, "The right to do something does not mean that doing it is right." In construction, generally, meeting minimum code is right enough. However, building codes evolve, meaning that the passing of time creates enlightenment (sometimes) that raises the code bar. But savvy owners, designers, constructors and tradesmen often know long before a code change that *doing* what is right (creating safer, quieter, lower life-cost, stronger and more durable space and structures) will exceed minimal code requirements. They also know that doing what is right in such cases will make their cost basis higher and their potential profit lower than competitors bidding to minimal code. What to do? "That's easy," many will respond. "Give the client whatever it is willing to pay for." Ultimately, the acts that we perform provide our proof of integrity, not the thoughts that we chew upon.

Thinking is important, though. Actions derive from thoughts and decisions. To provide grist for your thought mill, this *Do Right* issue of *FMI Quarterly* provides a number of articles concerned with matters of integrity. Additionally, this issue introduces a new feature, "... *From My Perspective*." Our colleague, Lou Marines, who is very familiar to the A/E/C community, starts our series with "*Integrity ... from My Perspective*." We hope you will find Lou's perspective on this subject of considerable value. He has witnessed much in his many years of service to the industry that we believe will be of value to you as you continue to hone your own notions of what's right. Moreover,

we hope that those thoughts will stir actions that contribute to your own personal reputation for integrity.

The features and shorter articles directly concerned with the theme of this quarter's issue include:

- *Four Types of Integrity in Construction* by Ralph James
- *Who Really Cares About Ethics?* by Andy Patron
- *Coaching the Character* by Tim Tokarczyk and Chip Toth
- *Buying Out Without Selling Out Your Principles* by Mike Clancy
- *Organizational Integrity: Strategic Alignment in Execution* by Jim Schug
- *Make the Most of Your Training: The Integrity of ISD* by Kelley Chisholm

Our sponsoring partner, Zurich, brings us *The Zurich Way*, a look at the integrity of consistent business practices, in the form of an interview with Scott Rasor, president of Construction at Zurich North America.

The Quarterly interview is also on theme this issue, as Ralph James and Kelley Chisholm interview Jacob Blass, president of Ethical Advocate. Ethical Advocate provides comprehensive ethics and compliance solutions, including ethics and compliance training and confidential and anonymous hotlines.

We also have some material for you that is not directly concerned with our overall theme of integrity, just in case you seek some mental relief from our central focus this quarter:

- *Should Your Company Be Looking to the Federal Market* by Grant Thayer
- *Marketing in the New Normal* by Cynthia Paul and Ken Roper
- *Go-to-Market Strategy: Your First Step to Winning More Work* by Cynthia Paul

We have certainly not touched all points in our discussion of integrity. In fact, we have barely scratched at the subject. If this issue causes you to think more deeply about notions of integrity and, better yet, spurred a few conversations in your company or community regarding *doing* what's right, then we will have done right.

Sincerely,



Jerry Jackson  
FMI Quarterly Publisher and Senior Editor

# Departments

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## LEADERSHIP

### Four Types of Integrity in Construction

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Trust me! Why wouldn't you? Why are some organizations trusted while others are not? Trust is an attitude based upon a value. The value is integrity. Integrity can be defined as honesty, trustworthiness and wholeness in the sense that parts must support the whole. There are at least four types of integrity: structural, personal, price and process.

Structural integrity means our projects hold up, our bridges can be trusted, our buildings do not fall down, and our roads can be safely driven. Every engineering student learns the importance of structural integrity. Every contractor knows its reputation rests on the structural integrity of its jobs. When the 1999 earthquake in Izmit, Turkey, collapsed hundreds of buildings, investigators found, among other causal factors, that construction inspectors on some of these buildings had been paid off to ignore structural integrity. As a result, many people were maimed or killed.

The Turkish structural integrity problem was rooted in the second type of integrity — personal. Personal payoffs ensured a lack of structural integrity. In some cases, defective design, foundation failure and inferior materials, coupled with blind-eye inspections, all contributed to the disaster. In many cases, individuals took payoffs. Thousands lost their lives, many because of these lapses in personal integrity. Personal dishonesty has many bad endings. Bernie Madoff's Ponzi scheme wiped out the savings of thousands of individuals and institutions in the largest heist in history — pegged at \$56 billion. Madoff's dishonesty made Jesse James look like a banker.

Personal integrity means maintaining trustworthiness in all dealings at all levels. Enriching oneself while failing to provide expected value creates a lack of trust. It is an act of thievery. As argued in *The Integrity Chain* (2007) integrity must be the core value of an organization. Organizations depend upon the personal values of leaders. A leader without integrity is a thief. Stealing from one's own clients or company jeopardizes the well-being of every employee. Leading with integrity is the only sustainable way to lead.

Personal integrity can be simplified: Do the right thing. Sometimes we are unsure what the right thing is; but most of the time we will be correct. A desperate contractor may feel that shortchanging his or her customers is

the only way to create the economics that will save the company. Twisted perspectives can confuse weak people about what is right. Personal integrity requires strong leaders to act in ways that will not harm other people. Making hard choices that maintain integrity is not always easy. Sometimes personal integrity requires us to do the most good for the most people, even when some individuals will be harmed by the action. For example, a company may have to lay off some of its employees in a bad economy. The leader is acting to protect the organization, which supports individual jobs — saving as many jobs as possible.

The third type of integrity is price/scope integrity. An airline is a fixed-cost beast. A \$35 million piece of equipment parked at an airport gate is not earning money. Airlines require maximum throughput to cover such high fixed costs. They flex ticket prices (to a point) to get a warm body in every seat. Fixed-cost businesses are volume-sensitive. Contracting, on the other hand, is a variable-cost business. Variable costs are those costs that vary with sales. Up to 90% of contractor costs are in the field on jobs. Labor, material and equipment costs would not occur if the job had not been won. Variable-cost businesses are price- or margin-sensitive. A contractor who slashes his price slashes his or her own throat.

Contractors must maintain price/scope integrity because it sends the right messages to their customers. If cost can be readily cut when a customer asks for a reduction, it implies that price/scope integrity was missing in the first place. For example, owner Jones asks us to cut 30% out of our change-order price proposal. If we say yes, he knows we had padded our price and can do the job much cheaper. This would be remarkable in an industry that averages 3% pre-tax profit. Our appropriate response in our variable cost environment is, “Yes, we can reduce our price if we also reduce scope while maintaining structural integrity.” This sends the correct message — “We have integrity in our work. We were not trying to gouge you in the first place!”

The fourth type of integrity is process integrity. This type is often overlooked or at least disguised in other language. Take value engineering, for example. Many organizations do indeed bring value to their clients by re-engineering the structure, the assembly, the combination of materials, etc. For a few organizations, value engineering has a singular aim: to increase the profitability of the provider while lowering the value of the end product. Process integrity means we cause all business processes to work correctly. Our job cost systems work correctly because we capture all costs. Our

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estimating system works correctly because we put cost in the right place rather than where we have budget surpluses. Our safety process works correctly because we insist on its trustworthiness, and the safety of our results reinforces this trustworthiness. Our goal-setting process properly supports production and builds a winning mind-set.

How trustworthy is our job-cost system? Should we do favors for owners and other contractors for free? Yes, sometimes it makes perfect sense to help an owner or contractor. That owner might need us to go with him to the bank to answer some construction questions. The other contractor on the

site might need our crane when his crane is down. What does not make sense is not tracking all of our costs. Favors are an appropriate cost of doing business and are often returned, thereby saving us jobs or money on jobs. But we still track all costs in order to protect the integrity of our costing system. And we don't pad the cost on the base project when that cost is actually expended in some other fashion. We appropriately charge the cost to public relations, marketing or other accounts that more accurately reflect the true nature of the cost.

How trustworthy is our estimating system? Our superintendent finds he is way over on foundation work and has plenty of room in site work. He slides foundation's overage over to site work. Now he thinks the job looks better-managed. The obvious problem lies in the fact that cost

history informs estimating. If there is considerably more site work on the next job, it could be overestimated, causing the loss of a job. Similarly, if foundation work on the next job is unusually large, a severe underestimate can occur, enabling the winning of the job but ensuring an unprofitable job.

How trustworthy is our safety process? Consider the foreman who calls the team together for the weekly safety toolbox meeting. "You people come on over here; let's get this over with." Dead on arrival. The message is clear. I have to do this for the office — it's a waste of time and more unnecessary paperwork. "When you pick up stuff, keep your back straight. Any questions? I did not think so. Here, sign this." The foreman's method says the safety process is more like paperwork for the office than a sincere effort to keep people from getting hurt. Integrity can be partly restored to the foreman's safety process with a structured morning huddle in which the whole team looks for potential hazards each day. The huddle can start with a stretch-and-flex session to help prevent injuries relative to the day's

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assignments. After hazard identification and personal safety gear checks, the crew can participate in setting a reasonably challenging production goal.

The integrity of the goal-setting process is enhanced by crew involvement and provides a way for everyone to see the intent in the schedule. Schedule intent should be transparent to field crews with visual aids (available site plans, etc.) and short-interval schedules.

In the morning huddle, foremen can often improve production by discussing a fair challenge goal based upon the short-interval schedule and any upcoming milestones. At the end of the day, the crew measures its performance against a goal it helped set. This provides a way to measure productivity and improve output through creative input. The crew also participated in improving the integrity of the construction process in the morning huddle and throughout the day.

Trust me?

If I produce structural integrity, lead with personal integrity, maintain price and scope integrity, and insist upon process integrity, then there is a strong probability that you will trust me. If you trust me, you'll prefer to do business with me. That creates a competitive advantage. And if I trust you, I will strive to produce the best construction experience that you've ever had ... and I will do it time and time again. ■

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**If you trust me, you'll prefer to do business with me. That creates a competitive advantage.**

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## STRATEGY

### Should Your Company Be Looking to the Federal Market?

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During the Great Depression, the FBI apprehended Willie Sutton, the famous bank robber, after a heist. When asked why he robbed banks, his explanation was simple: "Because that's where the money is." The Great Depression ended more than seven decades ago, and the Great Recession is slowly receding into the past as well. Today, the federal government's share of overall construction spending has increased, and stimulus money is funding real jobs while the private market continues to decline. These conditions make the federal market appealing. But many contractors fail to go beyond Mr. Sutton's famous pronouncement when considering which new markets to enter. This article considers whether the federal market is an appropriate fit for potential new entrants in light of the uncertain economic outlook, and it includes an interview with an attorney with considerable experience in the federal market.

## WHY THE FEDERAL MARKET MAY NOT BE GOOD FOR YOU

“Is the federal market still an attractive strategic alternative for your company to begin to pursue?” The simple answer may be “no” for the following reasons:

- **Poor timing:** If you are just beginning to pursue this market, you are late off the starting block. Very strong competitors have been there for years, and many new players have recently entered.
- **Complicated business practices:** The current administration has refocused on document and regulatory compliance. The level of detail and record keeping required is often a shock to companies used to dealing with the private sector.
- **Drop in stimulus funds:** The pop from the stimulus has largely passed, if there really was one. Many of the jobs funded by the stimulus bill should be out by the time of the publication of this article.
- **Amount of commitment:** Most companies underestimate the commitment of time, workforce and expense required to break into the federal market.
- **Crowded set-aside programs:** Many strategies once considered shortcuts have seen increases in competition, similar to the greater federal marketplace.
- **Surprisingly unattractive market prospects:** Many are surprised to discover that with the exception of a few sectors positively affected by the American Reinvestment and Recovery Act (ARRA), the regular federal construction budget is flat to down for most departments.

## A LONG-TERM COMMITMENT

Despite this grim outlook, these problems are not insurmountable, and the federal market is still attractive to many contractors. The federal government is the largest consumer of construction in the world, and it cannot be overlooked. Without American Recovery and Reinvestment Act (ARRA) spending, the marketplace in many states would be much worse, considering that much of the stimulus has gone to cover projects impacted by budget shortfalls (See Exhibit 1).

Federal work can be a profitable long-term strategy if a company is willing to make the right strategic commitment. So what does it mean to make a real commitment to the federal market? For many contractors, the first challenge will be producing a résumé in public work that is adequate for the opportunities that they would like to pursue. Desirable work that is awarded on a best-value basis is out there (for example,

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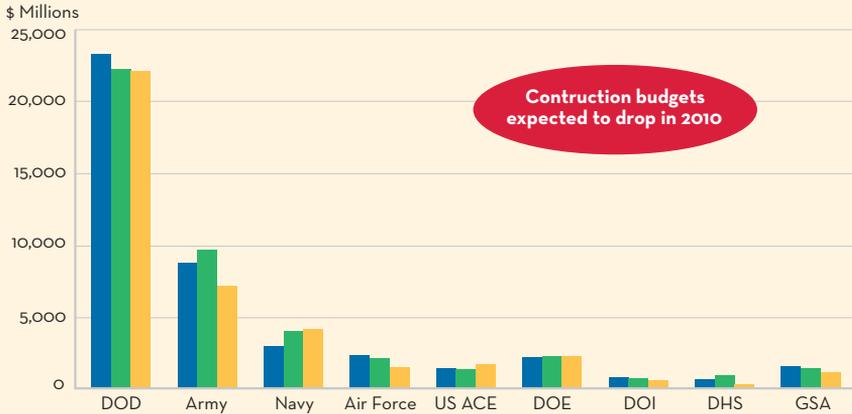
**The federal government is the largest consumer of construction in the world, and it cannot be overlooked.**

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Exhibit 1

### Departmental Comparison: Construction Program Budget Totals – 2008-2010

■ 2008  
■ 2009  
■ 2010



Source: FMI internal research

Indefinite Delivery/Indefinite Quantity (IDIQ) contracts like Multiple Award Task Order Contracts (MATOCs), but you need a deep résumé of both qualifying projects and excellent Construction Contractor Appraisal Support System (CCASS) reviews to have a fair chance of getting these awards. This depth of résumé (called past performance in government contracts parlance) is not built overnight. One solution is to enter a joint venture (JV) with a partner who has the depth of experience you need to access projects. Good JV partners are always in short supply, so carefully consider the joint venture opportunities that are available and choose wisely. A poor choice could spell either disaster or a long period working through a project with a frustrating and unsupportive partner. Likewise, entering a JV or mentor-protégé arrangement with any of the many disadvantaged businesses that allow entry into the associated set-aside programs is fraught with danger if you make a poor choice. While there are attractive advantages to being involved with a disadvantaged business enterprise (DBE) partner, many contractors complain, “The best ones are already taken,” and those that remain often bring very little to the table aside from the

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**Good joint venture (JV) partners are always in short supply, so carefully consider the JV opportunities that are available and choose wisely.**

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ability to participate in the program. Remember, most of these programs are designed to have the larger partner impart some of its business acumen and sophistication to the disadvantaged partner. Eventually, your protégé should

graduate and perhaps become your competitor.

Take time to consider that the core competencies that have made your company successful in other markets may not be appropriate for the federal market. Give some thought to what makes your company different and ask yourself if that advantage is distinct or sustainable enough to make you successful in the federal marketplace as well.

From a business development standpoint, it is vital to realize that your customer will not be the federal government. Your customer will be a department or agency. With the exception of the Federal Aviation Administration and the U.S. Postal Service, the rest of the federal government's executive branch agencies must adhere to the Federal Acquisition Regulations (FAR), and

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**The extent to which the behavior of individual agencies varies is often surprising to contractors. Some will be sticklers; some, easygoing. It all depends on the culture of the agency you wish to serve.**

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each agency has its own unique processes and procedures that you will need to know intimately. The extent to which the behavior of individual agencies varies is often surprising to contractors. Some will be sticklers; some, easygoing. It all depends on the culture of the agency you wish to serve.

As one contractor lamented, "I guess you can't just go hide out in the federal market until things get better out there in the private market." It is not a place to try to produce quick backlog. Disabuse yourselves of the notion that it will be easy to enter this market.

#### INSIDE THE FEDERAL MARKET

For further context surrounding the state of the federal market, FMI interviewed Lawrence Prosen, a partner at the Washington, D.C., law firm of K&L Gates LLP. Mr. Prosen holds a Bachelor of Science in architecture, and his areas of practice relate to the construction industry, with a focus on government contracts, including contract negotiation, bid and size protests, contract claims and disputes as well as negotiating agreements related to the federal market, and the creation of mentor-protégé agreements.

**Thayer:** The federal market is attracting many new competitors. What is your perspective on changes in the federal marketplace and its competitive outlook?

**Prosen:** The majority of our clients are sophisticated federal government contractors. With that in mind, we have definitely seen an uptick not only in

the number of contractors pursuing federal work, but also in the number of contractors opening offices in the D.C. Metropolitan Area, to be close to the money, if you will. We do quite a bit of bid protest work, and I am quite sure there is a significant uptick in the number of protests that are being filed. The second area is socially disadvantaged programs. The third area is just collection and claims-related work. The types, quantity and size of claims have increased substantially. Tied to the small business, I have also done much more work in the mentor-protégé, joint venture and teaming-type relationships, and a lot more of that work has come to pass in the last couple of years.

**Thayer:** What do you see as major risks to new contractors trying to break into the market?

**Prosen:** We are seeing a lot of inquiry, although I haven't seen a lot of actual pursuit and closure of service-disabled, veteran-owned businesses, particularly with the last two wars increasing the number of service-disabled veterans. We have expended quite a bit of effort advising clients on entering the federal realm.

"Risk" is a good choice of words, particularly over the last year with the passing of ARRA, where billions and billions of dollars are being spent. There is a heightened level of oversight of the entities receiving the federal monies.

Because it's an expenditure of public monies, there is a substantially higher level of oversight and audit rights. At the federal level, you have all kinds of different audit rights; you have the GAO [U.S. Government Accountability Office]; each agency has its own inspector general; there is the DCAA, or Defense Contract Audit Administration, and then you have Congress.

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**There is a heightened level of oversight of the entities receiving the federal monies. Because it's an expenditure of public monies, there is a substantially higher level of oversight and audit rights.**

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**Thayer:** Have you seen a meaningful shift with the new administration?

**Prosen:** Absolutely. Under ARRA, there are heightened auditing and report requirements over and above those called for in the FAR. President Obama issued an executive letter basically stating that enforcement by the agencies of the contractors receiving the money under ARRA

has been inadequate, and he is directing his various administrators, secretaries and the like to increase enforcement under the ARRA. In addition, the Obama administration has shown a preference for union labor by reversing George W. Bush's prior executive order stating that project labor agreements

(PLAs) will not be used on federal projects. So you have definitely seen PLAs increase. There has also been a recent trend in large-scale project oversight, and I imagine that with the growing deficits, you will see more cost cutting and oversight approaches being developed and utilized as well.

**Thayer:** Considering your experience with mentor-protégé arrangements, what should a large contractor look for in a disadvantaged partner?

**Prosen:** That's a good question. I have done quite a few mentor-protégé agreements and regularly advise clients on their use, their governance and oversight. I usually get involved after the protégé and mentor have found each other, so I'm brought in at the end to help write the agreement that defines the relationship. At the end of the day, it has to be a trust arrangement, and as an attorney, you hope that a sufficient amount of due diligence and the parties getting to know one another has happened. Hopefully, a trust

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relationship that is based in fact and is accurate has formed, because one of the requirements of the mentor-protégé agreement, particularly in construction, is that the protégé controls the day-to-day operations of the joint venture, the program and the project. I cannot overemphasize that this mandate inherently requires that there be a high level of trust between the parties. Communication is the big thing. We have had occasions where the mentor-protégé arrangement starts off roughly, because you typically have two strong personalities, with two separate businesses and principals.

Often the mentor is very familiar with what steps and procedures need to be performed and the protégé is just learning those aspects. Yet the protégé is the manager/controller of the JV. This, coupled with the fast pace that typically relates to federal procurements and the accompanying learning curve can result in high tension between the parties, at least in the beginning.

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Entering the federal market requires a contractor to adopt a new level of attention to detail, comfort with intricate regulation and document compliance requirements, and an incredible number of unfamiliar acronyms. If this list does not match up well with your company's strengths, you may want to ignore the call of Willie Sutton's simple logic. Considering the challenges a historically commercial contractor faces in the federal market, entering this market only to try to hang on until the private market recovers will bring only

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**With the proper strategy and a real commitment, the federal government may represent an attractive market for your company.**

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frustration. However, with the proper strategy and a real commitment, the federal government may represent an attractive market for your company. The U.S. government is the world's largest consumer of construction services, and its need for construction often moves countercyclically to the private market. If you decide to jump into federal work, then study the market deeply, develop an affordable strategy that has sticking power and get your feet wet. ■

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*Quarterly Interview*

# Got Ethics?

***Jacob Blass***

PRESIDENT OF ETHICAL ADVOCATE

If you start addressing fraud by putting appropriate controls in place and by initiating a rigorously enforced and disciplined ethical culture, you could improve your bottom line right off the bat by up to 7%.

*When you think about your own code of ethics, what comes to mind?*

**Good versus evil?**

**Right versus wrong?**

**Honest versus dishonest?**

**Moral versus immoral?**

**Legal versus illegal?**

Different people have different beliefs on what constitutes ethical behavior, and any or all of these may be part of your definition. While it may be easy to determine that which is legal, the lines become blurred when distinguishing between what is morally right and wrong or that which is honest or dishonest.

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People often interchange the words “morals” and “ethics,” but a subtle difference exists between the two terms. Morals define one’s personal character, whereas ethics emphasize standards or codes adopted by a particular group of people. Each person has his or her own moral compass and will deal with ethical dilemmas based on his or her subjective belief system. In addition, the way in which a person may face an ethical issue may change depending on the particular situation or environment. And, in many cases, these dilemmas can be argued appropriately either way, with no easy black or white solution.

Now think about ethics in the workplace. Professional ethics sets the standard for how your company conducts its business. This has become a hot-button topic for companies, regardless of industry, given all of the corporate scandals over the past several years, from the fraudulent accounting practices of Enron and Tyco to the recent accusations involving the unethical behavior and judgment of Hewlett-Packard’s now former CEO.

Organizations today are taking notice and establishing ethical guidelines, creating ethics committees, producing ethics manuals, providing training to their employees and setting up ethics hot lines to report issues. Government regulations, such as Sarbanes Oxley and FAR, are mandating some of this. Building a strong ethical foundation for an organization starts with its leaders being committed to doing what is right. But it does not stop there; each

employee has a responsibility to act right as well if a strong ethical culture is to be woven into the entire company. Talking the talk is not enough — action is required. Organizational cultures often take on an existence of their own, affecting or regulating the behavior of most of people in them.

FMI recently spoke with Jacob Blass, president of Ethical Advocate. Ethical Advocate provides comprehensive ethics and compliance solutions, including ethics and compliance training and confidential and anonymous hotlines, meeting Sarbanes-Oxley (SOX), Federal Acquisition Regulation (FAR) and other regulatory and reporting needs. We asked Jacob why your company should care about ethics in the workplace.

**FMI Quarterly:** Jacob, tell us why ethics training is so important in the construction industry.

**Blass:** Unfortunately, construction companies historically have just about the largest average-sized fraud incident of any industry. The median size fraud is \$175,000; but in the construction field, it is \$330,000, almost twice the norm.<sup>1</sup> These are profound vulnerabilities and potential damages facing construction companies. In addition, many construction firms are federal government contractors and are now required, upon the award of certain-sized contracts, to have ethics trainings and anonymous reporting mechanisms such as a hot line.

In addition to the compliance aspects, I approach ethics from a bottom-line perspective as opposed to an abstract philosophy. The bottom line being that a typical company loses 5%–7% of its gross revenue to fraud. Ample evidence strongly suggests that when a company operates ethically and has a deep ethical culture, it will significantly mitigate the chances of unethical actions.

**FMI Quarterly:** Describe the culture of a company that needs a lot of work in terms of ethics.

**Blass:** Your culture and values determine what is and is not permissible. So you have that which you talk about and that which you actually do. For those companies that just talk about ethics and say, “Yes, we are ethical,” maybe there is some good that comes from that. But the fact is that an

#### EXAMPLES OF ETHICAL ISSUES IN THE CONSTRUCTION INDUSTRY

- Contractors committing to pricing and schedules they know they cannot meet in order to secure the project
- Bid shopping
- Delaying or not paying subcontractors and/or suppliers
- Theft of equipment
- Unauthorized use of equipment
- Substandard materials
- Bribery
- Fraudulent pay applications
- Misreporting costs
- Misreporting time
- Not staffing a job as promised
- Knowingly hiring illegal aliens
- Harassment
- Alcohol/drug use on the job
- Change order games

organization's workers need to see strong and consistent evidence of actions. Employees need to see that management is willing to do the right thing, even if it might cost them to the bottom line.

If people see that you will let anything go to be profitable instead of taking care of your employees or clients ethically and legally, then you are opening the door to potentially great harm, financial and other. Conversely, if employees see management is serious about ethics, they will believe that something untoward is going to be addressed and will exhibit a greater willingness to let the company know when something detrimental is or could be happening. Most importantly, an ingrained ethical environment will also serve as a deterrent if people are thinking about committing an unethical or harmful act.

There have been extensive studies conducted with thousands of people on honesty. The most compelling part of these surveys is that 80% of all respondents are situationally honest, meaning they will be greatly influenced by their environment. So if there is an environment that is loose around the edges, the company has much greater risks for malfeasances to occur because people will think, "I need to accomplish whatever I need to accomplish regardless of the means." Or "I can get away with a particular act." On the other hand, if they see that you are serious about acting ethically, then while you cannot guarantee what people are going to do, you mitigate the chances of them doing something that can put the company at risk.

**FMI Quarterly:** We understand that contractors with more than \$5 million in federal contracts are mandated to conduct ethics training. Will you describe this and how you help them?

**Blass:** Within 90 days of an awarded contract of more than \$5 million, companies need to have compliance programs and internal controls in place. Part of the compliance requires ethics awareness training for the entire organization. Ethical Advocate works with a company in two ways with regard to training.

One is to provide highly interactive and engaging live seminars for the leadership and/or the midmanagement of the organization to delve into what it means to have an ethical culture. This is not an abstract talk about ethics; rather we really look into the actions leadership takes and the messages it sends to the organization about what is and is not permissible.

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The second way is our providing online training for the entire organization, which focuses on ethics and ethical actions. Many ethical actions are not necessarily that which is legal or illegal; it is more a matter of what is the right thing to do. We cover certain legal aspects of what is and is not permissible, and really focus on how to make the decision on what the right thing is to do.

**FMI Quarterly:** Can you give us an example of how you have helped a company?

**Blass:** We had one client who got into some serious problems with respect to kickbacks. We worked very closely with the organization's management to understand what happened and how it occurred. What is interesting is that the leadership of this organization was honest. So what transpired, even with honest leadership? Were good controls not in place? Was the message

not sufficiently communicated, or did the person think, "I can get away with this"? This is where that 80% comes into play.

After understanding what happened, the next step was to take corrective measures to ensure that it did not happen again. We had a series of training for all management and worked closely with them on how they could define and clearly articulate what is not permissible and what the ramifications are if you do not toe the line.

**FMI Quarterly:** How does the leadership of a company prevent ethical problems and ensure its employees feel safe in letting management know if there is a problem, without fear of repercussion?

**Blass:** Part of the FAR (Federal Acquisition Regulations) requirements is that companies must have mechanisms, such as anonymous hot lines, providing an employee the opportunity to report a malfeasance and feel secure that his or her identity will not be revealed. A study from the Association of Certified Fraud Examiners indicated that

#### ETHICAL ADVOCATE

Based in Carrboro, N.C., Ethical Advocate, a privately held business, was founded in 2004. It provides comprehensive ethics and compliance solutions, including ethics and compliance training and confidential and anonymous hot lines, meeting Sarbanes-Oxley (SOX), Federal Acquisition Regulation (FAR) and other regulatory and reporting needs. Ethical Advocate delivers training online and in person with content covering business ethics, harassment and discrimination, the Foreign Corrupt Practices Act (FCPA), fraud awareness and more.

Ethical Advocate offers confidential and anonymous reporting, 24 hours a day, 365 days a year, via its website and call center. Its highly customizable system allows companies and organizations to quickly pinpoint unethical acts and easily analyze critical data to determine instances of fraud, identify problem areas and evaluate overall trends.

Ethical Advocate has more than 1.2 million users across all sectors, including public and private companies, nonprofits, educational and government institutions. For more information, please visit its website at <http://www.ethicaladvocate.com/> or call 1-888-ETHICS 6.

Jacob Blass can be reached directly at 919.942.2469 or at [jblass@ethadv.com](mailto:jblass@ethadv.com)

75% of all surveyed employees see unethical acts in the workplace, but do absolutely nothing about them.<sup>2</sup> Why do they not do anything about them?

Some may not care, but for the significant majority, they do not do anything because they are afraid to — they are afraid of retaliation and retribution, being ostracized, being fired. And many have good reason to fear all of those things. Conversely, surveys have indicated that when employees feel secure — in other words they can be anonymous and be assured that it will stay confidential — in reporting something, 73% will report it. It is incumbent upon a company to have a mechanism, such as an anonymous hot line (which we provide), that will allow people to bring forth those issues that need to see the light of day.

**FMI Quarterly:** How would you respond to a call from a company employee who reported that a senior manager was engaging in nonethical behavior?

**Blass:** There are two ways to address that. Number 1: if people who receive notification that a report has been submitted are actually identified in the report, we can remove them from the system immediately, and deny them access to the system. Secondly, we have an important feature to help mitigate the chances of any of the reports being suppressed. When a person is submitting a report, there is a question asking if senior management is involved. If the answer is yes, we provide our clients the opportunity to have an additional person who is outside the employee organization chart to be notified that a report has been submitted identifying senior leadership. That person might be the head of an audit committee, or the chair of the board, or an outside investor — someone who is not beholden to the leadership of the organization as an employee. Our job is to protect the client against any type of report being suppressed.

**FMI Quarterly:** It sounds like the process would need to be set up beforehand.

**Blass:** It is. We work with the client beforehand to identify who should be receiving notifications and who has access to reports. We customize many features, such as the reporting categories to help the company clearly identify what its risk exposures are, where the event took place, who is involved, for how long it has been going on, are outside parties involved, etc., so people can submit reports with a lot of valuable information — while

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**It is incumbent upon a company to have a mechanism, such as an anonymous hot line, that will allow people to bring forth those issues that need to see the light of day.**

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remaining anonymous. In fact, we have it set up in such a way where the person who submitted the report and the person investigating it can communicate with each other, with the submitter remaining anonymous, a very important feature.

**FMI Quarterly:** So when you are selling your services to the CEO, you say, “Mr. CEO, in case you’re the thief ...”

**Blass:** (laughing) You know what — I do say that. I say, “I’m sure you know that systems are about systems and not about people. We want to have a system that will protect you and the organization to the greatest degree possible.”

**FMI Quarterly:** If the CEO is dishonest, is it likely he or she would engage your services?

**Blass:** That’s a great question. If there is a regulatory issue that he or she needs to be in compliance with, the answer is yes. Let’s face it; if the CEO and other leaders are dishonest, nothing much is going to help. But, assuming that the CEO and senior leadership want to do the right thing and are looking for a mechanism to do such, they will understand that the system is there to protect the organization and they like that.

**FMI Quarterly:** But they are required, if they have more than \$5 million of federal work under the new acquisition rules to instigate ethical training. It does not have to be your particular version of it.

**Blass:** Yes, they are required to have it. But what is also important for federal contractors to know is that the government is looking for best effort, not the minimum. The government recognizes that you cannot control the actions of all of your employees; but what they want to see is how you influence them — how you tried to influence their actions. They want evidence that you gave the best effort to do the right thing. If you did, then the chances of the government coming at you with heavy artillery are greatly diminished. If you cannot prove that you gave your best efforts, then they’re coming after you with the heavy artillery.

**FMI Quarterly:** It sounds like what we call good faith efforts.

**Blass:** Absolutely. Again, the key point is the government recognizes you cannot control what people do. People are going to do what people have been doing since the dawn of time. But you can influence it, and if you recall what I mentioned earlier, 80% of all respondents indicate they are situationally honest. So taking that 80% into account, if you are doing everything you can to have a strong ethical culture, it is going to influence your employees, which will influence the government should anything untoward happen.

**FMI Quarterly:** Looking down the road, do you think that many contractors will begin ethics training?

**Blass:** I think to the degree that it is mandatory, they will. To the degree where it is a choice, it has become clear that having hot lines and ethics training is a best practice. A recent study showed when a company has a strong compliance program, coupled with a strong ethical culture, it is 36% less likely that a major unethical act will occur. This is a bottom-line conversation, not a philosophical one about “wouldn’t it be wonderful to be ethical.” The bottom line is that it makes great business sense to have a strong, ethical culture, backed up by actions in the company.

**FMI Quarterly:** It seems that the employees would enjoy working in an ethical environment as well.

**Blass:** Yes, all evidence points to it. It is interesting that when young adults are surveyed about companies that they want to work for, they indicate across the board, that they want to work for an ethical organization.

**FMI Quarterly:** Can you tell us about some of the training you do to instill an ethical culture in an organization?

**Blass:** Going back to the survey where 80% indicate they are situationally honest, 10% said they were inherently honest, and 10% were inherently dishonest; this means that 90% of us are susceptible to doing unethical, dishonest acts. That becomes the foundation upon which we start the training.

If you just talk abstractly, people always think you are talking about others. However, when you can evidence that 90% of all the people sitting in the room are susceptible to dishonest and unethical acts, there is no place to hide.

First, we address ethics on the human level, before we start looking at it on the organizational level, so people will understand how it applies to them. When people begin to understand how ethical behavior applies to them, they can then take this knowledge and begin understanding how it applies to the organization.

We then examine how these things play out in the organization;

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by the time the seminar is over, there can be 10-20 (or more) sound ideas generated on how to improve the ethical framework of the company. We can then optionally work with the company’s leadership to follow up and be consistent.

**FMI Quarterly:** From a training perspective, is the premise that ethics is binomial in that either you are or you are not ethical and there is not a graying between the two?

**Blass:** No, aside from the legal aspects, ethics by its nature is gray. That is why it is so important for people to understand on the human level how ethical decision-making works. A person must understand how he or she can be the problem.

There are many ways to look at that. People have the great ability to rationalize. Most people will not commit an unethical or a dishonest act unless they can rationalize it, because most people think that they are good. So how do we rationalize ourselves into unethical acts? What are the motivating factors?

Many of your readers are very logical and look at the engineering and construction world within that paradigm. However, unethical decisions are rarely logical. So we look at this not only logically but also from our other means of making decisions. What else is going on? We start opening doors for people to start looking at these processes.

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We also look at examples of people who in fact did the right thing even if it threatened their own well-being to do so. I do not mean their physical well-being, although that could be taken into account as well. We start looking at examples of people who do the right thing and what they have to go through to do the right thing. Then we start extrapolating out into the organization.

We have clients present five or six different scenarios that are unique to their company as to where someone could go down the wrong

line. This goes back to ethics falling in the gray area. We start having really involved conversations around the scenarios to decide if the behavior is ethical or unethical, and all sorts of viewpoints emerge. After that, we ask each attendee to identify at least three weak links within the company's or his or her specific workplace ethical culture and structure, and what can be done about them. There's a very detailed conversation about where those weak links are, what the ramifications are and then what people can do about them, and if they are willing to do something about them.

**FMI Quarterly:** Do you benchmark any of this? For example, do you take any type of initial survey and then go back a year later to see if the company is following through?

**Blass:** We do. We find that when companies decide to respond to untoward incidents — if something happened before, is it happening again? — we find that it is not happening again when the company is serious about it. When a company conducts ethics training, that training must be reinforced. If they not reinforced, the system will revert to its greatest level of comfort. There's a saying "tone at the top," where the executive leadership of the organization establishes the tone. But whom the line workers really observe and truly use as their greatest examples is midlevel management. That's why it's important for this to be drilled down throughout the organization. Midlevel managers needs to know that senior management is serious about this. When they know it is serious, the line workers beneath them are also going to know it. This seriousness is not only for major issues like stealing or kickbacks, but could be over minor things as well. If workers see that the company is not paying attention to minor issues, they are not going to believe that the company will pay attention to the bigger issues.

**FMI Quarterly:** Do you have any data on what is the cost of fraud?

**Blass:** Yes, the annual cost is more than one trillion dollars, and the typical company loses 5%–7% of its annual revenue, bottom line. So if you start addressing fraud by putting appropriate controls in place and by initiating a rigorously enforced and disciplined ethical culture, you could improve your bottom line right off the bat by up to 7%. While you cannot completely stop fraud, you can mitigate the chances of it happening and/or find out about it a lot quicker with the right culture and systems in place.

## CONCLUSION

Ethics is about doing the right thing. Treating employees, customers, vendors and the public honestly, fairly and openly is not only ethical, but in the long term, also is a great tool for improving the bottom line and keeping good employees.

FMI thanks Jacob Blass for his time and insights into ethics in the workplace. ■

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<sup>1</sup> Association of Certified Fraud Examiners (2008). *ACFE Report to the Nation on Occupational Fraud & Abuse*.

<sup>2</sup> Blass, J. (2006). Employee Fraud Looms As Major Threat to Business Owners. *Triangle Business Journal*.

# Marketing in the “New Normal”

Marketing, customer loyalty, value propositions, market brand and efficiency are all part of the new normal for contractors. Competitive companies are best-value marketing machines.

*By Cynthia Paul and Ken Roper*

Is your company, like that of so many contractors, struggling to find profitable work and sell projects at levels that sustain profitability? As one of our clients says about the current market prices, “You can’t compete with stupid!”

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Construction put in place, down by more than 24% from market peak, accounts for the largest market driver that is pushing owners to focus excessively on price (See Exhibit 1). Our industry has too much competition for the available work. Expect mergers, closures and failures in abundance over the next two years. Additionally, surety losses traditionally spike for two years following every recession. All combined, these market drivers are contributing to “stupid pricing” in a market already struggling to deal with the new normal.

Saying the new normal is going to bring change to our industry is an understatement. Heightened competition, fewer projects and sophisticated buyers will eventually produce better and more competitive contractors. Fewer competitors are a positive outcome of recessions. Therefore, the key is surviving and thriving until the market changes and pricing stabilizes.

There is good news for best-of-class contractors. Banks, bonding companies and buyers of construction services will be getting a healthy dose of negative consequences of below-cost pricing. Contractor failures, project failures and low-quality projects will begin to serve as a wake-up call. Think of how many profitable jobs it will take to offset the loss from one poorly priced project. The

Exhibit 1

### Construction Put in Place: Estimated for United States – 2Q2010

■ Construction  
■ Construction forecasts  
— Percentage of change



Source: FMI prepared forecasts for 2001-2011

new normal will require discipline, patience and persistence. Marketing, customer loyalty, value propositions, market brand and efficiency are all part of the new normal for contractors.

What do you need to prepare for in 2011 and beyond? This article presents ideas for marketing in the new normal to grow profitable revenue.

## KEEP MARKETING

Best-of-class contractors prosper in down markets. One reason is they value the disciplines of marketing and sales. They are market-driven companies and know they have to get in front of new as well as existing customers in order to succeed. Economic cycles are just a way of life in our industry. The key is being able to identify future market shifts and being ready to make the changes needed to be successful. Throughout the ups and downs of the market, investing in marketing and sales helps level backlog and cement customer relationships, and keeps your name at the front of the minds of potential customers.

One of the construction industry's unique features is the pricing model. Most contractors use cost-based pricing versus market-based pricing. Market-based pricing means setting a price based on the value of the product as perceived by the customer. This assumes that the value the customer perceives is more than the cost of providing the service. It is a value-based pricing system. Many everyday products have market-based pricing, as do unique purchases. Some

products, from cars, artwork and jewelry to everyday items like Starbucks Coffee and Godiva Chocolate, have a high perceived value. The products are priced on the value they have to us, not the product's production cost.

Market-based pricing is difficult, but not impossible, in today's market. The only way to get a premium price (i.e., a market-based price) is to market the value that you bring to the customer. Without marketing, the chance of selling on value rather than price, regardless of market conditions, is similar to an ice cube's chance of surviving in a hot location.

In a cost-based pricing environment, you win market share by being the lowest price. Being the low price, however, does not guarantee a profit. How much marketing is required to compete solely on price? The answer is not much. What happens in the recessionary environment is that some contractors eliminate marketing to eliminate cost, but that act does not eliminate the need for such costs. You have two options to survive and thrive in tough times. You can increase revenue and gross profit or you can reduce cost. Marketing does increase cost, so the marketing effort must be properly aimed and productive in execution.

The problem in the construction industry is that you cannot save your way to prosperity. Costs became costs in your business for a reason. Not to say that all costs are good. However, if you eliminate costs, it does not change the reason or purpose that drove it to become a cost in the first place. For example, cutting marketing expenses certainly eliminates expenditures. However, what is the long-term cost of saving those dollars? The dynamic friction between saving money today and strategically investing in your business for tomorrow creates some of the most difficult trade-offs our industry is facing. Many companies cut marketing and sales expenses in economic downturns. The benefits of these expenditures — brand recognition, differentiation, customer targeting, market presence, etc. — disappear; but too often, the impact of the cutbacks is not immediately felt. This gap can fool companies into thinking that their marketing and sales efforts were not generating results.

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**Without marketing, the chance of selling on value rather than price, regardless of market conditions, is similar to an ice cube's chance of surviving in a hot location.**

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#### **MARKETING AND SALES IN THE NEW NORMAL**

The new normal offers fewer negotiated work opportunities. The market has scaled back to the levels experienced in 2003 (as shown earlier in Exhibit 1) and is not expected to recover to pre-recessionary levels for three to four years. Construction will be out of the recession in late 2010 to mid-2011, but the market will not return to 2007 levels for several more years.

Best-of-class contractors know local and regional market trends. They have researched and explored emerging markets. Their strategic planning efforts have given them the insights needed to get a jump on market changes and find niches that best fit their capabilities while providing profitable work.

These companies focus their marketing and selling efforts on emerging markets (such as health care, assisted living, alternative energy, LEED construction, etc.) and market niches that provide the best potential. They realize that simply bidding more work in existing markets is not the best answer. In some cases, that type of bidding strategy can be the worst possible answer.

Marketing and sales, working together, have four basic objectives:

- Retain existing clients
- Engage new prospects
- Create opportunities for higher profit potential
- Increase the success rates on projects

Marketing means identify the right opportunities within the market you serve. It is about understanding your core strengths and the real value of your

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**Marketing means identify the right opportunities within the market you serve. It is about understanding your core strengths and the real value of your products or services.**

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products or services. It is learning the needs of target customers, what drives their decision making, finding sufficient potential projects and winning work. Proactively, a company evaluates its market position and determines its best strategic moves.

You have to communicate effectively with your customers if they are going to understand the true value you bring to their organization and projects. Postcards about successful projects, customer testimonials, press releases and signage are just some of the available communication vehicles. Exhibit 2 is a list of marketing tools for communicating market messages. Match the marketing tool to your marketing objectives. The goal is to gather the knowledge needed to target customers, markets and segments in

which you want to operate. Being clear and intentional on that is the simplest way to ensure that your marketing investments generate the highest possible returns.

### **STRENGTHEN YOUR VALUE PROPOSITION**

Value propositions are concise statements of what you provide to customers and the definition of the value they will gain. That is where your core competencies come into play. Your company should include a single or a few key value propositions for each group of customers in its marketing collateral and proposals. Value

Exhibit 2

## Marketing Communications Tools

<p style="text-align: center;"><b>Advertising</b></p> <ul style="list-style-type: none"> <li>• Trade Magazines</li> <li>• Association Newsletters – National and Local</li> <li>• Advertorials</li> <li>• Websites</li> <li>• Search Engines</li> <li>• Newspapers</li> </ul>	<p style="text-align: center;"><b>Public Relations</b></p> <ul style="list-style-type: none"> <li>• Press Release/Articles</li> <li>• Associations and Trade Groups</li> <li>• Quoted in Magazines and Newsletters</li> <li>• Sponsorships/Community or Industry Involvement</li> <li>• Trade Show Promotion/Sponsor</li> <li>• Trade Show Exhibitor</li> <li>• Convention Attendee</li> </ul>	<p style="text-align: center;"><b>Quality Control</b></p> <ul style="list-style-type: none"> <li>• Client Satisfaction Survey Mail</li> <li>• Client Evaluations Phone</li> <li>• Image Survey</li> <li>• Testimonials</li> </ul>
<p style="text-align: center;"><b>Direct Mail</b></p> <ul style="list-style-type: none"> <li>• Newsletters/Magazines</li> <li>• Periodic Reports</li> <li>• Articles and White Papers</li> <li>• Market Research Surveys</li> <li>• Customer Satisfaction Survey</li> <li>• Events Calendar</li> <li>• Personal Letters</li> <li>• Print Collateral</li> <li>• Specialized Brochures</li> </ul>	<p style="text-align: center;"><b>Sales</b></p> <ul style="list-style-type: none"> <li>• Direct Selling</li> <li>• Proposals</li> <li>• Key Account Management Plans</li> <li>• Travel and Entertainment</li> <li>• “Pitch Book”</li> <li>• Thank You Notes</li> <li>• Meeting Follow-Up Notes</li> <li>• Telephone Contact</li> <li>• Promotion/Giveaways</li> <li>• Videos/CDs</li> </ul>	<p style="text-align: center;"><b>Internet</b></p> <ul style="list-style-type: none"> <li>• Website</li> <li>• E-mail</li> <li>• Links to Other Sites of Interest</li> <li>• Links from Other Sites</li> <li>• eNewsletter</li> </ul>
<p style="text-align: center;"><b>Customer Events</b></p> <ul style="list-style-type: none"> <li>• Seminars</li> <li>• Forums (Conferences)</li> <li>• Speech – Influencers</li> <li>• Golf/Sport Outing</li> <li>• Open House</li> <li>• Awards</li> <li>• Speeches – National and Local Associations</li> </ul>		

propositions show customers why they should pick you over other good competitors. Customers should be able to visualize the exact benefits you can bring to their organizations and their projects.

The reason why contractors look similar to buyers is that most contractors have weak or unclear value propositions. Why else would clients buy solely based on price? Your value proposition is the foundation of building a unique relationship with your customers at a level that matters most to them. You have

enjoyed the results of this with all your repeat clients. You deliver what the customers need and want and they reward you with additional work. That level of working relationship builds trust and it takes trust for them to continue to work with you when there are so many other contractors vying for their business. So what in your marketing materials demonstrates your capability to the level that builds trust? Saying “trust me” is typically not a good method. You have to be able to articulate what you do and

why that has benefits that matter to the customer. If you can prove the difference between you and the competition, you win big.

Value propositions gain legs only if they are backed up by the core competencies of the company itself. Simply hawking an untrue premise does not work. It will only guarantee customer dissatisfaction and earn you to a quick exit from any target

market. Your offer needs to set your organization apart from competitors if the value proposition is going to add worth and provide your company with a strong selling platform.

Construction is a unique industry with no two projects being identical. The complexity of the process and number of variables that managers address on a daily basis are enormous. The competence of your field crews is unique to your organization and can create a customer buying preference. With distinct characteristics, an organization can build dynamic value propositions that are irresistible to clients. Taking the time to clarify your

unique value proposition is worth the investment. Such clarification is even more necessary when entering an emerging market.

Present your strongest value propositions in business outcome terms. Business outcomes are what the customer is attempting to gain by hiring you for a project. Beneficial outcomes might include:

- Reduced life-cycle costs
- Schedule compression that allows for faster move in
- Increased project value at completion
- Increased operating efficiency
- Greater energy efficiency
- Improved ergonomic appeal
- Better working environment for their people
- Streamlined decision making
- Increased speed to market

The best value propositions deliver tangible, measurable results. Confirm the results you are generating with detailed and candid client feedback. The only way to determine if you truly delivered on the promises made is by asking the customer.

## INCREASE CUSTOMER LOYALTY

Do your customers sometimes hire you even if your price is significantly more than a competing bid? Loyal customers are less likely to shop your price. Cultivating loyal customer relationships and getting repeat business are the results of solid marketing backed up by your operational capability.

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**The competence of your field crews is unique to your organization and can create a customer buying preference.**

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Our researchers, in analyzing the completed projects of our clients, prove that the most profitable customers are those that insist on using your firm on their next project. Trust is at extraordinary levels in these firms. Many contractors think that they deliver high-value projects and have extremely satisfied clients, only to discover from a client survey that their perception is inaccurate. The new normal will have higher standards of customer care and service to warrant repeat work opportunities.

What is your firm doing to generate customer loyalty? Are you providing training on customer service for your people? Do you have passionate team members making a difference to your customers? Customer service is all about delivering value to clients in order to secure the next project. Customer service needs to be delivered 100% of the time. Does your organization build systems and procedures to ensure this happens on every project? Hiring or training people to deliver consistent customer service may seem counterintuitive during downturns, but when do you need periods of highest customer loyalty?

During lean times, every dollar has to yield even more results. During a downturn, the most important thing you can do is to keep your eye on existing customers. While you should always show your appreciation for your customers, tough times are when you need to do everything you can to delight them.

How can you bring more value to your relationship if you do not understand the situation that your customer is facing? You need to understand what changes their businesses are facing, what shifts they are making with their structure, and how the changing economic conditions are affecting their operations. Your best customers represent the best opportunities for your competition, as well. Build the systems and structure you need to retain your best clients and continue to expand their loyalty.

Obtain feedback from customers on the importance of your value proposition to their businesses. Ask them about your level of service, delivered quality and just about every other dimension of your working relationship. Also, ask them about

the importance of those characteristics to their businesses and their selection processes. Find out if you are delivering tangible, measurable value that your clients acknowledge. If not, you have a problem; there is work that needs to be done.

Many contractors do not have systems and procedures in their companies to capture real-time customer feedback. At the end of the day, who you are is defined by how the client sees you. It is the client's perception that counts. Client

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**Your best customers represent the best opportunities for your competition, as well. Build the systems and structure you need to retain your best clients and continue to expand their loyalty.**

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feedback, value propositions, customer satisfaction and client service are integral parts of your marketing effort, shaping how the customer sees you.

Building solid processes for keeping in touch with customers, even in periods where projects may not be on the horizon, is important. Your marketing efforts reinforce the value proposition and assure customers of the value they expect to receive from your organization. Customer contact and marketing communications must fit and reinforce value propositions in order to drive your brand.

### SOLIDIFY YOUR BRAND

The flamboyant Richard Branson, in an effort to build brand recognition for Virgin Atlantic Airlines, launched a series of balloon adventures across the ocean and then around the world. While these had little to do with the airline industry, these electrifying events represented a way for Branson to get enormous press and recognition at an early stage in the development of a start-up airline with only

a few planes. Branson was not trying to create the brand of Virgin by flying balloons; he was trying to get recognition for the then young brand of Virgin airlines.

A brand needs a central vision. It must have the same understanding among all stakeholders to be effective. The brand encourages active mental participation among customers. The brand vision, or identity, tends to go beyond the service being provided. Branding has two unique aspects. The first aspect creates market awareness or a “promise in the market.” The second aspect of branding is even more important. It is delivering on that promise. A failure in delivery is more destructive than not having a brand.

So what really is a brand? Well, it is different for a product and a service.

In a service business like construction, a brand is nothing more than the promises you make to the marketplace that you actually deliver. That means that your marketing efforts need to provide promises to current and future customers that operations deliver in a consistent manner.

Three branding principles are:

- Develop a favorable relationship between your customer and your brand.
- Keep the brand fresh in the customer’s mind.
- Focus the brand on your company’s unique point of difference.

Branding helps establish familiarity, and familiarity helps create trust. Brands help you be remembered. They are a tool to communicate your strengths

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**A brand needs a central vision. It must have the same understanding among all stakeholders to be effective. The brand encourages active mental participation among customers.**

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and capabilities. To be effective, brand messages must be consistent through all levels of your organization. Brands are one of the most valuable corporate assets and, as such, need to be nurtured and protected.

Logos represent a common graphical signal of the brand. Careful placement of your logo adds to brand awareness and recognition. When a customer sees your logo, it is a quick reminder of your brand and its promises.

Personal relationships are an element of branding and need to be managed throughout organizations. They are a key part of how you deliver on your brand promises. Your customers need to have a consistent experience when connecting with your firm. Consistency increases the clarity of your brand in the mind of the customer. The clearer the brand, the easier it is for customers to know when to engage your firm. Value propositions, marketing and personal contacts all serve to create a powerful brand in the market.

What should be incorporated in your brand? Ask your customers how you are different and where you add the most value. Perhaps it is your unique systems and processes for delivery. Or is it pre-project meetings, planning sessions or project execution? All can be elements of your brand.

Customers, not the company itself, own the brand. The only way to understand the brand is to ask its owners; the customer. Once you understand the brand today, you determine if that is the brand that you want it to be, or if you want to begin the process of nudging your brand towards a new reality.

Promoting your organization in a unique dimension is an important part of marketing. The brand needs to represent that uniqueness. Be creative, build and promote your unique capability through the brand. Use your marketing efforts and marketing tools to communicate the brand message internally and externally. Communicate your brand to your team as diligently as you do to customers and prospective customers. Brands get stronger and more valuable by delivering the promises 100% of the time.

## **REDUCE COST**

Today's customers are responding to the current marketplace by being overly focused on price. As previously mentioned, market-based pricing is difficult, but not impossible, in the current market. You need to get ready for the changing market now. Get clear about who you are, what services you provide and the brand that you are living.

Cheaper, better, faster is a mantra in the market. It does not mean giving up on positioning your firm on value. It means becoming creative on cost-effective

ways to delivery high-quality projects to customers. Find ways to deliver on your promises while still being diligent about your cost model. The best people, the best systems and the best execution always produce the lowest unit cost. The new normal will drive productivity to levels of intensity that most organizations have not experienced. Profitability will be sustainable only when all levels of

“muda” (as the Japanese refer to waste) are eliminated or managed to minimal levels.

Growing efficiency trends include Building Information Modeling (BIM), prefabrication, lean construction, total stations and better crew design and mix. Companies with high cost structure and rigid operational style will find competing in the new normal particularly challenging. Agile organizations with commitments to high levels of productivity and support by senior management will create competitive cost advantage.

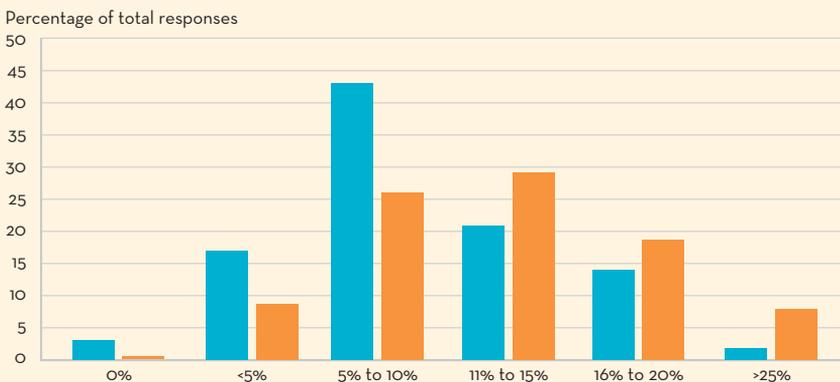
Labor costs represent one of the largest components of cost for contractors. Estimates of waste of labor

dollars (i.e., recoverable lost time) are as high as 40% on some projects. Dedicating resources to improving productivity in the company will yield improved competitive pricing and bottom line results for these contractors. For example, Exhibit 3, taken from FMI’s 2010 Contractor Prefabrication Survey, illustrates how prefabrication is helping contractors become cheaper, better, faster.

**Companies with high cost structure and rigid operational style will find competing in the new normal particularly challenging.**

Exhibit 3  
**Labor Saved in Prefabrication: Last Year versus Expected Future Labor Savings Using Prefabrication**

■ All responses: Labor saved last year  
 ■ All responses: Expected savings



Source: FMI’s 2010 Contractor Prefabrication Survey

## CONCLUSION

Marketing, customer loyalty, value propositions, market brand and efficiency are all part of the new normal for contractors. Competitive companies are best-value marketing machines. Having an effective marketing strategy provides you with the tools to proactively evaluate your market and your customers, and target the opportunities where you can differentiate and bring value — no matter what economic conditions are present.

Proactive analysis of market conditions and the impact of those conditions on the players in your market are essential in understanding what your customers need and how you can effectively fill those needs.

Numerous market studies have been conducted on post-downturn economies. These studies have proven that over the course of the downturn, companies that pursue aggressive strategic marketing campaigns exploit and refine their capabilities; successfully source and identify new opportunities; fill the unfulfilled needs of the market; and ultimately succeed with a high degree of profitability on the other side of the downturn. Your company can achieve this success as well. ■

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# The Zurich Way: An Interview With Scott Rasor

By establishing a set of metrics or proof points and publicizing the results, we gained a sense of ownership to the process and long-term buy-in for cultural change.

*By Kelley Chisholm*



One of the greatest challenges a company faces is knowing when and where to standardize its processes and methodologies. This is especially true for large organizations with many divisions in different markets. Consistency throughout all levels helps the organization grow and prosper. It is one key to a great customer experience and repeat business.

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Zurich has more than 60,000 employees helping customers manage risk in more than 170 countries. In 2004 the company created the Zurich Way — a consistent and uniform way of doing business. Designed to build on the things Zurich was already doing well, it also promotes the highest operational standards as well as common values and principles. Employees are encouraged to share their knowledge and best practices, and to develop their skills continuously. Zurich feels that with common business practices throughout the organization, it can better serve its customers and generate sustainable growth and profit for its shareholders.

FMI recently spoke with Scott Rasor, president of Construction at Zurich North America Construction, about how the Zurich Way is transforming its business.

**FMI Quarterly:** What exactly is the Zurich Way?

**Rasor:** It describes a philosophy whereby our organization creates common core processes or procedures to improve ourselves.

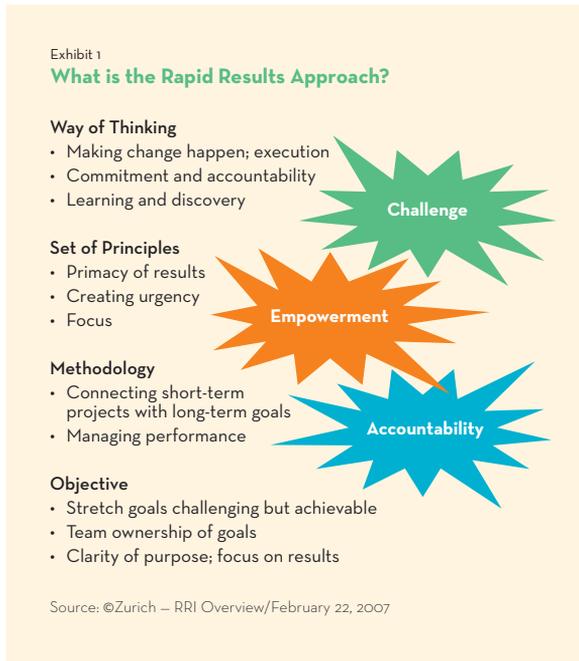
**FMI Quarterly:** When do you use it?

**Rasor:** It can be used for any process improvement, marketing opportunity or for service enhancement. When we develop a best practice, we share the common learning throughout the organization. It is the way core business processes and procedure improvements are shared in a visible and transparent fashion.

**FMI Quarterly:** What were the drivers behind the Zurich Way?

**Rasor:** In 2004 Zurich's chairman, Jim Schiro, wanted to create a common language, methodologies, metrics, toolboxes and core processes for the company. Zurich grew up out of both organic and acquisition growth. Many of the business units had a different vernacular and different ways of doing the same type of business. It was very difficult across the organization to measure or work on

improvement processes in a common way or, better yet, to take some of the learnings and consistently apply them across different parts of the organization.



**FMI Quarterly:** How do you use the Zurich Way?

**Rasor:** We have been using a process similar to a Rapid Results Initiative (RRI), which is an organized method of stating the issue, how to study it, the anticipated outcomes and, of course, how to measure the results (See Exhibit 1).

An executive-level manager assigns the RRI to a team leader. Members of the team who are necessary to achieve good project discussions have the support of engaged senior leaders for participation in the project. This creates recognition and incentive for participation. Through a series of meetings, the team creates a results funnel (See Exhibit 2). This keeps the team on course so that everyone knows what the plan is. The group works to achieve results in 100 days or less.

**FMI Quarterly:** What happens at the end of 100 days?

**Rasor:** The project becomes a way of doing business. It becomes an accepted procedure, process or the Zurich Way of doing business.

**FMI Quarterly:** So you attack an issue with executive sponsorship across the organization, outline a plan of attack and then try to deliver results in a short time period — how does this project become a Zurich Way?

Exhibit 2

### Rapid Results Funnel: Construction Professional Liability Services RRI

Business Opportunity

Improve customer experience and support profitable growth through distinctive claims handling service to gain a competitive advantage.

To: Focus on professional liability.

To: Create a collaborative and communicative process.

To: Speed the investigation process and improve the opportunity to mitigate loss costs.

Rapid Results Goal

1. Create a triage process that involves RE on 30 claims within 90 days, produce impact statements on eight and positive customer feedback on 80% of the claims where customers were contacted.
2. Reduce ALAE by 40% within 90 days on claims where RE is involved.
3. Improve customer experience by reducing pending and BP requirements ... improving technology, within 90 days with 75% of CPs reporting improvements.

**Rasor:** It becomes a Zurich Way of doing business when it is recognized by the organization as adding value in a consistent manner. We post the results on our intranet site. The members of the team are recognized and the accomplishments documented. We then incorporate the results into our procedures in different ways.

**FMI Quarterly:** How do you measure the results?

**Rasor:** The challenge or assignment statement in the RRI calls for certain expected outcomes. The implementation of the project at 100 days calls for a period of monitoring to test for possible adjustments. The outcomes are then embedded into the business unit's strategic plan or performance measurements.

It is important that the goals are measurable. They take shape in terms of the expected outcome. Examples might include increases in customer retention, product density or process efficiency.

**FMI Quarterly:** How do you make sure the process is embedded?

**Rasor:** It starts with publishing the project on our intranet site. The challenge is articulated and the procedure documented. The expected outcomes and goals are noted. Then the process is posted to the sub-site where it can be accessed

for future reference. This may be the Zurich Reference Library, the Underwriting Knowledge Center or the Business Unit's procedure manual.

**FMI Quarterly:** Give us some examples of how you incorporate this RRI method in the Zurich Way.

**Rasor:** In late 2008 our customers, like most of the economy, felt the repercussions of the banking failures. During this time, many experienced the impacts of the credit crunch. Letters of credit (LOCs) were (and still are) often used by our customers to secure insurance program deductible payment requirements. These were tying up their access to credit necessary to obtain materials and equipment to do their jobs; they clearly needed and were asking for alternatives to the traditional LOCs. We quickly pulled together a team of experts from underwriting and our treasury department, who developed and delivered two new products — EZ Trust™ and EZ CD™ to give our customers some alternatives. Our colleagues in treasury helped us work with banks to set up and facilitate enrollment and paperwork to make the transition efficient and easy. We moved 20 accounts and more than \$100 million in LOCs to these new products.

Another example is around how we handle professional liability claims for contractors. The evaluation stage of the initial report of claim was taking too long and our customers wanted faster analysis. The investigation phase was straining our customers (the contractors) and their customers (the owners) relationships. We assembled a team of claims, underwriting and risk-engineering experts to respond to the challenge. What we found was that most of the time, delay in the analysis involved expert evaluation of the design error; yet in many cases, the “fix” was obvious to those experienced in construction management. The outcome was that we developed a procedure whereby risk engineers would work with the customers to determine if a “fix” could be affected to the design issue and the case resolved quickly. Working closely with claims, the risk engineers now “triage” claims with our customers.

**FMI Quarterly:** What were the results?

**Rasor:** Our customer satisfaction survey reached a record high 92% of customers who were satisfied with our claims handling. As an added benefit, we were able to reduce allocated loss adjustment expense (experts' fees) by more than 51%.

Another example of one of the processes that we have worked on is our multinational insurance proposition. Managing the tax implications of domestic insurance in the U.S. is usually a straightforward process; but attempting to manage it across multiple countries where your business may operate brings an

entire new level of complexity. Not only for Zurich, but also for our customers who face varying insurance regulations, tariffs, premium tax-reporting requirements, etc., in multiple countries. We found ourselves in a place where we had to ensure that we were being compliant around such international placements.

We developed a process that aligns international coverages with all local regulations in the countries in which we do business. Our awareness of relevant local insurance regulations and tax laws is constantly being updated by a team of professionals, including lawyers and compliance people, within those countries. With this collective knowledge, we developed a Web-based tool called the Multinational Insurance Application, which ensures that Zurich, as well as our customers, gets an insurance placement that is legal and without additional fines, penalties, taxes or unknown expenses after a project is begun. With a common vernacular and utilizing the Zurich Way of this process, we are able to utilize the Multinational Insurance Application in 177 countries.

**FMI Quarterly:** So the metrics are still going to be the same, regardless of the country's particular regulations?

**Rasor:** Right. The metric in terms of the multinational insurance proposition is one that is usually quantifiable if you consider the fines, tariffs and unsatisfied tax implications. In addition, we heavily consider our reputation and protection of our brand in the marketplace from poor publicity and ultimately achieving customer satisfaction.

**FMI Quarterly:** When you first introduced the Zurich Way, how did you achieve shared mind-sets and behaviors throughout the organization?

**Rasor:** It began with our early work to create a common language, starting with the most basic forms of communication. For instance, SIRs, which are self-insured retentions — they were called SIRs in one division, while another division was calling them deductibles, when actually those terms are for two very different mechanisms for insured retentions. Trying to create a language or lexicon around the business so everyone was speaking the same way was very important.

**FMI Quarterly:** So you created an actual dictionary of preferred terms for Zurich employees?

**Rasor:** Yes, we did create a lexicon of our terms to help the organization level-set around the language we were going to use.

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**Our awareness of relevant local insurance regulations and tax laws is constantly being updated by a team of professionals, including lawyers and compliance people, within those countries.**

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**FMI Quarterly:** How did you go about actually deciding on the metrics you mentioned earlier?

**Rasor:** One of the key ingredients to a common set of methodologies, beyond naming the work team, the executive sponsor and the team leader, is to work out the metrics and the measurements prior to entering into the project. This includes providing guidance and direction around getting the project to a point where there was a measured outcome. Often people enter into a project or core process

improvement with the aim of making something better — more efficient, delivering at a lower cost — but they don't think about how they are going to measure that before they begin the process of what methodologies and what work streams are going to be put around it.

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**Determining what you are going to measure, whether it is the economic value, the actual bottom-line value or a growth in sales, helps the team get to a focus point around what is necessary to achieve the outcome.**

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Determining what you are going to measure, whether it is the economic value, the actual bottom-line value or a growth in sales, helps the team get to a focus point around what is necessary to achieve the outcome. The executive sponsor envisions what needs to change, and the work group goes to the executive sponsor to articulate what the metrics or measurements of the work team are going to be.

**FMI Quarterly:** What happens when the metrics are not met?

**Rasor:** That is how we judge the success of the project. One of the key things that the executive sponsor will

do is determine how important it is to the organization to assemble a team to work on core process improvement. Generally speaking, there is some need within the organization to change an outcome. In reality, you're going to be measured on it anyway. The point is to assemble a team to focus on a measurable result — that's the important part of the process.

**FMI Quarterly:** Is there a reward system in place?

**Rasor:** Besides the normal performance appraisal methodologies that we apply to our employees and the opportunity for reward in their performance management plans, Zurich has a system of gold, silver and bronze awards. Each one has a different financial reward to the employee. For example, gold is the highest-level reward, and it is delivered annually to an employee, in person, at our all-employee meeting by our CEO.

**FMI Quarterly:** Who nominates employees for these awards?

**Rasor:** Generally, the executive sponsor will report the results of the process improvement or work-stream improvement to senior management and indicate whether it's a change in revenue, an economic value or an efficiency, and how it is going to be measured. There is a period of measurement to indicate whether it is on the right path. The period of measurement may result in a 90-day or less pilot period to determine whether that value is gained. Generally, you can tell at the end of the 90-day period whether the process is a success, or if you need to make adjustments to it.

**FMI Quarterly:** So, if you make adjustments, are you also changing the metrics at the same time?

**Rasor:** Yes, that's one of the critical points of the review. You may find that there may be legal or regulatory limitations that may cause you to lower your expectations about the output of the process, or you may learn that you have only scratched the surface of the process. By using a common vernacular, the process usually can be exported to other parts of the organization easily. So the overall economic gain in a pilot has an overall multiplicative effect across the organization when it's enacted.

**FMI Quarterly:** What sort of training and development did employees receive in terms of learning the Zurich Way?

**Rasor:** We prepared a number of Web-based applications showing the process of what we observed in the past in the way we did business and our aspiration of how to achieve the Zurich Way. We had visuals and text describing our previous different understanding of core processes and how we ran our business in inconsistent language and terms, to an envisioned future in which we would begin to create and implement core business in a common language and methodologies, combined with metrics and toolboxes. Now, once we learn how to do something, we post how it was done and accomplished. We started changing the mind-sets and behaviors to drive a transformation to achieve a shared mind-set in those behaviors. We tried to move from no consistent perception in the marketplace. In our terms, Zurich was viewed as a number of different companies combined under one umbrella; but, actually, we wanted to achieve recognition as being one Zurich in the marketplace.

**FMI Quarterly:** How long did this take?

**Rasor:** The initial kickoff and setup probably took six months or more. The cultural migration varied based on process or project, and I think that it will never really end.

The culture continues to move in the direction of the different processes that the Zurich Way is lent to. Obviously there were priorities in what we needed to change to affect outcomes or results. Those were driven through the Zurich Way

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**By establishing a set of metrics or proof points and publicizing the results, we gained a sense of ownership to the process and long-term buy-in for cultural change.**

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initially. I think the results that were gained served as proof points to the rest of the organization to get onboard. Therefore, Zurich Way victories or achievements are proudly posted on our intranet site, and a month does not go by without an update on the Zurich Way of claims handling or the Zurich Way of premium audit or underwriting and a short story around how the team used the Zurich Way to accomplish something big.

**FMI Quarterly:** Do senior executives report these achievements?

**Rasor:** They are generally reported by a project sponsor or a project executive and it is highly encouraged in the organization. Oftentimes our communications people reach out to conduct an interview or discuss

what a work team was trying to accomplish, what the results were and how they were going to measure it. I think that visual helps the rest of the organization to recognize how things are done here at Zurich.

**FMI Quarterly:** When you first rolled out the Zurich Way, was there much pushback, or did employees easily embrace it?

**Rasor:** I think that with any change, it was probably a little fuzzy to some. But over time, through issuing those proof points, there was a fair margin of success where we did something this way. Like any large corporation, the suggestion box is always full, but when people started seeing quantifiable and visual results, they started to believe in it, and it became easier and easier to apply to the way we do business.

**FMI Quarterly:** How do your customers benefit from this process?

**Rasor:** Our customers benefit by our quantifiable ability to measure the improvement in service levels. Speed to claims payment. Speed to contact. The accuracy and prompt delivery of policy services. The Zurich Way rises out of an opportunity to improve a

process or procedure, or highlights something in which we want to have a competitive advantage. Frankly, the people in the process improvement teams have a sense of pride, and when we began measuring and said, “You know, we perhaps could improve our customer satisfaction” — they were very embracing of the opportunity. We then followed it up in most cases with external or customer surveys to correlate process improvement with the desired result, which is our customers’ opinion of how we perform.

**FMI Quarterly:** What was the hardest thing in putting the Zurich Way in place?

**Rasor:** The hardest thing was to convince our employees that it was the right structure or way to go about doing our business, and that their investment and time was worth it. By establishing a set of metrics or proof points and publicizing the results, we gained a sense of ownership to the process and long-term buy-in for cultural change. ■

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# Who Really Cares About Ethics?

Today is the perfect time to begin to set yourself and your company apart from the rest. Ethics is good business and will be the driver for change in the construction industry going forward.

**By Andrew “Andy” Patron**

**Y**ou may not be looking forward to reading an article about ethics but feel it is something you *should* do. Many of you might be reminded, of all things, of the “sex talks” you have had over the years with your now grown children. When they were preteens, you knew that they were curious about the topic, but really uncomfortable talking about it. As they grew older, you continued the dialogue about it, and there was always some degree of discomfort surrounding the subject.

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At times, you probably began to surmise that there might be some guilt associated with some of the examples you were using. Talking about it only heightened their discomfort, and your kids did not want you to bring it up. To them, it was private and personal and shouldn't be talked about openly. At some point in their development, and, in some cases, they probably knew more about the subject than you did (or thought that they did). Over the years and now, you may continue to press the issue with them, because of the importance of the subject and the high risks and costs associated with a poor decision. And so it is with ethics in the construction industry.

FMI is often asked to come and talk to contractors about ethics, but we have trouble finding many who actually want our help to do anything to make their companies more ethical. They seem to be saying, “Talk to us, but we don’t need to do anything. Awareness is all we need.” Really? Elvis had it right when he sang, “a little less conversation, a little more action.” Our industry has one of the worst reputations when it comes to ethics. Yet, we all seem aware of the ethical breaches that take place around us, and if awareness is all we really need, why is the construction industry still struggling with such poor public perception? Blame it on Enron? Enron was a reputable company at one point in its history. Now it is synonymous with scandal and deceit. There are plenty of less outrageous examples. Thinking that “It won’t happen to me” is naïve. It only takes one ethical breach by one person in your company to create a public relations problem. Who really

cares about ethics anyway? You should, but talk is cheap. What are you going to do to create an ethical culture in your company?

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**We all seem aware of the ethical breaches that take place around us, and if awareness is all we really need, why is the construction industry still struggling with such poor public perception?**

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An ethical breach can be very costly. A number of studies and surveys by various organizations have put some data around this issue. According to Jacob Blass, president of Ethical Advocate, occupational fraud costs the U.S. more than \$900 billion annually, and a typical organization loses 7% of its revenues to fraud. What would you do with 7% of your total revenue, if it were converted into spendable, after-tax, cash? Furthermore, Blass states that the median loss in the construction industry is \$330,000 per incident of fraud. That is a big check but the costs are not just in dollars.

PricewaterhouseCoopers, LLP, in its

March 2010 *Global Economic Crime Survey*, identified some of the collateral damage associated with misconduct in the engineering and construction sector, including employee morale, business relationships, reputation and brand, relationships with regulators and share prices (See Exhibit 1). These unquantifiable damages can certainly hinder your ability to succeed in the marketplace.

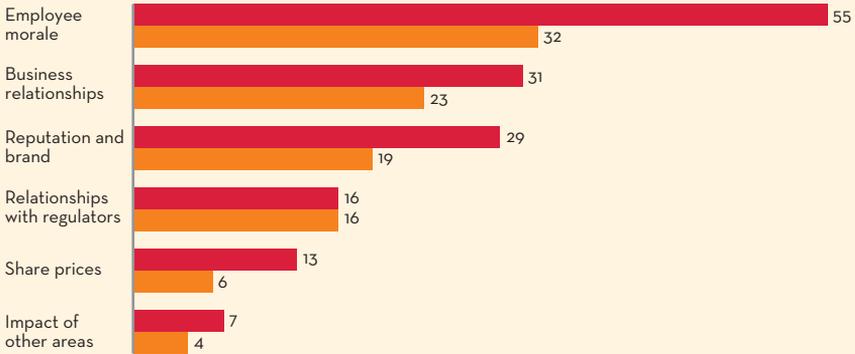
What types of misconduct are we talking about here? The types of fraud and other ethical breaches common to our industry are, for example, asset misappropriation, accounting fraud, bribery and corruption, intellectual property infringement, money laundering, illegal insider trading, espionage, market fraud involving cartels colluding to fix prices and tax fraud (See Exhibit 2). Quite a list, don’t you think? You might be saying, “But I would never do any of these things,” and under normal circumstances, you probably would not; but times are tough right now. Markets are tight and competitive. Francesca Gino, a UNC Kenan-Flagler Business School organizational behavior professor, says, “Situational

Exhibit 1

**Collateral Damage**

■ E&C sector  
 ■ All industries

Percentage of all respondents who experienced economic crimes in the last 12 months



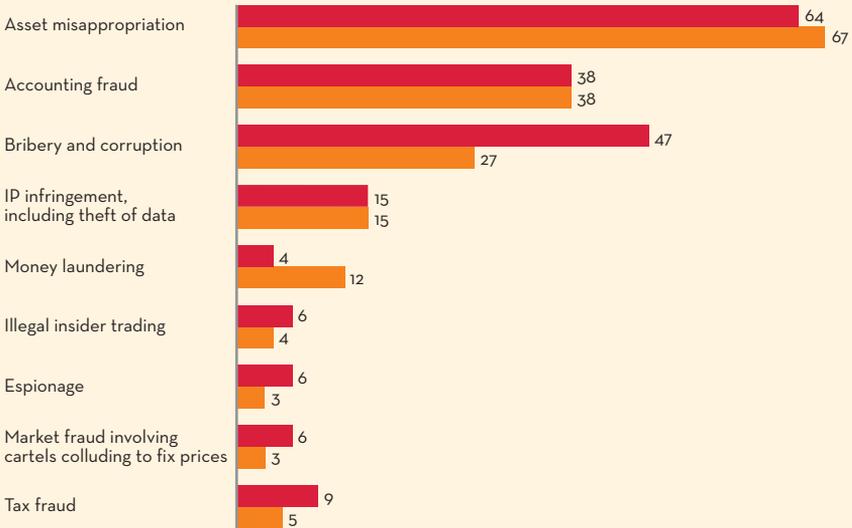
Source: PricewaterhouseCoopers Global Economic Crime Survey March 2010; Engineering and Construction Sector Summary, <http://www.pwc.com/be/en/publications/2010-GECS-Engineering-construction;jhtml>

Exhibit 2

**Reported Frauds for the E&C Sector versus All Industries**

■ E&C sector  
 ■ All industries

Percentage of all respondents who experienced economic crimes



Source: PricewaterhouseCoopers Global Economic Crime Survey March 2010; Engineering and Construction Sector Summary, <http://www.pwc.com/be/en/publications/2010-GECS-Engineering-construction;jhtml>

inequity can trigger powerful emotional reactions that drive dishonest behavior.” She found that “participants in the survey engaged in dishonest behavior to relieve the emotional distress caused by wealth-based inequity.” In other words, if your competitor just won a bid because he or she stole your value engineering idea, shopped his or her subs, or bribed an official, you may feel compelled to do the same in order to compete. So may your estimator or project manager or

receptionist. After all, you have a business to run and mouths to feed. A little “bribery,” intellectual property infringement or asset misappropriation might be understandable under these competitive circumstances. You may be thinking, “My competitors are doing it, so I have to also.” Think about the slippery slope you may be on. Where does it stop? H.L. Mencken said, “It is hard to believe that a man is telling the truth when you know that you would lie if you were in his place.” What kind of reputation will you have when the tough times are over and things get back to “normal”?

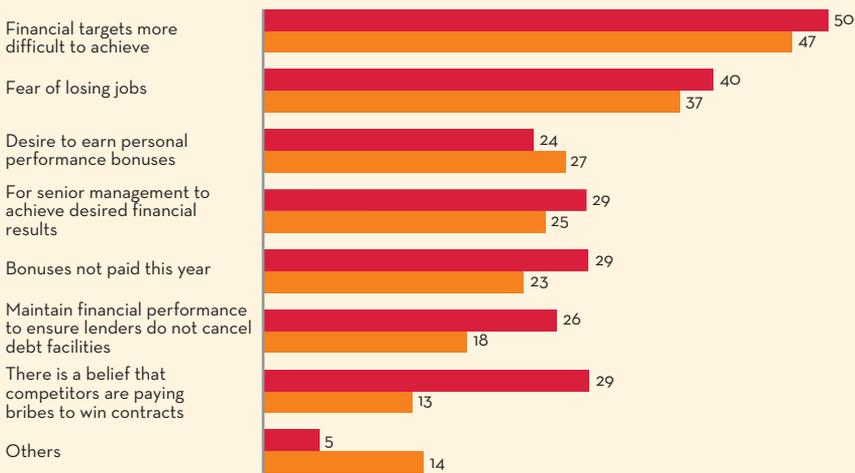
The costs of misconduct are not just realized outside of your business, but inside as well. Take a look at your expenses over the past 24 months and see if your office supplies number had a spike in August or September. When school starts in the fall, there is a chance that some of your employees think that you probably will not notice a few pens and pads missing. This is just one simple example of the many incentives and pressures that drive misconduct. Some other examples might be your financial targets are more difficult to achieve, such as fear of losing your job; a desire to earn a personal performance bonus, not achieving desired financial results; having to maintain some level of financial performance to ensure lenders do not cancel debt facilities; or the belief that competitors are paying bribes to win contracts (See Exhibit 3). These motivators are real, and this list does not exclude employees from feeling pressure, directly or indirectly, to violate their own or their company’s ethical boundaries. According to Ethical Advocates, 43% of surveyed employees admitted to doing at least one unethical act in the workplace in the last year, and when they observed an unethical action, 75% of these observers did nothing about it unless they had a safe mechanism

Exhibit 3

### Factors Contributing Toward Increased Incentives/Pressures to Commit Fraud

■ E&C sector  
■ All industries

Percentage of all respondents who believe increased incentives/pressures are the most likely reason for greater risk of economic crime in a downturn



Source: PricewaterhouseCoopers Global Economic Crime Survey March 2010; Engineering and Construction Sector Summary. <http://www.pwc.com/be/en/publications/2010-GECS-Engineering-construction.jhtml>

for doing so. So how are you going to facilitate ethical behavior? What tools does your company have in place to facilitate ethical behavior?

Our government is helping to drive some change in this area. The Federal Acquisition Regulation (FAR) is dramatically altering government contracting and is spilling over into other sectors. Some of the requirements for those choosing to chase government work include the following:

Upon award of federal contracts in excess of \$5 million and 120-day duration, the following steps are required:

- Within 90 days of award
  - Establish an employee business ethics and compliance awareness program and internal control system
  - Install an anonymous hotline for reporting suspected improper conduct and instructions that encourage employees to make such reports
- Within 30 days after award
  - Draft a written code of business ethics and conduct provided to employees
- Exercise due diligence to prevent and detect criminal conduct
- Promote a culture encouraging ethical conduct and compliance with the law
- Establish an ongoing business ethics awareness and compliance program and conduct effective ethics training

The motivation for these regulations is in direct response to the reputation that our industry currently lugs around. The federal government is setting the tone for our industry by requiring certain action steps. Reread the above requirements and consider to what degree you have these things in place. We have already determined that an ethical breach can be very expensive and potentially terminal. Compliance with these regulations is cheap insurance against the risk of some level of misconduct.

Companies that have invested in establishing these policies and practices have enjoyed a larger degree of leniency when a breach in ethics became known. Without these established policies, you may find it more difficult to prove that you really care about being ethical and that you expect your employees to be ethical. By putting your money and time into the creation of an ethical culture, you demonstrate, with action, that you intend to be ethical. It will cost you less in the long run.

Let us consider the other side of the coin: Ethics appears to be profitable and a strong ethical culture could be the key to your long-term success. Ethisphere Institute is a leading international think tank and it publishes the “World’s Most Ethical Companies” (WME) every year. Companies like CH2M Hill, Fluor,

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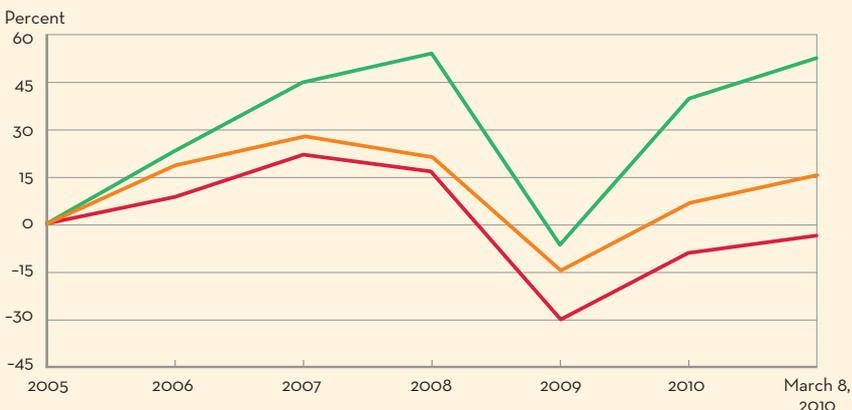
**By putting your money and time into the creation of an ethical culture, you demonstrate, with action, that you intend to be ethical.**

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Granite, Parsons and Caterpillar are on the list next to Dow, Ford, Hewlett-Packard, Novo Nordisk and Campbell Soup. The Institute's research indicates that these WME companies outperform the S&P 500 and the FTSE 100 by up to 50% (See Exhibit 4).

These ethical companies also enjoy a higher level of trust in the industry, which provides them with a "dividend" of sorts. In his book *The Speed of Trust*, Stephen Covey talks about how trust can increase speed and decrease cost. When you trust your subcontractor, for example, you will be less likely to question his or her change order. This "trust" speeds up the transaction, and when the subs trust you, they will give you their best price, thus reducing cost. A strong ethical culture makes this possible. The 2009 *National Business Ethics Survey* by the Ethics Resource Center (ERC) supports this theory with some solid data. In this study, ERC found that organizations with strong ethical values increased trust and drove down risk. The companies that invested in the development of ethical cultures experienced less misconduct, more frequent reporting of misbehavior and less retaliation on the job. They had better internal risk management and fewer ethical breaches. This behavior goes directly to the bottom line. Remember the 7% of your revenue that is being wasted on ethical issues? The ERC study suggests that

Exhibit 4  
**World's Most Ethical Companies versus  
 S&P 500 versus FTSE 100**  
 — S&P 500  
 — FTSE 100  
 — World's Most Ethical Index



Source: 2010 World's Most Ethical Companies (publicly traded); the research-based Ethisphere Institute is a leading international think tank dedicated to the creation, advancement and sharing of best practices in business ethics, corporate social responsibility, anti-corruption and sustainability.

if you invest in an ethical culture, you could put some of that into your pocket or share it with those who helped you achieve it.

Who really cares about ethics? Everyone and no one. Today, it only seems to matter if someone gets caught. Times are tough right now. The gray line between black and white is broader because of it. Many people are stepping across their own ethical boundaries to stay alive, but do not get too comfortable in the gray. Today is the perfect time to begin to set yourself and your company apart from the rest. Ethics is good business and will be the driver for change in the construction industry going forward. This is a bold statement, but not without some basis in history. Ethics is not just about fraud after all. Consider how your personal and corporate ethical standard influences your response to environmental concerns, harassment issues, discrimination policies and safety. Take safety as a specific example. Safety was a minor consideration 25 years ago, compared to the enterprise-wide focus that it demands today. It became an industry necessity because of the high risks and costs associated with an injury or death. Today, you simply cannot afford any unsafe work practices. Many feel that ethics will have a similar place in our industry 25 years from now. The federal government is helping to lead the way toward a cultural shift in our industry, like OSHA and the insurance industry did with safety over the past three decades.

In the future, if it is not already a part of your culture, ethics will be a significant consideration in every aspect of how you do your business. How you run your company will be processed through some ethical filter, and your ethical standards will be measured and reinforced to make sure that they remain consistent. In the next decade, when you position yourself in the marketplace, you will need to do so as one of the most ethical companies. You will win work by demonstrating honesty and fairness, and owners and subcontractors will work with you because of it. You will have to execute work with transparency and a clear understanding that ethical breaches will not be tolerated. Trust will increase your delivery speed and reduce your costs. Your proactive ability to create this company of the future, with a strong ethical culture, will differentiate you and make you profitable. ■

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**In the next decade,  
when you position  
yourself in the  
marketplace, you will  
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of the most ethical  
companies.**

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# Coaching the Character

Ultimately, it is up to individual leaders to make the commitment to coach their people. Those who do make that commitment will find that coaching generates amazing results.

*By Tim Tokarczyk and Chip Toth*

**B**ill, president of a midsized construction company, was known to be agreeable with his directors and peers when in person, or at least apparently agreeable, then prone to head in his own direction. He would tell others one thing, then go do another. Bill's mentor advised him to get coaching as soon as possible. He felt like someone had just told him that his hygiene was bad and he needed to invest heavily in Listerine. "Coaching?" he thought to himself. "Coaching is for people who are really messed up, employees who are high-maintenance."

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Yet his mentor persisted, and Bill committed to securing an executive coach. Bill reports a year later: "I have learned that I have more influence as a leader than I once had thought. People watch me all the time and take their cues from my actions as well as my words. Further, my recent effort to bring intentional praise and recognition to my people has been well-received. The emotional climate of our company has become more positive and collaborative. Most importantly, through executive coaching I have become more aware of who I am, my strengths

and weaknesses, and how to leverage the one while finding compensation for the other. Finally, I am happy that the new beliefs and behaviors I have learned through executive coaching have become second nature for me, as I can barely recognize the person I once was.”

### EXECUTIVE COACHING

Executive coaching has emerged as a billion dollar industry, serving the needs of a wide array of clients and companies. Executive coaching can be defined as “a collaborative relationship focused on equipping people to more fully develop themselves while facilitating a shift in their knowledge and behavior.” Further, it is a confidential, individually tailored engagement designed to meet the needs of both the leader being coached and the organization paying for the service.<sup>1</sup>

Leaders in the industry unfamiliar with executive coaching may think back to experiences they have had with coaches — most likely, a softball or basketball coach. If positive, that coach brought you to a higher level of athleticism than you were capable of reaching on your own. However, executive coaching is fundamentally different from the relationship you had with your sports coach or other types of coaching. Executive coaching takes a unique approach and assumes an equal relationship between the executive and the coach, with the aim of helping

that executive discover and develop his or her own path toward optimal performance in an organizational context. Many leaders across the industry have achieved exceptional results through working with an executive coach. Executive coaching is geared toward creating sustainable leadership growth and development.

Executive coaching can take a number of forms. For example, FMI Coaching Advantage provides six-month coaching engagements with client and coach meeting over the phone twice per month for 60-minute sessions.

The sessions are lively discussions

packed with encouragement, resourcing, skill development and insights. On the front end, the coach and client collaborate to build a personal and practical plan for developing the client. This plan, Coaching Metrics, provides a measurable and practical tool for holding both the client and the coach accountable for real progress toward shifting behavior and reaching the goals of the plan.

### MORE ON BILL

As we discussed Bill’s need for coaching with others, we were told that Bill had a character flaw! He would tell others one thing, then go do another. If you

“Coaching is about helping people slam shut the gap between what they’ve got now and what they want for themselves.”

— *Inc.*, June, 1997

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**Executive coaching is geared toward creating sustainable leadership growth and development.**

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chose one word to label this flaw, what first comes to mind? Dishonesty, deceit and duplicity might be your words of choice. Yet when we met Bill, we found an individual with healthy character, genuine commitment to his company and people, and a desire to act with integrity. You may ask, “How do we explain the discrepancy between what we observed and what others experience?” Two words: blind spot. Bill had absolutely no awareness that he was creating mistrust and dissonance with his superiors and peers. Yet, with the help of a multi-rater assessment and a professional debrief, Bill now had the gift of feedback ... the people he most cared about felt deceived and had little or no respect for him. Bill was no longer blind to his blind spot! He had taken the first critical step to grow and develop: He was now self-aware.

That should settle it, right? Give the man feedback, give him the business case and return on investment for correcting his issue, prescribe a treatment of two transformation pills per day for 60 days, then send him back to work. We wish! Bill needed a coach, a professional change agent to walk him through the thought and behavioral transformational process. In addition, Bill was now ready to commit to the difficult work of building a new set of skills to lead at a higher level.

Therefore, Bill and his coach created metrics that included a new set of behaviors consistent with virtues such as integrity, honesty and faithfulness. This was coupled with identifying the forces that kept Bill from speaking the truth to others around him — telling them what he thought they wanted to hear rather than what they needed to hear. Bill identified a few fears that were sabotaging his relationships and organization. Next, Bill began to keep a log in which he recorded both wins and losses against this new behavior of honesty. In the log, Bill would register when he successfully spoke the truth fearlessly to others, and he would also record when he was dishonest and made commitments he did not intend to fulfill. The log provided rich discussions for his coaching sessions. Further, to develop the new thinking (fearlessness and courage) to drive the new behaviors (candor and honesty) Bill read specific books that addressed his challenge area. After six months of coaching, Bill has changed and is making a real difference in his company. Once again, “Finally, I am happy that the new beliefs and behaviors I have learned through executive coaching have become second nature for me as I can barely recognize the person I once was.”

“The goal of coaching is the goal of good management — to make the most of an organization’s valuable resources.”

— *Harvard Business Review*  
November-December 1996

## COACHING FOR CASH

While executive coaching has made great strides in the past decade to remove the stigma that once came with it, there are still some who believe that it is only for the high-maintenance employee. In fact, nine out of ten clients who approach a coaching organization do so with a request that goes something like this, “John is productive and makes our company a lot of money but his interpersonal and social skills make Attila the Hun look friendly. We want you to fix him! No pressure, but you, and he, have six months!” And this request is reasonable, as there is a place for remedial coaching. Bill’s story above is an example of a positive remedial coaching outcome.

However, we want to raise the question of where you get the most “bang for your buck” for your coaching investment. Where do you get the most leverage for your coaching developmental efforts? Is it with High-Maintenance Marvin or

“Asked for a conservative estimate of the monetary payoff from the coaching they got, these managers described an average return of more than \$100,000, or about six times what the coaching had cost their companies.”

— *Fortune*, 2001

High-Potential Pete? Your return on investment for the high-potential leader will dwarf all investments for the high-maintenance individual. Why? It comes back to a one-word definition for leadership: influence. Coach a true and emerging influencer within your organization, and you increase both the quality and quantity of his or her impact on your company’s social, technical and material capital.

Many organizations throughout the construction industry struggle with leadership succession and filling their pipeline with enough qualified leaders to run the business successfully today — and in the future. So who are those high-potential leaders who will leverage the greater gains through executive coaching?

## COACHING IS NOT FOR EVERYONE

While executive coaching has worked effectively for many construction industry managers and leaders, it is a mistake to think coaching is a panacea — a quick fix for every “problem” employee or plateaued manager. Like all programs and processes designed to spark change in individuals, there are certain limitations to what coaching can do. The leader needs to be coachable, which means that he or she is open to coaching and is willing to work with an executive coach. Some clients are forced by upper management to take on an executive coach. The results from these situations are significantly less impressive. Unless the individual is willing to be coached and is open to making changes, the coaching process will have only a minimal impact at best.

Let’s take the case of Steve. Steve was in a leadership role in his company with a track record of bringing in large clients and revenue for his firm. A 360-degree feedback assessment on Steve found him to be almost too “clean.” There were no major problems with this leader, no flaws and no areas for development. Yet, after several meetings, it was apparent that Steve had built his business within a culture of fear and intimidation. He himself was not humble, teachable or willing to

develop further. Coaching calls were filled with Steve letting his coach know that he had no issues and that his organization was flawless. The coach had a choice: to fall at Steve's feet for extended worship or suggest pulling the plug and aborting the coaching engagement. The coach chose the latter. It was a difficult discussion with Steve, informing him that coaching would be a waste of his company's funds, for he was not teachable or willing to grow. Decisions of this kind are serious, well-thought-through and most painful to execute.

So what are the essential traits for maximizing a coaching engagement? For a client to be ready and willing to be coached, there are certain requirements that need to be met.

For true transformation to take place during coaching, the client needs to display humility, have awareness of the problem with certain behaviors they exhibit, and be open and willing to make a change. Oftentimes, clients experiencing some level of pain — be it frustration with a lack of results, awareness of their leadership limitations, or even having their job be in jeopardy — are traditionally more willing to look inwardly and make necessary changes.

Coaching is not for everyone! Typically, leaders with significant character flaws or deep-seated behavioral problems are poor coaching candidates. Coaching is a process whereby the client must be willing to look inwardly and examine personal

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**For true transformation to take place during coaching, the client needs to display humility, have awareness of the problem with certain behaviors they exhibit, and be open and willing to make a change.**

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internal views, attitudes, values and beliefs that may be preventing him or her from reaching his or her full potential. For this reason, people with deep resentment, severe narcissism, ironclad beliefs or a victim mentality are unlikely to benefit from coaching.<sup>2</sup> This is not to suggest that coaching cannot help with some of the character-related issues. If the individual in question is willing to look inwardly and admit to and take responsibility for his or her destructive or negative behavior or thinking, coaching may be able to generate positive results.

Finally, some organizations will engage an executive coach to address derailing behavior. This typically is used when an employee is a high performer and possibly a high-potential employee, but has one or more particular behaviors holding him or her back. Oftentimes, leaders achieve a great deal of success because of the specific behaviors, attitudes and values that they hold.

However, their strengths can also turn into weaknesses. For example, leaders with incredibly strong work ethics are a great benefit to the organization. If this work ethic leads these employees to become workaholics and threatens to burn them out, that strength can also be preventing them from reaching their peak potential. Executive coaching would be an excellent option in this situation.

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**Coaches are not expected to tell others what to do, but to help them work through their concerns or issues to find solutions for themselves.**

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### COACHING FOR DUMMIES!

All right. We know you are not a dummy. But let's just say you are interested in learning how to coach others in your organization but don't really know how to get started. Here are some practical guidelines:

- Get coaching yourself: Live the experience, then teach from that experience.
- Select a few employees who will be the focus of your coaching development effort for the next 12–18 months.
- Select F.A.T. people: The Faithful, Available and Teachable emerging leaders will leverage your developmental effort for real gain.
- Schedule meetings twice per month with your key people. We suggest 60 minutes for each coaching session.
- Use the following coaching format to get started:
  - 10 minutes — personal (check-in)
  - 20 minutes — business (projects, backlog, revenue, etc.)
  - 20 minutes — developmental input (personal growth areas worked on)
  - 10 minutes — logistical (action steps and schedule)
- Provide a mix of encouragement and challenge: Think 3:1 ratio of encouragement to challenge.

### WHO WOULDN'T WANT TO COACH?

We often work with leaders in the construction industry who appear a bit intimidated by the prospect of coaching others in their organization. These leaders sometimes feel overwhelmed by the responsibility inherent in coaching and are often nagged by the thought, “Well, I’m not perfect, so wouldn’t it be inauthentic for me to try to tell others how to get better and improve?” Luckily, these fears are

unfounded. No coach is perfect or has all the answers, and this will not prevent you from achieving impressive results nevertheless. Coaches are not expected to tell others what to do, but to help them work through their concerns or issues to find solutions for themselves. Often, sharing past experiences of failure can be a powerful coaching moment. You do not need to know everything to be a great coach.

Many industry leaders who have served as coaches have commented on what a powerful, rewarding experience it has been for them. Coaching can be a thrilling process whereby you partner with specific individuals to effect true life change in them. While coaching focuses primarily on achieving business bottom-line results, many coachees have expressed the firm belief that coaching has not only affected them at work, but improved their personal lives as well. True transformation does take place through coaching.

In this article, we have outlined some of the key guidelines for coaching others. We have provided you with specific tools, but now the most important step is up to you. As a coach, you must dive into those partnerships with both feet—and trust that with your knowledge and experience, you will help to transform the lives of those you coach. That is the power of coaching, and it is one of the most effective means of enacting change in individuals and in organizations. Ultimately, it is up to individual leaders to make the commitment to coach their people. Those who do make that commitment will find that coaching generates amazing results. ■

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<sup>1</sup> “The Realities of Executive Coaching.” Diane Coutu and Carol Kauffman. Harvard Business Review January 2009.

<sup>2</sup> “What Can Coaches Do for You?” Diane Coutu and Carol Kauffman. Harvard Business Review January 2009.

# Go-To-Market Strategy: Your First Step to Winning More Work

Invest the time to create the go-to-market strategies that help you close work and win against the toughest of competition.

*By Cynthia Paul*

**L**ooking into the rearview mirror reflects a world very different from the one that we see through the front windshield. In 2007-2008, many contractors were at their full capacity of projects; some even found themselves turning down work from their best customers. Today that marketplace has changed radically.

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Contractors need new answers in the area of work acquisition, as many are simply chasing too much work, with too little chance of winning. New rules exist in the marketplace regarding what it takes to win work. Even compared to a few short years ago, customer demands are different today.

As we look forward to 2011, the challenges of finding work will continue. Many contractors report they now have plenty of work to chase. A number of projects are on the street right now, and that will continue. So will the competition. The challenge is winning the project at a margin that makes economic sense.

A bright spot on the horizon is that work efforts are being invested to craft robust go-to-market strategies at the market and market segment level. A go-to-market strategy answers the questions, “What are you offering?” “To whom are you selling?” “What is the key benefit to be gained?” and “How does this set you apart from the competition?”

Go-to-market strategies certainly help you penetrate a new marketplace. The process also sets you up to win a specific opportunity by giving a customer a compelling reason to select you over the best competition. Integrating both market and project-level strategies into a cohesive plan will dramatically drive your win rate up on projects.

#### DEVELOPING YOUR GO-TO-MARKET STRATEGY

A go-to-market strategy is born from corporate strategy and vision. It starts with where you are trying to go and creates the path for getting there. A go-to-market strategy is the vehicle by which the organization

wins the projects needed to accomplish its strategic vision. So why are so few contractors taking the time to build a strategic-level win strategy?

Once a year FMI conducts a hands-on, market-level course called Marketing & Selling Strategies. It is a think tank for creating go-to-market strategies aimed to penetrate geographies or market segments. The group learns the tools, processes and skills needed to identify strategy, build a plan for implementation and position itself to win a strategic customer or project. Contractors from across the country come together and form working teams to learn to create unique strategies that will give their team the best chance to take advantage of a market opportunity.

Using the same tools, facts and research, each group creates a different go-to-market strategy. Each team creates a robust approach to take work away from competitors, capture the attention of new customers and give tangible reasons for a customer to select it. For example, each team builds on its own unique core competencies to come up with different answers for penetrating and growing a market. Some decide to grow from an existing, small share of the market. Others want to target and win a new market segment or expand geographically. All teams discover what is needed to create strategies

that change a company's performance. They learn to create strategy and the tools needed to drive that strategy into the fabric of the organization.

Interestingly, the teams typically focus on creating new growth opportunities in market segments or geographic markets. The tools and techniques they are learning will also help them win in existing markets. Many find themselves looking to create new levels of success by creating new market areas. Participants

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**A go-to-market strategy is the vehicle by which the organization wins the projects needed to accomplish its strategic vision.**

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often tell us that their job is to capture new parts of the market, while their colleagues at home focus on keeping existing customers.

The teams naturally identify market white spaces where their companies can compete effectively. Market white space is a graphical depiction of how contractors compare to each other as seen through the eyes of a customer. White space is where no one is currently providing coverage and that white space may represent a means of capturing greater market share for the company that can fill that white space.

An example might be how mechanical contractors in the San Francisco area compare on their level of customer service relative to perceived price. Of course, the customer is really the only one that can provide this level of feedback. A white-space graph might compare technical depth with responsiveness of staff or effectiveness of value engineering relative to the value received by the customer.

There are typically 10 to 15 different sets of comparisons needed to find the one that holds white space. Finding that space is what every contractor needs to focus on today and is a secret to success in the challenging market we are facing now and in the future.

At the end of the course, teams walk away with the skills and insights needed to craft go-to-market strategies for their specific organization. The teams walk away energized to change the success curve of their companies.

So why don't more contractors invest the time and effort to create a winning go-to-market strategy? The most common answer we hear is they are too busy chasing work — work that they have very little chance of winning. They are literally too busy to regroup, rethink and respond in a way that will dramatically increase their backlogs and bottom-line performance. However, the reality is that without changing their process, contractors will continue to use the same old methods that are not working very well. The following approaches outline how you can identify potential market white space and craft your go-to-market strategy.

#### START WITH VISION

A go-to-market strategy is born from corporate vision and direction certainly. However, strategy also needs to be born from current market conditions and competitive forces. That conflicting dynamic is prompting contractors to ask difficult, but very productive, questions of their organizations:

- How do we win in the market now and into the future?
- What would make the customer pick us over other good contractors?
- Where are the right growth opportunities for us as an organization?

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**Market white space is a graphical depiction of how contractors compare to each other as seen through the eyes of a customer.**

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- How do we structure the company to support growth?
- Who is leading the effort?
- How do we measure our progress and success?
- How do we move the strategy from concept to reality?

The answers to these questions are the basis for creating a go-to-market strategy that sets you apart from your competition. The place to start is being clear about what you want to accomplish, how much work you need to be successful, the best approach for winning the work and how to measure your progress forward.

### SET THE RIGHT FOUNDATION

A go-to-market strategy sets the foundation for breaking into and winning a market or market segment. It builds on corporate strategy, establishing the platform for determining your value proposition, brand positioning, marketing strategies, selling targets and customer service processes.

#### EXAMPLES OF GO-TO-MARKET STRATEGIES

- Target hospital systems that recently released more than 15% of their facility staffs with project management services, demonstrating past results and capabilities (case studies and customer video testimonials) to boards of directors.
- Create a trademarked life-cycle diagnostic tool that provides end users with information needed to determine the energy and cost payback on replacing versus repairing their curtain wall systems on commercial buildings of five stories or greater.

Exhibit 1 shows the integration of the go-to-market strategy to corporate strategy and direction. It also outlines how the go-to-market strategy fits into your overall work acquisition plan.

Ultimately, the go-to-market strategy drives the decision as to which customers and projects to pursue. It also informs your go/no-go process. These tools help you determine the amount of time and resources to invest in an individual pursuit. Your go-to-market strategy also should help to identify which customers to target for development into key accounts.

The go-to-market strategy also becomes the filter to determine which investments are the best to develop

your market, or market segment, moving forward. It will inform which customers you target, projects that you pursue and even the people that you recruit and hire. The go-to-market strategy is ground zero for all of your work acquisition efforts.

Be warned, not all strategies drive positive bottom line results. Exhibit 2, Strategic Impact, shows the five critical elements necessary for a strategy to contribute significantly to top-line revenue growth while delivering the targeted bottom-line results.

**Clarity: Inside Out.** Clarity focuses on the ability to craft and articulate the strategy internally and externally. It looks at what it takes to communicate a strategy to the marketplace. Clarity looks at the day-to-day commitment and buy-in needed internally to drive implementation. It also considers how well the strategy will resonate in the marketplace.

**Speed of Execution.** Most all competitive advantages are easy for key

Exhibit 1  
Win Strategy Model



competitors to replicate and knock off. Speed of execution has to do with how fast the organization can build critical momentum and gain early results. Without speed in execution, also referred to as speed to market, many strategies are lost in the competitive quagmire.

#### Delivered Value.

Change in strategy requires people to modify how they operate on a day-to-day basis. This element of strategic impact focuses on the values gained and the

results achieved by the successful implementation of strategy. Strategies that require significant change without corresponding positive results will unnecessarily burden your organization and create confusion in the marketplace.

**Cultural Integration.** Every company has a unique culture and set of core competencies. Strategies that complement existing core competencies and corporate culture tend to gain traction faster than those that do not. Strategies requiring significant cultural changes or new core competencies can be very valuable, but need to be pursued judiciously. Changing either culture or competencies requires time, effort and resources to evolve. Those changes can significantly affect the amount of time needed to implement a new strategy.

**Uniqueness.** Uniqueness is frequently one of the most difficult elements of strategic impact. It focuses on the freshness of the idea in the market. Sometimes the freshness of the idea is largely in the packaging. Consider the early introduction of program management. Construction management had almost achieved commodity status, but program management? Now that was something different! Initially, not so different; old services in a new wrapper. Uniqueness aims to create a differentiated position. Uniqueness only works if customers value the new ideas and providers can implement them consistently with success. When done well, the strategic impact of uniqueness creates market advantage.

Exhibit 2  
Strategic Impact



In the best of times, effectively implementing strategy can prove challenging (See Exhibit 3). The key is to analyze the strategic impact of go-to-market strategies before building the organizational momentum needed to drive implementation. Knowing and internally communicating the market impact of the strategy simplifies gaining the internal commitment needed to gain implementation traction.

## BUILDING YOUR STRATEGY FOUNDATION

Strategies built on facts stand the test of time. The facts might include the size of an expanding market, competitive environment, existing customer preferences and/or your ability to execute the work.

Strategy is costly in both time and money. The greatest cost is the lost market opportunity should it prove unsuccessful. Implementing the wrong strategy or failing to gain necessary traction gives your competitors time to react and potentially beat you to market. The first rule in creating high-impact strategy is to start with facts. Get the facts straight, and strategy becomes simple.

**Market-Based Facts:** Market research is a simple and cost-effective way to build on facts. Determining customer buying practices, before moving into the market, gives you a reliable road map for determining the best way to compete and win. It will also tell you the types of marketing and selling strategies needed to warm up and win new customers.

Current market segments benefit from conducting an image analysis. This is research on how your organization is perceived compared to your toughest competitors in the market. The feedback tells you what is important to customers/prospective customers and which contractor is best meeting those expectations. It helps you “see” your company from the eyes of the market.

For example, if project-level communications are critically important to customers in a specific market segment and you have always received good feedback from customers, it is easy to stop there, thinking that you are meeting customer expectations. An image analysis will uncover your score as compared to the competition.

If your company scores 8 out of 10 in communications, you may think

Exhibit 3

### Lessons Learned on Strategy

- Focus on profits, not revenues.
- Strategy is harder to implement than to invent.
- Traction takes longer than anticipated and much longer than hoped.
- Tactics are easy; being truly strategic is hard.
- Good strategy is not complicated.
- Finding, keeping and motivating the best talent is essential.
- Brands have tangible value and need to be managed accordingly.
- Dare to be different if you want to win in the marketplace.

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Implementing the wrong strategy or failing to gain necessary traction gives your competitors time to react and potentially beat you to market.

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you are meeting expectations. The compelling answers, though, lie in the relativity of the scores of key competitors. An image analysis will tell you where your score fits in with competition. If your top competition is scoring 9s or 10s, your company is falling behind. The score in comparison to competition is what is needed to understand how customers really perceive your organization.

**Completed Contract Analysis:** Your internal capability and performance are other key elements of needed information. You also must determine what type of projects your organization can successfully deliver. Conducting a robust completed contract analysis will enable you to spot the type, size and structure of your most profitable projects. Focusing on winning the work that you can build profitably is a shortcut to bottom-line success.

In the process of creating go-to-market strategies, the completed contract analysis often brings many surprises to management teams. It is human nature to remember where we were successful on projects 12 to 18 months ago. The completed contract analysis will tell you where you have been successful on projects in the last six months, the last quarter, the last five projects, etc.

**Collateral and Marketing Communications:** Facts needed include how well you are communicating with the marketplace as compared to key competitors. Analyzing tools like the Web

pages, brochures, project sheets and proposals will show how well you are communicating with the market. You want to analyze selling messages in words, approaches and formats. You want to examine the consistency of the messages, the clarity of the brand, the implied promises. Again, the useful key is understanding how well you communicate compared to your competitors. These facts come best from customers. Customers are the best determinators of how successful you are at communicating a message that hits their hot buttons.

All of these collateral tools need to be communicating a message to the customer as to why your organization is the best choice for the project at hand. Focus on selling the benefits of using your company. A simple test of benefits is to answer the question of “So what?” Benefits answer the question “So what value does that bring to the customer?” Telling a customer your organization has the most experience delivering a specific type of project is good; but the real impact is telling the customer why that is beneficial.

**Dashboards, Measurements and Metrics:** Create a business development dashboard that measures the progress you are making on identifying opportunities,

#### BENEFITS TO CHOOSING US

Benefits answer the question “So what?” from the perspective of the customers. Here are a few examples to consider;

- Our project closeout procedures reduce the time your staff needs to spend on-site managing the construction process (advantage). They can invest the time saved into the planning for the phase two move in order to reduce the disruption to your management team (benefit).
- Our expedited design-build approach lets you incorporate lessons learned from your prior projects while allowing for the unique needs of the new facility (advantage). The approach will result in a \$25 per square foot savings on costs (benefit).

warming up customers and selling on value. Measurements need to include both leading and lagging indicators. Lagging indicators measure the end results of efforts. Measurements that come from your accounting system are typically lagging indicators. Lagging indicators include booked backlog, revenue generated and profitability. They show the results of doing the right things. Too often, it can take months, if not years, to generate the right adjustments in strategies solely from lagging indicators. In changing markets, reliance on lagging indicators

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**In changing markets, reliance on lagging indicators generally means too little information, too late. Changing markets and corresponding strategies call for early information. Early notice is where leading indicators shine.**

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generally means too little information, too late. Changing markets and corresponding strategies call for early information. Early notice is where leading indicators shine.

Leading indicators focus on early results. Indicators also include measuring the behaviors needed to get the right end results. For example, the number of new customers met is a leading indicator. Leading indicators also include the dollar amount of proposals outstanding and the number of presentations delivered in the last month. If you do the right behaviors (leading indicators), you get the right results (lagging indicators). Your measurement dashboard needs to include both leading and lagging indicators of success.

**Go/No-Go:** Data needed include a robust go/no-go decision-making process. Every company's go/no-go process identifies which projects to

chase. That is not the difficult part, though. Perhaps too often go/no-go processes become go/go-go processes where every project that comes through the door gets attention. Desperation can lead to unfocused project and customer selection.

Where the go/no-go process really adds value is to help you objectively determine how much to invest in the opportunity. Your investment includes time, efforts and resources needed to win the project. For some projects, because they are a poor fit with your go/no go, the answer should be that the project not be chased at all. Or, if it is determined that the project needs to be pursued, then the investment needs to be limited. The latter case may be where you roll out a boilerplate proposal to simply be responsive to a request for proposal rather than try to lead the pack with your proposal.

Sometimes you may determine that a full chase, complete with value engineering and a uniquely developed proposal, is the right choice for the project. Without some kind of objective system for quantifying the go/no go, too many low-value opportunities get disproportionate attention while starving the strategic opportunities.

**Investment of Time:** Time is one of the most critical and scarce resources. Time dramatically affects a company's ability to find and build relationships with new customers. Finding new customers involves more than making phone calls or making sales calls. Maximizing the constrained resource of time includes finding ways to warm up potential new contacts and build value before making the first phone call. Calling on warm, not cold, contacts needs to be the focus of your new customer efforts. Marketing communications and sphere-of-influence strategies (the strategy of touching key people around your primary contact as a means of influencing the primary contact's perception) help you create the warm contacts needed to position yourself to win the first opportunity with a customer and cement the relationship for life.

How your team spends its time needs to be linked to your go-to-market strategy. The time it has to invest in new and existing customers is essential in your ability to execute your strategy and achieve the targeted results.

Today, business development is comprised of many different titles: project managers, pre-construction managers, heads of operations, estimators, business development managers and presidents. In working with each of them, we find significant differences between how they are spending their time today and how they need to spend their time with new and existing customers. See Exhibit 4 for a simple set of questions that will help you begin to discover how time is being invested today.

Integrating time into strategy is a breakthrough for many teams. When we look at how time is spent across different organizations, it becomes apparent where current customer-facing activities are jeopardizing both effectiveness and efficiency of strategy.

**Get-work Practices:**

Looking at facts means taking a candid look at your get-work practices.

FMI's proprietary tool, the Business Development Assessment (BDA) compares contractors on more than 200 best practices in marketing, sales and customer service. The BDA literally creates a score card of how well one company compares to the best-of-class practices in the industry.

The company is scored on how well it performs and how critical each single practice is in driving that company's strategy. Together, those two scores —

Exhibit 4  
**Time Survey**

TIME SURVEY	
<b>Where Do You Spend Your Time?</b>	
1 Customer's location	<input type="text"/>
2 Networking in the community	<input type="text"/>
3 Industry meetings and functions	<input type="text"/>
4 Project location (job site)	<input type="text"/>
5 Traveling	<input type="text"/>
6 Your office	<input type="text"/>
	100%
<b>How Do You Spend Your Time?</b>	
1 Calling on <i>existing</i> customers for new work	<input type="text"/>
2 Calling on <i>new</i> customers for new work	<input type="text"/>
3 Helping estimating	<input type="text"/>
4 Meeting with operations	<input type="text"/>
5 Coordinating proposals and presentations	<input type="text"/>
6 Planning	<input type="text"/>
7 Conducting research	<input type="text"/>
8 Internal meetings	<input type="text"/>
9 Putting out fires/miscellaneous	<input type="text"/>
	100%

performance and importance — identify where there are opportunities to leverage what is currently working and where changes will have a significant, positive impact on the company’s ability to target, win and retain customers. See Exhibit 5 for a mini-slice of the marketing portion of the BDA.

**GETTING FROM HERE TO THERE**

Strategy will help you gain a foothold on the competition and win your fair share of work. The right strategy, matched to your market and target customers, has the potential to give you a superior advantage in terms of both new and existing customers. When strategy works well, the company achieves its targeted

Exhibit 5  
**Mini-Business Development Assessment**

Enter a number 1 through 5

<b>For Importance:</b>	<b>For Performance:</b>
<b>1</b> Significantly below best practice and or extremely inconsistent applied	<b>1</b> Significantly below best practice and or extremely inconsistent applied
<b>3</b> At or near the industry average, with average consistency	<b>3</b> At or near the industry average, with average consistency
<b>5</b> At industry best practice, consistently applied	<b>5</b> At industry best practice, consistently applied

Marketing	Importance	Performance	Difference
<b>Differentiation Strategies</b>			
The company has clear differentiators and communicates those to the customers in the “get-work” process.			
Differentiation is highly unique (i.e., compelling, value-added, difficult to copy, sustainable, executable and fresh).			
Total			

<b>Marketing Tools</b>			
Marketing tools are used to leverage the effectiveness of the “get-work” process.			
Marketing tools are used to communicate the entire array of company services/products to the market.			
Total			

<b>Branding</b>			
Senior management understands and supports the need to create and maintain a brand in target markets.			
The value of the brand is routinely quantified and measured—results are shared internally.			
Total			

<b>Competitive Assessment</b>			
Key competitors’ strengths, weaknesses and strategic initiatives are thoroughly researched and understood.			
Company/Division goals and objectives are established in light of the competitive environment.			
Total			

<b>Marketing Metrics</b>			
Company uses a full array of marketing measurements to track progress toward strategic goals.			
Measurements include leading and lagging indicators.			
Total			

revenue with new and existing customers. Well-implemented strategy also contributes to the growth of the company's reputation and creates a market buzz about the company. Successful strategy might even get a few internal people excited enough to raise their hands, offering to help with implementation.

So why do so few contractors take the time to really dig in and create a go-to-market strategy that will change their results in this marketplace? They see the value — that is not the challenge.

The challenge is having the systems and tools needed to analyze their situation and craft the right strategy.

Creating the right strategy is the first step in achieving results. Strategy also has to be fully developed for the actions to get you from where you are today to your envisioned future. How many times have you seen good corporate strategy fall prey to forces inside the firm, resulting in little or no real change within a few months? Most strategy starts off on the right foot; yet it can fail to achieve full traction internally. Systems and effort are needed to keep the strategy on track. Too often the systems are not developed with the strategy, are underfunded or are in conflict with other priorities in the firm. The doubters gain in numbers, and volume and the strategy disappears.

Building a winning go-to-market strategy is very important to successful firms, never more so than when markets change. You also need to create the systems, process, resources, time, people and structure that will support and drive implementation. We think of those supporting structures as traction elements. When a strategy is backed up by traction elements, it gets implemented into the fabric of the company and stays there. Without the support of traction elements, too many go-to-market strategies remain great ideas captured on paper but fail to capture results in the market.

The right go-to-market strategies will change company results, regardless of market conditions. Focusing time on creating the right strategy and using that strategy to drive you toward the right opportunities is changing the results for contractors. Strategy creates opportunities to capture a customer's attention in a very competitive market.

The next 12 to 14 months look to be challenging for the majority of contracting organizations. Invest the time to create the go-to-market strategies that help you close work and win against the toughest of competition. Contractors are creating the business development culture they need to maintain customer loyalty and win work. The go-to-market strategy will help all of your people know the role they need to play in your firm's future. Excellent implementation of that strategy will give them the skills and support to be successful. ■

# Buying Out Your Project Without Selling Out Your Principles

The wise contractor will treat its subcontractors with the same level of integrity and respect that it would want to be shown.

*By Mike Clancy*

**F**or general contractors and construction managers, the negotiation of subcontracts can provide the opportunity to procure subcontracted work of the right quality at a favorable price. However, subcontractor selection introduces the potential for ethical missteps that can harm a firm's reputation within the contractor community and can reduce its long-term effectiveness in the bid environment.

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Worse, sometimes project owners direct construction managers to violate their own rules of procurement in favor of preferred subcontractors or in order to meet a particular budget objective. Meanwhile, those firms that set clear and high standards for procurement often can find themselves at a disadvantage to firms without such standards. In FMI's experience, those firms that seek short-term gains from subcontractor procurement can find themselves navigating murky waters in the longer run. Therefore, it is vital that all firms have a clear and consistent set of practices for how they purchase subcontracted services.

## **BID SHOPPING, BID PEDDLING AND OTHER ETHICAL DILEMMAS**

Bid shopping in its least objectionable form is commonly defined as the practice of continuing to solicit subcontractor bids after the closing and/or award

of the prime bidding process. In fact, in most states this sort of activity is legal within certain parameters. However, at least a half dozen states have adopted anti-bid shopping legislation to address competitive concerns and provide the clarity on this issue through statutory law that case law has not provided.

While there is not a clear and consistent understanding of when bid shopping moves from this often-permissible gray area into ethically or even legally prohibited forms, there are some general implicit guidelines to help clarify the situation. These guidelines are largely driven by the type of owner and project as well as the conduct of the parties involved in the bidding process. Note that the law varies by state and municipality, and these examples are for illustrative purposes only. You should consult an experienced construction attorney to assist your firm in navigating any situation with potential legal liability.

In most states, projects contracted by private owners are generally free from bid shopping concerns. The law has often held that there is no enforceable contract implicit in the subcontractor bid process. In other words, just as subcontractors are usually free to withdraw their bids, general contractors are free to continue to solicit more favorable pricing throughout the construction process, rather than being required to immediately contract with the firm that is lowest on bid day. The picture becomes less clear when the subcontractor can prove unjust enrichment; that is, that the general contractor or construction manager would not have won

the work without the assistance of the original subcontractor, but contracted with a different firm. Usually this requires some action on the part of the subcontractor beyond the mere provision of a low bid. As an example, a subcontractor that proposed an innovative phasing change or a value-engineering option that assisted the general contractor to win the general contract, or provided design or modeling services as part of its bid that were used by the general contractor or replacement subcontractor during design or construction, may have a claim of this nature.

Public projects, however, may have vastly different rules. The Federal Acquisition Regulation (FAR) once used bid listing to attempt to prevent bid shopping, although this practice was stopped in 1983. Recently proposed legislation, the Construction

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**At least a half dozen states have adopted anti-bid shopping legislation to address competitive concerns and provide the clarity on this issue through statutory law that case law has not provided.**

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Quality Assurance Act of 2009, would reinstate this practice if enacted. Many states and municipalities also have ordinances in place to govern the procurement process. Often, these ordinances are to meet specific social goals of the government procurement agencies such as encouraging the use of subcontractors that are

minority- or woman-owned, or to incentivize the hiring of local firms. In these instances, bid shopping is not only discouraged, but also its practice may result in fines or disqualification of the low bidder.

Bid peddling is the subcontractor community's equivalent to bid shopping. In bid peddling, firms that did not have the low price on bid day, or who did not bid to the winning general contractor, subsequently provide pricing to winning general contractors in order to undercut the subcontractor that was low on bid day. As with bid shopping, this behavior may be legally permissible or not, depending on the circumstances of the bid.

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## Bid peddling is the subcontractor community's equivalent to bid shopping.

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A third, less commonly encountered procurement practice with its own ethical ramifications is the reverse auction. In a reverse auction, bids are posted on the Internet, and each new bid must be lower than the one posted before. As with bid shopping, the reverse auction is likely to run afoul of statutes and

regulations, and many subcontractors would likely see the publication of their bids as an especially unpleasant characteristic of this type of procurement. Additionally, the Army Corps of Engineers conducted a statutorily mandated experiment with reverse auctions in 2003 and 2004, with no appreciable cost savings identified. For those reasons, reverse auctions are not a generally accepted procurement practice in any market.

Scope reviews are often used as well to reduce the subcontract amount for specific trades. Again, the ethics of scope reviews depends largely on the spirit in which they are conducted. If a scope review is a legitimate exercise to eliminate scope overlaps, identify ways in which work can be phased or scheduled differently, or discuss value-engineering alternatives in good faith; then a scope review meets the ethical test. If, however, scope review becomes a code word for "beating up" your subcontractors in order to increase your firm's profitability, it likely would not meet this standard. Therefore, scope review should be conducted in accordance with a clearly defined process that is communicated with your subcontractors.

Finally, consider the general contractor or construction manager who truly believes that the market price for a particular scope of work

is wrong (e.g., a misunderstanding of the scope of work, knowledge of site conditions, etc.) The firm may ethically prepare its own estimate of the scope, given its knowledge of the trade, and “carry” its own number on bid day with the intent of negotiating with an experienced subcontractor after award. While the

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**States, municipalities and federal agencies all have their own solutions to the problem of improper construction procurement. The most commonly used is the practice of “bid listing.”**

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ethical pitfalls are less significant here, there is a more significant risk of severely underestimating the scope of work and therefore being unable to contract with a firm to perform the work for the budgeted amount. For this reason, most general contractors and construction managers are rightly hesitant to use such a potentially risky bid strategy.

#### **IS BID LISTING AN EFFECTIVE SOLUTION?**

States, municipalities and federal agencies all have their own solutions to the problem of improper construction procurement. The most commonly used is the practice of “bid listing.” In bid listing, the general contractor or construction manager is required on its bid form to itemize the subcontractors

selected and subcontract values either for specific critical scopes or for firms used to meet a participation goal. The winning bidder is then required to write a subcontract for the amount specified to each listed subcontractor. Generally, the general contractor/construction manager must seek approval from the contracting agency in order to replace a listed firm.

While bid listing is seen as the answer to bid shopping in many cases, its effectiveness in providing the best possible value for the project is the subject of debate. Many general contractors and construction managers see the burden to contract with specific subcontractors as incompatible with their requirement by contract to be liable for the performance of the subcontractors. Since some contracting authorities are hesitant to permit the replacement of even nonperforming listed subcontractors, the general contractor remains at the mercy of subcontractors unwilling or unable to meet its schedule, quality or safety requirements.

Additionally, bid listing is seen by many firms as prohibitive to achieving the lowest possible cost for the project.

Since a subcontractor who has the lowest price for a specific scope of work may not have bid to the lowest general contractor, value destruction to the owner occurs if the general contractor is unable to entertain that subcontractor's price. In addition, since listed subcontractors have little incentive to provide a lower price than that provided on bid day, general contractors are unable to capitalize on market or commodity price changes occurring after bid day that could lead to a lower cost of the work.

Finally, bid listing necessitates a paperwork and audit trail that can be onerous for smaller firms that are unfamiliar with the complexities of government procurement. As noted above, the General Services Administration did away with the required listing of subcontractors in 1983, with the express intent of simplifying government procurement and reducing the burdensome paperwork involved in bid listing. For these and other reasons, the Associated General Contractors and many general contracting and construction management firms oppose mandatory bid listing on government construction projects.

#### SETTING AND UPHOLDING STANDARDS IS THE KEY

If one accepts that subcontractor procurement contains many ethical and legal pitfalls, and that there is a great deal of inconsistency in both the definition of the problem and the effectiveness of the traditional solutions, how can the ethical construction firm procure subcontracted services without sacrificing its principles or competitive position in the marketplace? The following guidelines may help your firm navigate these gray areas.

##### **Understand your environment.**

Each general contracting or construction management firm is operating in a distinct market environment with its own rules. For example, in some major metropolitan areas, the practice of bid shopping pushes into areas on the very dark side of gray, while in other geographies the words themselves are "fighting words." Therefore, each firm must assess the market's behavior and unwritten rules and set its own rules, dependent on a clear understanding of those of its competition. This allows the ethical contractor to promote a differentiating message with the subcontractor and customer community by its practices.

##### **Define your standards.**

Even within a given market area, different firms will have different sensitivities to perceived ethical transgressions. While a firm cannot set the rules under which

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**Each firm must assess the market's behavior and unwritten rules and set its own rules, dependent on a clear understanding of those of its competition.**

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the market will conduct itself, it can and must set policies for its own behavior. Such ethical standards are typically codified in a firm's core value statements. For example, one FMI client that places a high value on ethics and integrity has set a corporate standard of always contracting with the subcontractors who are low on bid day, regardless of the behavior of its competitors. Consistent practice of this policy engenders subcontractor loyalty and, for this general contractor, leads to subcontractor discounts of 3%–5% on bid day.

**Communicate your standards.**

The most well-reasoned, ethical procurement policy is of little effect if the subcontractor market is unaware of its existence. The firm mentioned above realized that many of its subcontractors were unaware of its procurement policy. While competitors were frequently renegotiating a

lower price after bid day in order to increase profitability, this firm was not. By communicating this policy forthrightly to its subcontractors, the firm was able to receive preferred pricing from its subcontractors that returned it to a more even competitive footing.

Just as importantly, your customers must understand your procurement practices, especially for construction management contracts. While this will not solve all potential problems caused by project owners who may ask you to procure in ways with which you are uncomfortable, it will set the boundaries of the conversation. Then, when the owner asks (or tells) you to procure in a manner outside your normal standards, be prepared to communicate with the subcontractor community in an honest but respectful manner so that he or she understands the parameters of the competition.

**Enforce your standards rigorously.**

In procurement, as in many other areas of general contractor and subcontractor interaction, trust is built on consistent adherence to the defined principles. Any deviation from the standards you communicate to the marketplace will have a hugely negative impact on your firm's reputation in the subcontractor community, and the "distrust premium" built into future

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**In procurement, as in many other areas of general contractor and subcontractor interaction, trust is built on consistent adherence to the defined principles.**

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subcontractor bids will almost certainly erase any short-term gains. Therefore, hold your employees liable for adherence to your procurement standards and ensure they understand that operating outside of ethical lines is unacceptable.

#### THE IMPLICATIONS OF ETHICAL SUBCONTRACTOR PROCUREMENT

In today's market environment, the ability to be low on bid day remains a survival skill for general contractors. Similarly, construction managers must be able to address the cost sensitivity of their owners. While procurement practices that push the ethical boundaries may at first glance seem to be a useful method for achieving cost competitiveness, subcontractors who are once burned by these behaviors will be unlikely to provide favorable pricing again.

As with many other misguided business decisions, what provides a short-term boost to profitability provides a long-term impediment to corporate success. Firms that sacrifice their integrity for a little money today often find that, after making those compromises, they have so poisoned the subcontractor well that they are unable to get good bids from quality subcontractors in the future. Therefore, the wise contractor will treat its subcontractors with the same level of integrity and respect that it would want to be shown. ■

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# Organizational Integrity: Strategic Alignment in Execution

Some firms spend days in the boardroom developing strategy but miss out on strategic execution, which can make the company performance actually decline.

*By Jim Schug*

**M**any contractors view business strategy like a Navy admiral would command a massive battleship: three football fields of iron, filled with thousands of sailors, turned on one command. “Turn left” and every weapons, navigating, target acquisition and logistics support sailor turns left in a graceful move at once, with little resistance to change. Unfortunately, this is seldom true for *executing* strategy for contractors.

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A distortion happens within organizations somewhere between when the boardroom approves the new strategic plan and superintendents and crews act on it. In many cases, all parties involved want the best thing for the company; yet the vision of the future and steps to get there look different to different parties. Lack of integrity between planned strategy and the execution of the plan in day-to-day activities ultimately leads to the failure of the strategy and can lead to the undoing of the company. Leaders can go for long periods unaware the organization is undermining its own plan.

The purpose of this article is to describe the symptoms of this lack of integrity and suggest some techniques and approaches to correcting the ship's course. Alignment between strategy and execution is one key to success for

contractors. Integrity of process matters. Effective plan development and execution deliver desired results (See Exhibit 1).

### SAM, THE SUPERINTENDENT

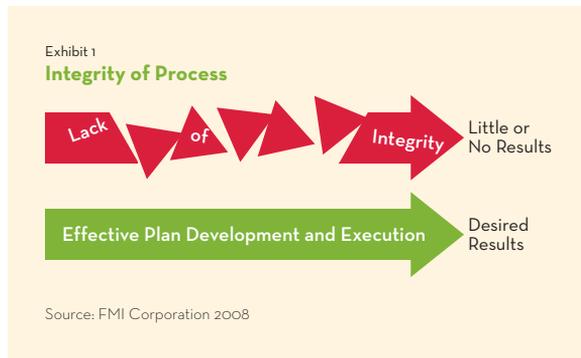
Many companies use transaction-based policies with few or no decisions from the field. Systems and policies are important to contractors; yet, in some cases, policies prevent the strategic insights gained from the on-the-ground interaction with their clients.

Let's look at the example of Sam, a superintendent at Good Build Contractors. After interviewing 30 superintendents within the company, overall feedback put Sam at the top of the company in project execution. Sam installed limestone to define the parking area in front of the jobsite trailer, created a terrain model to orient newcomers to the site and kept the job trailer organized and the floor clean. The absence of spit cans, mud and trucks parked just anywhere presents a novel environment for most job trailers in our industry. In the morning, Sam spends a few minutes with his team describing how many units were installed the prior day and how, due to the great ideas of Frank, the foreman, the team exceeded its daily goal. After goal setting with the crew, Sam asks for any safety concerns

and ideas on how to complete the work more effectively. Following the meeting, he pulls Frank aside and asks about the job plan. Sam suggests some new approaches and gives further clarification to Frank, who heads off confidently. Sam hops in the truck and heads to the southwest corner of the project. He thanks one of the crew leaders for his hard work on Saturday when he was called in with little notice. Later Sam zips across the site and stops in on the second floor where some intricate wiring is underway.

He checks for proper tools and ensures the employees are wearing protective glasses and hardhats. When the owner's

representative stops in that afternoon to get a project update, the superintendent smiles and states that they are ahead of schedule. He hands a detailed schedule to the rep and has two reliable laborers on hand ready to help the client prepare for the move so that immediately after project completion they do not miss a beat. The owner's rep turns and says, "Sam, you are the reason I will pay extra for your company to build our projects."



### POLICIES THAT OVERRIDE STRATEGY?

The corporate strategy did not call for Sam or Frank's cooperative approach to the daily huddle, or how Sam knew to get a 'backbrief' immediately after the huddle from Frank. Nor did it call for Sam to give the owner's rep a daily schedule update. In fact, the project manager chewed him out the last time he suggested it. Sam knew that if the general superintendent was aware that he had extra labor helping the client with menial tasks, he would lose two more bodies. Why did he do it? "I know I can manage labor well and have the job under budget, even with those two, because of a different approach the crew came up during our second week on the project. I want us to get more work."

Sam, the superintendent, was hemmed in by a corporate strategy that included minimizing labor costs on every project. He was determined to do what he thought was right. What was interesting was that some junior leaders in the company would likely stop him from his initiatives; yet Sam was getting the company more work with this key client. If his leaders understood the value their company received from providing excellent customer service (even at the cost of two extra laborers), this company could develop stronger inroads and gain more share of that key account's work. In fact, management might enhance company strategy to allow not only this practice of greater client service but to mandate it. In an organization that understands that the field is critical to the execution of strategy, Sam may have been able to sell this approach up the organization and give honest feedback on his approach, resulting in alignment across the company between the plan and how it is executed.

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**Contractors are labor- and leadership-intensive. A "do-it-or-else" mentality does not work now and will be even less likely to work as the newest generation enters the work force.**

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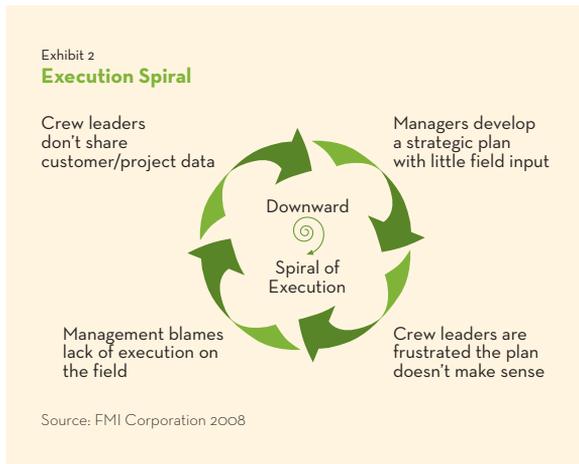
### AN INTEGRITY GAP

The perception for some leaders in the boardroom is that implementing strategy happens like an assembly line. The change command is made. If employees are not quickly on board, they are off the line. Contractors are labor- and leadership-intensive. A "do-it-or-else" mentality does not work now and will be even less likely to work as the newest generation enters the work force. Management needs to talk to the rank and file to see what is really happening and understand the implications of change. Its strategic view and impact can be significantly different from the view of field leaders working in the trailer — where there is definitely an advantage to getting buy-in on new ideas. This calls for a philosophical shift as well as a strategy shift.

The lack of strategic integrity creates a gap — even a downward spiral of performance. When the field does not feel comfortable giving its opinions and

insights, management must make decisions in a vacuum. With little or no feedback from the field, senior leaders are not making these decisions fully understanding how to best support execution. The field becomes discouraged rapidly when management creates new policies or enforces ideas not borne from reality and senses a larger integrity gap than before, hurting morale. Management, as a result, finds it harder to motivate and connect with the field (See Exhibit 2). Given this dynamic, it is easy to see how even great strategy at the top of an organization (good intent) can go astray at execution (poor implementation).

One significant difficulty is how to get employees at every level, especially those that interact regularly with clients, to make decisions that lead to a desired company



outcome. The variables faced in the field and quick decisions make it difficult to draw lines around every decision a field leader can make.

Let's use another military analogy. Written orders moving through the chain of command from Army commanders typically are followed with a mission-analysis phase. Taking the time to understand the

implications, critical elements and specified tasks within an assigned mission is usually the first step practiced by battle staffs upon receipt of a new order. Knowing and confirming the commander's intent helps verify that the tasks indeed support the goals of the senior commander. In turn, that unit develops its own plans and ensures its mission and intent support that of its higher unit. This nested effect carries down to the squad of eight soldiers, where the mission typically is phrased in terms of "task" and "purpose."

For example, a unit may be given the mission to transport barrier material to Objective Saints no later than Sunday at 0800 in order to help Alpha Company defend the ridgeline. The soldiers executing that important task understand how their actions fit within their senior commander's goal. In most instances, the senior commander schedules a backbrief and rehearsal to feel comfortable that his subordinates understand the mission and that best ideas are discussed openly for alternatives.

### ACTIONS COMPLETED, GOALS NOT ATTAINED

Success of the task does not necessarily lead to achievement of the mission. When the plan is made, mission success seems assured. When the battle begins, however, our enemy (competition) does not follow our plan, nor do our customers. Our team is charged with ensuring that the commander's intent (strategic intent) is followed and the unit mission (defend a ridgeline) is achieved. Battle (real life) may require tactical adjustments, and even good execution may not enable sustained

defense of the ridgeline (win the next job). Accomplishment of a task supporting a strategy doesn't always ensure success of the strategy or achievement of the mission.

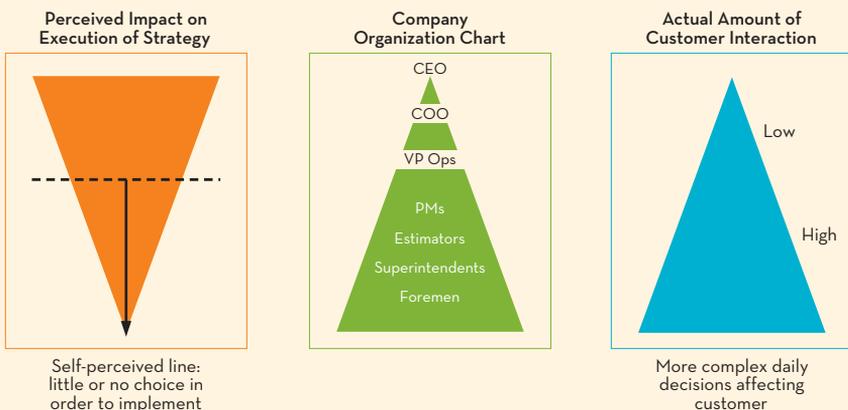
In execution of strategy, things often get off track. Some firms spend days in the boardroom developing great strategy but miss out on strategic execution, which can make the company performance actually decline as shown in the Exhibit 2.

Done well, managers gain input and continue refinements from field decision makers. The discussion of purpose and intent is an opportunity to develop subordinates in the field. It also gives these employees the opportunity to excel by demonstrating mastery of the means, methods and best practices needed to achieve intent in this situation.

Some firms draw a line at where strategic decisions are made within their own organization chart. Management's theory may be that strategic decisions lie at the top of the organization and become lessened as you go down the company ladder. Management may hold the view that at a certain point in the company, there are few, if any, low-level decisions that impact strategy. The opposite is more likely the case in construction. In many cases, the actual amount of customer interaction with the CEO/COO is often minimal compared to that with a site superintendent or foreman. Decisions made in those interactions very much impact strategy, no matter the higher-level intent. Exhibit 3 demonstrates how perception can be inverted from reality and can lead to a poor execution of strategy, even a strategic inversion.

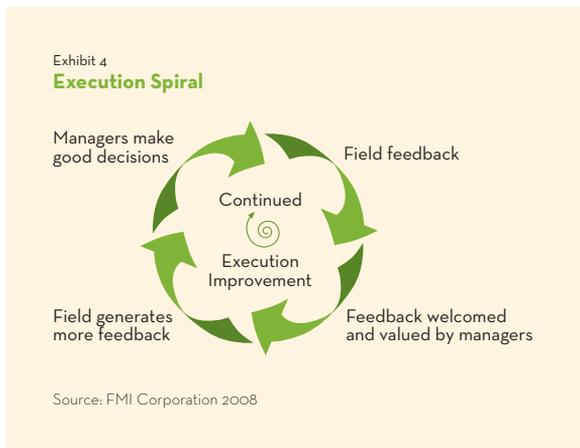
Many companies conduct strategic planning with the perspective that project managers and lower positions will have little impact or value towards charting a

Exhibit 3  
Actual versus Perceived Impact on Execution



Source: FMI Corporation 2010

future for the organization. To the contrary, the amount of interaction with the client increases as you move down the organization chart closer to the foreman. Integrating Sam, the superintendent, into some strategic discussions and getting his ideas on the needs of the client continues to improve the strategic plan. As Sam senses we are listening and value his input, he continues to search for ideas and the right decisions, resulting in increasingly improved execution of strategy



towards a good strategic intent (See Exhibit 4).

The cycle now works in our favor — improving execution and propelling the organization towards strategic goals. Except this time, the strategic plan is ‘self-adjusting.’

#### TOO MANY SAMs?

It is insightful to consider what would happen if the company had 20 superintendents

like Sam and no strategic guidance from leadership. While few CEOs would be upset to have a great group of superintendents, the net effect could be 20 different great ideas and little or no resource prioritization. Efforts to move the organization forward would be negated, as the base of the company would be fractured and potentially pulling in 20 directions.

In reality, your decisions are nested as you move *through* the organization chart. This often results in more questions and more complexity as you get down to roles that execute strategy. The decision by the CEO to enter the schools market triggers a cascade of decisions in order to execute and support the choice properly. Identifying the right market is complex. The number of choices actually increases and requires additional knowledge and expertise as we move down the decision tree (See Exhibit 5).

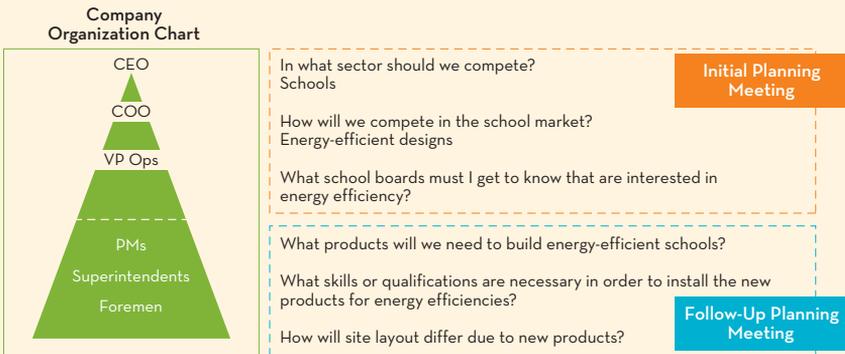
Done well, the actual executor in the job trailer for this strategy has a number of decisions to make and, if not properly grounded in the strategic intent, will come up short of company goals and expected results. Well done, the strategic efforts of the company leadership and the field are aligned with integrity.

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**Many companies conduct strategic planning with the perspective that project managers and lower positions will have little impact or value towards charting a future for the organization.**

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Exhibit 5  
Decision Tree



Effective strategy cascades through an organization. The varying perspectives in the company allow the plan to be modified to best suit the needs of the dynamic climate in which we find ourselves. Creative tension and debate necessary to produce the right modifications or adaptations take time and energy, but enable a level of awareness from bottom to top of the company. Done well, the organization is empowered to modify a good plan and execute it.

Companies today need ways to fine-tune performance and strengthen their ability to win work. Having no plan for future success ensures failure. Some company leaders discuss strategy and develop it in isolation. Often, little thought is spent on integrating the field to ensure integrity between strategy and execution. Great companies successfully develop, implement and execute with integrity strategies that work. ■

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# Make the Most of Your Training: ISD at Work

If you want to increase performance through a training intervention, using a model such as ADDIE allows you to validate the integrity of your training approach.

*By Kelley Chisholm*

**T**hink about a recent training course that some of your employees attended. How much did they learn? More importantly, did they transfer any of the new skills and knowledge to the workplace? Or did they sit through the course, bored to tears, thinking about the work piling up for their return and knowing that the training manuals would wind up on a shelf, never to be looked at again? Why are some training programs head and shoulders above others? Why do other programs fail?

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Reasons that training fails:

- Training is not needed to begin with
- Poor course design
- Inexperienced trainer
- Not interactive/straight lecture
- No direct link to the job
- No follow-up
- No reinforcement

Time is valuable, too valuable to waste on ineffective training. The good news is that great training programs can be developed to improve employee performance and add to a company's business goals and bottom line.

## MONEY MATTERS

Consider the cost of ineffective training. On an individual basis, let's say it costs \$1,000 for an employee to participate in a full-day training session. However, if the training is required companywide, then the costs to the bottom line become painful, depending on the number of employees involved. Multiply that by five courses per year, and the amount of money wasted on useless training is staggering, easily reaching six figures if not more. Hundreds of training hours are wasted annually because courses are developed without considering what the participants already know or what they will use in their actual jobs. In other words, the training lacks integrity.

In addition to direct costs, there are indirect costs of poor training. Poorly trained employees are less productive. They make mistakes that can result in production delays, expensive rework, loss of customers or costly accidents. One way to prevent ineffective or poorly designed training is by adhering to the principles of good instructional design.

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**One way to prevent ineffective or poorly designed training is by adhering to the principles of good instructional design.**

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## INSTRUCTIONAL SYSTEMS DESIGN

Instructional systems design (ISD) is a set of rules or procedures ensuring that training accomplishes what it sets out to do. It is the process of analyzing the learning needs and goals of the participants and developing a system to deliver those needs. ISD includes developing instructional materials and activities, implementing the training and evaluating all instruction and learner activities. Simply put, it assures the integrity of the training course.

There are advantages to using a linear, systematic approach in ISD. By having a basic format to follow, important aspects of the design will not be overlooked.

ISD arose during World War II when the U.S. military needed to find a more effective way to train large numbers of people to learn complex tasks. These tasks were broken into subtasks, each of which was treated as a learning goal. Training was designed to reward accurate performance and to correct underperformance. After the war, ISD models became popular in business and industrial training.

Before design begins, however, ISD requires understanding of how adults learn.

## ADULT LEARNING THEORY

Adults learn in many ways, but designing effective training uses the basis of how adults learn best. Malcolm Knowles was a pioneer in the field of adult learning and identified the following characteristics of adult learners:

- Adults are autonomous. As they grow older, they become less dependent on others and more self-directed. They need to be involved in the planning and evaluation of the instruction.

- Adults have a foundation of life experiences. They draw upon these experiences to aid their learning by connecting the old with the new.
- Adults are goal-oriented. They want to know how any new learning will help them attain their goals, and they want to be able to apply it immediately in problem solving.
- Adults must be motivated to learn. This motivation is internal.
- Adults are relevancy-oriented. They are most interested in learning something that is of value to their current situations.

In addition, adults have different learning styles to take into consideration when designing training. There are three basic learning styles: auditory, visual and kinesthetic. Auditory learners prefer to hear things explained and read documentation only as a last resort. Visual learners learn best by reading, looking at graphics such as charts or pictures, or watching a demonstration. Kinesthetic learners like a hands-on approach, and participation in an activity is the easiest way for them to learn. While most people learn through a combination of these styles, they usually prefer one above the others. Exhibit 1 illustrates each style of learner's approaches to various everyday tasks.

Understanding adult learning principles and different learning styles and applying those in instructional design can make a big difference in whether training is or is not successful.

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**Adults have different learning styles to take into consideration when designing training. There are three basic learning styles: auditory, visual and kinesthetic.**

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Exhibit 1

**What is Your Learning Style?**

	Auditory	Visual	Kinesthetic
When seeking driving directions, I...	Ask someone for directions	Look at a map or written directions	Follow my instincts
When assembling a new piece of furniture or equipment for the first time, I...	Ask for an explanation	Read the instruction manual	Jump right in and start putting it together
When teaching others something new, I...	Explain each step verbally	Write instructions and provide examples	Demonstrate and then let them try it
When learning a foreign language, I...	Listen to tapes and practice new words aloud	Use flash cards to learn new words	Practice and study with others
When complaining about bad service or merchandise, I...	Make a phone call	Write a letter or e-mail	Go back to the business or store
I notice how people...	Sound and speak	Look and dress	Act and move
I remember things best by...	Repeating them aloud or in my head	Keeping detailed notes	Practicing or imaging it being done
I spend my free time...	With friends	Watching television or reading	In physical activity or making things

## ADDIE MODEL

To ensure integrity in educational programs, the ADDIE model is often used. This model is a generic, systematic process for getting course design right. The ADDIE model includes the following five phases:

- Analysis
- Design
- Development
- Implementation
- Evaluation

These phases sometimes overlap and can be interrelated, but they do provide an organized and flexible method for developing effective training. The idea is that after each phase of the process to re-examine what has been done so far and make any necessary adjustments before moving on to the more costly labor- and media-intensive steps. Think of it as a project management tool that guides one through the different steps in training design (See Exhibit 2).

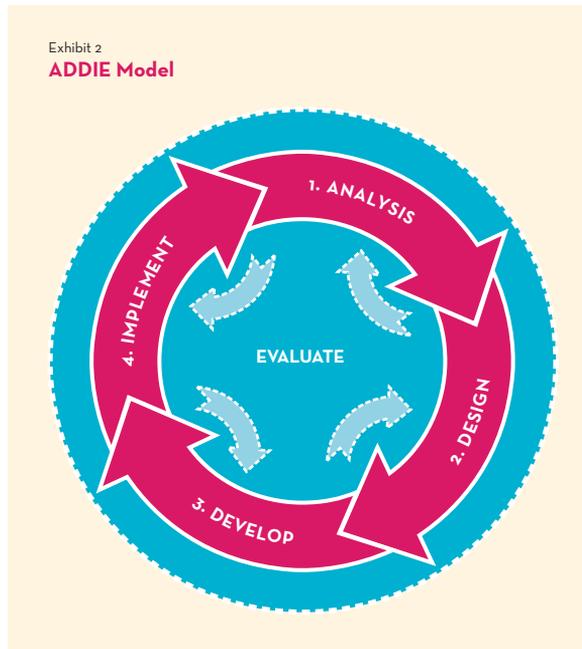
Before you begin the ADDIE process, determine first whether you actually need a training intervention. If training is not the answer, then there is no need for instructional design. In reality, training is not always the answer. When employees underperform, a number of factors may be responsible. These may include a lack of

motivation, inadequate resources or tools, flawed work processes or not having management understanding and buy-in. Companies must investigate the source of a workplace problem before automatically requiring training. This will help to ensure they are not wasting precious training dollars. However, if a performance problem results from the lack of skills or knowledge, a training course is the appropriate solution, and you are ready to start with the analysis phase of ADDIE.

*(Author's Note: To see a snapshot of how to apply some of the ADDIE phases to a training program on Change Order Management, please refer to Appendix A.)*

### Analysis

The analysis phase is the basis for all of the other phases of the model. It is conducted to find out what the learners need to know in order to be successful.



Before the design phase begins, you must determine the desired business goals and outcomes, the skills and knowledge that need to be taught and the current abilities (in regards to the content) of the learners. During this phase, you may use specific research techniques, such as a needs assessment, job analysis and/or task inventory, to help define the learning problem and determine possible solutions. This phase is also concerned with the learning environment, available delivery options (classroom, online, blended, etc.), program costs and timelines for the project. In addition, this phase is when you start building performance measures to ensure that the highest number of learners master the content. Assessment questions emerge directly from the objectives, so in theory, you are “teaching to the test.”

Steps of the analysis phase include:

- Determine business goals and outcomes
- Clarify training program objectives (Example?)
- Conduct training need analysis
- Determine what skills/knowledge learners need to have prior to training
- Build performance measures for tasks to be learned
- Estimate program costs and compare to benefits gained

Now you are ready to move to the design phase.

### **Design**

The design phase is where the systematic planning of the course takes place. It deals with identifying and specifying the course objectives, outlining the course structure, lesson planning, assessment instruments, course content, exercises, training methodology, media selection, subject matter analysis and presentation/delivery methods. This phase is where all of the minute details of the training are decided. It is also where methods should be determined to facilitate the transfer of learning back to the workplace once the training is over.

Steps of the design phase include:

- Develop learning objectives for each task
- Determine the program’s structure and sequence the learning steps from easiest to most difficult
- Plan the program’s duration and pace
- Decide format and method of delivery
- Determine program evaluation methodology, data collection methods and reporting formats
- Establish strategies for transfer of learning to the workplace

Once you have completed these steps, you are now ready to convert your design plans into course materials and begin the development phase.

### Development

The development phase of the ADDIE model builds on the analysis and design phases. This is where the instructional designer generates lesson plans, all media (audio, video, computer-based, etc.) to be used, as well as any supporting materials, such as workbooks, discussion guides, question-and-answer exercises, tests, etc. Subject matter experts are consulted to ensure accuracy of the content. A prototype for the entire course is designed and approved, and a pilot test is conducted with people representing intended learners before moving on to the actual implementation of the training.

Steps of the development phase include:

- Develop slides, notes, handouts, workbooks, discussion guides, exercises, etc.
- Design instructor's materials
- Have SMEs develop/review actual content for accuracy
- Create a prototype
- Conduct a pilot test and make any necessary changes

Now it is almost time to conduct the training.

### Implementation

The implementation stage includes a great deal of project management and logistical issues, such as scheduling the training, instructors, classrooms and equipment, and ensuring that all learning materials arrive at the classroom on time. In addition, implementation involves ongoing course maintenance, such as making changes to or updating content and resources.

The effective delivery of the course material is essential to the success of the program. An ineffective instructor or facilitator can quickly wipe out all of the hard work put into the design and development of the course. Facilitators must learn the material as well as how to achieve the desired outcomes and learning objectives of the training. One way to deliver the content effectively is to follow Gagné's "Nine Events of Instruction."

Robert Mills Gagné, an educational psychologist, behaviorist and pioneer in the science of systematic instructional design, created a model known as the "Nine Events of Instruction." Each step of this nine-step process correlates to and addresses the conditions of learning. Inclusion of these nine events, tailored to specific types of learning outcomes, greatly enhances training effectiveness.<sup>1</sup>

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**An ineffective instructor or facilitator can quickly wipe out all of the hard work put into the design and development of the course.**

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## GAGNÉ'S NINE EVENTS OF INSTRUCTION

### 1. Gain Attention

In order for any learning to occur, you must capture the participants' attention. This can be achieved by introducing rapid stimulus change, and is as easy as gesturing or changing the loudness of your speech. Even better, begin the training by presenting a problem to be solved to pique the learners' interest.

### 2. Inform Learners of Objectives

Give participants a list of learning objectives early in each lesson. A learning objective may be stated as "Upon completing this lesson, you will be able to ... ." This enables the learners to organize thoughts around what they are about to see, hear and do. If learners understand the objectives, they are able to establish a realistic picture of what the desired performance looks like.

### 3. Stimulate Recall of Prior Learning

It is much easier to build on what you already know. Associate new information with prior knowledge to facilitate the learning process. An easy way to do this is to ask learners questions about previous experiences related to the topic at hand.

### 4. Present the Content

This event of instruction is where the new content is presented to the learners. Content should be organized meaningfully, explained and demonstrated. To appeal to the different learning styles, use a variety of media, such as text, graphics, lecture, etc. This step often is intertwined with the next event, provide learner guidance.

### 5. Provide Learning Guidance

This event is intended to ensure that the new content is as meaningful as possible. Guidance strategies include using case studies, concrete examples of abstract terms and concepts, images and graphical representations, analogies, etc.

### 6. Elicit Performance

This event calls for the learners to demonstrate or practice the new skill or behavior. Eliciting performance gives the learners an opportunity to confirm their understanding of the new material and the repetition of practicing increases the likelihood of retention.

### 7. Provide Feedback

Instructors must provide specific and immediate feedback to the learners on their performance in the previous event. This feedback can be in the form of a nonformal quiz or through verbal comments.

### 8. Assess Performance

Test students to determine if the lesson has been learned. This assessment should be completed without any additional guidance or feedback. The learner should be able to perform on his or her own, to a preset standard of performance.

### 9. Enhance Retention and Transfer

Since the goal of most training is to improve performance, the transfer of training from the classroom to the workplace is important. Allowing students to practice their new skills greatly enhances retention of the learning.

Applying Gagné's nine-step model to any training program is one of the best ways to ensure successful implementation of the learning objectives.

Steps of the implementation phase include:

- Scheduling classes, instructors, classrooms, etc.
- Actual instruction (includes Gagne's Nine Events of Instruction)
- Closing activities
- Course maintenance
- Follow-up reports

### Evaluation

There are two types of evaluation used in ADDIE: formative and summative. Formative evaluation is a technique to assess the training as it is carried out through all stages of the ADDIE model. Summative evaluation looks at the effectiveness of the actual training to determine if the objectives and goals of the program were met. This feedback should identify any changes that may need to be made to the content, materials, delivery, etc.

Steps of evaluation include:

- Assess each phase of ADDIE to ensure goals are being met
- Perform end-of-program evaluations for learner feedback
- Revise program as needed in terms of program and project performance

### ADVANTAGES/DRAWBACKS OF THE ADDIE MODEL

The ADDIE model of instructional design is one of the most effective methods for ensuring that the learning product is a quality one. However, it is not without its critics. Some feel that the model is too linear, constraining and inflexible. It is time-consuming and can be costly. Newer design models focus on a more holistic, iterative approach to instructional design. Rather than developing the instruction in a linear fashion, the entire development team works together from the start to build modules rapidly.

What ADDIE does offer is it is a blueprint to follow when designing training. There are certainly advantages to using a linear, systematic approach in ISD. By having a basic format to follow, important aspects of the design (Analysis, Design, Development, Implementation and Evaluation) will not be overlooked. A number of stakeholders benefit when using the ADDIE model in training design. These benefits include:

- Each step focuses on achieving desired performance outcomes
- Individuals become more effective in performing their job tasks
- Learning is based on specific, measurable goals
- A sense of achievement results when goals are met

Another advantage of a systematic approach to ISD is that the output is likely to be something that a manager controlling the purse strings will see as a positive return on investment. The systematic approach to ISD gives a manager a clear picture of what was taught to learners and what he/she can expect as a result of the instruction.

Simply put, by following an ISD model such as ADDIE, a company is able to create effective training to help its employees learn the things they need to know. If you want to increase performance through a training intervention, using a model such as ADDIE allows you to validate the integrity of your training approach. ■

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<sup>1</sup> Gagné, R. & Medsker, K. (1996.) *The Conditions of Learning: Training Applications*. Fort Worth: Harcourt Brace College Publishers.

#### APPENDIX A

### How to Apply some of the ADDIE Phases to a Training Program on Change Order Management

Your company has asked you to design a training program on Change Order Management. A needs analysis has determined that certain skill gaps are present and that training is the answer. Here are some specific examples of how to use a step of each phase of the ADDIE model (Analyze, Design, Develop, Implement, Evaluate). Keep in mind that this is only a snapshot of the process and not a comprehensive, completed model for the subject.

#### **ANALYSIS PHASE**

STEP: Determine program objectives

EXAMPLE: 1. Identify cost and schedule implications of change.

2. Use changes as an opportunity to sell increased value.

3. Maintain an appropriate balance between capturing all changes and keeping positive client relationships.

#### **DESIGN PHASE**

STEP: Determine format and method of delivery

EXAMPLE: The format of the Change Order Management program will be a classroom setting. Method of delivery will be instructor-led, with a combination of lecture, a team exercise and discussion.

#### **DEVELOPMENT PHASE**

STEP: Develop slides, notes, handouts, workbooks, discussion guides, exercises, etc.

EXAMPLE: Create the team exercise handout "Change Order Horror Stories."

#### **IMPLEMENTATION PHASE**

STEP: Conduct the actual training

EXAMPLE: Have students spend five minutes at their table discussing a claim/change order horror story. Have them explain what could have been done differently to avoid the problem in the first place.

#### **EVALUATION PHASE**

STEP: Revise program as needed in terms of program performance

EXAMPLE: Using end-of-program evaluations, make any changes to the program design as a result of user feedback. Revisions may be made to actual content or to something logistical, such as adjusting the amount of time set aside for the training.

# Integrity: My Perspective

**MY PERSPECTIVE SERIES:**  
REPRESENTING THE AUTHOR'S  
PERSONAL PERSPECTIVE

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Principals have a responsibility in helping grow young leaders and will be more effective at doing this when they make an equal investment in growing themselves.

**By Louis L. Marines**

**T**he architecture/engineering/construction industry exists in a universe bounded by the overlapping worlds of human communities, natural ecosystems, governments and private business enterprises. Those worlds have all changed substantially during the past decade and, along with them, so has the A/E/C universe.

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For our firms to hold an influential leadership role in these overlapping worlds, in the face of competition from special interest groups, think tanks and lobbyists from other industries, each of whom seeks to shift public policy and attitudes in their favor, we must embody the high degree of integrity that engenders trust in our clients and the community. It is not enough simply to “do right.” We must lead our firms as though they are living systems of mutually interdependent parts, aligned to fulfill their intended purpose.

In the concerns expressed to me by CEOs, I can clearly hear that the changes and turbulence

“We need to stress that personal integrity is as important as executive skill in business dealings ... Setting an example from the top has a ripple effect throughout a corporation. After nearly three decades in business, 10 years as chief executive of a Big Eight accounting firm, I have learned that the standards set at the top filter throughout a company.”

— *Russell E. Palmer*  
*Former CEO and Executive Partner*  
*of Touche Ross International*

of this millennium are accelerating. This time of change is defined by more than socioeconomic, technical, environmental or political considerations. We cannot yet predict the extent or duration of this change, and many experts believe we are on the cusp of a shift in human activity and culture as profound as the change from agricultural-based societies to capital-based economies and lifestyles.

The concerns my CEO contacts express encompass:

- Workforce issues that challenge our skills in recruiting, retention and management, such as turnover, diversity, competency, scarcity, rewards, recognition and career advancement needs.
- Firm issues that challenge our skills in organizational design and leadership, such as organizational structure, technology applications, the need for business and workflow process redesign, and client demands for quality, speed and lowest possible first cost.
- Issues about the very environment in which our services are delivered, such as community resistance; new competition from, for example, international mega conglomerates or materials/systems suppliers; and diminished client capacity as engineering and facility departments are downsized, weakened or eliminated.

Because these low-hanging individual challenges can be named, it is easier for us to focus on identifying them than it is to step back and look at the larger picture of challenges and opportunities; this is simply human nature. Most who

are currently leading our industry's organizations grew up in these professions during less dynamic times (though at the time, those moments seemed tough and unforgiving).

Today, we feel nostalgia for days when our problems were more manageable, when we could apply incremental solutions to them, and when mistakes were not career killers. However, we are now in a time when incremental solutions no longer suffice. We are not alone. The health care, telecommunications, entertainment, financial services and retail industries as well as traditionally slow-to-change clients like government agencies are experiencing turbulence and are all vastly different than they were just a decade ago.

Times of turbulence are also times of great opportunity. We will

live through this chaos successfully, and now is the time for a revolution in design and construction. Our industry is populated with bright, ethical, compassionate

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**Today, we feel nostalgia for days when our problems were more manageable, when we could apply incremental solutions to them, and when mistakes were not career killers.**

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**Because the people and organizations working on experimental ideas are so scattered, our industry has not yet started building on their individual learning or seeing the larger patterns of their ideas.**

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people, and we are highly capable of solving the challenges we face.

There are pockets of revolutionary activity going on everywhere, but mostly these insurgents have not found each other yet. These revolutionary practices are in such areas as business models, project-delivery methods, staff engagement and service to the community and society. Because the people and organizations working on experimental ideas are so scattered, our industry has not yet started building on their individual learning or seeing the larger patterns of their ideas.

The architecture, engineering and construction industry, in general, has the good fortune to retain a positive image where many other industries and institutions, including parts of the construction industry,

have become badly tarnished and are publicly distrusted. Retaining — and extending — our position of influence in the development of the coming world depends on maintaining and building upon our current integrity and conferring the best of these practices to future leaders. This integrity comes from embracing the firm as an organic entity, with all parts working in alignment and being mutually supportive: vision, culture, structure and the behavior of its leaders.

Three areas where current leadership has tremendous influence on organizational alignment and integration for the future are:

- Developing a unique and inspiring vision for the firm
- Inspiring and requiring accountability
- Growing one's self in order to grow others

#### **LEADERS CREATE A UNIQUE VISION**

Few contest the importance of organizational vision; yet for most firms, “visioning” exercises are futile and in the end raise expectations without improving anyone's ability to achieve more than he or she did before. Why this is the case is an elusive question, but I believe it includes the following characteristics:

- Great, inspiring, innovative visions are rarely the result of the committee efforts most firms embrace. Large groups can inform, be inspired and buy into visions, but great visions are largely created by courageous mavericks who see things in new, connected ways that no one else does.
- Committees are great levelers, as they usually seek the mediocre compromise of consensus. If you doubt me, compare most firms' vision or mission statements about values, quality, excellence, service, profit and

- client and staff satisfaction, and you will find little, discernible difference from firm to firm.
- If you try to find a tangible expression of a firm's vision in what the firm does every day, in most cases you will search a long time. In daily operations, most design firms look and act exactly like their colleagues and competitors. Pick a project engineer or job captain at random and ask that person to articulate his or her firm's grand plan and describe evidence of its implementation. The most common response you will hear will be something like, "I don't see it."
  - Turning the firm's vision into a creative, implemented strategy and managing the necessary change involved is not the strong suit of most A/E/C industry executives. I think this has to do with a lack of self-awareness, self-confidence and courage that normally attends these capacities.

Most vision and strategic plan participants think the desired result is the plan. In fact, the plan is almost irrelevant. It is the planning process that is of tremendous importance. What the planning process must do is twofold:

- Build individual and collective capacity for learning, innovation and strategic thinking (in other words, enhance entrepreneurial capacity).
- Deepen the bonds of trust and collaboration among the key players so they are better together. Such capacity refocuses energy away from backbiting, self-defensiveness and individual image preservation to genuine innovation and mutual support.

The firm that offers such personal commitments and connections will be rewarded by its staff with loyalty, efforts that go beyond need and long-term commitment.

The answer to a lifeless and uninspiring vision is first to get the firm's strongest, most visionary leader to articulate a new vision, then second, to put its implementation in the hands of a skilled strategist and change maker. Third, use the strategic planning process for building the management team's entrepreneurial and collaborative skills, so these individuals are qualified to move the firm forward.

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**Most vision and strategic plan participants think the desired result is the plan. In fact, the plan is almost irrelevant.**

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The leader's highest duty is to create an exciting, motivating vision that a firm can rally around — one that requires each person to engage in new learning and the exploration of new pathways. The next generation and those who follow it are waiting for us to create compelling visions and support the courageous, innovative changes those visions require. Our clients need our best innovative and leadership abilities both to help them excel and create viable communities where they can continue to succeed.

Even the most inspiring vision needs action to become fulfilled, and this need for individual endeavors by many participants requires that leaders exhibit accountability and demand it from others.

#### LEADERS INSPIRE AND REQUIRE ACCOUNTABILITY

One of the most asked questions in professional firms today is, "How do we hold people accountable?" The accountability challenge is not well-understood because the problem is rarely well-defined. Nor is it clear what A/E/C executives can or should do when they themselves are accountable for holding others accountable.

The question is invariably asked about others, not oneself, and is usually about the consequences for failure to meet expectations. Those expectations are typically about business rather than professional performance. Few executives seem interested in setting consequences for others' failure to be creative, to enhance the body of technical knowledge or to develop people, for example.

The missed expectations are thus about gross and net revenues sold and earned as well as basic program requirements such as meeting clients' schedules and the like. Frustrations about those who do not perform are based on the unreliable assumptions that:

- Expectations have been communicated, understood and accepted; that what it means to be accountable for those expectations and the consequences for excellent or unsatisfactory performance were negotiated before the role or project assignment was undertaken; and that all of this has been discussed regularly since the work began.
- Failure to perform is an individual matter largely unrelated to the structure, resources and processes of the firm; that if the individual lacks the capacity to perform for professional, organizational or personal reasons, then it is his or her duty to figure out what to do to compensate.

These assumptions are rarely true. "The only problems that have simple solutions are simple problems," says Wharton School's systems theorist Russell L. Ackoff in

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**Our clients need our best innovative and leadership abilities both to help them excel and create viable communities where they can continue to succeed.**

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his book *Management f-Laws: How Organizations Really Work*. “Problems that arise in organizations are almost always the product of interactions of parts, never the action of a single part (or person). Complex problems do not have simple solutions.”

Few professionals understand the full range of expectations their managers have of them. Annual performance reviews, even the rare, well-executed ones, cannot convey the richness of evolving expectations nor the firm’s context for those expectations (i.e., how this expectation relates to the firm’s vision, goals and strategies, and thus why accountability is important).

Many executives believe that setting expectations for their subordinates’ performance and results is the entirety, not the beginning, of their management process. The management disciplines of monitoring, problem solving, coaching and direction are not in their toolbox. Or, if they are in an executive’s toolbox, they are rarely used as that executive struggles with the busyness of life and responsibilities, which for many have become an addiction. Such managers are

#### LIFE IS TOO SHORT

An architecture firm that specialized in health care and laboratories decided to look into other markets and chose the criminal justice area as being a good target. It successfully obtained work for two projects, which were financially strong and produced good revenue for the firm.

As they were finishing the second project, three staff members came to the partner in charge of the project and said, “Can we get a minute? We represent the entire staff and we want to tell you something. We don’t want to work on another prison project, ever, in our lives.”

He asked “Why? Why?” They told him, “We feel that what we’re designing is pure incarceration. There is no chance of people recovering in this situation – they become hardened criminals when they are incarcerated like this. They will just come back here again after they are released. We’re creating this cycle and we don’t want any part of it.”

The normal response they expected and got from the partner was, “Do you realize how much of our bonuses came out of these two projects? My opinion is that we will give up somewhere between 15%–20% of our annual bonuses if we walk away from this market.”

But they told him that the staff had already talked about the financial side, understood the consequences and it did not matter. The partner told the other partners about this, and while they were not happy about the situation, the firm decided to walk away from the prison market because all the designers and all of the junior staff said, “We don’t want to work on this one. Life is just too short.”

While many firms do great work on these projects, this firm determined that keeping the unique group of talented staff together as a team was more important than the profitability it could achieve in that particular market, thereby maintaining the integrity of the company.

moving so fast, says corporate poet David Whyte, that they “don’t see anyone who isn’t moving as fast as they are.”

Before the lens of accountability is used to view others, many senior executives would do well to use it as a mirror. They could begin by examining whether any of the conditions and assumptions cited above are factors in the sub-par performance of their subordinates (or partners) whom they believe need to be held accountable.

You may also examine whether, in slow years like those of 2007–2010, the discouraging fact of personnel layoffs and pressure on remaining staff to increase productivity has led to disengagement and frustration. Alternatively, in busy years, executives’ inability to say no to clients and commissions can produce workloads that lead to burnout or boredom for some of the professional staff. Both situations are disruptive and can lead to costly staff losses. Take steps to re-engage staff members early in the disengagement process.

Finally, many executives need to engage in courageous conversations about whether some of the firm’s professionals are being asked to perform in roles for which they are ill-suited, by competency or temperament. Some of those professionals who are not meeting expectations (“not being accountable”) may need different jobs in the firm, in whole or in part, or to redirect their talents to the services of another firm.

Individual accountability is rare when the leaders’ managerial accountability is not clearly present. In the professional firm, this includes demonstrating, at the leadership level, the understanding and behaviors explicit in the two poles of professional responsibility: the duty to serve the interests of one’s immediate client and the obligation one has to society at large.

Fulfilling the professional’s duty is where accountability begins in the firm. When that firmwide duty is met, the individual’s accountability is easier to explain, demonstrate, encourage and achieve. Firm leaders are also accountable for developing their successors and leaders at all levels within the firm. The firm as a holistic, integral entity requires that this key aspect be addressed for both future success and for the firm to be a healthy participant in the current marketplace.

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#### **GROW YOURSELF TO GROW OTHERS**

Principals have a major responsibility in helping grow young leaders and will be more effective at doing this when they make an equal investment in growing themselves.

Warren Bennis, author of *On Becoming a Leader*, tells a story from ancient China: When Yen Ho was about to take up his duties as tutor to the heir of Ling, Duke of Wei, he went to Ch’u Po Yu for advice. “I have to deal with a man of depraved and murderous disposition. How is one to deal with a man of this sort?”

“I am glad,” said Ch’u Po Yu, “that you asked this question. . . . The first thing you must do is not to improve him but to improve yourself.” If the tutor is able to grow, the obstreperous heir is more likely to listen — and may even want to emulate his tutor.

How do you go about growing yourself? Start by asking five questions:

- What is your greatest source of happiness?
- What have you done to enrich the world?
- What contribution could you make that would give you the most satisfaction?
- What strengths and capabilities would you have to recognize in yourself and others to make this contribution?
- What would you do today to begin this service, this contribution?

Such self-examination is intended to lead to learning, and life-long learning is a key attribute of great leaders and great organizations. As stated in the Palmer quote at the beginning of this article, the standards set at the top trickle down

through the entire organization.

The need to self-examine, learn and contribute to the growth of others is no exception. By actively and openly developing the self and helping others to develop, the leader establishes the practice of adaptability that is key to the firm’s success in the 21st century.

In our industry’s future, new leadership will emerge. The demonstration of integrity by our firms and their leaders — as a practice and as a mutually supportive structure — will ultimately earn

public appreciation for our forceful stands about the social and economic impact of infrastructure issues, for our efforts to provide all people with clean water, habitation, sanitation and places to conduct business, offer worship and gain education. ■

*Portions of this article have been excerpted from Lou’s book, “The Language of Leadership,” published in 2010 by Greenway Publishing. This collection of essays and case studies explores lessons learned from decades of developing and coaching leaders in the A/E/C industry. To purchase the book, visit: <http://www.di.net/store/book-tlol>.*

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