FMI Quarterly

2011 ISSUE 4

TOUGH PEOPLE LEAD

FEATURES

This Quarter:
Leadership > Tough Times

Dear Reader:

Any time is a good time for great leadership. Sometimes effective leadership is urgently needed. These are those kinds of times. Without organizational effectiveness, even the best of resources are wasted. Organizational effectiveness is highly dependent on good leadership, in both private and public entities. Especially when employees or constituents are unsettled, strong leadership can weld disparate parties into fully functioning teams. Further, leadership has the power to elicit comprehensive use of skills within the work group. Working in a team-based environment and making direct use of one's particular skills are strongly linked to employee satisfaction and employee retention. I could go on and on as to the importance of leadership and leader development. If you have not already figured it out, our theme this quarter is leadership and our banner is Tough People Lead.

As you know, we have a continuing feature each quarter written by Lou Marines, Hon. AIA. We hope you enjoy and gain value from his quarterly Perspectives. This quarter we are introducing another new, continuing feature that we believe will also be highly informative and provide an opportunity for even more industry voices within our pages. We have asked long-term contributor and ace consultant Cynthia Paul to lead ongoing discussions with industry leaders of both senior executive and key middle management stripes. We are calling this feature "Conversations with Cynthia." Each quarter she will engage with industry participants about the general subject matter featured that quarter. Cynthia will draw out experiences, lessons learned and personal observations of her participants. Cynthia is a managing director with FMI and heads the business development practice. She is a global consultant and happens to be a wild game hunter with an eagle eye! This quarter, "Conversations with Cynthia" deals with lessons in leadership. Participating with Cynthia are Steve Roll of McDermott International and Gary Gretzinger of Enclos Corp. Steve's work is largely in commercial development and strategic deployment. Gary heads field operations at Enclos. We look forward to your feedback on this first "Conversations with Cynthia."

Leading in a Global Market leads off our theme-related features. Kim Morton, Ron Magnus and Jake Appelman share their experience and perspectives with us. Matt Kennedy discusses the leadership required for *Challenging the Status Quo*, our publishing partner, Zurich's, contribution for the quarter. Mike Clancy and Cynthia Paul offer insights as to how market leaders gain *Unfair Advantage*. Steve Isaacs and Karen Newcombe provide an insightful guide to establishing subtle leadership in their feature, *Overcoming Biases to Achieve Great Negotiation Results*. Lou Marines provides us valuable counsel in his Perspectives this quarter, titled *What Do We Know About Boards?* If your short answer is, "not enough," you will want to read this article. It takes leadership to change inertia within any organization. Moving from a minimally diverse organization to one that truly benefits from its diversity takes skillful leadership, and Jed Davis and Peter Nielsen provide important answers to both "Why?" and "How?"

Promote Your Business through Effective Email Communication by Sarah Vizard reminds us of the importance of strong communications in leading others to act. Vizard provides us tools for making that communication more effective through a solid email program.

Cynthia Paul provides more business development assistance to our readers in her current departmental piece, *Lead With the Relationship, Then Sell the Project.*

Finally, senior colleague Ralph James returns to one of his favorite subjects, ethics, as he provides us with a case study in ethics at Parsons. His interview respondent is Clyde "Sonny" Ellis, general counsel at Parsons.

Long or short, thought-provoking or directly informative, third-party or first-person, we use variety to deliver our messages this quarter. Good leadership is never out of season, and this season tasks leaders with even greater challenges. We hope you find *FMI Quarterly* helpful in sparking good leadership thoughts, but even more helpful in spurring great leadership action.

Sincerely,
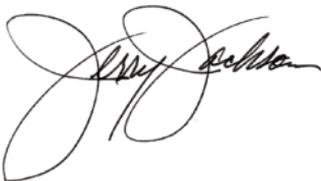
Jerry Jackson
FMI Quarterly Publisher and Senior Editor

Departments

BUSINESS DEVELOPMENT
Lead With the Relationship, Then Sell the Project

Imagine you are a customer interviewing prospective construction teams to build your new $20 million student center. Like every other public university, you are under pressure from the board of regents and parents to reduce the high cost of education. You hear about the need to reduce costs at every staff and departmental meeting you attend.

The new student center aims to help your university stay competitive. Students are demanding expanded services, soft-space amenities and a rich array of food choices. The new student center is not a luxury item for the university; it is a necessity for staying in the neck-and-neck race for entering freshmen. Half of the funding for the project is in place. The other half will come through fundraising efforts once the total costs have been determined.

The university has an active building program, with a dozen projects currently under way. Some are remodels to update and refresh dorms and classrooms. Some are new construction to meet the growing needs of an expanding student body. Though each of the projects looks like it will be successful, it has not been without challenges. Gaps have been found between the architectural drawings and constructability in the field. A few projects have seen significant material-cost escalation from the time they were budgeted to the time they were constructed. Others have had people issues arise among the university, architect, engineer and construction staff.

The new student center will be the first significant design-build project for the university. The intent is to streamline the process from visualizing the project through getting it into the ground and turned over to the university. You are hoping that this new contractual method allows for fewer unexpected change orders to arise, and from what you hear, it should speed up the time needed to complete the project. Or that is what you hear from other universities that have tried design-build delivery methods. They find solid success in getting one point of contact for both design and construction. Based on what you have heard from other universities, you are requesting a contractor-led, design-build team.

The president of the university has been promoting the new design-build student center heavily. LEED Silver certification sends a good message to the

students, and it is hoped has life-cycle cost savings on building operations.

So, still keeping your imagining (or imagination) hat firmly on, how could you really set you and your company apart from your competition?

EVERY CONTRACTOR IS CUSTOMER-FOCUSED

Customers hear a number of similar things from contractors during the pursuit of the project. Every contractor espouses its customer focus, high level of responsiveness, deep experience levels and, of course, that it can deliver the project better than any other construction team. So how do customers pick from competitive contractors? Sometimes it is a difficult choice. When all promises sound the same, price becomes the default basis for the decision.

As a contractor, you feel you understand the project, have the right people for it and are able to drive the schedule to meet the needs of the customer. All of those positions simply put your company on par with competition, but they do not set it apart. They set you up for the primary difference, which is price. You need to have a competitive price to be in the running today, certainly. But you also have to give decision makers a reason to pick you. If you give them a business excuse to choose you, all the better; it will quickly help you stand out over and above the competition. In the article "Unfair Advantage" (2011)[1] the authors give advice on how to learn how to be price-competitive and still make money. The article offers ideas to make money in the public markets, given the current market pricing that is happening around the country.

MAKE IT A BUSINESS REASON

Relationships still play a role in project selection today. While relationship as a basis for decision making has changed over the last decade from being a primary determinant, a good relationship is still key to finding the information you need to be successful. A relationship gives you face-to-face time outside of structured meetings on the project. It gives you a chance to get to know the customer as a person and in his or her business. It allows you to discover what is important, what is driving his or her organization, the other pressures he or she is living through, and how decisions really are made.

A relationship also gives you that bit of extra time to build identities for your organization and your people to the customer. Well-conceived and delivered, these identities give customers a comfort level about your organization. No customer can tell if you can build a project simply by watching you present on a project. The presentation is your chance to produce an organized message. If you have developed a clear identity through your relationship development, this development has enabled the customer to get a better sense of who you and your team are. He or she has a much better notion as to whether he or she could live with you successfully through the life of the project than from competitors who have simply shown up to present.

If you lead with relationship, it will give you the insights you need to create a business reason for the customer to pick you over the competition. Use the relationship development period to find out what challenges the customer faces on a day-to-day basis.

If we go back to the example of the university, the relationship will give you the chance to understand that it is being challenged by:

- A board of regents calling for budget cuts to meet the clamor of parents frustrated by the escalating cost of higher education.
- Falling or stagnant endowments that are challenging its ability to invest in the facilities and services needed to attract and retain students.
- Smaller facilities departments that are now managing a wide range of projects from renovations to new construction and struggling to keep up.
- The need to present a new and vibrant image to the market to keep pace with its competition.
- Students demanding green and environmentally focused programs and facilities, while balancing the need to maximize the investment they have in their current classrooms and buildings.
- End-users who are already frustrated by their space limitations and the need for more or newer facilities to meet their programming mandates.

As you develop a relationship, you can see your customers when they can let their hair down a bit and, in this case, talk about the university in a more candid fashion. Attempting to build a quick relationship with a customer because there is an immediate project of interest coming up is very different from being "customer-focused" over a much longer period. And customers can smell the difference quickly. The key is becoming pre-positioned with the university in advance of an expansion in its building program. Getting early involvement with expanded contacts throughout the decision-making chain gets you the insights and access needed to create a unique approach that can rivet the decision makers' attention in a proposal and presentation. Given the right information, you could:

- Come up with a solution that leverages the energy efficiency of the university's existing facilities and ties into a new project.
- Help it create a commissioning process, streamlining all of its projects.
- Leverage its ability to access to the business community, getting more industry people engaged in programming, thus helping it better position graduates for jobs.
- Augment its shrinking facilities department by picking up some of its duties on a temporary or semipermanent basis (while you are on-site anyway).
- Coordinate periodic end-user meetings to capture its interest/concerns and build those into a design build approach on a project.
- Use your construction schedule to manage the key activities of end users moving into the new facility.
- Engage the student body in unique ways that allow it to get exposure to real-world issues while helping the efforts of the construction department.
- Hire interns from the student body to help with the project or work back at your office.

GET INTO THE COMPETITION'S HEAD

Work is procured in a competitive environment. Ask contractors what they know about their key competitors and they will respond, "A lot" or "Everything." Ask the same contractors what their targeted customer thinks about the same competitors and their answers are less confident and robust.

Customers have very solid ideas about competitors. In many cases, those competitors have worked directly for the customer in the past. Part of your relationship development results in gaining the customer's input on competitors — what they do well (those things that you are going to need to match or top) and where they can improve. Find out:

- What are the things that competitors do that the customer really values
- Why are those things valuable to the customer
- Past competitor performance on specific projects
- Competitors' staff members they particularly like and why
- What innovative ideas competitors have introduced in the past
- Likely competitor approaches to this project

Get creative and get them talking. Your approach to the project is innovative or not, depending on the expectations of the customer, but also driven by what competition is currently doing or likely to do. For example, if customers rate your project controls an 8 on a 10-point scale, that is only helpful if competitors are below an 8. If the competition consistently scores a 9, you are in a losing position, regardless of what other customers have told you about project controls.

BUILD RELATIONSHIPS

Relationships give you the extra face time with customers, which helps you uncover specifics about the project that you can build into a unique approach. They can tell you what other contractors have tried and failed at and what their level of expectation is on the project.

Your unique value may be focused on solving one of the customer's problems that the other proposing construction teams miss. Think bigger than simply construction answers.

Lead with the relationships first, then sell the project. You will have the insights you need to create a solid, compelling, business reason to pick you and your team over the competition. Customers are people too. Time spent in relationships give customers a chance to find out what they need to know about you and your organization too. ■

Cynthia Paul is a managing director at FMI Corporation. She may be reached at 303.398.7206 or via email at cpaul@fminet.com.

[1] Clancy, M. and Paul, C. (2011). "Unfair Advantage." FMI Quarterly, 2011 #4.

Ethics at Parsons: A Case Study

Clyde "Sonny" Ellis

PARSONS

If the senior management of the company is not clearly committed to ethics, then the people further down the chain are not going to be either.

"Good. Smart. Business. Profit."

That is the credo of the research-based Ethisphere Institute, an international think tank dedicated to business ethnics, corporate social responsibility, anti-corruption and sustainability. Since 2007, Ethisphere has honored companies globally with its World's Most Ethical (WME) Companies designation.

For the second year in a row, Parsons has been recognized by Ethisphere as one of the WME companies for 2011. Founded in 1944, Parsons is an engineering, construction, technical and management services firm with revenues of $2.7 billion in 2010. Parsons employees work in more than 4,500 projects in 50 states and 24 countries.

FMI recently spoke with Clyde "Sonny" Ellis, general counsel at Parsons and member of its ethics committee, to learn more about integrity and ethics from a global perspective.

FMI Quarterly: Tell us a little bit about your job, Sonny.

Ellis: I am the general counsel of Parsons Corporation. We have seven lawyers, including me, who provide legal support to the company. Among other duties, I am a member of our three-member ethics committee. The other two members of the committee are the head of our Talent Management Group and the head of our Internal Audit Group.

The committee promulgates the ethics program that we have here at Parsons. We are in charge of our Code of Conduct and ensuring that it remains relevant and up-to-date, and we are responsible for our ethics training program. The Ethics Committee reports to the Audit Committee of our board of directors, which has ultimate oversight of our ethics program.

The ethics program is part of our overall commitment to doing business with Integrity, one of the company's six core values to which we are committed. The other core values are safety, quality, diversity, sustainability and innovation. Below the ethics committee, there are a number of ethics officers who are interspersed throughout the organization, on both a geographical and organizational basis.

FMI Quarterly: How is the company organized?

Ellis: Parsons Corporation is the overall parent company. Below the parent, we have four separately incorporated entities we refer to as Global Business Units, or GBUs. There are ethics officers within each of the GBUs. The ethics officers are spread out geographically as well. For instance, we have a large operation in the United Arab Emirates and we have ethics officers physically located there. If someone in our Abu Dhabi office, for example, has an issue or a question, he or she does not have to wait nine hours until someone wakes up in the United States — he or she has access to someone right there, right away.

FMI Quarterly: What sort of training do the ethics officers receive?

Ellis: We have periodic meetings, usually telephonic or by webinar, of all of the ethics officers to talk about particular issues that have come up to the ethics committee or to the ethics officers. We also have training programs across the company and our employee base. The ethics officers participate in those as well. We are also working on training in how to conduct investigations; for example, when an issue is brought to the ethics committee or to an ethics officer — how to go about investigating the issue and responding to it.

> If someone in our Abu Dhabi office has an issue or a question, he or she does not have to wait nine hours until someone wakes up in the United States — they have access to someone right there, right away.

FMI Quarterly: Do you use hotlines?

Ellis: Yes, we do. We have an independent, third-party helpline available 24 hours a day, seven days a week, which can be accessed either by telephone or through the Web. It allows a caller to remain anonymous if he or she wishes, but it still allows for interaction between the Ethics Committee and the person reporting the concern. When someone accesses the helpline and files a concern, an email immediately goes out to the

Ethics Committee members so that we can go into the system and look at it. We decide among ourselves how it should be handled — whether one of us is going to handle it or if it is going to be assigned to an ethics officer to address. Whoever is assigned to handle the concern is then able to communicate with the person who filed the report. If we need additional information or if the report is not quite clear, we can leave a note to that effect — the person who filed the report has been told to check back periodically. We can set up a dialogue while that person maintains his or her anonymity, and it works quite well. We are very pleased with the way it works.

FMI Quarterly: Is the helpline available overseas?

Ellis: Yes it is. All of our employees have access to the helpline. There are numerous ways for people to report concerns, and it is not just reporting concerns. We also encourage people to ask questions. On the safety side, you would call it a near miss, when an accident did not happen, but a situation developed that could have caused an accident had somebody not been aware of it.

> There are numerous ways for people to report concerns, and it is not just reporting concerns. We also encourage people to ask questions.

On the integrity side, we encourage people to ask questions before they do something, our own version of a near miss. So, not only do they report concerns, but also they can, for example, come in and say, "I'm thinking of setting up a personal business on the side, but before I do that I'd like to know if that will create a conflict of interest for me and my work with Parsons." We get quite a few requests for advice from employees before they act, and that is encouraging.

FMI Quarterly: How many employees does Parsons have worldwide?

Ellis: Approximately 10,500.

FMI Quarterly: How many ethics officers are there in total?

Ellis: We have 17, including the three members of the Ethics Committee.

We encourage people to report concerns and ask questions however they feel most comfortable doing so. They can go to their manager, to an ethics officer, to a member of the Ethics Committee or to the helpline. There's also no hierarchy for reporting, so, for example, they do not have to start with

their manager, and then if they don't feel comfortable with that they can move on to an ethics officer or one of the other reporting avenues. Instead, they can take advantage of any avenue at any time.

In addition, an employee who wants to reach out to an ethics officer is not required to go to one in his or her own GBU. Everyone has access to the list of all the ethics officers throughout our organization, and an employee can contact any ethics officer that he or she chooses.

FMI Quarterly: We'd like officially to congratulate Parsons being named to Ethisphere's World's Most Ethical Companies list for the second time.

Ellis: We are very proud of that. It is a rigorous application process. Ethisphere delves into great detail on your ethics and training programs. But it is not just what you might normally define as ethics. For example, it looks at your commitment to sustainability, and to the communities in which you work.

There are more applicants each year competing for this honor. Almost 3,000 nominees, from 100 countries and across 38 industries, were considered for the honor in 2011, and 110 companies ultimately were selected for the list. It is a rigorous process and it keeps us on our toes. We now want to win the award for the third year in a row — we keep that in mind and work toward that.

> We now want to win the award for the third year in a row — we keep that in mind and work toward that.

FMI Quarterly: How can you tell if your program is working?

Ellis: We are a company of engineers, and engineers love to measure things. Commitment to integrity is hard to measure, but our ethics committee has established a list of leading and lagging metrics for integrity, as the organization has done for all six of our core values. We want to see how we are doing and whether the message we are sending is really permeating the company and whether people 'get it.'

We track our leading and lagging metrics on a quarterly basis. We measure them by GBU and for the company in the aggregate. It is not meant to be a punitive exercise; instead, it is meant to give us a look into how the ethics message is being perceived and acted upon within the company and allows us to identify areas that might need additional attention.

FMI Quarterly: Will you share what some of the metrics are?

Ellis: With respect to leading metrics, the number of concerns reported and requests for advice we receive are important measurements. We gather that information whether it comes in through people talking to ethics officers or the reports we get from the helpline. We compile that on a quarterly basis by GBU and for the company overall. We have targets, which are admittedly hard to set. We have approximately 10,500 employees, and if we went a quarter and nobody reported a concern or asked a question, we would not pat ourselves on the back and say, "Oh, what an ethical company we must be." We would say, "Oh, something must be wrong," because just by the nature of things, people are going to have questions and people are going to have concerns. So we need to set a goal for what we think is the right number of questions and concerns that would indicate to us that people understand our ethics program, that they embrace it and that they are interacting with it. Other leading metrics include the results of our employee perception surveys regarding our commitment to integrity, the number of employees who complete their assigned ethics training on time, and whether we make the Ethisphere list of World's Most Ethical Companies. The actual results are compared against our target for each metric, given a different weighting and then reported as a numerical score individually and as an aggregate leading metrics score against an aggregate target of 100.

So we have set goals like that and we will take a look on a quarterly basis. We might see that in a particular GBU, we're not getting as many questions as we think we should be getting, and that may be a signal to us that we haven't done as good a job as we could of making those employees aware of the avenues available to them to ask questions or report concerns. Or we might see that we are getting a number of questions on the same topic, for example on conflicts of interest, in a six-month period, and that would indicate to us that we should do additional training on that particular subject.

The way that you get the message out is also very important. You cannot just preach to people — it just doesn't have an effect. So we look for ways to be more interactive with our employees in delivering the integrity message. We've come up with what we call ethics challenges, which we publish on a

> The way that you get the message out is also very important. You cannot just preach to people — it just doesn't have an effect. So we look for ways to be more interactive with our employees in delivering the integrity message.

Our primary focus internationally has been in the Middle East and North Africa, but that scope is expanding.

periodical basis on our employee intranet. We set up a particular scenario designed for our type of business that may raise several different kinds of ethics issues. We'll give people three or four possible answers, depending on the scenario, as well as the opportunity to comment on the scenario and write in any other answer that they may think appropriate. We have a very educated employee base and we get very good comments from people. They really take the opportunity to write in comments, not just select from the answers we have suggested. We were initially surprised with how many people participated in these ethics challenges. It's a way of getting employees thinking and talking about ethics, and that's a major goal.

FMI Quarterly: How many countries do you work in?

Ellis: We currently have operations in 24 countries. Historically, our primary focus internationally has been in the Middle East and North Africa, but that scope is expanding.

FMI Quarterly: What U.S. laws are important to know for overseas work?

Ellis: There are certain laws you have to keep in mind, not only doing work outside of the U.S., but also doing work inside the U.S. with foreign partners. You have to be aware of the FCPA (Foreign Corrupt Practices Act). You have export control laws, which may be applicable, depending upon what type of product or information that you're transferring, and that may require you to obtain an export license before commencing work. There are the various U.S. trade sanctions that are applicable. At any given time, the U.S. may have trade sanctions on particular countries or individuals. Those sanction programs all tend to be a little bit different, and you need to understand what you can and cannot do. There are U.S. laws against participating in unsanctioned boycotts. Those are the main kinds of U.S. laws we need to keep in mind when we're doing work outside the U.S. Then of course you have the local laws as well that you need to be cognizant of and make sure you're compliant with.

FMI Quarterly: How would you describe ethical trends overseas?

Ellis: Maybe I'm just an optimist, but I'm encouraged by what we see. When the FCPA was enacted in the mid-1970s we were the only country prohibiting our companies from paying bribes to foreign governments to obtain work. At the time, we were viewed as a little naïve by a number of other countries.

In fact, there were some countries that not only did not prohibit payment of bribes to foreign government officials, but also actually gave tax deductions to their national companies for paying such bribes. All of that has changed now. The OECD (Organization for Economic Cooperation and Development) adopted an anti-bribery convention in 2009. There are 38 countries that are signatory to that anti-bribery convention and that have or are enacting national legislation to implement that convention. The Organization of American States has adopted the Inter-American Convention Against Corruption. We're seeing individual countries implement laws that are very similar to and in some respects even more rigorous than the FCPA — the U.K.'s recent Bribery Act is a good example. I think we're seeing the fact that countries "get it" — that they realize that bribery affects not only the foreign country, but also their own companies and their ability to do business internationally. So we're gradually seeing a leveling of the playing field.

FMI Quarterly: That is encouraging news. What suggestions do you have for American companies that want to work overseas?

Ellis: First and foremost, you really need to do your homework. You have to be prepared. There are good sources of information on how to do business outside the United States, particularly with the Internet now. Take advantage of that. In virtually every country, you will find that one or more U.S. law firms have a foothold — there will be a local office or a local lawyer that they have associated with to assist their clients in doing business in that country. It's always good to interview a couple of those law firms before you start to do business in that country so you can understand not only what the laws are with respect to doing business there, but also what the pitfalls are. Often in some of the larger countries there will be an American businessman's group, which is a great source of information. Of course, the U.S. Embassy, and the commercial attaches at the Embassy are a great help. You need to do your homework and you need to be skeptical.

Too often when U.S. companies go into a foreign country, particularly a non-Western country, the culture or way of doing business may seem odd to them, and they tend to lose their skepticism. You need to have a heightened sense of skepticism. If something sounds too good to be true, it probably is

> Too often when U.S. companies go into a foreign country, particularly a non-Western country, the culture or way of doing business may seem odd to them, and they tend to lose their skepticism.

too good to be true, whether it's in the United States or any place else. The majority of my work when I was in private practice was assisting clients in their activities outside the United States, and I can't tell you how many times I had a client say to me, "Well, it seemed odd, but we just assumed that was the way that things were done." So yes, you are in a foreign environment, but keep your U.S. business sense, your sense of ethics, your sense of propriety, your sense of skepticism, when you are investigating how to do business in a foreign country.

FMI Quarterly: I understand that Parsons' safety program has been a model for some of your work.

Ellis: For the kind of work that we do — the design, engineering and construction of large infrastructure and commercial projects — safety is paramount for us and for our workforce. It is something that is in everyone's mind, every single day. Our vice president of Corporate Safety, Health & Environment, Andy Peters, has done a fantastic job of infusing a sound safety culture throughout the company. We look at what he has done as a model for what we want to accomplish on the integrity side. The goal is to have everyone thinking and talking about safety every day, and that's our goal for ethics and integrity as well.

FMI Quarterly: Is there anything that you would like to add?

Ellis: I participate in several different groups that are devoted to enhancing business ethics. We interact with many people and talk about various issues and how we can get better, how we can get the word out to our employees in a way that really resonates with them. One of the things that you always hear people talking about is "tone from the top." If the senior management of the company is not clearly committed to ethics, then the people further down the chain are not going to be either.

Our senior management is extremely committed; in particular, our chairman and CEO, Chuck Harrington, sends a great message to our employees on how important ethics is to Parsons, how it should be part of our DNA, that

---

Andy Peters on Ethics and Safety

Ethics has played a major role in our safety management system at Parsons in gaining the trust of our employees and clients. Ethics in the safety process ranges from the accurate recording of incidents to ensuring our employees have the proper working environment and the tools and equipment to return home safely to their families each day. We have carefully established our organizational reporting lines in order for our safety staff to be able to report any issues or concerns without the threat of intimidation. We have also made it simple for employees to bring continuous improvement ideas or safety concerns to the forefront with an "Ask Andy" mailbox on our intranet system. We believe that ethics has played a major role in achieving our success in reducing our incident rates, insurance costs and qualifying for the OSHA Corporate Voluntary Protection Program (VPP).

we work and act in an ethical manner. That helps tremendously. He is on the road constantly and holds meetings with employees throughout the world, and ethics is always something he talks about.

While you hear a lot about tone from the top, what you do not hear too much about is "tone from the middle," and I think that is just as important. While Mr. Harrington travels a lot and meets with employees, he cannot meet with all 10,500 of them every year. He cannot interact with every single person, even though he may like to. So while it is very important that employees see his commitment to ethics and integrity, it's just as important that they see that commitment at the middle levels, with the managers they interact with on a daily basis. We try to ensure that our middle-level executives and employees understand the message, are committed to the message and are delivering the message, every day.

FMI Quarterly: Thanks, Sonny. We appreciate your insights and leadership in this important global challenge. ■

Ralph E. James is a director with FMI Corporation. He may be reached at 919.785.9227 or via email at rjames@fminet.com.

> While you hear a lot about tone from the top, what you do not hear too much about is "tone from the middle," and I think that is just as important.

Leading in a **Global Market**

Leaders who continue to ignore the changing global landscape of the A/E/C industry will be left behind unless they start thinking globally about their strategy and competition.

By Kim Morton, Ron Magnus and Jake Appelman

Globalization. Internationalization. Cross-cultural business. These are buzzwords that organizations are consistently hearing today; yet they are neither sure what to do with them nor how these words will affect their business. Industry leaders are having an even harder time figuring out what the globalization implications are on their long-term strategy.

As leaders are starting to realize, global construction projects and competition are here to stay. In fact, many leaders are recognizing that global factors will affect their business in more ways than they expected. Anything from the fluctuating costs of building materials to the changing demographics of the labor pools will affect construction firms across the nation.

The idea of globalization is not new. The world has been called anything from "flat" to "spiky" and many A/E/C firms have had an international scope for decades. Most leaders today are aware of the term globalization but have not figured out an effective way to compete with international A/E/C firms competing for bids within the U.S. While global expansion is not ideal for many firms, regardless of their size or location, organizations must understand how the factors associated with globalization will affect business. Traditional approaches to leadership development and long-term strategic planning are no longer effective

in the constantly changing A/E/C industry, making it critical for leadership to be aware of the implications of their new milieu.

One thing is certain — the global environment is what we call Volatile, Uncertain, Complex and Ambiguous (VUCA). Leaders need to plan for a future that involves 'VUCA' situations. The U.S. military originally coined the term VUCA to explain the unanticipated warfare conditions it was experiencing. The same concept applies directly to leadership in the A/E/C industry, as traditional approaches to leading small to large organizations are becoming less effective. VUCA applies to the A/E/C industry in the following ways:

> ## To remain competitive in the U.S. markets, leaders must learn how to think strategically about the effect that globalization will have on their business and prepare accordingly.

- **Volatile:** Stock markets, commodity prices and currency valuation continue to be wildly unstable despite momentary balances.
- **Uncertain:** Leaders are starting to doubt their ability to predict outcomes and plan for the future. Predictability is further lessened by the frequently changing costs and timelines, as the construction marketplace is increasingly impacted by the global economy.
- **Complex:** Globalization has created a more deeply connected world in ways leaders did not expect. Many unexpected consequences and ripple effects throughout the U.S. from the P.I.G.S. (Portugal, Ireland, Greece, Spain) debt crisis with increased commodity prices and escalated geopolitical issues are examples of global events with local implications. Traditional methods to solve these types of issues no longer work, adding even more complexity to the business of construction.
- **Ambiguous:** Leaders are recognizing that global competition and A/E/C businesses are defined differently in every country. There are no clear answers and more gray areas than ever before, making the industry even more unsettled.

The U.S. construction industry has taken a notably hard hit from the global economic crisis since 2007. With the current U.S. unemployment rate at 9.1%, construction unemployment is still hovering around 16%. The slower recovery in the U.S. A/E/C industry means organizations are seeing large, vertically integrated firms entering their markets and taking work at a low margin to drive out remaining competition. Unfortunately, the vast majority of these firms have been working at the domestic level, making the impact of the recession enormous. Lost bids, layoffs and closing businesses are common scenarios. To remain competitive in

the U.S. markets, leaders must learn how to think strategically about the effect that globalization will have on their business and prepare accordingly.

Recent studies have found that $97.7 trillion will be spent on construction globally during the next decade. The construction sector is expected to expand by 5.2% on average every year, outpacing global GDP growth.[1] The rise of emerging markets will speed up construction industry growth faster than in any other region in the world. The BRIC countries (Brazil, Russia, India and China) are the emerging market growth leaders that are determining the pace and extent of global construction projects right now. Over the next five years, emerging markets are expected to account for 62% of global growth. The majority of this growth is expected to span throughout Asia, South America and into the U.S. Global A/E/C leaders are seeing competitors enter the U.S. market and competing more intensely than they have ever seen before. The BRIC powerhouses not only are developing internally, but also are expanding and competing in many international markets. Driving down bid costs, changing contract terms and importing materials are a few of the changes when international competition is involved in U.S.-based projects.

PricewaterhouseCoopers recently stated that China's construction sector alone will more than double in size to $2.5 trillion by 2020, accounting for one-fifth of total world construction. Because of these factors and the challenging domestic U.S. market, many A/E/C firms are looking for opportunities internationally. Entrepreneurial leaders need to be aware of many issues, such as overall risk of international expansion, difficulty partnering with local firms in foreign countries, managing local labor forces with significant cultural differences from those in the U.S., the roles of local governments, etc. Organizations in this situation must have a developed and focused leadership team that is aware of the challenges that may arise during global business. Having the ability to think strategically about the individual nuances of countries while still focusing on competition is a skill that needs to be developed before working internationally. Intentionally training global leaders in these areas will likely lead to higher success rates abroad.

Leaders should be thinking about how global construction and international competition will change their organizations in some way. For example, global megafirms in the construction industry continue to win bids all over the world because they have the monetary and human resources to compete. Local firms will have to bid projects, execute work and maintain client relationships much differently than they have in the past if they want to compete successfully.

> **Having the ability to think strategically about the individual nuances of countries while still focusing on competition is a skill that needs to be developed before working internationally.**

Global competition is not going away anytime soon, making it essential for firms to rethink their current strategies and adapt to the changing construction marketplace. Failing to keep up with this new global landscape could determine the long-term success for current and future leaders. Many construction executives struggle with focusing only on the near-term demands of their business rather than strategically planning for the future. These short-term deadlines lead executives to lose track of the bigger picture and their role as leaders. Not only do current leaders need to be thinking about these issues, the next generation does as well. By changing the way they strategically think about their business and by looking through a global lens, leaders will be able to recognize the impending challenges and opportunities international competitors bring to the table when working in the U.S. Changing the way you strategically think as a leader is something that cannot be done overnight, but should be done over a couple of months. Learning how to think about your external environments, clients, customers, competitors and markets from more of a strategic perspective takes much effort and discipline. International competitors bring many challenges to contend with, such as losing bids, lowering costs (through labor costs) and stronger reputations. On the other hand, partnering with international competitors is a great opportunity for local firms to network and learn from the bigger global firms. You will have the chance to learn new processes, techniques and suppliers by working with the international firms rather than against them.

WHY INTERNATIONAL COMPETITION MATTERS

Competition has come in many new forms over the past five years. From other A/E/C firms expanding their service offerings to new international competitors winning bids, leaders are consistently left scratching their heads wondering how they will win next time. International competitors are slowly penetrating the U.S. domestic market with low bids, fast timelines and extremely reputable brand awareness. Figuring out how to compete with these global giants is on the minds of leaders at a growing rate. Competing companies from regions such as Asia, South America and Europe are finding that they are extremely competitive in our domestic markets, making them comfortable bidding on U.S.-based projects as well.

Competing on a global playing field is becoming more common, because A/E/C international projects are being done faster and cheaper with lower labor costs and more human and monetary resources than domestic organizations. Materials, people and equipment can physically move across borders faster with transportation innovations. Technology advancements have also made the overall A/E/C processes much more efficient. The costs of trading goods, equipment and services across borders have gone down with the increased competition and looser government trade regulations.

Leaders need to consider this new level of competition when strategizing. Whether it is coming up with a strategy to defend themselves in their domestic market or to start competing in different countries, taking globalization into consideration is essential. One way leaders can start to prepare for the future requires thinking through different scenarios about how this new competition will affect businesses.

KEY SUCCESS FACTORS FOR GLOBAL LEADERS

Once leaders start thinking about globalization and its impact on their organizations, they may start considering global expansion. They may also consider strategies on how they will deal with the incoming international competition into the U.S. market. Either way, it is important to identify the key success factors for leaders, whether they are working abroad or with global firms in the U.S. Unfortunately, many consider leadership principles universal across any type of culture or region. In reality, the leadership required when working in a cross-cultural environment changes significantly in each country where you work. Something as simple as a leader's communication style can considerably change how a message can be interpreted in different cultures. For example, a leader who uses direct communication may not succeed in a culture where communication is typically indirect. Speaking directly to an employee could cause frustration between the two, since messages could be interpreted wrongly.

> Leaders must adapt and be flexible when working in different countries in order to show the right amount of respect and professionalism within that culture. Recognizing that the two countries differ is a good thing as long as it is not overdone.

While most leadership principles are universal, not all of them are. If leaders recognize that all leadership principles are not universal, their first instinct to modify their approach may be to follow the adage, "When in Rome, do as the Romans do." To a small extent, that is true. Leaders must adapt and be flexible when working in different countries in order to show the right amount of respect and professionalism within that culture. Recognizing that the two countries differ is a good thing as long as it is not overdone. Leaders who stay genuine to their personal backgrounds and culture while adapting to the local environment tend to be more successful than those who do not. It is highly likely that leaders will be directing multicultural teams and working with executives who have done international business before. Local employees and executives are fully aware that you come from a different background and may not know their language, customs and traditions. That being said, leaders are expected to adapt in some way to the local business processes, etiquette and relationship building,

as this can show local employees that the U.S. leader is working in the best interests of both sides.

Many universal leadership principles do transcend borders as long as they are at an appropriate level for that culture. When assessing whether or not a leader would be successful on the global level, it is always important to consider his or her worldview. A worldview is a set of beliefs and assumptions people hold consciously and unconsciously about how the world operates and how they operate in the world. Worldview affects personal values, attitudes, behaviors and skills. Worldview is the fundamental way in which one views the world. Worldviews differ immensely depending on each person. One of the keys to identifying your worldview or the worldview of others is to review the factors that influence it, such as culture, family values, education or personal experiences. Worldview affects everybody's leadership style, since a person's behaviors and skills reflect his or her fundamental views on how the world works. Some may believe the world is random and unfair, while others think one's actions and destinies link to a greater purpose. A person's view of the world will determine the open versus closed or direct versus indirect leadership styles when working with people from other cultures. (See Exhibit 1)

In addition to identifying worldview, leaders must consider one's ability to focus on institutional work, integrative work and identity work simultaneously. Institutional work involves something like setting direction. Setting direction creates a purpose for doing work. It is the ability of a leader to understand and explain the big picture to his or her followers and set a course to achieve success. Simply communicating the reasoning behind the project, what the objectives are and what the expectations are will help any person on a team (domestic or global) understand the bigger picture of the project.
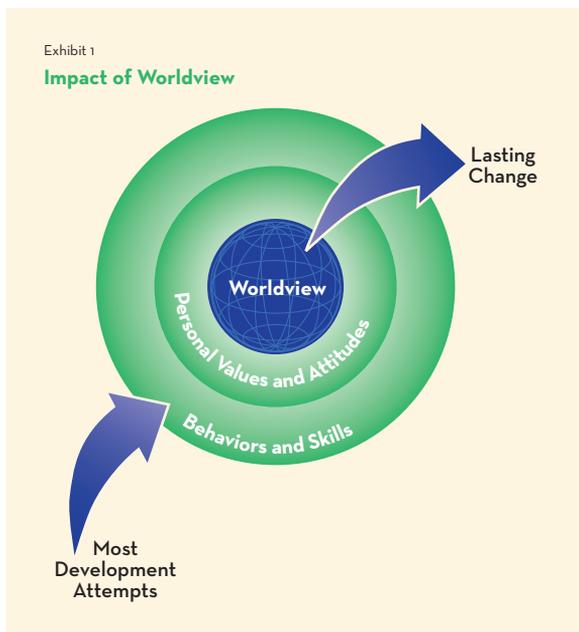
Integrative work involves leaders focusing on others. Creating informal, self-organizing networks with global partners, local governments or potential competitors can help leaders focus on their people rather than the project. Being an emotionally intelligent leader (recognizing others' emotions) who acts with humility while showing appreciation and caring are some ways to implement integrative work.

Identity work involves leading from within as a leader. Having self-awareness, personal disciplines and a good personal character will help leaders act honestly and ethically in domestic and foreign markets. Having a good sense of who you

Exhibit 1
Impact of Worldview

Lasting Change

Worldview

Personal Values and Attitudes

Behaviors and Skills

Most Development Attempts

are as a leader will help you manage diversity and acknowledge the differences between cultures and work styles. The list could go on for general leadership principles that cross-cultural leaders should exhibit, however; cultural adaptability mixed with each of those is crucial.

Recognizing cultural differences is something that cross-cultural leaders have to do on a regular basis in order to provide peak levels of leadership. Finding out what is and is not accepted in different countries is something leaders should take time to do before working abroad or with foreign teams in the U.S. Simply being aware of the preferences and styles of foreign competitors and partners will help fill some of the cultural gaps that may arise. Dutch social psychologist Geert Hofstede's cultural dimensions are a common, simple way for leaders to get a quick grasp on a country's cultural preferences. There are five dimensions Hofstede has outlined to measure cultural dimensions.

> **Recognizing cultural differences is something that cross-cultural leaders have to do on a regular basis in order to provide peak levels of leadership.**

- **Power Distance Index** — The degree in which power is distributed throughout organizations (i.e., vertically integrated versus flat). Power and equality are uneven in all societies, but some are more unequal than others. C-Suite level executives typically do not interact regularly with lower-level employees in countries with high power distance. Organizations where C-Suite executives interact on a regular basis are found in countries with low power distance.
- **Individualism** — The degree to which individuals are integrated into groups. Highly individualistic cultures tend to have loose ties to groups, and each person is expected to look out for himself/herself and his or her immediate family. Highly collectivistic cultures (opposite of individualistic) are integrated into strong, cohesive groups with unquestionable loyalty.
- **Masculinity** — Refers to societies where gender role distribution differs. Countries with high masculinity demonstrate that women's roles are typically lower and less impactful than male's roles. Countries with low masculinity demonstrate that women's roles in society are typically equal to those of male's roles.
- **Uncertainty Avoidance Index** — Deals with a society's tolerance for uncertainty and ambiguity. Most relate this to risk tolerance and the ability to work in unstructured situations. Countries with high uncertainty avoidance try to minimize unstructured situations by strict laws, rules and safety measures. Countries with low uncertainty avoidance are more tolerant of risk and unstructured situations. They are typically more open to different opinions and try to have as few rules as possible.

- **Long-Term Orientation** — Deals with the long-term or short-term orientation of societies. Countries high in long-term orientation tend to view relationships and business deals as lasting for years and even decades. Countries with a more short-term orientation view relationships and business deals as lasting for anywhere from a few months to a couple of years.

Recognizing the different environments that leaders will encounter is essential for the success as a leader on the global level. While this is important for any global leader, it is not the only thing he or she should be focusing on while working with global organizations.

Most leaders expect their leadership role to remain relatively the same when they work internationally. They should think otherwise. Figuring out new cultural demands and nuances, working with teams in various time zones and recognizing different team dynamics all play into the changing business landscape. Working through these obstacles in addition to the domestic business responsibilities can lead to a heavier workload and increased stress levels. As many leaders have learned in the past, challenges, such as language barriers, currency and time zone differences and different A/E/C processes for doing business, make international business much more difficult than some anticipate. Being aware of those potential challenges and preparing for them will help new and experienced cross-cultural leaders succeed at the global level.

> Figuring out new cultural demands and nuances, working with teams in various time zones and recognizing different team dynamics all play into the changing business landscape.

KEY INTERNATIONAL LEADERSHIP CHALLENGES

Many external factors are driving globalization across all industries. These factors shape the pace and way in which one does business on a daily basis. Whether leaders embrace the changes these factors bring or they ignore them, external factors are always going to increase the levels of global work being performed. These factors can create immense challenges for cross-cultural leaders since they are transferred at different rates across continents and interpreted differently. Some of the most common globalization drivers are:

- **Technology Advancements** — Computers, Internet connections and gadgets all shape the way we do business on a daily basis. Advancements in technology, such as cloud computing, can create a much simpler way to do business for leaders working with employees all across the globe. The faster technology changes, the faster leaders need to embrace it, learn it and use it for long-term success.

- **Communication Innovation** — Social media, instant messaging and email innovations have created completely different platforms for communication. It is easier and faster for people to communicate internationally than ever before. Keeping up with these innovations will help leaders communicate much more efficiently than before.
- **Transportation Efficiency** — Transferring and trading goods across continents and around the world has become much faster and cheaper over the past decade. Whether you are delivering goods on a freight shipment or traveling abroad as a businessperson, transportation is relatively easy. Efficiency in transportation has made international business much easier and more effective.
- **Foreign Exchange and Price Fluctuation** — Foreign exchange and price fluctuations can significantly help or hinder your bottom line. Leaders need to keep a close eye on their domestic currency as well as the currency of the country they are working in. Failure to do this will lead to costly mistakes and possible project failures.
- **Government Regulation** — Foreign and domestic governments have made international business much easier over the past decade by loosening international trade regulations and laws. Today, organizations can work in foreign countries easier than they could in the past, as international trade is more encouraged.

These factors have helped drive globalization to today's levels and will continue to increase it in the future. Recognizing these factors and adapting to them will help cross-cultural leaders work more effectively across borders. When working in another country, most people recognize the obvious challenges they may face. For example, knowing the language barriers, time zone differences and the foreign currency differences may be easy to recognize as cross-cultural leadership challenges at first. These are definite challenges that create a more complex working environment for any organization working at the global level. Actually, cross-cultural leaders need to be aware of many more potential challenges.

Working on international business projects is much more complex than working on U.S.-based ones. There are three ways to handle the challenges that can arise for a cross-cultural leader.

- **Organizational Framework** — Having a clear organizational purpose, values and strategy will help guide leaders to make the right decisions when working in new countries.
- **Network Integration** — Connecting people, building networks and influencing different departments and organizations will help leaders know where to find help when they need it.

- **Cultural Awareness** — Acknowledging differences, finding points of commonality and understanding people help leaders be open and aware and acclimate to different cultures.

THINGS GLOBAL LEADERS SHOULD CONSIDER

The skills, knowledge and aptitudes required for a leader to be successful fluctuate within every country, industry and organization. What is important to evaluate when looking for a leader to work at the global level is his or her ability to deal with the changing international atmosphere on a daily basis. A leader's ability to deal with the four common obstacles that cross-cultural leaders face will help determine his or her probability for success.

> **Foreign employees, team leaders and organizations all work at a different pace, scope and scale, depending on the country or region in which they are based.**

- **Uncertainty** — International environments change drastically, depending on region, income level and political stability within each country. Business and construction situations are hard to predict before actually traveling, living or working abroad. This uncertain and ambiguous environment is difficult to work in, as organizational strategies, processes and plans can unravel very quickly.
- **Complexity** — A/E/C projects become immensely more complex when they are abroad. Legal and financial issues, cultural differences and different processes are all factors that can change the project plans and timeline. Dealing with the complexity of an international project can be extremely time-consuming and brain-damaging if done poorly.
- **Diversity** — Foreign employees, team leaders and organizations all work at a different pace, scope and scale, depending on the country or region in which they are based. Language, cultural traditions, work ethic and personal motivations all bring diversified elements to a job scene at any time. Leaders must be adaptable and flexible for business to continue at a positive level.
- **Transparency** — Cross-cultural leaders need to be comfortable working in transparent business environments. Transparency helps build your business credibility and the confidence that you are both doing business to help rather than hurt each other. Being open with foreign employees will display vulnerability, trust and respect for those you lead. Trust is something global leaders need to gain if they expect to receive high levels of respect on foreign jobs.

The inability to deal with these four factors will likely drive global leaders to revert to their previous roles as domestic leaders. Uncertainty, complexity, diversity

> "The key to our global leadership success has been our ability to become more adaptable and flexible to the changing international environment."
>
> — *A/E/C Engineering/Design Firm*

and transparency are all difficult to manage, especially when dealing with all of them at the same time. That is why having an adaptable, flexible and open attitude will help cross-cultural leaders navigate challenging international business settings.

Once potential cross-cultural leaders have been identified, it is important that they are properly developed and prepared for their new international assignment. Depending on the organization's goals for the international assignment, leaders need to be ready for what they are about to encounter. Training and development in local languages, business etiquette, cultural nuances and how to build relationships will drastically improve the chances for success abroad. On average, it takes nine to 12 months to develop cross-cultural leaders so organizations can ensure they are ready for the trip. Best practices in preparing leaders for international work are much more complex than these brief suggestions and require a great deal of leadership involvement in the process. Further analysis of things like cultural nuances, global industry trends, competitor innovations, etc., will help leaders and organizations better prepare for the competitive future.

Whether you are thinking of competing on the global level or simply trying to win in your domestic market against global competitors, leaders today must start thinking strategically about their global strategy and competition. Now more than ever, the pace of business and globalization within the A/E/C industry is ramping up to exceed speeds of what has been done in the past. Gearing up for the new globally competitive landscape will help leaders succeed not only today but also in the long-term future. ∎

Kim Morton is a consultant with FMI Corporation. She may be reached at 303.398.7262 or via email at kmorton@fminet.com. Ron Magnus is a managing director at FMI. He may be reached at 303.398.7217 or via email at rmagnus@fminet.com. Jake Appelman is a principal with FMI. He may be reached at 303.398.7291 or via email at jappelman@fminet.com.

[1] Roumeliotis, G. (2011.) Global Construction Growth to Outpace GDP This Decade — PwC. Reuters. Retrieved on 8/23/11 from: http://in.mobile.reuters.com/article/economicNews/idINIndia-55293920110303?irpc=984

Promote Your Business With Effective Email Communications

By providing newsworthy information, you position your company as a reliable and knowledgeable source in the industry.

By Sarah Vizard

How do you and your team connect with your A/E/C clients? Your contracting business most likely does not rely on a single method of contact. Brochures, websites, phone calls and site visits are all ways to reach out to current customers and potential clients. In this era, email marketing is probably another important communication tool in your overall marketing strategy to keep in touch and promote your business. Are you using it to the best of your abilities?

Sending an email to a list of prospects will not help sell a building. However, there are many benefits of integrating emails into your communications plan. One way you could be touching clients and prospects is by sending an e-postcard announcing recently completed projects or current and upcoming projects. These emails are a type of portfolio, listing your successes, building your credibility in the engineering and construction industry, and creating awareness of your company to owners. Additionally, eNewsletters can provide relevant information to your audience pertaining to industry news as well as company-specific announcements, such as participation in community service or announcement of sponsorships.

By providing newsworthy information, you position your company as a reliable and knowledgeable source in the industry. More prospects will turn to you for their needs, and clients will keep coming back. However, remember that what you may consider newsworthy, others may not. Know the members of your audience and deliver what they are looking for, not necessarily what you want them to have. If they are not connecting with the content you are delivering, you will lose credibility.

This article will help you realize the benefits email marketing can bring to your A/E/C firm and show you how to target your audience, using effective, permission-based lists and general best practices as you incorporate email marketing into your marketing strategy.

KNOW YOUR AUDIENCE

The Federal Trade Commission (FTC) outlines everything you may and may not do when it comes to emailing your clients. How do you proceed in this electronic world without breaking the rules and negatively affecting your clients and prospects? How do you gather lists of contacts who are interested in hearing from you and your company without them immediately reporting your communications as spam?

> Know the members of your audience and deliver what they are looking for, not necessarily what you want them to have. If they are not connecting with the content you are delivering, you will lose credibility.

Buying contact lists from a third party and emailing to those individuals can be ineffective and may even put you at risk with Internet Service Providers (ISPs). Most likely, the people on those lists have never heard of your company and do not know why you are contacting them or how you got their email address. These types of lists usually result in high bounce rates and spam complaints. When the email address does not receive your communications, it is considered a bounced email. This can occur for a number of reasons, including the person is no longer with the company, the company is no longer in business, the email address does not exist at the domain name, etc. The bounced email rate and complaints will notify the ISPs of the issue, and they will then begin monitoring communications from your company. ISPs are companies that provide other businesses or individuals with access to the Internet. Roadrunner, Verizon and AOL are all ISPs. If these companies receive enough spam complaints from recipients of your email campaigns, they can block your emails from being delivered or even blacklist your company's IP address, which will hinder you from sending emails.

Purchasing a list from an email broker or mail list supplier is what some may

call a "gray area." You are not necessarily buying those lists, but the contacts have not asked to receive your communications either. So what can you do?

If you do obtain a list from a third party, send an "engagement email" to these contacts. This allows you to reach out to these individuals once with a general message to see if there is any interest in future communications. Provide methods of signing up for your company's eNewsletters or for upcoming projects. Track the results of your email by looking at the number of people who have opened it or clicked on a link. If your email tracking indicates someone has opened your email, or better yet, has clicked on a link, you can safely say that person is "engaged" and you may continue contacting him or her. However, if a contact never opens your email or opts-out from your communications, then you must remove his or her email from your mailing list, per FTC regulations.

> There is no point in blasting an email out to thousands of contacts if you do not know if they are even interested in what you have to say.

Immediately remove any emails that have bounced from your list. By continuing to send to bounced emails, you will trigger spam alerts with ISPs. As earlier noted, the more spam alerts your IP address produces, the greater chance you will have with ISPs stopping your communications.

There are many other ways to build your mailing lists; however, they take time and many companies may not have the patience to build them properly. Resist the urge to build the biggest list in the shortest amount of time. There is no point in blasting an email out to thousands of contacts if you do not know if they are even interested in what you have to say. Additionally, using a strong permission-based list as opposed to a randomly built list will decrease the number of bad email addresses, which will in turn lower your bounced email rate. Permission-based lists will also decrease spam complaints since the recipients are engaged in your communications.

Be methodical and logical as you gather contacts for your emails. What are your touch points with clients and prospects? One simple way of engaging contacts is by using your email signature in your day-to-day communications. Insert a link under your contact information to a landing page where someone may review the various email communications to which he or she could subscribe. Think of the number of emails the employees at your firm send out on a daily basis. If everyone in your company includes this link in his or her email signature, and even if only 5% of those contacts sign up to receive emails from you, your contact list can grow without you breaking a sweat.

Another simple way to build your list is to display an e-communications sign-up link prominently on your website. Do not make people search for ways to receive information from you. Talk with your website development team and with the email-marketing provider your firm uses to distribute electronic communications

to integrate the sign-up form on your website with the contact list housed in your account. When someone signs up on your website to receive emails, his or her contact information is captured on your list for you to begin sending information.

If your firm participates in trade shows or speaking engagements, take advantage of the time you have with new faces. Collect business cards. Discuss whether they have an interest in keeping up with your company's projects. Offer to send additional material on your subject if participants would like to provide you with their email address. You can provide them with instructions on how to sign up later, ask for their business cards or have a laptop available that they can use to sign up on the spot. If you receive an attendee list, send out an engagement email as previously mentioned to initiate contact. If your firm has the ability and the budget, you can use SMS text capture at events and trade shows to collect email addresses. People will text a keyword of your choosing with their email address to a short numeric code. They will then receive a text message confirming their sign-up and a welcome email. This is an instant method of gathering subscribers.

Finally, at the bottom of every email campaign you send, allow subscribers to "Forward to a Colleague" or post to their LinkedIn or Twitter accounts. This allows the recipient to share the information about your company with other interested parties. Include a way for those who have been forwarded your email to subscribe to your future communications.

As you are sending out emails and carefully building your list, it is a good idea to follow some best practices.

Change of address

Email addresses change on a regular basis. You can expect 30% of the email addresses you have on record right now will no longer be active in the next four years. There can be many reasons for this: people change jobs, companies go out of business, or they merge with larger firms.

What you can do to stay on top of these updates and avoid high bounce rates is to send an annual "verification email." This is simply an email letting the recipients know your company is confirming that there is still interest in receiving communications and that the contact information on file is accurate. This would be an ideal time to direct recipients to your "subscription page." Here, they can review the other email campaigns available to them and subscribe to those they are interested in. No response from an individual means there is no interest, and you do not add him or her to future emails.

Automated emails

A final point to consider as you are building your lists is to send out automated welcome emails when someone subscribes to one of your email

campaigns. Most people expect it, and failure to do so may leave them wondering whether they successfully signed up. Consider this a common courtesy in the world of email marketing.

Building lists can be slow and cumbersome, but you get a much better response rate in the end. According to Click Squared, a provider of email and relationship marketing solutions, emails are found to be most effective in low volumes. By targeting a smaller group of well-defined prospects or customers, a highly relevant email can generate very compelling results. Do you want to be emailing 5,000 people with only 750, or 15%, of them opening your email? Or, would you rather email to a targeted list of 2,500 subscribers and have those same 750 contacts open your emails and have a 30% open rate? Keep in mind that the higher your open rate, the less likely you will be targeted as a spammer by ISPs. You know your targets will be highly engaged. You are not competing to get the most subscribers; you want the best.

GENERAL BEST PRACTICES

Now that you have your lists set up, the next step is to establish general guidelines for sending and managing your email campaigns. How do you stand out in an inbox full of marketing and advertising messages? The first thing your recipient sees is your "From" name and the subject line. Make them relevant.

Make the "From" count

There are a variety of options when choosing the email's "From" name. If the email is an electronic publication, you could use the editor's name, the name of the publication or even just your company's name. Think of your audience. What would they be looking for? Would they recognize the name of your company president or another representative of the company? Whatever you decide to use, make sure you are consistent. Use the same "From" name for the same email streams, changing the name only to differentiate among your different e-Newsletters or email campaigns.

> By targeting a smaller group of well-defined prospects or customers, a highly relevant email can generate very compelling results.

Carefully consider your subject line

There is an ongoing debate with regard to a message's subject line. Do you go with something catchy or straightforward? Short or long? One thing is clear — do not use subject lines that could trick your recipient into opening your message. Your subject line should convey the main message of the email. Avoid vague wording as well as words such as "free," "save" and "sale," as it could be seen as spam.

Consider running an "A/B Test" with an email. Randomly divide your email list into two and send one-half an email using a catchy and creative subject line, and send the other half a to-the-point subject line. Monitor the success rate of each and determine whether one list saw more opens than the other did. You can do the same with the length of the subject line. Does a short subject line work best or a longer one? It depends on your audience and on the message you are conveying. Keep the goal of the email in mind when choosing a subject line. The message the email conveys and the subject line should support each other. Unfortunately, it is all about trial and error, so keep testing and tracking what works and what does not.

Don't overload subscribers

Be respectful of the number of emails you release. Even though someone has subscribed to your communications that does not give you permission to email him or her on a daily basis. If he or she signed up with the impression he or she would receive one email per month from you, be sure to keep to that time frame.

This is especially true with promotional-type emails. If you are announcing a trade show your company will be attending or an upcoming event in the community, for example, participating in building a Habitat house, do not rely solely on emails to market these messages. Email campaigns should be just a single part of your overall marketing communications. Click Squared reported that when emails are executed in conjunction with an overall marketing program, there is a much higher level of effectiveness.[1] In a world where a marketer must touch someone at least three times for him or her to take action, combining emails with other channels, including traditional direct mail, print advertising, social media and the Web, is essential.

CONCLUSION

Communication methods change on a continuous basis. The ways of reaching out to people have become more relaxed due to LinkedIn, Facebook and Twitter. However, this is not a reason to become more casual with email etiquette. Always keep your A/E/C audience and the goal of the communication at the top of your mind. Relay information your targets would find beneficial, whether it is announcing a project your contracting firm was awarded or a Good Samaritan mission for the community. Following these guidelines will improve your email campaigns' effectiveness and ultimately help to drive successful overall marketing communications. ■

Sarah Vizard is a marketing coordinator at FMI Corporation. She may be reached at 919.785.9221 or via email at svizard@fminet.com.

[1] ClickSquared (2010). Five Strategic Considerations for Leveraging E-Mail as part of a Cross-Channel Relationship Marketing Strategy.

The CAN-SPAM Act applies to commercial email communications and gives recipients the right to stop your emails from entering their inbox. The primary purpose of the email message determines whether it is a "commercial email." Does your email advertise or promote a commercial product or service, including content on a website operated for a commercial purpose? If so, then your messages must comply with the CAN-SPAM requirements.

However, if your email is transactional or relationship-focused and does not contain false or misleading routing information, then your message is exempt from the Act. There are several ways to establish whether the content constitutes a transactional or relationship-focused email:

- Carries out an already agreed-upon transaction or updates the recipient about an ongoing transaction;
- Provides warranty, recall, safety or security information for a product or service;
- Gives updates regarding account terms, policies or other related information;
- Delivers goods or services as part of a transaction that the recipient already has agreed to.

There are some instances where your message may have content that is both commercial and transaction/relationship. The best way to judge whether it must adhere to the CAN-SPAM Act is by the message's primary purpose. Is the email relaying account information that also includes a secondary message about a promotion or special? If so, then the email is transactional in nature and is mostly exempt from the law. However, if the email begins with a commercial message and the transaction message appears towards the bottom of the email, the message is commercial and is subjected to the CAN-SPAM requirements.

What are the requirements?
The FTC's Bureau of Consumer Protection Business Center outlines the requirements of the CAN-SPAM Act:

1. Do not use false or misleading header information. Your "From," "To," "Reply-To," and routing information — including the originating domain name and email address — must be accurate and identify the person or business who initiated the message.
2. Do not use deceptive subject lines. The subject line must accurately reflect the content of the message.
3. Identify the message as an advertisement. The law gives you a lot of leeway in how to do this, but you must disclose clearly and noticeably that your message is an ad.
4. Tell recipients where you are located. Your message must include your valid physical postal address. This can be your current street address, a post office box registered with the U.S. Postal Service or a private mailbox registered with a commercial mail receiving agency established under Postal Service regulations.
5. Tell recipients how to opt out of receiving future email from you. Your message must include a clear and conspicuous explanation of how the recipient can opt out of getting email from you in the future. Give a return email address or another easy Internet-based way to allow people to communicate their choice to you. You may create a menu to allow a recipient to opt out of certain types of messages, but you must include the option to stop all commercial messages from you. Make sure your spam filter does not block these opt-out requests.
6. Honor opt-out requests promptly. Any opt-out mechanism you offer must be able to process opt-out requests for at least 30 days after you send your message. You must honor a recipient's opt-out request within 10 business days. Once people have told you they do not want to receive more messages from you, you cannot sell or transfer their email addresses, even in the form of a mailing list. The only exception is that you may transfer the addresses to a company you have hired to help you comply with the CAN-SPAM Act.
7. Monitor what others are doing on your behalf. The law makes clear that even if you hire another company to handle your email marketing, you cannot contract away your legal responsibility to comply with the law. Both the company whose product is promoted in the message and the company that actually sends the message may be held legally responsible.

(Federal Trade Commission)

Psychological Roadblocks: Overcoming Biases to Achieve Great Negotiations

Negotiation is a skill that can be learned, honed and developed to higher levels over time.

By Steven J. Isaacs and Karen L. Newcombe

When we hear the word negotiation, we tend to think first of contract discussions. However, negotiations of all kinds are an integral part of design work, occurring in nearly every interaction. Your conversations with clients, subconsultants, team members, staff, government representatives, news reporters and community groups all contain elements of negotiation. Negotiating abilities can be learned and the skills developed to a high level, but even the most advanced negotiator must be vigilant against the built-in roadblocks that his or her own mind unconsciously puts in the way.

Because human thought processes happen in a largely automatic way and at many different levels, people are generally no more aware of how their thinking is structured than they are conscious of their red blood cells picking up oxygen from their lungs: It just happens. Without realizing it, one or more of these psychological obstacles can affect the outcome of a negotiation. By becoming

aware of these eight psychological roadblocks and how they manifest in your thinking or behavior, you can be on guard for their appearance during your preparation for negotiations and counteract their negative effects.

- **Reactive devaluation:** Bias against a source.
- **Attribution:** Bias against a point of view.
- **Loss aversion:** Humans feel a loss more than they feel a gain.
- **Optimistic overconfidence:** Confusing opinion with facts.
- **Certainty:** Accepting as a certainty a figure due to a mistaken understanding of probability or odds.
- **Convictions of naïve realism:** My point of view must be the only one.
- **Dissonance:** Unwillingness to acknowledge one's own faulty thinking.
- **Confirmation bias:** Only seeing that which confirms what one already thinks or believes.

REACTIVE DEVALUATION

Reactive devaluation occurs when an offer seems less valuable than it actually is because it comes from someone we perceive as an adversary. It is a bias against the source of the offer. This is a common bias that is seen in the news daily, particularly in U.S. politics: The other party's offers, suggestions, ideas or proposals are immediately deemed worthless, simply because they came from that particular source. Whatever useful content is in the proposal is entirely disregarded, based solely on the source.

> **Reactive devaluation occurs when an offer seems less valuable than it actually is because it comes from someone we perceive as an adversary.**

We have seen for dozens of years that when the Israeli government makes an offer to the Palestinian representatives, or vice versa, it is always suspect simply because of who it comes from. It must be of lesser value because those people are our adversaries. The offer may actually be beneficial to both groups, but the message does not get through because of bias towards the source.

Reactive devaluation is also present in the A/E world, including situations where one party has an overwhelming reaction to the source. For example, these two biases will likely sound familiar:

- Architects on contractors: "What do you expect? All a contractor cares about is money."
- Contractors on architects: "All they care about is design. There is no concern for the budget or how difficult it will be to actually build that crazy design."

When you have the conviction that the other representative is an adversary

or has such different values, beliefs and behaviors that it justifies disregarding an offer out of hand, you lose the capacity and opportunity to gain valuable information for your negotiation. By disregarding the other party's approach, you will not be able to determine the interests and are thereby reducing the field of possible solutions that will benefit you.

Your counterpart in a negotiation is not your enemy; you are in this together to find a creative solution that serves both of your interests.

ATTRIBUTION

Attribution is similar to reactive devaluation. This bias is directed against others because we attribute their actions or beliefs to personality flaws rather than, or without even knowing, their situations or circumstances. For instance, a professor may assume a student who turns an assignment in late is too lazy or disorganized to do the work — personality flaws. The student's actual reason for being late is his situation: He is working two jobs to pay his tuition and was required to take on a double shift.

Another example of attribution bias is when a person is promoted and believes it is because of his or her abilities. However, if that person is passed over, he or she may decide it is because "the boss does not like me," attributing emotions to someone else that may be entirely fictional.

This bias can interfere tremendously with any negotiation by attributing the other party's offer or actions to personality flaws and not to his or her situation, which you may know nothing about. This is especially a problem if you had a previous experience with this person that you feel indicated a character flaw or deficient thinking. When you enter a negotiation with this individual, you already know what to expect: This person has a problem that will interfere with the negotiation, and he or she could not possibly have anything relevant to contribute. You stop listening — and you miss opportunities. A few examples:

- "My client is an idiot, and there is no way to deal with his manager."
- "She is always late to our meetings — she really disrespects us and this is how she shows it."
- "He cares nothing about design. I might as well be talking to myself."
- "Money is the only thing that matters to her. There is no way to overcome this lack of caring."

All of these biases are obstacles to active listening and to achieving a successful negotiation.

Be wary of your own beliefs about the other party's motives — especially if you are certain they are driven by negative traits: lazy, stupid, mean, unenlightened, greedy. Take the time to find out everything you can about the situation and what pressures are on that person. Is she always late to the meetings out of disrespect, or is it because she has to take her autistic child to a special day care facility?

LOSS AVERSION

Humans have a very strong bias against loss. We weigh a $100 loss more heavily than we enjoy a $100 gain, and this bias causes us to make poor financial decisions and choices such as refusing to sell poorly performing investments, nearly every day. If you find $100 on the street, it is fun. If someone backs into your taillight and causes $100 worth of damage, it ruins your day.

For example, at a national conference, ceramic cups with the logo of the convention were given to all the attendees on the left side of the room. The participants on the right side of the room did not receive anything. All attendees were given a questionnaire asking the estimated value of the cups. The average amount estimated by those on the left side, those that were given the cups, was $7.00. The average estimated by the right side attendees, those that did not get the cups, was $3.00. Clearly, this bias against loss is a prevalent aspect of our psyche. If you have something, your tendency is to put a much higher value on it than someone else does.

If you ask people to offer examples of loss aversion, most will describe their garages. Many of us have garages containing an enormous number of items that have little or no value, but we keep them because we have a perceived value to us: "That rusty heap of a lawn mower that doesn't work cost me $300.00! I can't throw it away!"

This roadblock can have a significant impact on negotiations. Our negotiations have a number of complex aspects, including scope of work, terms and conditions, schedule and fees. Many clients try to solve these aspects independently by negotiating each as if they are not interrelated. Suppose our negotiation begins with a discussion about the

> **If you find $100 on the street, it is fun. If someone backs into your taillight and causes $100 worth of damage, it ruins your day.**

scope of work, and we are fortunate enough to resolve exactly the scope we both believe is appropriate for the project. We continue to negotiate the other aspects and find we cannot reach resolution on any of them. We become reticent to revisit the scope we have already resolved, even though looking at it again may offer us options for moving forward in other areas, because we are afraid of losing or ruining what we already accomplished. This is an example of loss aversion. We are reluctant to return to the scope because we already achieved the values we were hoping to achieve in that part of the negotiation.

To overcome loss aversion, you must remain open to understanding that different people value the same item differently. Something you put a high value on may not seem useful or valuable to another party. To find creative solutions, look for something that your counterpart finds highly valuable and work out a trade, or look back at the agreements you have already reached, and see what can be used to move you both forward.

OPTIMISTIC OVERCONFIDENCE

This bias results from our inclination to overestimate our ability to predict and positively control future outcomes that are actually not within our control. People are always more confident of a "known" point of view than the facts warrant, because they confuse their opinions with facts. They will even collect more data that increases their confidence in a point of view; yet simply piling up data does not increase the accuracy of the prognosis.

> **To overcome loss aversion, you must remain open to understanding that different people value the same item differently.**

- "We'll have a budget for you by tomorrow morning." (Without checking staff schedules.)
- "We can turn any shop drawing around in less than a week." (Any? Ever blown a time commitment?)
- "There is not a conflict that our CAD system can't spot and solve." (How much would you like to bet on this claim?)
- "Sara is an expert on green building. There is nothing you can throw at her that she can't handle." (She may be bullet-smart, but everyone has a weakness or two in his or her knowledge base.)

Have you ever been in a situation where you had a hunch about something and wanted to believe it but knew you did not have enough data? You searched for information to confirm your hypothesis and continued to retrieve statistics, including some that were even irrelevant, but you convinced yourself of their relevancy. Steven Colbert of the comedy show "The Colbert Report" has invented a term for this phenomenon: truthiness.

The effect of this bias can be seen in a negotiation. It is apparent with those

who take a position and will not shift from that position no matter what new information becomes apparent during the negotiations.

We see this often in negotiations involving individuals who have decided that they know the "facts" and others who just have an opinion. When you were a child, there were certain facts: gravity, the square of the two sides of a right triangle equals the square of the third side, etc. However, many individuals now believe they have total possession of the facts, when what they actually have are opinions and positions. This has become a prevalent attitude and gets in the way of many negotiations. Listen to how many statements begin with one of the following phrases: "The fact is... The truth is..."

In order to achieve successful results during negotiations, you must overcome this roadblock. You must remain open to hearing about the other party's interests and not take a position or believe you are the only one who knows the real "facts." Attentive listening will help you understand your counterpart's interests, which is the prerequisite to achieving a creative solution.

CERTAINTY

Certainty bias is when you weigh two equal alternatives unequally, in favor of the one that is most certain to happen and against the alternative that is only probable. This is known as the bird-in-the-hand syndrome.

Suppose you have done a statistical study of the negotiation process for several years, and the results show that when you can go to someone's boss, you have a 50/50 chance of coming away either with nothing or with a higher fee. What is hard for people to understand is the potential value of taking that chance of talking to the boss.

For example, at a negotiation you are offered $10,000 for a certain portion of the scope. The other party then offers you the opportunity to speak to his boss, who will offer you nothing or $40,000. Which do you take — the sure $10,000 or the chance of either $0 or $40,000? Most architects and engineers (and nearly every other person) will take the certainty of $10,000. This is a trick.

> **Attentive listening will help you understand your counterpart's interests, which is the prerequisite to achieving a creative solution.**

The value of the certainty is clearly $10,000. But how do you calculate the value of talking to the boss? There is a 50/50 chance that you will get $40,000 — so the expected value of that exchange is going to be 50% of $40,000, or $20,000. The value of taking the chance is double the value of accepting the $10,000. Humans are poor at calculating and understanding these kinds of odds, a trait that is easily exploited.

Many of us in the industry are affected by certainty bias. Firms may jump at

the first offer, especially if they believe there is a chance they could end up with nothing. What can you do to counteract this effect? There are three easy steps:

- Prepare for the negotiation in advance.
- Quantify as much as possible.
- Step back and assess the value of the offer.

CONVICTIONS OF NAÏVE REALISM.

This bias results from having a naïve conviction about our own ability to see reality clearly. A typical statement illustrating this bias is, "Any rational human would see it my way." This is often followed by the statement, "I see objectively. Therefore, other rational persons will agree with me. If they do not, it must be because:

- They have not been exposed to right information.
- They must be looking through a cloudy filter.
- They are simply unable (lazy, irrational or unwilling) to perceive reality clearly."

For example, a structural engineer will submit a proposal, and the architect responds by asking for a reduction in fee. The engineer then repeats the original offer and explains very rationally that he or she will need this fee in order to make the building stand up. This counter is often stated very slowly, as to a child, since the engineer has concluded that the architect simply does not understand the complexities of structural engineering, and it will be difficult, if not impossible, to explain why he or she needs this exact fee.

When you encounter this bias, try engaging in active listening, as the other party believes you do not understand or hear him or her. What is he or she really trying to say? Asking good questions can be a way to draw out what the other person believes. Remain open to new ideas — you can find creative solutions in any negotiation.

DISSONANCE

The term dissonance applies to several psychological biases, but one of the most common is the bias that results from an unwillingness to acknowledge our own personal deficiencies, usually in thinking. One example is found in "Aesop's Fables," where the fox decides that the luscious-looking grapes were not desirable after all, because they were probably sour.

Another example is often called Excel Syndrome — where someone is so certain that the data shown is correct that he or she cannot accept the fact that the overall premise is flawed, or that there is actually an error. "I certainly could not have made a mistake! How could it be wrong? It's in the spreadsheet."

In a negotiation, dissonance might occur after there has been a long-standing impasse and suddenly an opportunity which is similar to one that was previously dismissed to settle occurs. It is hard for many to accept the new opportunity because dissonance bias leads one to think that, "I wasn't smart enough to take it the first time, so I'll look foolish if I take it now," or "It wasn't good enough before, why should it be good enough now?" Much like the fox, the negotiator may be suspicious that the "grapes" could be sour since he bypassed them once already.

To deal with dissonance, first accept that we can all make mistakes — none of us is infallible, including those sitting around the negotiation table. Active listening can also help you counteract dissonance.

> **The human tendency to give more attention to data that fits with our beliefs can cause us to miss important details or concerns the client is seeking to bring to the table.**

CONFIRMATION BIAS

Confirmation bias refers to the type of selective thinking where people tend to notice and to look for evidence that confirms their beliefs, and to ignore, not look for or undervalue information that contradicts their beliefs. For example, if you believe that during a full moon there are more accidents, you will take more notice of admissions to the emergency room where you work during a full moon, but you will not pay much attention to what phase the moon is during admissions on other nights. A tendency to do this over time unjustifiably strengthens your belief in the relationship between the full moon and accidents.

Active Listening

An architect was selected for a health care project for a U.S. government agency located overseas. The negotiation was for a complete fixed fee for all costs associated with the project, including what would normally be reimbursable expenses. A young project manager spent weeks preparing a large spreadsheet containing estimates for all labor and consultants to perform the scope, along with calculations for every possible expense, including travel, reproduction, long distance calls, etc. The final spreadsheet was sent to the client prior to the session.

The principal and project manager for the architectural firm flew overseas for the negotiations. At the negotiation, the client began by stating he had reviewed the proposal and found an error. The young project manager interrupted him, jumped up and went into lunar orbit, explaining how he had checked every cell in the spreadsheet and there could not possibly be a mistake. When he finally slowed down to take a breath, the principal asked the client to finish his sentence. The client stated, "The error is in your favor — correcting it will increase your fee."

This tendency can be harmful during a negotiation if we discount data presented by the other party based on our belief that its data is wrong. The human tendency to give more attention to data that fits with our beliefs can cause us to miss important details or concerns the client is seeking to bring to the table.

Once again, preparing in advance for the negotiation, active listening and a willingness to look beyond one's own beliefs to learn the interests of the other party will help you overcome this bias.

CONCLUSION

Negotiation is a skill that can be learned, honed and developed to higher levels over time. One part of being a successful negotiator is recognizing the many biases that we are subject to as human beings and developing practical methods to ensure they do not interfere with finding a creative solution to a negotiation. ■

*Steven J. Isaacs is a division manager for Architecture and Engineering Consulting Services at FMI Corporation. He may be reached at 925.934.7200 or via email at isaacs@fminet.com. **Karen L. Newcombe** provides research on trends, opinions and the future of the industry as well as writing and editing. She has worked in the A/E/C industry for 25 years and currently assists on various FMI projects. Email Karen at newk@writebank.com.*

Challenging the Status Quo

As a leader, it is essential to have a clear definition of what you believe entrepreneurial behavior is and to share it with others who are expected to behave as entrepreneurs within the organization.

By Matt Kennedy

Ask most leaders, "Do you want your people to be entrepreneurial," and it will be followed with a resounding "yes." Then ask them to define what being entrepreneurial is and oftentimes the question will be followed by a deafening silence or a 20-minute declamation. Leaders want their people to be entrepreneurial — they expect it, demand it, but just cannot describe what it should look like.

FMI recently spoke with two exceptional leaders at Zurich North America Construction about how they define entrepreneurialism, encourage it and, by understanding risk, temper it. Seth Hausman is head of Operations and Profit Management and Karen Schwartzkopf is a senior vice president at Zurich.

Kennedy: How do you define entrepreneurial behavior?

Hausman: To me, entrepreneurial behavior means to challenge the status quo and demonstrate the ability always to look beyond the current state.

Schwartzkopf: Merriam-Webster defines entrepreneurs as individuals who organize, manage and assume the risks of a business or enterprise. I would say it is taking ownership of your business.

Kennedy: What would that look like? How would a person act or behave to show that entrepreneurial spirit?

Hausman: People who demonstrate this behavior will always challenge the way that things are traditionally done. They always look for that next opportunity — the next way to do something different, the next way to differentiate in the marketplace — and identify those opportunities, assess their viability and act upon them.

Schwartzkopf: There are subtle differences between entrepreneurs and innovators. Innovators are not necessarily entrepreneurs. When I think about entrepreneurs — people who have built their business — their success is often based on identifying voids or gaps in an industry. To fill that gap they look for innovative solutions, which likely include new products, services or service delivery methods. I think about our underwriters and the way we approach business at Zurich. We really look at our underwriters to own that book of our business and to treat it as their own company.

Hausman: An entrepreneur is always looking at the most profitable opportunities and that could be the status quo for the short term, or it could be a combination of old and new. Either way, it is manifested as somebody who is always looking at ways to improve his or her current business profitability by shifting from something that may be less profitable to something that may be more profitable or a different way of doing business.

Kennedy: So what I have heard from both of you is that you are looking at it as building your business. You do that by owning it and always striving for continuous improvement, analyzing how you are doing things from the perspective of "it's my responsibility as the owner."

Hausman: Yes.

Schwartzkopf: Yes.

Kennedy: The other part we are going to discuss is the risk assessment piece. How would you define good risk assessment?

Hausman: We are an insurance company, so we do that all of the time. I think those risk assessments actually apply across all different industries. We talk a lot about enterprise risk management with our customers as a disciplined way of assessing an opportunity. To me, the biggest part of the risk assessment is to understand the risk. It does not necessarily mean you run away from the risk, because every time you make a business decision, you are going to have some risk. The key is to know what those risks are and anticipate what could go right and what could go wrong, so when something

> When I think about entrepreneurs — people who have built their business — their success is often based on identifying voids or gaps in an industry.
>
> — KAREN SCHWARTZKOPF

does go wrong, you are not surprised by it. You build that into your model and you accept that as reasonable risk.

Schwartzkopf: One of the core values of our organization is that we intimately understand our customers' business. A key part of that is to recognize how our contractor clients identify risk, evaluate risk and the process they have around risk. We look at our broad experience to help our clients consistently evaluate and improve where necessary on their risk assessment. We provide our best insight when we truly understand our clients' process.

Kennedy: That might be part of your risk mitigation strategy — understanding your clients' business as well as they do or as well as you can helps you to know what your risks are.

Schwartzkopf: Right.

Hausman: That is true and there are many details behind that. We always make certain that the risk fits in with the vision of the company. We talk a lot about our visions and values, and I know many of our customers have done the same thing. Does the risk that we are taking fit into the vision and goals of the organization, or is it outside of it? I think we are currently seeing a lot of that type of additional risk in the construction marketplace, with contractors moving into different types of businesses. That might be a risk that is much more difficult for them to assess because it is not part of what their vision and culture have always been about as opposed to taking a risk that is well within that vision and their goals. It is much easier to understand and assess a risk that falls within a company's vision than one that is outside.

Kennedy: When you are going into new experiences, your ability to understand the risks goes down dramatically.

Hausman: In our case, we do not walk outside of what that core vision is, and any risk that we take is going to fit within that core vision that we have not strayed from in 15 years. That does not at all mean, however, that we have a narrow vision or scope. In fact, the opposite is true. Our vision allows for many market adjustments and opportunities, and it also lets us know when we are over the boundary.

Kennedy: I think what our clients are faced with right now is, "How do I maintain that discipline not to step outside of what my vision and culture are, when times are difficult and I really need to grow the revenue line and ultimately the bottom line?" How does your organization maintain that type of commitment?

Schwartzkopf: We are no different from our clients. We recognize that having discipline at this time brings value to our clients today, but even greater

> **It is much easier to understand and assess a risk that falls within a company's vision than one that is outside.**
>
> — SETH HAUSMAN

value as the market turns. It is building a culture that supports a long-term view and commitment to the market as opposed to only short-term gains.

Hausman: You also have to ask the tough questions about whether or not you actually have the organizational knowledge if you move outside of your vision. If you start asking questions about a risk or an opportunity or something that is outside of you core vision, you come to the realization that the answer may often be "no."

> ## We intimately understand our customers' businesses and are innovative in supporting their needs, while at the same time we continuously improve ourselves.
>
> — KAREN SCHWARTZKOPF

Kennedy: So it's asking the tough questions and being brutally honest with yourself and the organization about what your capabilities are.

Hausman: Yes.

Kennedy: How do you encourage entrepreneurial behavior while coupling it with good risk assessment?

Schwartzkopf: I think it goes back to our core values. We intimately understand our customers' businesses and are innovative in supporting their needs, while at the same time we continuously improve ourselves. We built this culture by recognizing and rewarding entrepreneurial behavior.

Hausman: I think it is also important for us to encourage entrepreneurship and innovation at all levels of the organization and then match that risk taking with experience. There is really nobody in our organization who is not in a position to be creative, innovative and entrepreneurial about what he or she does every day. Employees may not make the $100 million bet that our CEO might make, but they could make a bet that changes the work flow or a process in their office that improves the business and our profit margin. You have to match the skill set and the knowledge, but you also have to encourage it up and down throughout the organization. When you do that — allow everyone the opportunity and the vehicle in which to experiment a little within a reasonable boundary, learn from mistakes (without criticizing those mistakes) and match the risk taking with the level of expertise — you will not get to a place where a colleague is in over his or her head and taking risks the company was not prepared for.

Schwartzkopf: As leaders, sometimes the hardest thing to do is just to be quiet through the exploratory process. Let the ideas flow for new products or new services without shutting down any type of brainstorming. Let the risk analysis begin after the identification rather than during the process.

Hausman: We have some set ways for employees to raise ideas, thoughts and suggestions up through the organization that they may not be able to implement themselves. All of those ideas are very valuable. We recognize and reward those

who developed the ideas and include them in the process as we start building the work we select.

Kennedy: So for everybody in the organization, he or she has something that is his or her business, whether it is a process or a procedure, such as making a risk assessment and a final decision on a client or a product. At every level, people have things within their boundaries that are their responsibility. If they own them and continuously look for improvement, then they are acting entrepreneurial within the organization.

Hausman: That's right.

Kennedy: How do you set the boundaries so people will know "within this boundary I can operate, I can own it and I can make changes or, if it is outside of this boundary, I should make recommendations to others to make change"? How do you manage that process?

Hausman: We are a structured and disciplined organization and try not to put our employees in a position to make a decision or change a direction outside of that person's knowledge base or comfort zone. That same model promotes collaboration throughout the organization in order to move forward. This culture also ensures that an employee is aligned within the organization before taking a risk.

Schwartzkopf: As Seth said, we are structured. We have guidelines that say, "This is within my purview." However, even if it is within that purview, many times we have that collaborative discussion because we do recognize that two heads are better than one. We have many unique industry insights within the organization that we can tap into to help us all make better decisions.

Hausman: This model also lets the group place the bets instead of one individual placing the bets. If everybody is aligned together, you never need to point to one person for success nor for failure.

Kennedy: Some people may look at the guidelines as a limiting factor. Do you think that promotes or hinders an entrepreneurial spirit?

Schwartzkopf: I think that it promotes collaboration.

Hausman: Absolutely. I think it promotes collaboration and allows for more informed, thoughtful decisions.

Kennedy: How are companies that encourage entrepreneurialism keeping risks in mind? If you are continuously looking for new and better ways to do things, how do you constantly balance that with risk that comes with change?

Hausman: It goes back to understanding what those risks are

and understanding what those bets are. A company needs to make some bets and take some risks, but none that are going to put your company in jeopardy if they do not work out as planned. In the aggregate, you need to feel comfortable that if enough of them succeed and a few fail, you are still going to wind up ahead overall. If you do not go through that risk assessment process, you are not going to know what the negative risks are on one or more of your bets not turning out how you like and jeopardize the rest of them.

Schwartzkopf: Right. I think that you have to get them all out there, because some will perform better than others will. The other piece of it is the commitment side. For insurance companies it may take some time before we fully see what some of the results of these decisions are — to go into unchartered territories for our contractors is probably similar.

Kennedy: So building your business through entrepreneurialism means to look for new ways to do things and fighting against complacency.

Hausman: One of my favorite lessons from a leader that I admired was that you couldn't beat something with nothing. For example, if you are looking at six potential entrepreneurial opportunities, you have a few choices. You can try all six without fully understanding the risks. You can do a risk analysis and pick three of these to focus on and implement. Or you can choose to do nothing new or different. The first option puts your company in jeopardy by not understanding what can go wrong. The last option is the complacency option, which almost ensures failure because others in the industry will be more creative and innovative and you will be left in the dust. The middle option will usually provide the best opportunity for success, and risk assessment helps you get that right

Kennedy: Outside of the vision, what is the No. 1 thing that leaders should consider when trying to mitigate their risk?

Hausman: It depends upon what the actual issue is and understanding what could go wrong — what could go bump in the night — and fully vetting that and being comfortable that you fully absorb that risk if in fact that happens. We do that on the underwriting side when our underwriters look at risk. We sell a policy and we agree to a policy limit, and we know full well what the worst-case scenario could be if, in fact, something goes wrong. I think the same applies for a business risk. You have to vet fully what could go wrong and feel confident that you could absorb that if in fact it happens. If you look at that risk and say, "If this occurs, then we're out of business" — it's probably not a risk worth taking.

Kennedy: What do leaders need to do to encourage entrepreneurial behavior?

> One of my favorite lessons from a leader that I admired was that you couldn't beat something with nothing.
>
> — SETH HAUSMAN

Schwartzkopf: They need to recognize it and make it part of the culture and the core values of the organization. One of the things we did was develop a steering committee of some of our clients that we call our "innovation council" to make sure we do not lose sight of the needs of our clients and changes in their worlds, such as project delivery methods, BIM, green building, LEED certification and additional risks associated with these. We look to this steering committee to keep us advised and informed of the evolution of risks and how they are viewed from our clients' perspectives.

Hausman: Celebrating success in many different ways throughout the organization is important to continue to encourage that spirit, and that includes celebrating success on risks taken and risks not taken. We do celebrate risks not taken as a success when that is the right decision. We also continue to encourage people to feel that they are in a comfortable enough environment that making a mistake when we fully understood the risks is an acceptable way of conducting business.

> ## We do celebrate risks not taken as a success when that is the right decision.
>
> — SETH HAUSMAN

Kennedy: I would like to hear a little bit more about that. What is a leader's response to an opportunity seized when the risk is realized and the opportunity fails?

Hausman: I'll come back to the insurance world. Let's say an underwriter underwrites an account and it meets all of our criteria and guidelines and it is an acceptable risk, and then we have a large claim. After looking at that particular transaction, the leader's response should be, "I would do that deal again because the risk was acceptable and it was the right risk to take. It went wrong, but I would do it again." A company can get in trouble when that leader looks back and says, "That was not a very good deal — we probably should not do that again." Leaders need to build enough discipline into the organization that the answer is more of the former.

Schwartzkopf: And part of it is the analysis afterwards. What happened? What went wrong? Is it something that is repeatable? Is it something that can be fixed in the process? Is it something that we did not anticipate?

Hausman: If it is something that we anticipated, the leaders should say, "It didn't work, but we'll try it again."

Kennedy: How do leaders encourage risk assessment behavior? How do we keep that in the forefront of our people?

Schwartzkopf: For us, that is what we do every day. A large part of it is education — providing information to our underwriters about risks or emerging trends so that they are knowledgeable and have tools in their arsenal to make decisions every day.

Kennedy: How valuable is sharing that information with the organization?

Schwartzkopf: It is vital. To be able to assess risks, you have to know what is out there. You have to know what is emerging and what has happened in the past. That is an essential piece of being successful in the process.

Hausman: One concept that may help an organization that is not normally in the risk business is the ability to find the right way to track progress and identify the triggers that are going to be leading indicators of concern. Let's assume you start to go forward on a particular project. You must have enough measurements available to you with goals and objectives so when you start seeing something trending in the wrong direction, you can make an effort to quickly recover or adjust rather than continuing to just move forward blindly.

Kennedy: How important is it to have follow-up plans once you have started the project or implemented the policy?

Hausman: If the risk is not controllable, you might come back and ask why you are taking it in the first place. If the risk is controllable, then you need to have some sort of plan in place that dictates how you are going to manage this risk and how you are going to minimize any negative impact.

To be able to assess risks, you have to know what is out there. You have to know what is emerging and what has happened in the past.

— KAREN SCHWARTZKOPF

Kennedy: I like the idea that even after it is done, it is still controllable and you should be able to put plans in place to do that.

Hausman: For example, if a contractor is going into a geographic area and building a project where the labor force is unfamiliar, it still might be a risk worth taking and a project worth building. However, it is also important to have a plan in place to manage the risk of an unfamiliar workforce. That might include a more robust safety and training program with all of the new employees. The contractor may not need to do this with quite as much discipline when in a familiar territory. The key is to take that extra step and add those extra resources to make sure to confirm that the people on the jobsite know exactly how and what to do.

Kennedy: And then you continue to track it so if it does not perform as you hoped it would, you know what your risk exposure is. For example, here is what the worst-case labor scenario is on this project — I may realize it or I may not, but this is where it is heading.

What are the benefits to having entrepreneurial behavior within your organization?

Schwartzkopf: People have a lot of pride in the organization and in their contributions.

Hausman: The absence of it is the driver for organizational failure, because your competitors will have it and they will continue to look for those opportunities moving forward and you will be left behind.

Schwartzkopf: You are also going to be able to attract talent, retain talent and keep employees engaged.

Kennedy: So what if you have a culture that promotes entrepreneurial behavior within your organization and your people are always looking for the next improvements they can make on their process or their products — how much is that a competitive advantage for your firm?

Hausman: It is a huge competitive advantage, but one that is not going to be around long if you do not continue to push. When you have that advantage, you will be chased constantly. Unless you continue to work doubly hard to stay in front of the pack, you will quickly be caught.

Being entrepreneurial and having an entrepreneurial spirit is crucial for every contractor and customer that we work with. Understanding the risks you are taking on and then having mitigating plans in place when you have risks are requirements of success.

> ## Unless you continue to work doubly hard to stay in front of the pack, you will quickly be caught.
>
> — SETH HAUSMAN

CONCLUSION

Is entrepreneurial behavior defined by taking ownership with a responsibility to improve what a person has control over? That is one definition. As a leader, it is essential to have a clear definition of what you believe entrepreneurial behavior is and to share it with others who are expected to behave as entrepreneurs within the organization. Maybe the definition at your organization is slightly different — one can debate the pros and cons of each. What cannot be disputed is the immeasurable value that a culture of entrepreneurial behavior brings to an organization. If your organization needs more engagement from its employees, then start today to get them to own something and then challenge them to make it better. ■

Matt Kennedy is a consultant with FMI Corporation. He may be reached at 919.785.9296 or via email at mkennedy@fminet.com.

Unfair Advantage

An estimator's highest and best use of time does not include estimating every project; it is about winning the right ones.

By Mike Clancy and Cynthia Paul

Your fuel gauge is dancing on empty. It is time to do some comparison shopping of gas, and finding quality fuel at a lower price seems like a big win. However, saving on gas does not end with the price at the pump; you also have to keep your car in good working order. Having your wheels out of alignment not only erodes your gas efficiency, but also makes driving more challenging than necessary. You drive down the road heading due west, but your car wants to pull you into the north-side ditch. The bad alignment costs you time and money while eating up your resources, which in this case are your tires.

Contractors' estimating departments can be like that car with bad alignment. While the estimators are working hard, much of their efforts are pulling the company into the "ditch" of missed bids, low hit rates and poor estimating efficiency.

Estimating's job is to help win profitable work for the company. However, estimating is not the only department tasked with winning work. Business

development helps by targeting the right customers and projects in order to bring in sufficient opportunities. Marketing helps warm up a customer to buy on value. The field organization delivers high-quality projects with a level of service that keeps customers coming back. All parts of the process have to work together to win good work.

Contractors need every trick in the book to find and win the work they need to keep their company productively employed. Many contractors find themselves needing to bid significantly more work to get less work than was typically the case, while their estimating departments are smaller than ever. It simply is not a recipe for success.

Half of the estimating department's time and effort is simply wasted. It is working hard but does not have the systems, information and support needed to be positioned to win projects. We accept that low hit rates are an everyday reality of the marketplace. Nothing could be further from the truth. There is no honor in being second on a bid. It may feel better than being No. 7 out of 8, but you have still invested significant time and effort in a wasted effort to win work.

It is possible to make money on public/hard-bid work, and you can make money on projects that have eight to 10 competitors. We see contractors every day bid at rates their competitors cannot match and still make money at the end of the job.

What is the secret to winning work?

- Know your real costs
- Make smart decisions on the work to pursue
- Know much more than your competitors

By applying these three steps, you will increase cost certainty, lower your cost of winning work and drive up your hit rates.

KNOWING THE FACTS BEHIND YOUR "TRUE" COSTS

How many times have you or your estimators uttered the phrase, "That firm is bidding below cost?" While not all contractors are responsible bidders, many times the default tendency is to attribute this behavior even to good firms. If you are facing credible competition that seems to be bidding below cost, you probably need to ask yourself if you even know your true costs to execute work.

> **Half of the estimating department's time and effort is simply wasted. It is working hard but does not have the systems, information and support needed to be positioned to win projects.**

In fact, about 40% of firms we see in the marketplace do not track their costs with significant rigor to conduct a detailed analysis of bid versus final profit.

Many firms are working with cost databases that are a year or more out of date. While the best firms are using real-time cost performance data, at a minimum you should be scrubbing your database twice a year to ensure you are not working with old data from a bygone market. This will reduce wasted time in pre-construction and minimize the sort of bid-day adjustments that introduce a higher degree of risk into the project. Conducting a post-job review on every project can allow you to scrub your cost history and develop accuracy in this crucial step.

Specialty contractors understand the importance of accurate quantity take-offs. Many general contractors and construction managers have essentially "outsourced" this function to their subcontractors. While it would be unreasonable to expect a GC/CM to conduct a detailed take-off of each line item on the job, simply "square-footing" the take-off is a surefire way to deny cost certainty. The best GC/CM firms develop meaningful assemblies they can use

> In fact, about 40% of firms we see in the marketplace do not track their costs with significant rigor to conduct a detailed analysis of bid versus final profit.

Do You Know Your Competition?

What you know about your competitors directly affects hit rates and backlog. What do you know about your key competitors and:

1. What services they provide?
2. Who their Top-10 customers are (those they will protect aggressively)?
3. What their strategic initiatives are for the year?
4. Who are their top managers and what are their backgrounds?
5. Why customers work with them a second time?
6. What do they do to get positioned before the projects?
7. What guarantees or assurance they make during the get-work process?
8. What their new-market growth strategies are?
9. How they develop their people to support their brand and market positioning?
10. What their true costs are on average-sized work?
11. What they are doing to drive field and office efficiency?
12. What types of projects do they price more competitively?
13. What is their "sweet spot" in terms of project size?
14. Who are their key subcontractor partners?

to speed up the take-off process while still managing to finish with an accurate cost number in pre-construction or estimating.

For those firms who operate in a public arena, there is a wealth of data available in the bid results if you know what to do with it. Assuming that you have identified your own true costs, it is possible to analyze your competitors' mark-up strategy, and, using game theory, apply optimum mark-ups to your own projects that allow you to maximize your profitability. Of course, you can also analyze this data in other ways. For example, identify the types of projects that the competition is less confident about, and that might hold more profit opportunity for you! Most contractors would never estimate work without having a good idea of what it will cost to build the project. Yet most will decide to estimate work without knowing what it will cost them to win. That makes little sense. You would not hand a complete stranger a check for $20,000 just because he or she asks. So why would you invest $2,000, $20,000 or $200,000 or more estimating a project just because a potential customer asks you to?

You need to know what it costs you to win an average project. We know, you do not have an average project. Hundreds of contractors have told us the same thing. Think of that market segment where your company is successful. OK, now pretend that there was an average-sized project in that market segment. What

---

Real Cost of Winning Work

You need to know what it costs to chase and win work. Armed with that information, you and your team will make better decisions on what work to pursue, which customers to invest in, and how to gain an unfair advantage on a project.

To determine the real cost of winning work, do not forget to include:

1. Marketing costs to keep in touch and warm a potential customer
2. Face-to-face business development time
3. Travel and entertainment costs
4. Time of estimating and operations meetings with the customer, asking good questions and creating potential approaches
5. Estimating time for take-off and pricing
6. Cost of estimating software
7. Printing and reproduction costs
8. Cost of superintendent and project management time to provide estimating support
9. Administrative costs to complete bid package, provide bid bond, track down insurance
10. Senior management time — face-to-face and providing oversight
11. Opportunity cost — what else we could have been doing to get or do work

would that size be? Now what does it cost you to track, pursue and win that work?
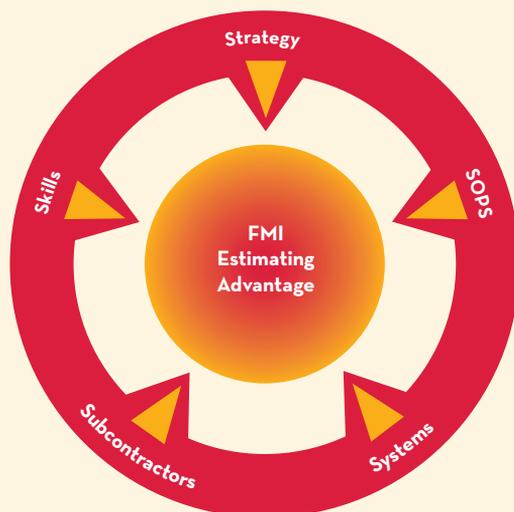
Most of your marketing and sales budget is spent in estimating work. Are you spending that money on opportunities you have no real chance of securing?

Ultimately, everything a firm does in estimating should be oriented towards one goal — winning profitable work. To that end, your estimating function must

Exhibit 1
FMI Estimating Advantage Model

work seamlessly to quickly identify and prioritize opportunities, develop an understanding of the true cost to build the project and prepare a strategy to win the work that puts you at an unfair advantage versus your competitors.

The FMI Estimating Advantage (see Exhibit 1) model examines the five key inputs into the estimating function — Strategy, SOPs, Systems, Subcontractors and Skills — in order to ensure that your firm is able to be as effective as possible in estimating.

- **Strategy.** If you lack a strategy that gives you an edge, the only way you can be low is to cut fee. Instead, focus only on project opportunities in which you have identified an advantage for yourself.
- **SOPs.** As with project management best practices, consistent estimating practices will lead to greater consistency of results as well as provide a training curriculum for new hires.
- **Systems.** While estimating technology is not a magic bullet, it is what the military calls a "force multiplier." In other words, effective technology use can leverage each estimator to be able to accomplish more.
- **Subcontractors.** Without the right partners, a GC cannot expect to be competitive on bid day. Subcontractor outreach and relationship development can be a source of significant cost advantage.
- **Skills.** If you have too many employees in your estimating department, or too few, or if your people do not have a good balance of skills, your pursuits will cost more and be less effective than those of your competition.

WINNING WORK FROM THE OUTSIDE IN

Customers are the ultimate decision makers. They determine who wins and who loses. It seems obvious. So why do contractors build their get-work approaches

on their internal structure and preferences? Build your systems around delivering what the customer wants, in the way he or she wants it. It is a shortcut to success.

Do not spend the time and money chasing jobs you have no chance of winning or cannot perform effectively. Link business development, marketing and operations with estimating to make sure that you are targeting the right work, increasing your hit rates and creating a reason to pick you. Bias your time and effort around those opportunities and those customers where you can create an unfair advantage.

Be proactive in determining who and what to chase. It will take time to create an unfair advantage on a project. If your estimators are busy pushing out more and more estimates, they will not have the time or capacity to get and create a cost advantage. Create a competitive advantage before you estimate the project. If you cannot create an advantage, do not estimate it. Cut your losses and go on to another project where you have a chance to build a compelling approach that will get the customer's attention.

Dig into major cost components to find an advantage. Identify the top-three to-five cost items on your project. If they are subcontractor scopes, reach out to trusted allies in your subcontractor corps for innovative approaches.

Find one or two key cost drivers and push them down a bit. As an example, time is always money. Are there ways you can save a subcontractor time through careful phasing and management? You need to find a few areas where you can get leverage or else choose not to compete.

Use business development and market intelligence to uncover the customer's unspoken hot buttons. Ask good questions. Capture market insights and knowledge. Get your team into a meeting where it can brainstorm potential alternatives and approaches that will deliver the project the customer wants for a price that works for both of you. Never bid below costs.

Use the team's time and effort to find ways to build smarter and more

Contractor Win Strategies

Contractor A was able to achieve a significant advantage over the competition on a project including two pools by building the project out of the expected schedule. By building the pools first and developing the site around it, this firm was able to cut two months out of the project schedule as well as reduce the amount of fill needed and substantially reduce the earthwork expense.

Contractor B, a specialized firm, determined that almost 8% of its annual project costs were in reinforcing steel. The firm evaluated the seasonality of steel pricing and used option contracts to secure much of its steel at the best time of year.

efficiently. Think about how you can give the customer the service he or she wants and expects for reasonable costs. Figure out how to build on your company's core competencies and real costs to deliver a project that sets you apart from the competition. That is a win strategy. Win strategies marry the customer's hot buttons and requirements with your capability, approach and pricing to create an advantage for you on the project. Can you do it on every job? Probably not. But what if you could win 5 or 10% more of the right projects?

Win strategies change the competitive landscape. Win strategies give the customer something in addition to a competitive price on which to evaluate contractors.

You do not want to be in a fair fight with competitors; you want an unfair advantage. If you cannot create an advantage, the only option is cutting your price to win the work, and that is a poor long-term strategy.

GETTING FROM HERE TO THERE — A PROCESS APPROACH TO IMPROVED ESTIMATING OUTCOMES

While the past few decades have seen a dramatic improvement in the professionalism of project management, estimating remains far more art than science. In order to drive improved results, you need to take the same approach to estimating as the industry has to project management. In short, using process mapping and identifying and standardizing best practices will lead to improved estimating performance. Each estimate pursuit needs a "project manager," and your estimating department needs a chief estimator who spends far more time leading and managing than estimating.

Many contractors are sitting on a gold mine of information without knowing it. Bid files, completed cost data, bid tabulations — all of these are data that, through analysis, you can convert to knowledge. By leveraging this knowledge, you can create bid strategies that are evidence-driven rather than mere guesswork.

Just as you can use project postmortems to learn valuable operational lessons, bid postmortems can provide insights into opportunities to improve estimating.

Asking the customer about a submitted project not only demonstrates interest, but also delivers the insights needed to help you win work, if handled correctly.

1. What is your overall impression of our estimate/proposal/presentation?
   • What did we do well?
   • Where can we improve?
   • What did you like best?

> You do not want to be in a fair fight with competitors; you want an unfair advantage. If you cannot create an advantage, the only option is cutting your price to win the work, and that is a poor long-term strategy.

2. Did we demonstrate our focus and interest in the project?
   • Did we hit your hot buttons?
   • Was our approach unique?
3. How can we be of better service for you moving forward (intentionally vague)?
4. Then add project specific questions, if there is anything unique.

Since most projects are won or lost based on 1% or 2% of the cost, reinventing the get-work function is all about "finding pennies." Incremental improvement in your estimating and business development can help you land more work that is profitable and increase the value you derive from estimating.

Finding pennies starts with project selection. By developing selection criteria that quickly serve to prioritize project opportunities, you can reduce the amount of time wasted on projects that you have no realistic chance of bidding or executing successfully. These project selection criteria serve to align your estimating department with your corporate strategy and capabilities and ensure your estimating department does not spin its wheels.

Staffing effective bid teams also helps you find pennies. Your project team should have a good mix of skills and experience, and be headed up by a lead estimator with the competence and management ability to run the team. Junior, less skilled estimators can then have an opportunity to contribute accordingly while learning from more experienced colleagues.

> **You know you have an Estimating problem if...**
>
> 1. You are getting consistently beat by credible competitors.
> 2. Your "historical cost database" is ancient history.
> 3. You are bidding more work with fewer estimators.
> 4. You need to improve your hit rates just to be considered bad.
> 5. You are bidding work far outside your usual sweet spot.
> 6. You experience frequent scope busts.
> 7. You have wildly variable profits, even though your operations are dialed in.

CONCLUSION

Give your estimating function the focus and support needed to win in the market realties you face. Gas prices keep reminding us that we cannot afford to drive around with a car that has a serious alignment problem. Nor can you afford to use yesterday's approach to estimating — bidding more work to win less.

The answers to maximizing estimating time and talent are simple:

• Know your real costs.
• Make smart decisions on the work to pursue.
• Know much more than your competitors.

Maximize your investment in get-work efforts. Link estimating with operations and business development. Have them work as a team to create an unfair advantage on a project.

This is more than a resource issue; it is surviving and thriving in the current and coming market. Every company has a limited number of estimators, which is simply a fact of life. An estimator's highest and best use of time does not include estimating every project; it is about winning the right ones.

Use these ideas to optimize the estimating function. Build the structures and systems needed to win the right work efficiently and effectively. Create a robust feedback loop from operations to estimating to know your costs real time.

Invest the time and effort and 2012 will see you with higher hit rates on the right work, able to win against even the toughest competitors and a backlog that keeps your company productive and profitable. ■

Mike Clancy is a senior consultant at FMI Corporation. He may be reached at 919.785.9299 or via email at mclancy@fminet.com. *Cynthia Paul* is a managing director at FMI. She may be reached at 303.398.7206 or via email at cpaul@fminet.com.

[1] Kimpland, S. (2009). 2009 Contractor Productivity Survey Results. FMI Corporation, Raleigh, N.C.

Diversity: Building a Better Business

Continue to plan for the future of your company by developing a diverse leadership base for your organization.

By Jed Davis and Peter Nielsen

The American workforce continues to change. There is a constant evolution of talent as opportunities develop within the U.S. that match the skills and aspirations of people from outside our borders. Cultural differences are only part of the workforce changes taking place: age, gender, experience level, education and socioeconomic status also play an important role in the changing workforce climate.

The varied backgrounds of this workforce present many challenges and opportunities for leaders across the construction industry. Leaders today cannot depend on their employees to have the same background or experiences as themselves. People entering the workforce bring many different experiences, values and worldviews with them. These differences can benefit your organization if you take the time to incorporate a few changes to your leadership style.

The authors recently spoke with a newly hired construction manager for a real estate development company, who worked in an office with a Korean engineer; two administrative assistants, one who was Mexican and the other Ukrainian; a Moroccan assistant manager and a Moldovan operations manager. The manager lamented that this mash-up of cultures was difficult to manage when he first

started working at the company, but he soon realized there were many things in which the group could all relate. The manager found the group all had a love for food, so he implemented an international lunch program. Each team member brought dishes from home and shared his or her culture and worldview over lunch. This time allowed the team to understand its colleagues on a deeper level while learning what motivated each person in the workplace. These lunches enabled the leader to tailor his leadership style to each individual while still treating everyone equally. After a few lunch meetings, the manager said that the cultural understanding the team developed enabled everyone to communicate more effectively with each other. It had the secondary effect of enabling the leader to coach each individual to his or her peak capacity.

Workplaces similar to the one mentioned above are becoming more common in the U.S. Currently, about one-third of the U.S. workforce is either foreign-born or a minority, according to the latest numbers from the Bureau of Labor and Statistics. These statistics represent the facts, but they provide little insight on how to lead this group of people. The U.S. workforce is comprised of many different cultural and societal norms. Leaders who encounter these differences without making course corrections along the way are prone to miscommunication. Leaders who are able to capitalize on the changing demographics of the U.S. are the ones who will achieve competitive advantage built upon diversity.

This article examines the importance of diversity in the workplace, how to develop a diverse workforce, and the keys to diversity program success.

THE IMPORTANCE OF DIVERSITY

Diversity in the workplace allows companies to expand their line of thinking into new opportunities. Imagine a group of 10 white males in their early 30s tasked to design a mixed-use apartment complex in Austin, Texas. The company sends the group to Austin to get a feel for the architecture and to meet with the client to get a sense of her needs. The group will be gone for a week and stay in a nice hotel just outside of Austin's music district. What will the group do? How will they act?

These individuals will probably have a good time together. They will work long days but will agree on the process and work out the details along the way. Because they all have similar backgrounds, they will likely conform to each other's line of thinking, and they may miss some important details during the conversation with the client. In the evenings, they will probably hang out together, further emphasizing their parallel thought process, reinforcing each other's shared perspectives and causing them to miss possible opportunities that a more diverse group might surface.

> Leaders who are able to capitalize on the changing demographics of the U.S. are the ones who will achieve competitive advantage built upon diversity.

Now imagine a group made up of five males and five females who range in age from their early 20s to their late 60s. This group is sent to Austin to accomplish the same task. Three of the individuals are Hispanic; two people are African-American, while another individual is of Asian descent. The other four people are white. Will they perform similarly to the aforementioned group? Will they act differently?

The second group will likely tackle the problem differently than the first. The mix of ages and races may create some friction as to how to go about the needs of the client. However, this friction will create a more collaborative approach to the design than the first group. The mixed group may take a little more time to complete the project, but it is much more likely to develop some innovative solutions to the client's problems.

A homogeneous mix of white males tends to think much differently than a group of individuals with a mixed background. If you are a white male, you may prefer to work with the homogeneous group because you identify with it and understand its way of thinking. Many organizations run this way. These companies align their resources with people who think and act in a similar manner. This alignment allows tasks to be completed rather quickly and virtually eliminates any dissension of ideas. The problem is that there is little stimulus for new ideas and innovation.

Creating a diverse organization is about good business practices that enable employees to perform at their peak no matter their background. There are three common stages of diversity management practices in use throughout the U.S. today: delegated diversity, valued diversity and integrated diversity. Many companies operate in the realm of delegated diversity. At this stage, companies are concerned with the guidelines of the EEOC and affirmative action policies. These organizations are following the law, but lack diverse employee involvement. In these companies, the leadership team reacts to fix diversity issues rather than develop solutions to recurring problems. In these organizations, the diverse employee base is underutilized. The organization does not use its workforce to continually develop and improve workplace management practices.

The stage following delegated diversity is valued diversity. These organizations recognize the benefits that diversity can bring but have not implemented programs to utilize fully their diverse employee base. These organizations tend to discuss the benefits of their diversity programs in their literature and shareholder statements, but the true value of diversity is only beneficial if the company moves towards integrating diversity in the workplace.

> **Creating a diverse organization is about good business practices that enable employees to perform at their peak no matter their background.**

The highest stage of diversity management is integrated diversity. Leadership systems that value a myriad of backgrounds must find ways to manage diversity as well. Leaders who fully utilize their employees' diverse backgrounds will be rewarded with more employee engagement. According to Blessing and White's Global Engagement Report (2011), only one-third of North American workers are engaged in their current jobs. The same survey found that only 56% of the workforce are planning to stay with their current employers through the next year. These findings have strong implications for leaders because of the costs associated with an apathetic workforce. This does not include the costs associated with the training and implementation of new hires into the company. Unsurprisingly, Blessing and White found a few leadership trends among the most engaged employees that directly relate to employee diversity. Leaders who can encourage employees to use their talents, treat employees as individuals, and ask for and act on employee input tend to have the most engaged workers.

Companies that support a diverse workforce will be able to identify and capitalize on new opportunities faster than the homogeneous group.

By developing and capturing employees' unique abilities, the leadership team will not only create a diverse working environment, but also develop a more engaged workforce. The involved workforce will align itself with the company's core purpose and values, perpetuating the diverse working environment.

Companies that support a diverse workforce will be able to identify and capitalize on new opportunities faster than the homogeneous group. The U.S. Census Bureau found that more than 20% of businesses in the U.S. are currently minority-owned, while the U.S. Department of Commerce predicts that minority purchasing power will constitute about 45% of the U.S. economy by 2045.[1] Minority members within your organization will be able to attract a higher proportion of minority-based business spending by relating to this growing sector. This understanding will allow for first mover advantage and earn more contracts.

A study by Hamdani and Buckley found that diverse teams tend to be more aggressive when implementing competitive initiatives but were slower to implement long-term strategic goals.[2] This research indicates that in a world of shifting priorities and ambiguous information, a diverse leadership team will enable your organization to implement strategies more quickly. However, these deep-level cultural differences make consensus building more difficult once a strategy has been formulated. In other words, like-minded groups are slower to develop new strategies responsive to changing conditions; they tend to attempt more of the same. Because of the similarities in their thinking patterns, they appear more efficient, albeit implementing more of the same old, same old. On the other

hand, the diverse groups move faster in developing new, even radical strategies to capitalize on changing conditions. The very diversity of the group makes consensus difficult in sorting through all the many decisions required for implementing new strategy. It is very difficult for leadership teams with similar thought processes to develop new ideas, but diverse teams can be pushed to achieve faster agreement by enacting strict deadlines for decisions.

HOW TO DEVELOP A DIVERSE WORKFORCE

Assume that you are currently in compliance with all EEOC program requirements and you are interested in developing a more diverse workforce in the higher levels of your organization. It is a good idea to discuss your diversity plans with the minority employees of your organization and get feedback directly from those who will be affected directly by policy changes. If these individuals have not been given the opportunity to give input into new business processes, it may require a few meetings to make these employees comfortable with giving feedback on new ideas.

Leaders need to incorporate a few main ideas into their diversity programs to speed their success. During the initial stages, leaders need to ask a few broad questions of their employees:

- What is necessary for you to feel welcome and valued at our company?
- What can our company do to maximize your productivity?
- What are your concerns with diversity in the workplace?
- Which external organizations should we collaborate with to better understand your constituency and gain its business?

Your team may show a reluctance to answer these kinds of questions, but many executives have found that different groups of individuals had vastly different ideas of what diversity means in the workplace and how it affects them. Many minorities report that they do not have the same networking, education and career advancement opportunities that the majority of white employees receive. They also feel that their organizations could do more to target their perspective races during marketing and advertising campaigns. Women of all races tend to focus on work/life balance and flexible scheduling to allow them to care for their families.

It is important to discuss these possibilities with your employees and allow them to develop solutions to the problems they perceive to be the most pressing in your organization. By developing these solutions into actions and programs, you are allowing your employees to have a greater stake in your organization. Moving diversity from a compliance response to a workplace initiative will allow your organization to

obtain more business from women and minority-owned organizations as a part of your efforts. With diversity as a workplace initiative, you are likely to find that engaged, diverse people are thoughtful, energized and innovative.

Be prepared for difficult conversations once these employees feel comfortable with discussing their views. You may feel that your organization provides many opportunities to minorities and that your organization is exemplary in its diversity efforts. This is rarely the case if your organization does not have procedures in place and you currently do not manage diversity well. Encourage your employees to be open and honest with you about the current state of the company's climate. Do not make excuses for lack of diversity leadership. Enabling your employees to voice their concerns is an important early step in bringing beneficial changes to the organization.

If you structure the discussions with your minority employees correctly, these representatives may have some great implementation tools to help develop a framework for including diversity in your organization. Once you understand the challenges that the minority employees face within your organization, you can expand the program to include your other employees. At this stage, it is important to enable each employee to understand his or her individual way of thinking. Once your employees understand their own perspectives, they will be able to understand why other people in your organization think differently about similar situations.

This process does not have to be overly sensitive or introspective. Understanding differences is the first step in the implementation process. By giving your employees the opportunity to recognize their worldview, you will create a stronger workforce and a stronger organization. Your organization should already have a core purpose that helps to align employees with organizational goals. By individualizing your personnel development system, you will be engaging your employees in your business. In turn, these employees will be much more willing to provide insights into your organization and develop processes to improve the business.

Some construction firms are using their multilingual leadership teams to develop construction-related guides for their Spanish-speaking field staff. These guides have developed a common language for their teams, helping to increase worksite productivity while lowering safety violations. IBM used a similar program, which enabled the company to cater to a more diverse customer set. The minority employees realized there were underserved markets in minority communities around the country, and they developed marketing plans to attract

> **Moving diversity from a compliance response to a workplace initiative will allow your organization to obtain more business from women and minority-owned organizations as a part of your efforts.**

new business. IBM's market development division estimates this diversity initiative brought the company hundreds of millions of dollars in new revenue because of its diversity initiative.[3]

As the process unfolds, the C-suite leadership should not relegate the diversity program to the human resources team. Key decision makers must take part in the diversity development program. If your organization wants to move from just valuing diversity to managing diversity, then key leaders need not only to take part in its development, but also to actively participate in the program themselves.

> **The new guidelines should work as the impetus for workplace policy changes, which should have lasting effects within the organization. Ultimately, diversity is all about actions taken, not policies written.**

Throughout the process, written policies are easier for employees to follow, but written policies alone solve few problems. Companies that value diversity tend to develop implementation problems translating their written guidelines into actions. These organizations have developed the policies, but these policies need to be actualized at the organizational level to integrate diversity into the workplace. The new guidelines should work as the impetus for workplace policy changes, which should have lasting effects within the organization. Ultimately, diversity is all about actions taken, not policies written. Generational differences in the workforce can cause problems during the implementation stages of diversity programs. Younger generations tend to view diversity on a continuum, while older generations tend to view diversity as a singular, definitive issue.[4] These different views of the nature of diversity can cause misunderstandings when attempting to address the subject or implementing diversity programs. It is important to tailor the message to your audience.

In addition to the generational differences, there may also be opinion disparities at different status levels within the organization. For a diversity program to work, all levels of the organization need to be involved in the process. If the upper echelons of the organization do not see the value of the infusion of new ideas that diversity programs can bring, then the programs are much more likely to fail.

Companies that have implemented well-run diversity recruitment programs depend heavily on their workforce to refer qualified candidates. Employee referral programs tend to be much more efficient than other recruiting schemes.

As your company expands and starts to hire new talent, you can make your organization stand out as a diverse place to work. Younger talent does not have to come from your usual human resource systems. Expand your search to include trade schools and universities in your area that a diverse student body attends. Participate in the career fairs at these universities and create partnerships for summer internships. These programs provide great talent development opportunities while enabling young students to bring an infusion of new ideas into your organization.

Many local and national publications target different ethnic groups. These periodicals are relatively inexpensive to use as job boards and will enable your organization to access talent from previously untapped markets. Some leaders have argued that these sources do not provide the caliber of candidates required for their advertised positions. One could argue that the advertisements on the popular job search sites are no different. Both sources will provide you with a variety of candidates and it is up to the organization to decide which candidate will fit its needs the best.

Another resource of diversity recruiting that companies tend to overlook is their own employees. Companies that have implemented well-run diversity recruitment programs depend heavily on their workforce to refer qualified candidates. Employee referral programs tend to be much more efficient than other recruiting schemes. These programs provide employers with candidates who hold both diverse and similar values as current employees while keeping recruiting costs low.

KEYS TO DIVERSITY PROGRAM SUCCESS

Leaders tend to minimize the differences in their workforce instead of capitalizing on the opportunities that diversity leadership can provide. By providing a platform for diversity, leaders are also providing the opportunity for employees with differing opinions to voice their concerns.

Demonstration = strong support from company leaders
Employee Engagement = all employees are involved with the process
Integrative Practices = align the policy with your core values

Demonstration

Executives often say they value diversity, but their actions speak otherwise. Many senior leaders underestimate the amount of work involved with enacting a

new diversity program. It helps to develop key goals as the process develops to ensure the executive team is unified behind the effort. Failed diversity programs develop lofty goals for the organization, but they do not provide a logical process for getting to that point. This process must enable the executive team to change its worldview by first understanding why it feels the way it does with regard to diversity. Once the leadership team develops the self-awareness necessary to understand the way it feels about diversity, it can begin to implement a program that enables employees to develop the same awareness, which will allow them to act on the diversity initiatives.

It is best to appoint a person on the leadership team who currently espouses diversity as part of his or her worldview as the 'chief diversity officer.' This executive's job is to help the other leaders confront their biases towards workplace diversity, remove these barriers to enhance their worldview, motivate and inspire the rest of the team and ensure that the team delivers a consistent message. The chief diversity officer must speak candidly to the other executives about how they may be perceived by their employees and what they can do to rectify their behaviors if needed.

Employee Engagement

Once the leadership team is on board with the program, it is time to engage employees in the process. Some companies have developed leadership councils that consist of minority groups. Encourage these groups to discuss issues in an open forum and allow them to develop solutions to the issues they feel strongly about. These groups' tasks are to investigate problems and opportunities while developing strategies to engage the minority groups in business decisions. These groups can also find opportunities and develop plans to enter new markets that have a large minority influence. Many major cities around the U.S. have opportunities for P3 development projects in areas that are currently underserved by construction firms. Each group should appoint a leader who can talk with the diversity officer about issues that his or her constituency faces at the workplace. The diversity officer can then provide relevant feedback to the group to refine and develop its solutions before submitting its proposal to the senior leadership group.

> **Many senior leaders underestimate the amount of work involved with enacting a new diversity program.**

Integrative Practices

Once the proposals are submitted, the leadership team needs to respond. Some of the proposals may not be economically viable, but many organizations have implemented small changes that are insignificant at the C-suite level but have created drastic improvements to workplace morale and increased productivity at

the lower levels of the organization. A few construction firms have implemented various flex schedule programs in response to women's requests to work around their children's schedules. This small change has increased the number of female workers and increase work-life balance in these organizations.[5] Many organizations have increased their business because of diversity initiatives, and most have increased their supplier network by using their diverse employees to find more opportunities for the business.

By incorporating diversity initiatives into the labor practices and personnel development of the organization, you can gain deeper insight into key markets, deepen your leadership pool and increase your supplier base. Most organizations that have implemented diversity programs have noticed an uptick in workplace productivity, an increase in morale and a decrease in employee turnover. Other benefits of diversity programs include improvements to corporate culture, better client relations, a maximization of brand identity and a decrease in workplace complaints and litigation heretofore resulting in lost resources.

American society is becoming more diverse every day. The changing demographics are creating new markets and new opportunities for businesses across industry barriers. Implementing diversity initiatives will enable your company not only to understand the differences of your employees but also to use those differences to your advantage.

Initiating a diversity program is a difficult project that focuses almost exclusively on your people. To develop a robust diversity program, leaders need to embrace diversity as part of an organizational change at every level within the company. To ensure full diversity integration, leaders need to ensure they are developing a diverse talent base through recruiting and mentoring efforts. They also need to endorse diverse ideas and thought processes throughout the organization by securing employee engagement in the mission and vision of the company. There are three primary elements necessary to ensure the success of the program: communication, commitment and planning.

Communication

Work with a diverse employee group at all levels of your company. Ensure there are many opportunities for employees to communicate what they need to

be successful in your organization. Use this feedback to create small wins for your diversity initiative at its early stages to show its success.

Commitment

Incorporate your entire leadership team in the process and ensure that the team is committed to the program.

Planning

Grow the program by expanding the scope of your initiative as it creates value for your company. Use the initiative to develop small modifications to the hiring practices of your organization. Continue to plan for the future of your company by developing a diverse leadership base for your organization.

Some competitors will continue to ignore the value of diversity to their peril. By engaging your leadership team in discussions of how a diverse organization can bring strength to your organization, by developing an aggressive diversity program and by committing to integrated diversity throughout your company, you will gain resources unavailable to your backward-looking competitors and competitive advantage in the changing marketplace. In addition, you will increase retention within your company due to the lively, engaged nature of your workforce. ■

Jed Davis is a staff consultant with FMI Corporation. He may be reached at (303) 398-7260 or via email at jdavis@fminet.com. Peter Nielsen is a senior consultant with FMI. He may be reached at (303) 398-7257 or via email at pnielsen@fminet.com.

[1] Wan, He, Hobbs, Frank. (2000) "Minority Purchasing Power: 2000 to 2045." U.S. Department of Commerce. Minority Business Development Agency.

[2] Hamdani, M., & Buckley, M. (2011). "Diversity goals: Reframing the debate and enabling a fair evaluation." Business Horizons, 54(1), 33–40.

[3] Thomas, D. A. (2004). "Diversity as Strategy." Harvard Business Review, 82(9), 98–108.

[4] Clochesy, J. M. (2008). "The Experience of Diversity by Generation: How to Bridge the Differences." Diversity Factor, 16(4), 1–5.

[5] Lingard, H., & Francis, V. (2005). "The decline of the 'traditional' family: work-life benefits as a means of promoting a diverse workforce in the construction industry of Australia." Construction Management & Economics, 23(10), 1045–1057.

Lessons in Leadership

By Cynthia Paul

Today's construction leaders are facing a myriad of challenges that include, but are not limited to, project funding and the credit crunch, increased competition, doing more with less and developing the next generation of leaders, just to name a few. How are successful leaders dealing with these issues in the current economic environment?

Cynthia recently spoke with Steve Roll, vice president of commercial development at McDermott International, and Gary Gretzinger, vice president of field operations at Enclos Corp., about their thoughts on leadership and how they are dealing with some of today's challenges.

McDermott International is a leading engineering, procurement, construction and installation company, focused on executing complex offshore, marine oil and gas projects worldwide. It delivers fixed and floating offshore production facilities, pipelines and subsea systems.

Steve Roll is vice president of Commercial Development and is responsible for business development and the strategies and leadership in winning work.

Cynthia is a managing director at FMI and practice leader for business development. She works with industry leaders to help create a strategic vision in order to position their companies to capture market share and grow profitably.

Cynthia: What are the key leadership challenges McDermott is dealing with today?

Steve: McDermott is driven by the desire to be the best, to be the premier leader in the marine offshore industry. That creates a dramatic need for greater vision and leadership at all levels of the firm.

We are in an extremely competitive environment in this industry, and like most engineering construction firms, we face a difficult, competitive environment. In the offshore marine engineering and construction industry, there are several different types of markets.

The mature, shallow water business has lower barriers to entry, although the barriers are still high when compared to other parts of the construction industry. By mature I mean that we have been operating in the business for more than 60 years. Many local engineering and construction firms around the world have migrated into this risky space and have challenged our ability not only to win, but also to win and make profit. The new entrants have made the business much more competitive, pulling down margins and everything that goes with a very mature industry.

Projects in the deep water are very complex, technically challenging and often executed in remote locations with some other interesting challenges that come about by being in deep water. For example, we have uncertain environments around weather.

The natural resources, oil and gas, in some cases are owned by evolving and growing nations. They often have unspecified and uncertain requirements for engineering construction firms to meet. Local content requirements are increasing. They mandate we perform part of the work onshore and use local resources in a complex environment where they may not have the experience to work. We have to consider taking people who are from various countries and training them offshore in other locations in order to make them ready for working in their own countries.

These complex projects require leaders with good skills, such as relationship building and communication capabilities, to have our projects succeed. The stakes are high and we need to execute. If we execute them flawlessly, they sell us for our next job.

Cynthia: What are you doing to engender a leadership culture at McDermott?

Steve: We do believe that leaders can be developed through learning opportunities and project experience. That is true if they join our firm fresh out of school, early in their career or come to us with solid industry experience.

> **McDermott is driven by the desire to be the best, to be the premier leader in the marine offshore industry. That creates a dramatic need for greater vision and leadership at all levels of the firm.**

We are looking for high-learning agility in all future leaders. Learning agility answers, "can they learn on their feet and in a variety of situations?" The military uses learning agility as a real measure of leadership potential. Leaders today need to have the ability to constantly improve, grow and learn if they are to be well suited for higher levels of leadership.

We have four pillars of learning that help leaders develop in our culture. First is the Project Execution University, or PEU, for the youngest people in our organization. It focuses on all the fundamentals of project execution: open/honest communication, listening skills, candor and freedom to express one's ideas. It creates an environment where young people learn the fundamentals of project execution from contracting and commercial requirements to technical matters and project management. We create an environment that really fosters open communication, innovation and speaking your mind — never squashing thoughts and ideas. We work in more than 20 countries worldwide, with a variety of nationalities. It is important to allow people to speak up and say what they believe, and that needs to start from the first days of a young engineer's career at McDermott.

The second area is the Business Development University, or BDU. BDU focuses on more seasoned individuals from all different functions of the company. They already understand what it takes to execute work from their individual areas of expertise. What we teach them is the importance of business development. They gain a full understanding of what it takes to target and win opportunities and to ensure that all members of the team are aligned to win work. Participants include senior management, purchasing, engineering, estimating, marine, project management, business development, etc. They all learn how to target and win new customers. Using McDermott's Business Acquisition Process, which is the heart of BDU, everyone comes away understanding his or her role in winning work.

Succession planning is the third pillar of our developmental process. It is how we identify future leaders and then chart and measure their progress toward development goals. We establish career webs, prerequisites for advancement and competencies. Part of effective succession planning is the element of rotating people and

> ## It is important to allow people to speak up and say what they believe, and that needs to start from the first days of a young engineer's career at McDermott.

discovering their capabilities through different project assignments. For McDermott, succession planning is a primary development vehicle.

Succession planning helps us identify key future leaders and ensure that they get their next assignment when the assignment becomes available, not when the person becomes available.

The last pillar is coaching and mentoring. Some leaders get external coaching and mentoring; everyone receives a lot of internal day-to-day coaching to ensure he or she never feels alone. The intent is to have the resources needed when dealing with a risk or a problem, and there is no reason to do that in isolation. We make sure he or she has someone to go to for advice, to be a sounding board, and to give support.

We work to develop future leaders from their earliest days of coming to work at McDermott, through PEU, BDU, succession planning, and coaching and mentoring. These four elements work together to create a total leadership culture inside of McDermott.

> **Our young people ask how long it takes to get 10 years' worth of experience. I tell them about 10 years!**

Cynthia: How do you create the organizational discipline to move a key player when an opportunity becomes available? That is very difficult for most companies to do.

Steve: It requires discipline to identify and then move a person who remains fully engaged in his or her current job. We are creating a culture about moving talent around at McDermott. Once in awhile, management does have to step in and say that the person needs to move to his or her next assignment now for the good of the firm, and for the good of that person's development. Since the manager involved in letting the person go has also benefited from such assignments, it is easier to do. It becomes a development opportunity for the manager as well. The manager learns how to support projects to ensure that customers remain delighted and the project remains profitable even when key staff moves on.

Cynthia: Is learning agility teachable, or do you need to hire for it?

Steve: That is a good question. Exposing people to many different experiences seems to bring out their learning agility. The experiences might be in engineering, project management or construction, and it might be onshore or offshore. The more they are exposed to, the more they learn. If they show the ability to be successful in a variety of settings, we observe high-learning agility.

Now whether that is a learned trait or whether you are wired with it, I am not certain I can give you a straight answer. I think that much of it is learned through experience. Our young people always say they want to jump ahead and get all the experience now. Wanting that is easy to understand. They ask: How long does it take to get 10 years' worth of experience? I tell them about 10 years!

That does not mean that we do not offer them a big pair of shoes for them to

fill right now or the opportunity to work on a very difficult and challenging project, but it takes time to get enough different experiences to round them out as leaders.

Cynthia: In the recruiting process, do you let people know about this on-the-job training and that they will be moving frequently around the globe to be able to continue to advance in their field?

Steve: That absolutely is discussed. We are a global firm with offices all around the world. We expect our leaders to have worked in multiple locations in multiple environments in order to understand our business globally. That is true regardless of the career track they may choose. If they are in finance, projects, construction or engineering, they have to understand the whole business, not just its pieces. It takes a person having had experiences over a variety of locations and assignments to succeed at McDermott. It is something we talk to him or her about when first starting the recruiting process. We keep talking about it throughout his or her career.

Cynthia: What have been your greatest lessons learned as a leader?

Steve: The greatest lesson I have learned is that you really can start over when things get really tough.

Back in late 1999, my family and I moved to Singapore as our Asia-Pacific business unit was going through a lot of stress due to the 1997 Asian financial crisis. The business needed to regroup. We consolidated the Asia-Pacific region with the Middle East business unit. We wound up letting many people go, closing the doors on our fabrication and engineering business, and really consolidating in a period of cost containment in order to ride out the financial storm in Asia.

We made plans to be prepared to grow when the business started to come back. We started executing our plan, and the business grew phenomenally over the following decade. From 2001 through 2011, we saw ten-fold growth. We went from a few hundred employees to close to 10,000.

I look back at that period as facing extreme challenges on a day-to-day basis, combined with dramatic downsizing of the business. We were able to ride out a low ebb. It created the foundation for tremendous growth. We kept focused on flawless project execution and winning work. The key is looking at the facts of the situation and being willing to model the business with the market realities.

So what is my greatest lesson as a leader? No matter how painful it gets, or how steep the market decline, you really can start over and grow a business profitably with focus and leadership.

That lesson is also very appropriate in today's environment. There are probably engineering and construction firms out there that are wondering what they are going to do next. What is their plan to win in the future? You can absolutely start over and grow the business again. Sometimes taking a few steps back sets the business up for phenomenal future growth.

> ## Leaders do need to be able to set a strategic path after appropriate study of the facts. Then they need to execute flawlessly on that vision, keeping the vision alive.

Cynthia: How do you define leadership?

Steve: I would define it in the context of an engineering and construction firm's ability to set direction, clearly articulate vision and align all the functions of the business together. You need to get teams organized to deliver on that vision.

I think one of the challenges leaders face is the number of different directions they could take, and many often wind up changing direction midstream. It is okay to adjust when you need to, but I find that success comes more from executing on the direction. You have to have the courage to follow through. That is why you hear me talk about flawless execution. It is not good enough to have a great plan. Leaders do need to be able to set a strategic path after appropriate study of the facts. Then they need to execute flawlessly on that vision, keeping the vision alive.

That is my definition of leadership.

Gary Gretzinger is vice president of field operations at Enclos Corp. Enclos is one of the largest specialty contractors in the United States. The company is an expert in the design, engineering, fabrication, assembly and erection of custom facade systems, providing complete design-build services to the construction marketplace.

Cynthia: What is your role at Enclos?
Gary: My role is to engage with internal and external customers, set up the field teams for the project and make sure we have the tools need to be successful.

Cynthia: What are the key leadership challenges you are dealing with today?
Gary: The constant theme today is doing more with less. We are reinventing our project approach, means and methods, engineered solutions and leadership skills. We are finding new solutions for planning and scheduling in order to deliver on the customer's expectation. At every level in the organization, we are working to communicate better and more effectively. This is occurring at a time

our workforce is changing dramatically from even what it was 10 to 15 years ago.

Cynthia: What are the differences that you are seeing in the workforce?

Gary: The workforce today is more diverse, certainly. Educational systems are different today. People entering the trades come from a variety of backgrounds and experience levels. Different cultures have different ways of communicating, of looking at situations and defining what is important to the individual. All of that has to be accounted for when working with today's workforce.

We see a difference in the workforce depending on geographic location. The U.S. workforce in the East is different from the West. In the West, you see more young people coming out of high school directly into the trades. They start younger there as compared to what you see in the East. They have different expectations and experience levels. The West has more young people wanting to make their career in construction.

Cynthia: What kind of leadership challenges are you facing around customers and customer expectations?

Gary: Customers' expectations have changed. They expect you to solve a lot more of the problems related to engineering/architecture, coordination of other trades, etc., than they did in the past. They expect more out of that superintendent or project manager. They want an executive-level person with great vision and the ability to solve their problems proactively.

Cynthia: I know that you are in New York City today as we talk. Are you seeing much of the union/nonunion dialogue that is being talked about in the City?

Gary: Yes, definitely. There are many things affecting both sides of the equation. For instance, in the Northeast, where it has been very heavily union, the increase in market share being made by nonunion contractors is having a ripple impact on unions and union projects. Many unions in these areas are reacting to the competition with new ideas and solutions. On the other hand, in

> **Different cultures have different ways of communicating, of looking at situations and defining what is important to the individual. All of that has to be accounted for when working with today's workforce.**

geographic areas that have not traditionally been as heavily unionized, the gains being made by nonunion contractors are putting a lot of pressure on price and quality. It is an interesting time right now for union contractors.

Cynthia: What are you doing to create a leadership culture internally with your team?

Gary: One thing we are doing is having frank discussions about the realities of today's market, at all levels of the organization. It is happening both in the areas where the competition is driven by nonunion competition and where it is predominantly from foreign competition. Foreign competition is not geared toward union or nonunion; rather, it focuses on whatever subcontractor it can get to install its materials. We are working to make sure that the union portion of the market is more aware of that. That is No. 1.

The second is in areas where it has been predominantly strong union. We are working with the leaders of our local workforce, to make sure they understand what is at stake and to gain their support to create approaches that will help us be competitive. We help them see the reality of the market as well as what is needed for them to be more competitive against nonunion companies.

Cynthia: So how do you get your people the skills they need to be the leaders that Enclos needs them to be?

Gary: Selection, training and development. In other words, you select people who have the key leadership traits and you put them in situations where those traits can be effectively nurtured. We need people who can communicate effectively between multiple parties and disciplines. They need to have both insight and empathy to the differences in thinking that this creates.

> ### You select people who have the key leadership traits and you put them in situations where those traits can be effectively nurtured.

One of the most important things we look for are people who hold true to their word, regardless of the situation. In other words, they do what they say they are going to do; they honor their own word with customers as well as internally. That falls in behind communications — to be able to express exactly what they are going to do and want they want done by others.

Safety is another key element. We hire people who genuinely care about returning employees to their families the same way they came to work that morning. They have to be able to have an understanding of everything that is going on around them in order to create a safe working environment.

Lastly, they have to be good at planning and scheduling. When you put those key leadership traits together and give them the experience to grow their abilities,

> **You learn leadership from many different places. You learn from leading your team, from raising kids and from being in long-term relationships. All those experiences play into the lessons learned you gain as a leader.**

you create the robust leaders who deliver projects safely, with quality and meet or beat customers' expectations.

Cynthia: What has been your greatest lesson learned as a leader?

Gary: The leaders you select early on do not always mature or realize their full potential, as you perceived they would back when they were selected. I guess the greatest thing I have learned is that when in a leadership role, there are going to be things that you cannot do anything about. The years teach you to manage through that. You learn to see some of them coming; some surprise you and need a different reaction. You learn leadership from many different places. You learn from leading your team, from raising kids and from being in long-term relationships. All those experiences play into the lessons learned you gain as a leader. It is the same for the people you are developing. It is fascinating to look back and see what that person was five, 10, 15, 20 years ago versus what they are today. The differences can be amazing.

From an overall standpoint, I think that not only the industry, but also the country, is in interesting times. In many ways, there is a lack of good, sound leadership. I hope that when we look back 20 years from now, we will discover that some things have evolved in ways we cannot see from our vantage point today. I hope that is what happens. We need to make changes, some of which are foundational issues that need to be addressed. To do that, we are going to need leadership at many levels to get us to a better place in the future.

Cynthia: How do you define leadership?

Gary: The ability to follow and lead when needed. To be able to be in front when you need to be in front. Also, it is the ability to let go and give other people the chance to surface while you follow or move along in parallel. ■

Cynthia Paul is a managing director at FMI. She may be reached at 303.398.7206 or via email at cpaul@fminet.com.

What Do We Know About Boards?

MY PERSPECTIVE SERIES:
REPRESENTING THE AUTHOR'S
PERSONAL PERSPECTIVE

Boards need to have members who
bring a mix of competencies, life
experience, diverse backgrounds
and strategic thinking.

by Louis L. Marines

New business and market pressures are changing corporate governance within the design professions. The days when an engineering or architecture firm could treat its board as, to quote a colleague, "a glorified executive committee" are gone. The contemporary board of directors must take an active role in the firm's well-being and future, ensure business continuity, oversee strategy and set high standards, both within the firm and in the public eye.

What makes for a successful board of directors? The common temptation — and one found in thousands of articles — is to try to quantify a specific formula: a number of people based on company size, an exact mix of capabilities, a ratio of inside to outside directors and the like. Professor David Larcker of The Stanford Graduate School of Business reports in his "Closer Look" series on corporate governance that numerous studies have shown that the quality of any given board of directors is not determined by such factors. Instead, he says that "board quality likely depends on attributes that are less well examined, including the qualification and engagement of individual directors, boardroom dynamics and the processes by which the board fulfills its duties ... the most destructive myth in corporate governance is the notion that best practices exist which, if uniformly followed,

lead to better oversight and performance. This is simply not the case."[1] Larcker goes on to point out that corporate governance is such a complex activity, that it is unrealistic to expect it to be reducible to a "recipe in a cookbook."

BOARDS ARE NOT MANAGEMENT

Engineers and architects are highly trained to solve complex problems for clients and society. They have not usually had much, if any, business training. Yet many firms have boards of directors that are made up primarily of the firm's own executive committee. David Evans, chairman emeritus of David Evans and Associates, Inc., in Portland, Ore., said, "I have been on many boards of other firms and have often seen a large number of company managers on the board. These boards tend to be caught up in operational questions. The board is different from the executive committee, and running it like one is a mistake. You need people who know more about business than you do, and they should be very focused on protecting the value of the firm for the shareholders."

Too many internal managers on the board also hamper its function of overseeing and supporting the CEO — who is the CEO to turn to when faced with a challenge outside his or her experience, or capacity to solve?

Having outside board members who have a depth of experience in business, preferably from beyond the engineering and architecture world, can bring the firm a greater capacity. Their focus on protecting the shareholders' interests and the overall health of the firm should provide a higher and wiser level of guidance.

BOARDS NEED DIVERSITY

Many boards at professional design firms show almost no diversity in their makeup, even though the diversity of staff at engineering and architecture firms has increased over the past 20 years.

Debra Rubin at Engineering News-Record (ENR) reported in November 2010 that a 2007 study of Forbes 500 firms by Catalyst LLC found that "companies with at least three women on their boards outperformed those with fewer female directors in return on equity (53%), return on sales (42%) and return on invested capital (66%)." These figures certainly demand attention.

David Evans says, "We always have a woman on the board from inside the firm and when we rotate our inside directors every few years we make sure one of them is a woman. We have not yet had an outside director who is a woman, but we are looking. We need and value a variety of perspectives — we don't want a board with people who all have the exact same outlook."

Another aspect of diversity is in response to globalization. Strategy + Business revealed in its special report "CEO Succession 2010" that "more than one-quarter of the top 2,500 public companies now have their headquarters in emerging countries," including not only the expected Brazil, Russia, India and China, but also countries generally not reported on as being economic hot spots: Egypt, Bangladesh, Turkey, South Korea, Vietnam, Nigeria, Mexico and others. As design and construction activity grows in these locations, our firms will want to be there — and having people on the board who understand the countries your firm chooses to operate in will make a difference, not just internally, but in the eyes of clients and the local community your firm will be joining.

BOARDS NEED STRATEGIC THINKERS AND FORWARD LOOKERS

Boards need to have members who bring a mix of competencies, life experience, diverse backgrounds and strategic thinking. Oberman & Associates, Inc. of Irvine, Calif., reported in ENR in February 2011 that a survey of top executives of engineering, architecture, construction and related firms shows that "42% want directors who are strategic thinkers and forward-looking" and have strong financial skills. Experience as a CEO or executive manager was deemed of less value, rated as important by only 11% of the survey's respondents. Three quarters of them also said that "strategic growth" was a key board priority for the next two years.

This need to focus on the future and strategy is not new, but today may require a new set of outlooks and a different set of specialized competencies, for example, a deep knowledge of current and potential technological developments or a dedicated and active commitment to corporate social responsibility.

BOARDS — AND FIRMS — NEED A SUCCESSION PLAN IN PLACE

The board is responsible for ensuring the financial and business continuity of the firm. Yet numerous studies — from Stanford University, Booz & Company and many others, including a study conducted in 2007 here at FMI — show that only about 40% of firms, regardless of industry, have a CEO and other management successors in place and ready to take over, leaving some 60% of businesses vulnerable to sudden change. Firms that do have successors identified may not have told them and risk losing them. Others say their chosen successors need a level of development that would put the firm in the position of hiring from outside in the event of the CEO leaving suddenly. "Having talented, motivated employees ready to take the place of an owner who is prepared to step aside is the exception rather than the rule," said Landon Funston, FMI principal and author of the study.

> **Boards need to have members who bring a mix of competencies, life experience, diverse backgrounds and strategic thinking.**

"We all think we're immortal," David Evans said. "But I remember a firm in Oregon whose owner died unexpectedly in his 50s, and the firm was unable to survive — the successor tried to make a go of it, but wasn't ready. At DEA our board reviewed our succession plan and interviewed the candidates we had identified. Their first reaction was to joke that 'maybe you guys shouldn't plan on retiring so soon,' but they came to see the talent that we saw in the candidates and our seven-year development and transition process has gone very smoothly."

GREAT INTERPERSONAL SKILLS ARE KEY TO BOARD SUCCESS

Even if no magic recipe exists, we still may see many common dynamics at work in highly successful boards. Effective boards embrace relationship virtues

such as civility, truth telling, the courage to embrace conflict, clarity about decision making, mutual respect and support.

"Our board members get along really well," said David Evans. "They are all focused on the same thing; they are civil when they disagree, but they can be blunt if they think the firm is going off the track. Their favorite mantra is 'strengthen your balance sheet.'"

The individual board members' skills at negotiating with others and asking powerful questions can be highly valuable assets. Members must be able to challenge each other, question assumptions and examine issues in ways that lead to creative thinking. But outright conflict that cannot be resolved is a distraction that interferes with decision making. In his study "Is Discord Detrimental?," Jason A. Grissom of the University of Missouri's Harry S. Truman School of Public Affairs has shown "a consistent pattern of negative associations between board conflict and outcomes at multiple organizational levels." Discord and conflict on the board result in less effective policies and can filter down to the management team, having a variety of negative impacts throughout the firm, from higher turnover to poorer financial performance.

In their 2005 book, "Inside the Boardroom," Richard Leblanc and James Gillies assert that the results of their comprehensive study of boards of directors show that "functional directors ranked high in their ability to persuade fellow directors to accept their point of view and worked constructively with their fellow directors in seeking effective decisions for perplexing problems ... these directors had in common a capacity to work with their fellow directors in hammering out, through give-and-take discussion, a decision that the majority of the board could support."

The art of putting a mix of board members together who can work well and will be committed to the benefit of the firm and its shareholders, as well as providing both oversight and support of the CEO, is not a quantifiable formula. Design firms would see strong business benefits from making a commitment to forming a board distinct from the executive operations of the firm, with a diversity of outside directors bringing their skills to the table, and with a mix of personalities and abilities that will work well together and help raise the firm to the next level. ■

Louis L. Marines, Hon. AIA, is the founder of the Advanced Management Institute for Architecture and Engineering, now the A/E Services Division of FMI Corporation. He consults with professional design firms across North America and is an active author and speaker. His book "The Language of Leadership," was published in 2010 by Greenway Communications. Marines is a CEO Emeritus of the American Institute of Architects in Washington, D.C. He can be contacted at loumarines@gmail.com.

1 Larcker, D., and Tayan, B. (2011). Seven Myths of Corporate Governance. Stanford Graduate School of Business Closer Look Series: Topics, Issues and Controversies in Corporate Governance CGRP-16. Retrieved on 8/7/11 from: http://www.stanford.edu/group/gsb_corpgov/cgi-bin/blog/?p=2045

LESSONS LEARNED

David Evans, chairman emeritus, founded David Evans and Associates Inc. and its parent company David Evans Enterprises Inc. in Portland, Ore., in 1976. DEA is an engineering, planning, architecture and consulting company that covers four core areas: transportation, energy, land development and water resources. It has 17 offices in seven states and employs more than 650 people.

FMI asked Mr. Evans his thoughts about the following:

Boards in consulting design firms

I have been on multiple boards and how the board functions has much to do with how the company sets itself up. Some design firms have a number of principals on the board, and they have difficulty separating board governance activities from running the company. This hurts them in the end, as the board needs to provide oversight on behalf of the shareholders — that is, looking at and advising on company performance, not managing the day-to-day operations. The board should not be the same people who are managing the firm.

The value of outside directors

When we first brought in outside directors, we had four from outside and three from within the firm. That really put the pressure on me as chair, because they could outvote me; so it changed my perspective on how to run a company. We know what engineering is all about, but we didn't study business in college, so we seek outside directors who can help us run a corporation instead of telling us how to be engineers. They pay attention to what is best for company performance. Several times they have said, "This potential acquisition is not a good idea," and we listened because they were looking out for the health of the firm.

Finding diverse board members

Over time we have had a former CFO from the wood products industry who is good at finance and business practices, the retired chairman of a bank, an ex-director from ODOT (Oregon Dept. of Transportation), a former colonel from the Corps of Engineers who was not actually an engineer, someone from the construction industry with a lot of design-build knowledge, a retired local businessman who ran his own company for many years, and the dean of structural engineering from a major university.

Unexpected consequences

When our former ODOT board member joined us, the first thing that happened was that ODOT cut us off. It perceived this as a conflict of interest and would not award us any work during his tenure, which unfortunately had to be a short one. We wanted to have someone who understood the client side, but the possible consequences had never occurred to us.

Biggest challenge his board solved

In the mid-1990s we were being affected by the downturn in telecom work, when our bank, Bank of America, was preparing for its merger with Nations Bank. It told us that we were not good enough to bring to a merger; it didn't want to show engineers on their books, so suddenly we were looking for a new bank. Our board members stepped up and helped find us a new bank, where we enjoy a much better relationship.

CONTACT THE *FMI QUARTERLY*

CUSTOMER SERVICE:

quarterly_info@fminet.com

SUBSCRIPTIONS:

1.800.877.1364

ARTICLE REPRINT PERMISSION:

919.785.9236

VISIT FMI ONLINE:

www.fminet.com