PASSING THE TORCH

THIS QUARTER

Passing the Torch
BY JERRY JACKSON

BUSINESS DEVELOPMENT

The Contractor’s Dilemma
BY GREGG SCHOPPMAN

A Few Thoughts on the Recent Election and the A/E/C Industry
BY HANK HARRIS

QUARTERLY INTERVIEW

Strategic Leader Development: Jon McCleary of PCG
BY TOM ALaFAT
Prepare Your Future Leaders Now

Succession planning is an important process and one that serves, as do many others, a specific role in the organization’s health, continuity and ability to compete effectively in the marketplace.

BY KELLEY CHISHOLM

Social Media Isn’t New: Even Cavemen Did It

Social media is not new, but the technology driving it has changed the game for business.

BY CYNTHIA PAUL

Adding Science to the Art of Leader Selection

Interview questions, assessment questions, development questions, post-presentation questions — ask them all. It is the only way to know the person you are evaluating.

BY JAKE APPELMAN

Sharpening the Axe: Preparing for Negotiations

Preparing for a negotiation, even if only an hour is put in, can result in financial gains that would otherwise take days or even weeks of work.

BY STEVEN J. ISAACS AND KAREN L. NEWCOMBE

Contracts for Construction Leaders

Construction leaders need to be aware of the fundamentals of contracts to be better prepared to bring projects to profitable conclusions.

BY ALBERT WATSON AND GREGG SCHOPPMAN

Intelligence, Part 2

The information and data you gather over the course of years can engender both personal transformation and change your approach to your work.

BY LOUIS L. MARINES
Dear Reader:

Doc Fails, founder of FMI, often corrected his students or clients who happened to use the phrase, “If I die ...”. Doc would usually say, “The statement is not IF, but rather WHEN I die ...” Then he would give his big smile with the ever-present twinkle in his eye and go on to remind the offending party that we all die, the variations being in the timing, the cause and even the style of departure. These conversations took place frequently during the process of preparing businesses, individuals, families, shareholders and other stakeholders for planned change in order to enable businesses to thrive in perpetuity. Without a planned approach to succession, perpetuity is happenstance at best and unlikely in most cases. FMI for many years has assisted construction, engineering and design organizations to develop successor leaders and managers; provide for ownership transfer to family members, employee shareholders or acquisition by outside investors; and achieve healthy futures, building upon the foundations of the past.

In this issue titled “Passing the Torch,” we deal with succession planning. Several of our features and departmental pieces deal with this theme directly. Other subjects are included that should be of broad interest but are not focused on our quarterly theme.

Jon McCleary of Performance Contracting Group, Inc. (PCG) is interviewed by FMI’s Tom Alafat. This conversation describes in some detail how PCG made leader development an intentional strategy in creating an enduring, great organization.

Lou Marines continues his series on business intelligence by illustrating how expanding one’s worldview and understanding of the interconnections of ideas, forces, systems, ecologies, humanity and nature can better prepare us for dealing with changing conditions and enable us to actively create preferred futures.

One of the most on-theme features of this issue is offered by Jake Appelman in his piece titled “Adding Science to the Art of Leader Selection.” Those
readers who have made staffing decisions that later turned out to be poor choices have generally had the thought, “There has to be a better way to pick the right person to lead.” Jake provides some answers and directions to that recurring question.

Editor Kelley Chisholm spoke with Karen McDonald about the process of leader development at our sponsoring partner Zurich and gleaned her insights and advice when planning for new leaders.

Always interesting, Gregg Schoppman brings us a solo piece, “The Contractor’s Dilemma,” a riff on the prisoner’s dilemma, a classical piece of gaming theory that deals with the non-zero-game result achieved through cooperation. Greg also joins colleague Albert Watson in offering “Contracts for Construction Leaders,” a cram course in construction contract law.

“Social Media Isn’t New: Even Cavemen did it” is written by Cynthia Paul, one of FMI’s ace practitioners in the field of marketing and business development.

When business opportunities are developed, you can never be too prepared to be an effective negotiator. Karen Newcombe and Steve Isaacs offer sound advice coupled with case studies to underscore their points in their feature, “Sharpening the Axe.”

Finally, our CEO Hank Harris presents some conjecture and forecasts as to how the federal election results will affect the construction, engineering and design industry.

We hope you find this issue to be a stimulus to begin, to continue or to finish your own plans for leader succession and corporate continuity. We also hope you find other subjects that capture your interest and prod you into (greater) action. We enjoy bringing FMI experiences, observations and points of view to you each quarter and hope that the FMI Quarterly adds to your profit.

Sincerely,

Jerry Jackson
FMI Quarterly Publisher and Senior Editor
During the Cold War, citizens of the United States and the Soviet Union became all too familiar with the concept of the prisoner’s dilemma. John von Neumann, a celebrity mathematician who was portrayed in the 1963 Stanley Kubrick film “Dr. Strangelove,” coined the theory that portrays the perspective of a competitor in a seemingly winless game. For example, do you launch a pre-emptive strike knowing that your opponent may do the same? However, doing so would launch a subsequent counterstrike ending in a zero-sum win for either competitor. There are numerous iterations of this dilemma present in fables, stories, myths and movies. Whether it is Batman battling the Joker or Bruce Willis combating his numerous foes in the “Die Hard” series, the prisoner’s dilemma is an age-old conundrum posed by the most ruthless of villains.

Game theory and probabilistic scenarios such as this may seem more likely to appear on a standardized college entrance exam than in the boardroom. The economy is slowly recovering, and contractors are constantly wrestling with the philosophical ramifications of such scenarios daily. Rarely, do such scenarios have finite and definitive parameters such as resource exclusivity, but contractors must recognize the power of how their immediate needs must be weighed in accordance with their long-term strategy. Many business decisions appear to provide for near-term solutions (i.e., payroll, cash flow, debt payments, etc.) but damage the firm’s long-term ability to mount a successful offensive and be a strategic leader in its market, geography and/or niche. It is easy to second-guess either decision, and rarely do business leaders have the crystal ball capable of determining the length of an economic downturn. However, why do some businesses appear to defy logic and maintain superlative backlogs with profitable work, while others scrape by on the remnants of flooded bid lists?

Today, a new dilemma is taking place in the world of construction — The Contractor’s Dilemma. In this scenario, the contractor is presented with a potential project. The project offers an opportunity to “keep the crews busy,” but there is also the specter that in order to win the project, profit projections will be low. If awarded, the contractor now has work.
The question that remains is, “Does the level of risk commensurate with the potential return on investment?” However, the dilemma is, “What if this same contractor has another opportunity afforded to it after it accepts the aforementioned project?” More importantly, it only has the number of resources to manage one project at a time, but this second project is potentially a higher-margin project. How should this contractor proceed not knowing what the future holds? Exhibit 1 illustrates the decision tree that best illustrates this scenario.

It is important to clarify several assumptions. First, there is an opportunity cost associated with bidding on the low-margin project and losing. For instance, the resources dedicated to this project are theoretically unable to bid on the new project. Secondly, it is important to realize that there are no guarantees with either project. This model assumes there is no competitive advantage. The good news is that for either branch of the tree above, there is the hope that the contractor has some “edge.” Lastly, the terminology of “low margin/high margin” can equally be transposed with “high risk/low risk.” Additionally, this might simply be a microcosm for “Current Market Niche That Is Saturated” versus “New Market Sector That No One Knows Exists.” Simply put, the two projects are not equal, and one is only desirable because it is being let immediately. That said, there are several questions to consider when evaluating the process above:

- How long after the first award will the second project occur? Can the firm afford to forego the first project on the prospect of only a potential opportunity?
- If there was a potential to leverage the resources (i.e., a manager and superintendent run both projects simultaneously) but there was a 50% chance that one project’s margin eroded, would it be worth the risk?
- Lastly, as the contractor places the low but winning bid, does this potentially drive down the would-be price of the second project even though it is not eligible to win the second project? Put another way, does this adversely affect the market by simply driving price expectations down artificially?
The results matrix in Exhibit 2 provides insight on the ramifications to the business. For instance, it is easy to look at the results achieved by winning a bid in the first decision tree branch (Result A). While the probability of winning is less than secure, one might infer the effect on short-term morale. In a recessionary market or hypercompetitive scenario, few can deny the psychological gain from achieving a win. However, the leadership of the firm must look at the impact beyond the short term. With a low-margin project, the risk profile becomes larger. Put another way, the firm has little room for error. Estimating mistakes, safety mishaps and production inefficiencies become amplified without the benefit of contingency or a “safety net.”

It is also important to examine the concept of asset utilization. In most cases, firms put their best people — in the office and the field — on the most challenging projects. By following the top branch, a firm must put its “A” players on that work. As described in the results matrix, there is an opportunity cost that occurs in this scenario. Does a coach put the star player — say the designated hitter or star relief pitcher — in the game when there are two outs and no one on base or when the bases are loaded? While no decision is made in a vacuum, it is important to recognize the impact to a firm’s human capital. In the same vein, a firm needs to recognize the longer-term effect on morale. A firm that takes a “losing project” may see the “grind” on its human capital during the project, but what about the long-term effect in employee burnout (once again on these A players) and potential for project hangover?

Project selectivity based on sheer emotion is a dangerous game to play. As businesses wrestle with the dilemma, paranoia takes root. What if our sector does not rebound as quickly? In an industry that will yield more than $800 billion worth of put in place construction, there is no shortage of work. However, it is highly likely that the work a contractor performs today may not be the same work it performs 10 to 20 years in the future. Call it “Contractor

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Project selectivity based on sheer emotion is a dangerous game to play.
Evolution.” Of course, there are some firms that have always performed the same suite of services for the same relative customer base. More than likely, a contractor will evolve into new markets, new delivery methodologies and new techniques. Using the Dilemma Model above, it is possible to infer that those contractors that take the risk of the lower branch find new opportunities and often evolve their capabilities further than those that simply “do it the same way we’ve always done it before.” Make no mistake, the lower branch is not without risk. Simply put, those contractors that remove the emotional attachment and consciously look at their strategy have the opportunity to see business from a different perspective.

Time is the crucial variable to this analysis. It is easy to examine this scenario in hindsight—of course the decision to pass on the first opportunity for the second is evident. However, today’s economic uncertainty provides a wrinkle that creates more uneasiness than ever before. Contractors have become more and more sensitive to volatility in their backlog. As the market conditions change, so do customer demands, upstream and downstream. Decisions made on bid day may come to fruition six to 12 months later. It is common to see delays in starts as customers and their customers are on hold due to interest rates, rising/declining fuel costs, worldwide elections and even a fiscal cliff. Therefore, a contractor winning on either branch today may not actually realize the project for some time to come.

No one can control the uncontrollable. As if one with a desk fan can turn back a hurricane, it is far-fetched to think of the dilemma as something a single business can influence. While no one can control the market, a contractor can apply a higher level of strategic thinking not only to its work acquisition but also to the way it does the work. There is much consternation over what the firm cannot control, so why not channel the energy in fact-based decision making. Firms that avoid the frenetic, emotion-based bid market and apply a more structured, strategic decision model have a greater opportunity for higher margin as well as a better ability to control their risk.

There are tomes of information on effective strategies and tactics for managing such games as chess and poker. Whether one takes the project now or the project later, the work requires flawless execution. The dilemma must account for not only the pipeline of work but also how to maximize profit through safe and ethical means, all as the model is changing. Superior contractors have not only a long-term direction and vision, but also tactics that support the decisions. More importantly, these organizations are nimble with the ability to make course corrections that are calculated and adequately weigh both the short and long-term risk and the appropriate reward. Poorly run businesses characterize the ability to get the second project described above as a “lucky” decision or serendipity. Best-of-class organizations create strategies that make the second project happen before the competition knows about it. They leave the dilemma to the weak.

Gregg Schoppman is a principal with FMI Corporation. He can be reached at 813.636.1259 or via email at gschoppman@fminet.com.

FMI Quarterly spoke with FMI Corporation’s president and CEO Hank Harris about the recent presidential election and its impact on the A/E/C industry. Here are some of his insights on what is ahead.

Chisholm: The federal government remains essentially unchanged since the election, and the balance of power remains shared among President Obama, Senate Democrats and House Republicans. What does this mean for the A/E/C industry in general?

Harris: I think it means more of the same, which is probably the obvious thing to say. Since not much has changed politically, and the construction industry was at a very slow, anemic recovery pace, the optimistic view would have been that if the Republicans somehow triumphed, the business world would have felt better about things, capital expenditures would go through the roof, and the pace of construction recovery accelerate. Instead of that, I think the opposite has happened and therefore while the pace of recovery is not decelerating (at least I hope it’s not decelerating), I think it’s going to be more of a slow-burn recovery.

Chisholm: What does this mean for M&A activity across our markets?

Harris: That is a good question. I think that it is not going to mean anything good for it, but hope that it will not mean anything too bad for it. One thing about construction merger acquisition activity and activity for our industry is that a little bit marches to its own drummer. Most of it is not linked to Wall Street or to the stock market. It is linked more to people in the industry who are trying to make things happen. This is the optimist in me speaking, but I think you are still going to have buyers who have growth plans. Even right now, we are dealing with many companies, midsized and up, that are looking to grow, and in many cases, they are looking to grow by acquisition. I am optimistic that will continue and I know for a fact that there are a lot of these businesses that are going to have to figure out their transition plans for the next 10 years because of the age of the owners. So I think you still are going to see a lot of sellers out there — it may not all be in the next 12 months, but over the longer haul, I think the signs would be generally good for it, regardless of the broader market.

Chisholm: Do you think what is happening with Europe’s economy is going to have any effect on our industry?

Harris: I do. I think it has already had an effect and it is going to continue to have an effect because an economy always is driven by mass psychology. It is just a cloud on the horizon; it is one of those things that keep people nervous, and it is going to continue to have sort of that dampening effect because people are fearful of what the impact and ripple effect might be on the U.S.

Chisholm: What advice would you give to contractors right now?

Harris: I do not think our advice would be any different than before the
election. I think if you focus just on contractors, one thing we hear is that the backlogs are coming back, but the margins still have not come back too much. I think what that tells you is that there are plenty of people out there who have taken bad work or work they wish they had not taken. As with any market, that is the last thing you want to do — to let yourself get drawn into the desperate situation of taking work just to have work, just to keep people busy. These are all of the usual reasons that people end up taking jobs they regret. I think this is a time to be very, very careful, because the market is slowly getting better, and you don’t want to go into a market that’s turning up, having succumbed to having taken on a whole lot of bad things that might put your company at risk or even out of business.

I think it is a time to be vigilant about which jobs you take, who you are doing business with, being careful, mitigating risks and making sure that you have margin on what you take. It is also a time to be thinking about how you are going to retool and how you are going to reposition, because three years from now the markets should be relatively healed. That is generally about how long it takes companies to be repositioned in a new market. This is a great time to be thinking about what you want to look like as the upturn continues.

The recession has tended to obfuscate the talent issue. We are seeing that re-emerge strongly with many companies. There are a lot of companies that are already starting to compete for talent and having problems with it, and this is before things even turn back up. Once things do turn back up, you are going to see this be a big challenge; and companies that deal with the talent issue effectively are going to be in a much better position, because it is going to be a competitive issue.

Chisholm: Are you optimistic that things will get better?

Harris: Yes, I still remain optimistic. I think there is going to be a lot of opportunity in the construction industry. There is demand for many different forms of construction. The problem is getting the money flowing in the financial markets. I think that the landscape for corporate America is going to continue to clear up over the next quarter. That makes me think that once we get into the second quarter of 2013, or at least the third quarter, companies are going to have recalibrated their thinking, and maybe we will start to get back to some significant Cap Ex programs, which will be good for the industry. They cannot sit on it forever — they have been sitting on it for a long time, and eventually things are going to have to start to move.

Chisholm: Thank you for your insights, and we hope your optimism is well-placed.

Hank Harris is president and CEO of FMI Corporation. He may be reached at 919.785.9228 or via email at hharris@fminet.com.
Quarterly Interview

Jon McCleary
PERFORMANCE CONTRACTING GROUP, INC.

Strategic Leader Development
Companies looking to preserve their legacy and build a foundation for growth can learn much from PCG’s ability to recognize the need and respond with a significant investment in future leaders.

Performance Contracting Group, Inc. (PCG) is one of the largest specialty contractors in the country, consistently ranking among the Engineering News-Record’s (ENR) top 15. PCG has a unique history, having once been a division of the Fortune 500 manufacturer Owens-Corning Fiberglas. In 1987 a group of senior managers purchased the 40-year-old contracting division of Corning, which would become PCG. Some of the founding members are still leading PCG today. The manufacturing history lives on, as the company is known for the strength of its processes, systems and financial management.

With more than 30 years of rapid growth, PCG has been creating great opportunities and significant personal wealth for its employee-owners. As PCG has grown, however, the company has encountered a key inflection point faced by many contractors: how to preserve the rich culture of the organization and history of performance while passing leadership to a new
generation. In this interview, Jon McCleary, who leads strategic development at PCG, shares the story of how the company made leader development a crucial component of its corporate strategy.

Alafat: Give us a little background on yourself, Jon.

McCleary: I come from a construction family. My grandpa was a carpenter, my father, a mason and construction businessman. I started in the field and have worked as a cabinetmaker, carpenter and insulator. During the 18 years that I was involved in our small business, I worked as a foreman and site superintendent running crews at a paper mill in eastern Washington. I didn’t know it at the time, but this was great experience. Eventually, career progression took me into estimating, project management and, ultimately, business ownership from 1989 to 1998. We sold our company and moved our family to northern Idaho, starting a wooden boat company.

Eventually, the contracting business lured me back. In May 2000 I had the good fortune to join PCG’s Spokane, Wash., Insulation and Specialty Services Branch as a senior estimator. The first couple of years were spent building a presence in the western Montana industrial market. I enjoyed the team environment in the branch and was lucky to lead the team as branch manager. In 2005 I had an opportunity to serve on a committee to develop PCG’s Foreman Training Program and ultimately became one of two full-time trainers. The training job took me around the country to 27 branch locations and put me in front of roughly 400 foremen in two and a half years. The travel was tough, on average of more than three weeks per month, but I really enjoyed the work and was very interested in the training and development arena. The next step was to training manager when we expanded our program and hired three more trainers. Today our Operations Training Group serves nearly 1,000 foremen in more than 50 locations around the country. In April 2008 I moved to our corporate headquarters in Lenexa, Kan., and started my current position in strategic development. We currently have a staff of 22 training and support professionals who serve more than 5,000 employees.

Alafat: So you have a lot of history and experience within the organization. Tell us a little about what the business need was that originally drove the current leadership initiative that you have.

McCleary: Over the years, PCG’s strength has been tied directly to our core values. The combination of individual commitment, work ethic, time-tested internal processes and incredible organizational discipline has been the foundation of our success. As we have grown, leaders have emerged in many places. The current focus on developing leaders is an intentional strategy to prepare us for future growth. The old saying of “what got us here won’t get us there” applied to us. The senior leadership team (the Leadership Group, as it is known) recognized that in order for us to expand our business and continue the growth and prosperity that we have experienced, we needed
to be intentional about growing leaders in the company and identifying and developing talent. That was a bit of a shift.

In the past we have tried to promote from within when possible by putting top performers into management positions with some coaching from upstream managers in the organization. We have had to rely on the individual’s experience, instincts and street smarts to get him or her through and find success. This approach was a hit-and-miss proposition most of the time. Consequently, we lost some good people along the way. We decided that a structured program was needed to take current managers to the next level and develop a system to prepare future managers. Those are the origins of our current Management Development Initiative.

Alafat: You had invested for years in leadership development. Why in the last few years have you started investing in it more heavily?

McCleary: It goes back to the shift in philosophy. Historically, “leadership” was not talked about specifically; it was blended with the term “management” or part of being a manager. Many thought of it as being the same thing. When we looked at examples of notable successes within the organization, in every case there was a talented leader driving the project or process. We also realized there were some upcoming challenges with succession; several of our senior leaders will retire in the next three to five years, many having been in their jobs for more than 20 years. We needed to make sure that the next generation is ready to lead the company. A structured program is the only way to get this done.

Alafat: What is your role in the leadership initiative that you have?

McCleary: My primary focus today is making sure that the programs we have in place are moving in the right direction. We currently have 48 individuals engaged in a personalized leadership development program. These programs are ongoing and could last up to five years, depending on the individual. I work with individuals and groups to make sure that they are getting the training and development that they need to prepare them for their next job. Through this process, I have developed close personal relationships with almost everyone involved. So there is some natural coaching that takes place along the way. Being able to work closely with my business partners and see them achieve their personal goals is very rewarding. In the early stages
of developing the program, we worked with FMI to develop a strategy. We looked inside the organization to determine which leadership attributes predicted outstanding performance and used that information as a foundation. We are constantly searching within the organization to identify talent. My main job is to make sure we do everything possible to develop those individuals.

**Alafat:** For the benefit of our readers, can you talk about some of the nuts and bolts of this — how you started the process, how you selected the leaders to be a part of the process — what did it look like?

**McCleary:** Our program is known as the PCG Management Development Initiative, and there are three main areas of focus. The first is to prepare our next generation of senior level leaders for the challenges of those positions. Second, we want to provide our experienced managers opportunities to grow in their careers. The third and largest group is the emerging or future managers. The success of this group will be vital as the economy recovers and our business continues to grow. When we began to consider candidates for these programs, the first step was to create a list of leadership attributes that aligned with our values and culture. Our senior leadership and operations teams measured candidates against the list and selected individuals accordingly.

Today we have a variety of groups involved. The D12 includes 12 senior management candidates who focus on personal leadership development and are engaged in mentoring relationships with our Leadership Group and operations VPs. The D12 have been together since December 2010 and have attended the Leadership Institute and other leadership labs as part of their development track. An important element is accountability; the 12 members are broken down into four-person teams, and every member has an accountability partner. This has been a good way to develop relationships within the group.

This year we added another group called the C12. These are senior corporate staff and department managers who interact with almost every other manager in the company. We think this group is equally important and want them to be able to travel down the same road as the D12 group. The interesting thing about both the D12 and C12 groups is that, from an age perspective, most everyone has 10+ years to go. It just makes sense that this leadership development process is something that we all should do together. In the end, I believe this makes us a better company.

At the branch level, we have the Emerging Managers group. There are 24 individuals engaged in the program, and the list continues to grow as new talent emerges. Personal development and management skills are the objective here. The emerging managers are mentored by the D12 group and have the same type of accountability structure. Finally, we have the experienced managers in our branches. We have been a little slow addressing their needs.
as the other parts have been a priority, but we want to be able to offer any development needs that come along as part of the overall program.

**Alafat:** You have the two groups and they have been involved for a year, in some cases closer to two years. What results have you seen so far — what has been your return on investment?

**McCleary:** There have been a few things that jump out at me. The first is that, up to the point that we formally began our leadership development program, there seemed to be questions and concerns from within the organization about senior-level succession. As an employee-owned company, people are naturally concerned about their future and the leadership of the organization. Because we’ve had such a successful track record, the thought of those key individuals leaving the leadership team is a bit disconcerting to some. If nothing else, the fact that we’ve invested the time, energy and resources into developing a program, and we can see the solution to this, has brought a fair amount of assurance to those who may have been concerned about that in the past.

I have also experienced an increase in confidence at the individual level. As future leaders are able to envision their career tracks, there is a natural confidence that comes with that. As they develop new skills or are introduced to new ideas, they naturally gravitate toward a more positive outlook and feel like they are actually part of the future, and that’s exciting.

Those are some key things. We also have seen some real cultural shifts that have been positive. We’ve had a fair amount of focus on accountability within the organization. We have done a lot of work with “plus/delta” feedback, which is a part of the FMI program. We’ve relied heavily on the Peak Leader model as a guide for our overall development initiative. All those things being part of the bigger plan have created some cultural shifts that have been positive. Our overall communication has been better as an organization due to this focus.
The most significant thing that I’ve noticed is the depth of the relationships that are occurring between members of the D12 group and the Emerging Managers group. All members have an accountability partner. They are responsible for keeping their partners on track with personal development goals, so they have an interest in each other’s success.

Creating a culture of mentoring has been another important part; the D12 members have been assigned a mentor from the senior leadership team. They meet regularly — the expectation is to meet a minimum of once a month by phone or in person. The mentoring relationships extend down through the organization. The D12 is now responsible for specific and formalized mentoring of the Emerging Managers, so each of the D12 has two emerging manager mentees. The process has cascaded its way through the organization. Mentoring is also happening in other places, like our branch administrators, superintendents and foremen. So, the depth of relationships has been the other real benefit.

Alafat: I love that. It sounds like the mentoring, the transferring of information through the different generations is happening. The building of relationships and the attention people are getting would have multiple benefits to you in terms of morale, developing your talent, etc. You mentioned you are employee-owned. Has there been any pushback about how much you are investing in this program? Tell us about that and what the budgeting process looks like.

McCleary: There has been no pushback at all. This initiative has been important and high-profile enough at all levels that most everyone sees the value; I have not experienced any pushback at all from any group. Last week we had our annual budget reviews, and for the third year in a row, we’ve actually increased our budget for developing leaders. Part of that has to do with the Leadership Development Initiative itself, plus the involvement of the Leadership Group in its development. Typically, the way we go about the budgeting process is that we begin with a needs assessment and then back into the various programs that are required to fill those needs. The programs are budgeted on an individual basis; some internal PCG programs with staff costs, while others are outsourced programs. That is how we came to invest in FMI’s programs as part of the solution. All of these parts are rolled into an overall plan and strategy, which I then present to the Leadership Team for approval. This year, I went in with a number in mind to
support the plan. During the course of our discussion, we discovered areas that needed to be increased or added. The Leadership Group approved the budget and I walked out of the review with more than I had hoped for.

Alafat: It sounds like the Leadership Team is committed to this process and sees the value in it. I can hear a cynic saying, “It all sounds great, but it takes some time to mentor people and to do all these things, and we’re in a time where there’s so much to do and we’re thin on people.” How have your leaders managed their operational responsibilities while participating in this process?

McCleary: It’s been difficult for some, but I can honestly say that in the first 12 months, we’ve been able to shift the thinking from that of an organization that is managed by competent managers to a culture of teams that are led by very capable leaders. That shift in thinking has done more to get individuals to look at the bigger picture and the future of the company. You asked earlier if there is any pushback from members of the team because of our structure as an employee-owned company. The short answer is no. If anything, individuals feel more responsibility to do what is necessary to be better next year than they are this year. If that means managing their day-to-day responsibilities effectively and still finding time to do those things that will help them become better leaders, they have accepted that challenge. As time goes on and they improve their ability to delegate responsibility within their organization, they are finding they have more time to focus on personal leadership development. A lot of it is a question of the process. Once they get over the initial shock of, “Yeah, this will be more work for me,” and can see how this will help their career and the company, they are able to find a balance between the two.

Alafat: It is similar to how we talk about delegation. To delegate correctly, it will take some time initially. It may take more time than if you were to do it yourself. But in the long run, you get a lot of time back because you’re developing your people and creating a team that can do a lot more. Then

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you may not have to do some of the things you were doing previously. So that makes sense. I know you’ve sent a lot of people to FMI’s Leadership Institute, and it’s a part of your process, as it is for many organizations in the industry. Tell us how the Institute fits into your overall initiative.

McCleary: I attended FMI’s Leadership Institute in early 2012, along with three others from PCG. My goal was to audit the program and evaluate if it was a fit for our company. Not only did I conclude that it fit our organization perfectly, but also I personally benefited from my experience at the Leadership Institute. That experience was very positive. As we looked at our overall strategy for developing leaders, we decided to map an individual’s development through the end and provide some milestones along the way. We have decided to bookend our Leadership Development track with two FMI programs. When we select a new candidate, he or she immediately is enrolled in FMI’s Emerging Managers Institute. From there, we engage the participant in a series of evaluations. We have a position description that outlines specifically what individuals will need to know in terms of skills and attributes. We measure that against their experience and current level of competency in various areas. Their supervisors will review the evaluations, with assistance from my group, the Strategic Development staff. Then we’re able to come up with a personalized development plan for the individual. Those plans can run anywhere from one year to three years in length, depending upon how much development needs to occur. They are highly customized — tailored to the person and his or her intended position and future role.

As we looked at our overall strategy for developing leaders, we decided to map an individual’s development through the end and provide some milestones along the way.

At the end of that development plan, once we feel as though someone has worked his or her way through the process, we bookend it on the other side with the Leadership Institute. This is the end of one era and the start of another. It puts a nice cap on the end of the program but also launches the individual into a career of learning and development in the area of leadership. We hope at that point the leader will engage in a self-directed lifetime of leadership development. That’s the way it is set up now, and FMI’s programs have been successful in getting us out of the blocks and also finishing the process at the end.

Alafat: You mentioned you have mentoring going on from the top levels down to the D12, the Emerging Managers and into the organization. Are
there other success stories or highlights that you’ve seen in the last couple of years that you could share?

**McCleary:** I mentioned earlier that there is a high level of transparency and trust that was not evident before the leadership development process started. We are seeing more collaboration between our divisions. There seems to be a lot more interest in one division learning more about what the other does. I would say that there has been an increase in the overall confidence when people think about the future. I constantly have business partners asking me questions about leadership development and particularly, “What can I do to be considered to be a part of the program?” There’s a tremendous amount of momentum, and it has allowed ambitious young leaders clearly to see a path to the future. Shockingly, there has been very little negative. There is occasional disappointment when someone is not selected to be part of the program; we hope that person will ask how he or she can get the skills needed to be considered and then we can work on that. We want to keep the door open to everyone who sees PCG as his or her long-term career track. Those are the main high points.

**Alafat:** By having a cohesive plan and program that people move through, you are creating a culture of leadership development. There’s a common language, a framework, that’s allowing people to communicate more effectively. Throughout the organization, using the same ideas, words and principles, I would think that would create a lot of synergy also.

**McCleary:** You’re absolutely right. Recently, we have expanded this in many different ways, but we have actually utilized the Peak Leader Model as a foundation for all of our leadership discussions. For example, last week I worked with a group of our administrative training staff and top administrators from many of our national branch locations. We talked about how to apply leadership at their level and the challenges of leading outward to peers in the business and at times leading upward. It is interesting how the Peak Leader Model applies in many different ways. I mentioned the C12 earlier. As part of our plan, this year we are sending 12 of our senior corporate staff and department managers to the Leadership Institute and then to the associated Leader Labs scheduled in 2013. We are expanding the idea of cascading knowledge down the organization through a formalized mentoring program at all levels. We are all business partners; what’s good for one is good for all, and I believe that this is one of the reasons we have such a great company.

There’s a tremendous amount of momentum, and it has allowed ambitious young leaders clearly to see a path to the future.
Alafat: It sounds like you are doing a lot to ensure the transition of the leadership principles from generation to generation. I am sure that is creating a lot of confidence among employees that the success you have had is going to be sustainable into the future. What are you doing, if anything, to ensure that the next generation lives the same values and lives the PCG way?

McCleary: We have to continue focusing on our core values and executing the fundamentals. Building a solid leadership strategy on top of that base will ensure that the culture continues. It really comes down to the people and their belief in our mission. We know that we have been successful in many different ways over the years and experienced tremendous growth and prosperity as an organization. Frankly, we have gotten used to that level of success. The only limit to our ability to move into the future is going to be preparing more leaders to handle the increased responsibility that goes along with growth. Some of the growth will come through expanding our current businesses, and some will come through acquisitions. When I think about where we have come in the 12 years that I have been with the company and then imagine another 10 years down the road, I can see many people like me who are thankful that they hitched their wagon to PCG. In 10 years, this company will probably look different than it does today in terms of the businesses we are involved in. One thing that will remain constant is our commitment to our people and their development.

Alafat: That leads me right into my next question. What do you think PCG is going to look like 10 years from now with all of the emphasis you have put on leadership development?

McCleary: We are excited about the future. We’re aligning our leadership development efforts with the impending economic recovery. It will come back one day. We are betting that when things turn around, we are going to get more than our share of the work. There is pent-up demand out there, and we feel like the preparation that we are making today will position us in the future to be able to capitalize on it. It is hard for me to believe that I have been here for 12 years and have seen amazing growth happen without such a formalized leadership development initiative; so it’s hard to comprehend where we may end up with one. I suspect we’ll be able to weather any storms that come along and capitalize on whatever opportunities are out there. We have a great future ahead of us as employee-owners of PCG.
Alafat: Is there anything else you would like to say to our readers that I haven’t asked you?

McCleary: The one thing that I have left out is why we selected FMI as a partner in this. The logic was simple. When I came to Kansas City and was asked to lead the Training and Development Department, it was a great opportunity for me personally but also a challenging assignment. When we launched the management development initiative, the first thing that came to mind was that we would need a partner who (1) had great perspective on the industry and (2) had been with other companies as they faced the same sort of challenges, to help coach us along and hopefully save us time on the front end by avoiding common mistakes that are made by most. That was the thought process, and there was nobody else in the marketplace whom we had experience with and confidence in other than FMI. Personally, it’s been a great comfort for me to be able to rely on FMI for that support. I have developed friendships with FMI staff and am proud to be associated with such a professional organization.

Alafat: Thanks, Jon, and we look forward to seeing the continued success of PCG going forward.

With an estimated 10,000 baby boomers (the generation born between 1946–1964) reaching age 65 every day for the next 19 years, leader development and succession planning become a necessity for enduring success in the construction industry. Companies looking to preserve their legacy and build a foundation for growth can learn much from PCG’s ability to recognize the need and respond with a significant investment in future leaders.

Tom Alafat is senior consultant and principal with FMI Corporation. He may be reached at 303.398.7209 or via email at talafat@fminet.com.
Succession planning is an essential component of a firm’s overall strategic plan. Succession plans establish who will step in to take the place of departing executives, project managers and other key personnel by objectively and proactively identifying, assessing and developing the skills of promising employees to provide tomorrow’s leadership for the company. The best-performing companies are those that prepare for leader succession thoughtfully and intentionally, with a line of sight to their envisioned future.

Unfortunately, the Great Recession threw retirement and leadership-development plans of many construction firms into disarray. Now that recovery is on the horizon, it is time to put leadership transition plans back on track. Remember the “war for talent” that dominated the headlines before the economy crashed? Well, it’s back, if it really ever went away. Not only will there be an exodus of baby boomers from the workforce in the next several years, along with fewer people left to replace them, but also many talented people in the A/E/C industry who were laid off during the Great Recession have moved on to different industries, never to return to construction. The time to revisit those succession plans is now.
Succession planning is a continuous and systematic process that should be tied to the organization’s strategic plan. In other words, the details of your succession plan are determined by what the company wants to be in the future. Succession planning includes identifying, assessing and developing talent to ensure leadership continuity. It must allow for unforeseen and constantly changing business needs and reflect the way the company wants to grow in the future by aligning with strategic objectives and goals. Careful succession planning now can make the difference in retaining key talent and ensuring your firm’s ongoing profitability and success.

**INTERNAL VERSUS EXTERNAL CANDIDATES**

As you begin thinking about what the leadership in your company will look like several years from now and who will be in these positions, there are a few things to take into account. First, you must decide if you have internal talent that can become the new leaders of the firm, or if you need to look outside the company. When planning to replace key personnel, consider these questions:

- What are the strengths and weaknesses of existing personnel?
- Does the firm have the internal resources to fill the gap of a departing owner?
- Should the firm initiate an external search?
- How should it spread the word to identify candidates?
- Is an executive recruiter necessary to facilitate the process?

Many organizations prefer to choose their successors from within the company. By doing so, they reward loyalty and already have a good idea of the future leaders’ potential for success.

**JOB ROTATION/CROSS-TRAINING**

Once future leaders are identified, it is essential to provide developmental and training opportunities to them. One way to do this is through a cross-training program. Cross-training can be as simple as shadowing an experienced employee or receiving training. It also can be achieved through a job rotation program.

Job rotation is a management technique in which employees move among two or more jobs in a planned manner, thereby subjecting them to different experiences and a wider variety of skills. For example, potential leaders shift from their current positions to learn and solve new challenges in different areas of the
company. This provides insight and understanding of various aspects of the business to the future leaders as well as raising their confidence levels as they solve important problems for the organization.

Job rotation should be organized around the future leaders’ strengths and the upcoming roles expected of them. Expose them to as many areas as possible so when they do rise to higher levels of leadership, they have an overall experience of their domain.

Reassigning an individual to another job or department for three months is certainly beneficial, but six months or longer is ideal. For senior executive candidates, field experience is especially advantageous.

MENTORING

Mentoring is a great way to help employees begin to think like leaders. Future leaders are paired with seasoned executives to learn more about their new role and how to achieve success in it. Mentors help to expand the mentees’ understanding of the skills needed to advance in the organization and increase their effectiveness on the job. They offer fresh perspectives, provide guidance and address questions and problems that their mentees may be having.

Mentoring is a win-win development opportunity for all involved. Mentors

ASSESS YOUR LEADERSHIP PIPELINE

The succession planning processes differs from company to company, but an organization should take some actions to assess its leadership pipeline, as outlined below:

- Begin with commitment from senior management
- Link succession planning to strategic goals
- Project future leadership requirements
- Generate competency lists
- Create lists of potential candidates
- Assess internal talent’s business, management and interpersonal skills
- Gauge potential derailment factors
- Confirm motivation to lead
- Provide training and development opportunities
- Assign formal and informal mentors
- Offer executive coaching
- Evaluate demonstrated results
- Capture the knowledge of those leaving
- Continuously revisit and revise the succession plan as necessary

It is never too soon to begin. Successful leaders begin thinking about their successors the first day on the job since it can take at least three to five years to identify, assess and develop the talent that will one day take their places.
take an introspective look at their own practices, fine-tune their interpersonal skills and transfer knowledge. Mentees learn about best practices in the company and the industry and expand their professional networks.

Some companies have formal mentoring programs that require the mentor and mentee to meet a specific number of times throughout the year and report back to Human Resources or the Training Department on a regular basis. Other programs are less formal and do not require the reporting aspect — it is up to the company to decide which will work best in its unique culture.

**EXECUTIVE COACHING**

Once future leaders begin stepping into their new roles, companies should consider executive coaching as a way of continued development. Executive coaching is a highly effective method of helping leaders expand existing skills or gain new ones for the future. Coaching helps an organization grow its leaders by providing a channel for discourse and feedback. With the right coaches in place, employees are motivated to achieve their best. It is hard to be a successful coach without having good leadership skills. Effective coaches will link valuable development activities to current and future performance expectations. They are empathetic, compassionate, patient, goal-oriented, ethical and good communicators.

Successful coaches:

- Emphasize business fundamentals through their knowledge of the industry.
- Share important contacts, both internally and industrywide.
- Communicate lessons learned, both through life and work experiences.
- Offer constructive, objective, honest feedback.
- Encourage teamwork and networking.
- Pay attention to details and have great organization skills.

Many companies hire executive coaches from the outside, which helps to ensure that they possess the necessary qualifications and certifications to be effective and successful.

**REMEMBER TO CAPTURE THE KNOWLEDGE OF THOSE LEAVING**

A few weeks after Bob retired, people realized that not only did a great employee leave, but also he took with him knowledge that no one else had. Questions about why, how, where and when were guaranteed to surface, because he had not taken the time to get some of his knowledge and lessons learned out of his head and into a computer.
If you have leaders that are beginning to think seriously about retirement, now is the time for them to share and document the best practices and processes that are central to your company’s success. One of the best ways to do this is through a knowledge management system (KMS). A KMS codifies what employees and customers know, and allows the company to share that information among its staff in an effort to devise best practices and lessons learned. There are numerous knowledge management systems available in the market, and your company should select the one that best fits its needs.

SUCCESSION PLANNING AT ZURICH

FMI spoke with Karen McDonald, who is head of Talent Management at Zurich North America and works closely with Zurich's global talent management organization as well, about the ins and outs of succession planning in a large organization. Here are some of her insights and advice when planning for new leaders.

Chisholm: What are the main steps involved when you are mapping out a succession plan?

McDonald: Zurich is truly a global organization in that our succession planning process is established at the Group level with regional input and implemented on a regional basis. The process starts with identifying key roles of the leadership team and then the successors to those roles.

Chisholm: How do you identify the successors? How do you create that leadership pipeline for the future?

McDonald: We look at a wide range of factors, beginning with performance, when identifying successors to leadership roles. Once the successors are identified and placed on a succession plan, those plans are reviewed at increasingly senior levels of the organization. For example, we start by creating succession plans for country-based key roles. Once country-based plans are reviewed and approved, regional-based (in our case, North America) plans are developed. Once the regional-based plans are completed, functional-based plans are developed. This process is repeated throughout the organization, culminating with a global review at the Group level.

Succession planning is part of our overall talent management process, a global process that takes place throughout the year. Throughout the process, we seek to meet our pipeline needs by ensuring that our employees receive the development they need.
**Chisholm:** Do you have some electronic means or software that you use in this process?

**McDonald:** Our succession planning process is enabled by technology. Also, we will upgrade our technology capabilities for the upcoming 2013 talent management process and are all pretty excited about taking our capabilities to the next level of technology.

**Chisholm:** What happens if you cannot find a successor internally? Do you start looking outside of Zurich?

**McDonald:** Our priority is to develop our people. However, if we discover that we need an external successor for a key role, it is noted and factored into our talent development processes. I do think what is helpful is since we are a global organization, we have access to a wider range of talent than we would if we were limited to a single regional market.

**Chisholm:** How far in advance do you start? With the aging of the baby boomers right now and people are going to be leaving the workplace in droves, how far in advance would you start to replace a senior VP who might be retiring five to 10 years down the line?

**McDonald:** We try to identify and develop talent throughout various stages of career progression. By doing so, we focus on creating a robust talent pipeline. We look not only at executives who are more advanced in their careers, but also at employees who are at an emerging stage of their career development.

We look not only at executives who are more advanced in their careers, but also at employees who are at an emerging stage of their career development.

**Chisholm:** Do you tell the employees in advance that they are being groomed for particular roles?

**McDonald:** We are piloting a program in which we hold “career conversations” with identified talents. The initial feedback on that program is very positive, and we are looking to extend the program to other “talent segments” in the future.

**Chisholm:** That leads me to another question as far as the development plans. Do you have
internal training, or do you send people out for external training and development? How does that work?

**McDonald:** We do both. We have a number of internal development programs that are supplemented by external training as necessary.

**Chisholm:** How do you capture the knowledge of your outgoing employees, those who are retiring and need to be replaced? How do you capture their experience?

**McDonald:** In general, we have a culture of knowledge sharing, ranging from the collaboration that naturally occurs in the way people work together in teams to knowledge management processes and tools in which the company has invested. For example, we have a variety of knowledge databases for specific disciplines that are used throughout the company. As I said, knowledge sharing is something that is part of our ongoing culture and has been for a long time.

**Chisholm:** Are your succession plans tied to Zurich’s overall strategic plans? How does that fit in?

**McDonald:** Absolutely. We have a strategic workforce planning process that helps to link our succession plans to our overall strategic agenda. Indeed, the strategic plan provides the context for our succession plans. Among other things, the strategic plan informs the capabilities and competencies we seek to develop though our talent processes.

**Chisholm:** What are the main hurdles to all of this, from an internal perspective? What might get in the way of the process?

**McDonald:** I don’t know that I would characterize hurdles as “getting in the way” because people recognize that succession planning is an important process and enables our ability to compete in the marketplace. Ours is a complex business. There are a number of dimensions that need to be taken into account from a succession planning process. Each dimension of the business (i.e., Business Segment, Regional, Functional, etc.) adds an element that must be addressed to create comprehensive succession plans.

**Chisholm:** If you are grooming somebody to fill a leadership position, does she or he rotate into different roles throughout the company or go to different locations? For example, would somebody in North America go work at your headquarters in Zurich? How does that work?
McDonald: Yes, as part of the development plan, all of the dynamics that you mentioned come into play. As part of development planning, we might look at rotating people through key experiences. Most development takes place through experience. Development balances a variety of learning modes, but experience, along with targeted feedback, is what actually accelerates that development. As opportunities arise that are consistent with a person's development needs, we try to match the opportunity to the need. So yes, we actively monitor the opportunities that we want to make sure an individual is able to experience as part of his or her development. Having global experience will be increasingly important in the future, and we will look to develop and foster for our employees in the future.

Chisholm: Are these people paired with mentors, either formally or informally, throughout the process?

McDonald: Yes. We have different programs in different parts of the company, but mentorship can happen both ways — informally and formally.

Chisholm: What roles are you looking at in terms of succession planning? Is it for executives only, or does it filter down to any other roles in the company?

McDonald: As I mentioned before, the succession planning process starts with identifying key roles of the leadership team and the successors to those roles. But the idea of having successors throughout the organization is key, and we do have succession plans for other roles outside of the leadership team.

Chisholm: Do you have a list of essential competencies that these people are going to need?

McDonald: Yes. In addition to the technical competencies that are required of each discipline, we have developed the Zurich Leadership Model, which defines leadership competencies across Zurich.

Chisholm: What advice would you give to others to make succession planning a seamless process?

McDonald: If you are starting from ground zero and are trying to implement it in your own organization, carve out a manageable part of the organization within which to pilot the process. Don't try to accomplish everything in “one fell swoop.”

Zurich has been at this for a while, and we have developed a certain level of capability around succession planning and development. My counsel would be to start with a manageable goal in mind and then, upon experiencing success,
build on the process and expand it into additional parts of the organization. For example, you might want to start with specific roles in your organization or specific locations. But don’t try to undertake implementing everything at once. Bite off manageable chunks.

Chisholm: Is there anything else that you would like to add?

McDonald: Just that I think succession planning is an important process and it is one that serves, as do many others, a specific role in the organization’s health, continuity and ability to compete effectively in the marketplace. I think there is going to be an increasing emphasis on the entire talent management discipline and its role going forward, as some of the workplace dynamics we’ve discussed change in the coming years.

FMI Quarterly thanks Karen and Zurich for taking the time to speak on this important topic.

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Social media is not new, but the technology driving it has changed the game for business.

By Cynthia Paul

Your Web page just received its 5,000th “Like,” and your team is sharing high-fives around the office. You are well on your way to having a thriving social media strategy. Or, are you?

Social media is changing the relationships companies have with their customers, vendors, suppliers and, yes, even their employees. Organizations have long controlled the messages that went out into the marketplace about their company, products and services. Except for a few unfortunate incidents where a business finds itself on the front page of a newspaper, the company was the one that determined what the market knew. Social media has changed that. The power of communications has move into communities and out of the hands of corporate marketing.

However, before we look at ideas and suggestions for leveraging social media, let us take a step back to its onset: the beginning of human relationships. People by nature are social animals. From the beginning, we lived in groups for safety, got help with hunting and gathering, and interacted with others. Social media began when we were still living in caves and watching out for scary things that threatened to eat us. Essentially, social media is nothing more than having a dialogue with another person or a group of people.

What is different today is that technology has created a game changer. Technology has enabled a wildfire of communications that links the globe together. You can “friend” people in China as easily as those across the street. Technology is making it simple to communicate with anyone and everyone. It is also taking away our ability to keep a low profile.
Not all communication is a good thing. The current generations will continue to find that out in the years to come. Many employers are looking at people’s social profiles before making a decision to hire or even interview them. People are finding out that those embarrassing pictures of spring break are having more of an impact than generating a few laughs for close friends. They are affecting how future employers and customers will look at you. Unlike printed photos that would graciously get lost, folded or damaged, electronic pictures (and inappropriate comments) will stand the test of time and be there for years to come.

**Not all communication is a good thing. The current generations will continue to find that out in the years to come.**

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SOCIAL MEDIA IS ALIVE AND WELL EVERYWHERE

For the last 10 years, my husband, sons and I have enjoyed living in eastern Colorado. For those of you not familiar with the geography, let me summarize it to say this is not the side of Colorado that is captured in coffee table books. Eastern Colorado, sometimes called Colorado’s Outback, is a combination of rolling hills, semi-arid high plains, grasslands, ranches and farms. Few trees bless the landscape outside of riverbanks and the windrows that shelter houses. It is a place where cattle far outnumber people.

The few towns that dot the eastern Colorado skyline tend to be small but vibrant. For example, the town that we lived in does not have a stoplight; rather it uses a serious of stop signs to prevent you from inadvertently driving across the highway. Even though the traffic does slow down to 45 miles per hour through town, being hit broadside would prove to be an unpleasant adventure.

In our town, social media is a way of life, not a foreign concept only understood by a few. It is where the real power of social media really hit home for me.

Each morning starts over a cup of coffee in our community. The farmers and ranchers have already checked their herds and irrigation systems. They then join their friends and family in the local café. Since there is only one café, there is no confusion about where people get together.

The conversations start as your foot crosses the threshold. A half a dozen people call out “good morning” and start asking how you are doing. On the walk to your table, you stop for a few minutes and “visit.” It is where you take some time and talk to neighbors, friends and strangers alike. Your path includes stopping by the two ranchers, covered in dust and mud, perched on the stools at the counter. Then you move from table to table. You might even holler across the room to people sitting in the back or those gathered at the community table, where anyone is welcome to join in.

Over a hearty breakfast, you find out about cattle prices, crop projections and weather patterns. One of the local grandmothers might give you some helpful advice on how best to handle teenagers. The local coach gives you pointers on how
the team will beat its rival on Friday night. A local schoolteacher provides a quick update on one of your sons while she walks out the door to go to her classroom.

Stopping for a minute or two to see how someone is doing and catching up on what has been happening is just part of everyday life in the country. It plays out in thousands of small towns every day. That is social media country style. Best I can tell, most of our neighbors were also on Facebook, LinkedIn and Pinterest, but the preferred way to communicate was over a cup of coffee at the local café, during ball games on Friday night or over the counter at the local co-op.

**RULES OF THE GAME**

Technology-enabled social media is much like the everyday social media in our small, eastern Colorado town. It is easy to know who likes you and who does not. What you say in public, and sometimes even what you say in private, instantly gets around town. You quickly learn to be a good neighbor and that what you do will be noticed. People really are watching everything you do.

Here are a few suggestions for making social media work for you:

- Realize you are the content. Be authentic, anything short of that will quickly come to the surface.
- Start by listening first then engaging second, if you are just starting a social media strategy.
- Remember the 80–20 rule, which is 80% of what you communicate should be sharing insights, knowledge and ideas. Only 20% should be about your company, its services and how to engage with you.
- Create meaningful ways for people to engage with you. You only have a few seconds to capture their attention.
- Leverage infographics to share your message powerfully. Use charts, graphs and illustrations to communicate the message visually. Minimize text.
- Do not overrun your ability to keep up. There are many social media venues. Pick a few strategic ones and stay with them. Spreading yourself, or your company, too thin will make you appear unresponsive.
- Check out Pinterest. It is the third most popular site — behind Facebook and LinkedIn — and provides new ways to communicate and share.
- Use social media to communicate with your internal team. It is an efficient vehicle for communicating vision, successes, lessons learned, etc.
- Use social monitoring tools. Keep up on what is said about you. No single tool tells you everything you need to know, so use a variety of them.
- Use Twitter to search for products and services, like 40% of its users.
- Use social media as part of your customer-care efforts. It provides a two-way conversation.
- Have a governance policy in place. Be willing to experiment on what is most effective. Provide guidelines for employees before there is a problem.
- Remember, the objective is to not build sticky sites, but rather provide content that people will pass along to others.
- Get engaged by joining a LinkedIn group, like 81% of its users.
- Start with getting your strategy straight. Be clear about who you want to engage with and how.
Social media is not new, but the technology driving it has changed the game for business. Get smart. Learn how to engage your target audience in meaningful ways. Getting 5,000 “Likes” is a great start if it includes the communities that are most important to you.

Though we no longer live in eastern Colorado, we still keep up with neighbors and friends over a cup of coffee. Unfortunately, now it is over a cup of coffee made at home, sitting in our kitchen reading Tweets and Facebook posts. I think it is time to jump in the car and go visit.

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ADVANTAGES AND DISADVANTAGES OF POPULAR SOCIAL MEDIA

Now more than ever, companies have the opportunity to reach numerous customers and potential clients in record time at minimal costs through social media. They can send messages, solicit and receive feedback on their products and services, engage in conversations, drive visitors to their websites or just make others aware that they exist. In addition, they can share content globally anytime, day or night, 365 days a year.

Of course, there are some disadvantages of social media to consider, especially the time companies spend learning how to use various media; researching which platforms will yield the best results; managing the sites, which should occur daily at the very least; dealing with negative or false feedback that can spread quickly; and measuring the effectiveness of this type of marketing.

A recent study by Harvard Business Review and SAS Institute (2011) found that among the 2,100 companies they surveyed, 79% were using or planning to use social media. “Social networking sites were the most popular form of social media, with the majority (87%) using sites like Facebook. More than half (58%) reported using blogs or multimedia sharing. Fifty-three percent use micro blogs.”

Here are short descriptions and specific advantages and disadvantages of the most popular social media, including Facebook, LinkedIn, Twitter and YouTube.

Facebook reached the 1 billion users mark in fall of 2012. That’s 1/7 of the world’s population. If your company is not taking advantage of connecting with some of these users, it should be.

Facebook encourages business to establish pages and has several tools to make communication easy. Companies connect with users by creating a fan page, where they can post information, photos, questions, promotions, news and updates for their followers to leave comments or feedback on.

**Advantages**
- Customers are engaged through dialogue, giveaways, contests, etc.
- It is an easy way to communicate. Chances are that many people in your company have their own Facebook pages, thus making the learning curve small.
- It is a great mechanism to receive feedback.

**Disadvantages**
- It takes time to build a following. Ample patience is required; it is not going to happen overnight.
- You do not own information on Facebook.
- Some people may use your page to post spam, offensive comments or even lies, for anyone to see. Frequent monitoring is recommended in order to delete spam and falsehoods, but your firm’s reputation may be damaged before you have a chance to remove negative content.
LinkedIn is the largest professional network in the world. Personal pages allow users to profile their education, work experience, skills and expertise, etc., and to give and receive recommendations from others. You can join specific groups targeted to specific topics, such as construction management or civil engineering.

A LinkedIn company page showcases an organization's history, field of expertise, products, services and contact information. Companies can post status updates for their followers to stay current with any news, job opportunities, etc.

**Advantages**
- It is a good way to start conversations with others (ask for advice, for example).
- You can build a community of followers who may not be on Twitter or Facebook.
- You can conveniently receive relevant industry news.
- You are able to track other companies for news, comings and goings, etc.
- It is a great place to network with peers.

**Disadvantages**
- Many people do not visit LinkedIn each day.

Twitter is a microblogging platform that allows users to post short messages (known as "tweets") about things they find interesting or newsworthy. Each "tweet" is limited to 140 characters, which can be an advantage or disadvantage, depending on what you are trying to convey. For companies, it is a great avenue to connect their brands and messages to what people are currently talking about. It is also a good way to gather market intelligence and insights.

**Advantages**
- It is cost-effective. Since companies do not have to pay for registration or monthly fees, they are getting a free platform to market and advertise their products and services.
- Being limited to 140 characters makes messages short and to the point and quick to read.
- It is a great complement to Facebook and your company's website.

**Disadvantages**
- Customers who may not have taken the time to write or call with a complaint can do so easily on Twitter, and they usually expect a quick response, which requires close monitoring of your account.
- Being limited to 140 characters may be hard for some companies who may feel that they cannot get across their full message.
- You cannot tweet videos, although you can tweet links to them.
- Negative comments about your company can spread quickly, which could potentially hurt your business or even cause you to lose customers.

YouTube is a video sharing site where users can upload, view and share video. It is a great avenue for businesses to put their products and services online for little cost.

**Advantages**
- People like watching something rather than reading about it.
- Video is SEO friendly. Videos often appear on the first page of search engines. That's not surprising, considering Google owns YouTube.
- You have the ability to measure and understand your video's effectiveness through Insight Statistics and Data.

**Disadvantages**
- It takes time to produce interesting and informative videos.
- You may need to tape the video several times before getting it right.
- Editing is usually required to achieve a professional video.
- There is an upfront investment in cameras, lighting, accessories, etc.
- While you have the power to delete spam, offensive comments, etc., this takes time and close monitoring of your posts.

Using social media to promote your company takes careful and thoughtful planning. You do not want to jump on any of these platforms to promote your business without thinking about how you are going to spend the time and allocate the resources that it will take to market your company successfully.
The president of a third-generation regional contractor specializing in pre-engineered metal buildings reviews the latest company financial update and shakes his head. Three years ago, the company opened its first branch office in a neighboring state. Since then, the branch has consistently lost money. As pressure mounts to make a decision about the fate of the branch, he reflects on what went wrong.

At the time, the market appeared to be strong, the company had a solid business plan, a good reputation and, most importantly, it brought in a vice president of Business Development with local market expertise and a proven history of capturing large contracts.

Upon reflection, he realizes the problems began almost as soon as the new VP of Business Development joined the company. The VP had an outstanding resume featuring a long tenure at a much larger competing company. He was confident, aggressive and brought a deep network of relationships with owners, manufacturers and local subcontractors. He also came at a substantial price — the highest base salary the company had ever paid a business development leader, an ownership stake in the business and a lucrative incentive compensation plan.
Looking back, he sees there were early warning signs. The future vice president came to the interview in an expensive three-piece suit and spent much of the time talking about all his previous successes. He confidently shared his vision to move the company from its niche in small, high-margin work in the areas surrounding the major metro area into much larger, lower-margin work in the city. Several executives expressed concern after the interview about his style, questioning the fit with the family atmosphere at the company, where the founding owner who swept the floors every night until his mid-60s instilled a deeply committed and humble culture. However, the strong résumé, persuasiveness of the future VP and potential for growth and profit outweighed the concerns.

This client scenario may feel familiar to many design and construction executives. While there are many root causes to examine in the failed branch example, one of the most significant is an ineffective process of evaluating and selecting leaders. A hiring mistake can be financially substantial, with research showing that the resulting cost of turnover can be three to five times the salary of the position. Yet, many construction executives rely on the traditional approaches of reviewing résumés, conducting interviews using general questions and, most of all, going by “gut feel” or instinct. Fortunately, there are processes and tools that can significantly improve hiring decisions.

When the time comes to select a new leader, difficult questions arise, such as whether to choose an internal or external candidate, what skill sets to seek, how to assess for intangibles, such as interpersonal skills and cultural fit, or how to find the right blend of operational experience and executive leadership ability. In an industry that values instinct, it is no surprise that many executive teams rely on traditional methods of interviews and résumé reviews to make hiring decisions. While instinct and “feeling” about a person can be effective, human resources and industrial
psychology research shows that adding science to the art of personnel selection can significantly improve the odds of a successful hire.

Since all but the largest and most progressive design and construction firms lack an internal hiring expert, most rely on the standard approach of interviewing candidates and reviewing their résumés. Unfortunately, neither of these options is reliable nor effective on its own, especially when used without training to eliminate consistent areas of bias. Yet, the universe of assessments, structured interview questions, rater training and other best practices can quickly overwhelm. While there is no guarantee that any single selection process will be perfect, there are common guidelines to follow and tools to use to increase the efficiency and effectiveness of the process. The key to successful leadership selection is to understand the needs of the company and use a system to evaluate candidates at multiple levels in order to make deep, accurate comparisons among them, as seen in Exhibit 1.

WHAT TO LOOK FOR IN A LEADER

Knowing what to look for during the selection process is the first piece of the puzzle and may be the most important piece. Many selection committees make the mistake of looking for a leader who resembles the current leader. A better approach is to think about the organization 10 to 20 years in the future — a process that requires a company to conduct the hard work of expressing an envisioned future of the business. Consider a contractor whose vision involves quadrupling in size, moving into international markets and rapidly expanding its ability to self-perform. With these goals for the future, the company should seek out leaders with international experience, a history of leading rapid growth, and the ability to build and implement systems to manage risk and labor.

With a specific set of aspirations for the future, the process of identifying the future skills and abilities becomes much sharper. Just as the competition does, markets and customers will look different; so should the leader for the future. Jim Collins introduced the idea of getting “the right people in the right seats on the bus” into common business vocabulary 12 years ago in his classic book “Good to Great.” However, most people forget that you had better have a good idea of where the bus is going in the first place.

Just as important as an envisioned future is the fit between the values the organization holds and those of potential leaders. Companies that ignore values fit do so at their own risk and most construction companies can recall expensive mistakes made when hiring people who were a skills fit but not a values fit. Hiring without considering values fit is like bringing in a 20-year veteran of public heavy civil construction to lead a design-build contracting firm specializing in high-end interiors work.

Exhibit 1: Successful Leader Selection

The Common Choice

The Best Choice

Résumé
Intuition
Assessments
Interviews

Success Profile
However, assessing values fit requires companies to engage in the hard work of identifying their true core values — those that are authentic to them rather than the generic table-stakes values many list on their websites, such as teamwork, safety and quality. Values fit is so significant; it should be a primary point of assessment and a go/no-go criteria. Great organizations are so relentless in assessing for values fit that people interviewing for a position who do not fit will often remove themselves from the process. Values are at the core of the being, whether in the company or the person. They guide thinking and actions and they rarely ever change. With an envisioned future and core values, the rate of success in leader selection increases greatly.

With core values in place and a future perspective in mind, the next step is to determine exactly what the organization needs and wants of its next leader. In other words, it is necessary to identify specific characteristics and competencies required of effective leaders in the organization. Characteristics refer to those qualities that endure within people and influence their contributions to the organizations. Because of their core values, some companies require characteristics such as integrity and respectfulness in their definition of a good leader. When choosing the characteristics, consider the culture, values and vision of the organization (see Exhibit 2). The goal is to make sure that there is a fit or a match between each of these areas within the company and the person. Consider the
organization that values collaboration and teamwork. Selecting a leader who prefers to work alone rather than solicit input from others is an obvious mistake. Not only is this leader more likely to leave, but also his or her behaviors can erode the morale and engagement of a wide swath of employees and leave long-lasting impact in his or her wake.

After characteristics, competencies are the second criterion for evaluation. Competencies are separate from characteristics and refer to clusters of behaviors essential for successful performance. Leadership competencies are unique to the culture of each organization, and some examples include inspiring others and strategic thinking. At the leadership level, it is important to focus on these types of leadership-specific competencies and less on technical or operational competencies. For example, the ability to build and maintain relationships that yield work or the ability to assess and manage risk are competencies specific to leadership positions. These are the types of competencies to emphasize during leadership selection. However, it is important to remember that knowledge and skills can be taught, but characteristics remain at the core.

Competencies are often given more attention than characteristics during leadership selection, but a best practice in leader selection is that characteristics come first and competencies second.

To help organize and facilitate the selection process, experts recommend creating a profile that represents the ideal leader in your organization, or a “success profile” (see Exhibit 3). A success profile includes all the characteristics and competencies necessary for success and serves as a reference tool throughout the process. For example, a parallel profile that captures each candidate’s characteristics and competencies should be created for comparative purposes. The profile should be driven by the vision and the strategy of the organization as each of these components captures future direction. Recording these expectations will be useful when making a final decision. The success profile must be both accurate and comprehensive. Each candidate’s profile must be drawn accurately so that the final selection decision is the best decision. One of the best methods to ensure that each candidate is evaluated correctly is to use structured interviews and formal assessments.

**USING STRUCTURED INTERVIEWS FOR SELECTION**

When assessing for competencies, a useful tool is the structured interview. A structured interview uses standardized questions, often asked in the same order for
each candidate. A best practice is to build specific questions around the success profile of the position. These forms of interviews also use behaviorally based questions to identify specific examples of behaviors displayed in past situations, with the idea that past examples are the best predictors of future behaviors. Examples of behaviorally based interview questions as part of a structured interview include:

- Describe a situation in your past work history that had to be resolved quickly and what you did to find a solution.
- Describe a situation when you took action without waiting for direction. What did you do and what was the outcome?
- Give me an example of when you took a risk to achieve a goal. What was the result?

**USING ASSESSMENTS FOR SELECTION**

Understanding how assessments work and how to interpret their results can be complex, but their use can add substantial validity to the selection process. Skilled use provides evaluations of individuals at a deeper, more meaningful level than traditional methods of review. For example, motives often are inferred from interviews, but assessments use scientific principles to assess one’s motives and are significantly more reliable than human inference. Selection assessments include psychometric tests based in research and built to measure specific constructs, such as business reasoning, conflict style or analytic ability. These tests provide deeper insight into characteristics that influence workplace behaviors. Instruments designed for selection purposes undergo a rigorous development and validation process in order to ensure that the measures accurately predict actual job performance. Assessments recommended for leadership selection include personality tests, values and motives inventories, reasoning tests and structured interviews.

**PERSONALITY ASSESSMENTS**

Personality assessments measure an individual’s traits and characteristics — the components of personality. Tests typically are designed such that there are multiple questions measuring each characteristic, and the responses to these questions are averaged to provide an overall score for that trait. Personality assessments developed for selection purposes measure traits and characteristics found to predict performance.
Examples of such characteristics include extraversion, agreeableness and conscientiousness. Consider the characteristic of agreeableness in a leadership selection scenario. People high in agreeableness generally are friendly and trusting and have the tendency to avoid conflict. These people may say and do things against their own beliefs and opinions to minimize the chances of conflict. At the opposite end, those who have low levels of agreeableness are generally skeptical and confrontational. These people are more likely to compete with others than cooperate. Candidates scoring at either extreme could face significant challenges as a leader, yet this information is extremely difficult to get in a one-hour interview. The right personality test, or combination of tests, can tap into the individual’s characteristics in a scientifically validated manner. By comparing the individual’s results to those on the success profile that you seek in a leader, you come far closer to fact-based decision-making than what may be inferred in a series of interviews.

There are many personality assessments currently available for selection purposes, most of which are available for purchase from test publishers. Two of the most common include the California Psychological Inventory (CPI) and the Hogan Personality Inventory (HPI). The CPI measures 29 unique traits that relate to job performance. Examples of these traits include amicability, independence, tolerance, work orientation and self-control.

The Hogan Personality Inventory is a personality assessment developed specifically for business purposes. The instrument uses a true/false format and provides scores for both personality scales and occupational scales. For example, test takers are scored on traits such as ambition, adjustment and sociability and their potential for stress tolerance and management roles, to name a few. Both of these assessments have demonstrated validity in predicting job performance and reliability over time.

VALUES AND PREFERENCES ASSESSMENTS

Values and preferences inventories provide information regarding what people value and what drives or motivates them. These assessments are usually designed as an inventory such
that the more a person endorses items relating to a specific value or preference, the more important it is. Is the candidate driven by learning or results? Does the candidate value high power or prefer an even distribution of power? While these questions do not provide estimates of performance per se, they are exceptional for assessing person-culture fit. And while these assessments should never be used alone, they provide information to make a more accurate decision.

These assessments provide a basis of comparison between the core values of the organization and the assessed values of the candidate. Higher consistency between the two indicates a better fit. Many values and preferences inventories are available, and a select few are specific to the business environment.

The Work Aspect Preference Scale is a tool that helps identify what people seek from their work — whether from the job itself or from the environment. The items provide insight on 13 preferences, including creativity, security and management. Another example of these types of assessments is the Motivation Questionnaire, which measures factors that influence an individual’s motivation. This assessment helps determine both intrinsic and extrinsic motivators. Information gathered from these assessments can be compared to the organization and its values to determine fit.

**REASONING ASSESSMENTS**

Tapping into the competence portion of the success profile, assessments that measure reasoning abilities and critical thinking are another set to consider for leadership selection. These skills are nearly impossible to measure with interviews and work history alone, and assessments are able to provide much more accurate measurements. Reasoning assessments typically present scenarios, either written or visual, and ask the test taker to select the best solution. Based on the solutions selected by the candidate, the results will present a score for skill measured. For leadership positions, this competency is especially crucial to assess, as leaders are required to make the most important decisions that can affect the business for many years. Essentially, these tests measure one’s problem-solving capabilities, which is particularly difficult to measure without a formal assessment process.

Two common tools to assess reasoning are the Hogan Business Reasoning Inventory (HBRI) and the Watson-Glaser Critical Thinking Test (WGCTT). The HBRI measures three types of reasoning: critical, strategic and tactical. The test consists of 36 questions that present a business situation, and the test taker
must choose the best solution. The WGCTT measures critical thinking and decision-making abilities using an 80-item tool.

CONSIDERATIONS WHEN USING ASSESSMENTS

For those people making selection decisions, the assessment reports assist in making an informed decision. However, the results and reports should not be shared with the candidates. Because these assessments tap into sensitive and personal topics, full confidentiality should be upheld, and the reports should be stored in a secure manner. Typically, the supplier of the assessment also provides this instruction. Only after the selection decision has been made and the new leader has accepted the role, and only for developmental purposes, should the results be shared with each individual.

Another important consideration when using selection assessments is fairness and liability. Tests should be used only if they have been demonstrated to predict success or performance and if they are nondiscriminatory. This information should be available through the test publisher and should always be requested and reviewed prior to use. Assessments that have not been tested for their reliability and validity, especially for selection, should be avoided, as they can lead to legal issues and liability. Many assessments in common use for developmental purposes fall into this category. For example, the DiSC assessment and the Myers-Briggs Type Indicator are personality-based preference assessments intended for team building and individual development. While these instruments are appropriate for such activities, they are not validated for selection and are problematic if used, partially because they are self-report tools, highly subject to socially desirable responses.

If you are unsure if an assessment is appropriate for selection, ask the publisher or an expert. The initial effort is worth avoiding legal and financial troubles later.

While assessments are an essential part of the selection process, they should not be used as the sole criterion for the decision. Combining assessment results with other sources provides the best practice for an informed decision. For example,

Assessments that have not been tested for their reliability and validity, especially for selection, should be avoided, as they can lead to legal issues and liability.
mix assessments with a structured interview process plus a work sample and reference review for each candidate.

Each tool provides unique and supplementary information to create a broader understanding of each candidate. For internal candidates, consider including special projects to gather work sample data. Ask potential leaders to present their vision of the company over the next five to 10 years to key players and decision-makers. Include task force assignments on a specific topic that relates to anticipated future challenges and have candidates present their conclusions to key players and decision-makers. These additional tools are just a few of the many available and are equally important during leadership selection. When used appropriately, assessments and tools should lead to the best possible decision.

BEST PRACTICES IN LEADERSHIP SELECTION

• **Match Competencies to the Organizational Vision.** The challenges and trends the organization will face in the future are different from the challenges and trends of today — so tomorrow’s leader should look different from leaders today — with the exception of values fit, which should not change.

• **Choose Only Crucial Characteristics and Competencies.** The characteristics and competencies required of leadership are numerous and wide-ranging, and including all of these on the success profile will only complicate the process. Keep the number of competencies and characteristics small and include only those that are the most important to the organization’s future needs. Depending upon the organization’s goals, values and culture, some competencies and characteristics truly differentiate between average and star performers and are essential to the success of the organization.

• **Clarify, Plan and Do It Again.** Clarity and planning are essential from the very beginning. Determine who will be the decision-makers in the selection process and clearly define the steps in the decision-making process from the start.

• **Ask Many Questions.** Interview questions, assessment questions, development questions, post-presentation questions — ask them all. It is the only way to know the person you are evaluating.

• **Put Character First, Competence Second.** People can learn new skills and behaviors, but the core of a person is constant. Place an emphasis on character indicators first (values, personality), because competence is only second best.
As the design and construction industry faces the multiple challenges of a mass of retiring baby boomers and a lack of next-generation leaders to fill the gap, as well as a declining number of engineering and construction graduates, the stakes have never been higher when it comes to making the best possible hiring decisions. When mapped against the need for great leadership as the industry makes the slow transition from recession, these factors will inevitably lead to a war for talent. The winners in this war will be those who have great rigor in their leader selection process and hire both for cultural fit and for alignment with the envisioned future of their organizations.

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Business development and marketing are part of a complex picture when it comes to winning projects. Clients want to work with people they like and who can solve their problems. When you walk into the room for a proposal presentation or a negotiation, clients are not just looking at the list of qualifications offered, they are wondering, “Are you someone I will want to work with for the length of this project and can you help solve my problem?”

Therefore, before a project even starts, your firm is establishing a vision for that project during negotiations with the client. The impact of these negotiations determines how the project will work as a process and the effectiveness and strength of the client relationship.

During negotiations, the client experiences directly what he or she can expect from your firm for the whole project:

- If you give in, he or she will expect you to give in every time.
- If you are willing to compromise, he or she will expect plenty of compromises from you.
• If you are willing to avoid conflict, he or she will expect you to avoid issues during the project.

However, if you show that you are willing to look for creative solutions, the client will know that you can help do the best for its project. He or she will look forward to doing the project and be happy to work with you.

While architects and engineers prepare diligently for client interviews, few prepare effectively for negotiations. Every negotiation in our profession is fraught with risk: We may promise more than we can deliver, underprice our services or misunderstand the client’s objectives in a way that turns out to be costly. Preparation is the best way to reduce this risk.

THE ROI OF PREPARING FOR NEGOTIATIONS

The idea may seem counterintuitive, but negotiation preparation brings a substantially higher return on investment than actual project work does.

To illustrate this concept, presume that a firm’s average raw salary rate is $30 per hour. The effective multiplier for the firm is 3, so the average hourly rate for its services is $90. Of that $90, how much is profit? If we presume that the firm makes a 10% profit, then it is earning $9 per hour in profit. In this case, it takes the firm 111 hours of work to make $1,000 in profit — that is the equivalent of nearly three (2.775) full 40-hour workweeks for a staff member!

If you are willing to put in one additional hour of negotiation preparation for your next project beyond what you usually do, your fee can easily go up by $1,000. Subtract your hours’ worth of salary, and the rest is profit. When you can make close to $1,000 in profit with one hour of preparation rather than with more than 100 hours of labor, isn’t that worth your time?

A second demonstration of the impact preparing for negotiations can have on a project is the impact curve (see Exhibit 1.) The designer’s influence on a project is at its highest when the project starts and drops off quickly as the project gets under way. By the time construction is completed, this impact is negligible.

However, firms that demonstrate to the client during negotiations that they have the ability to find creative solutions are able to establish a positive relationship with the client early on and gain a period of influence over the project before it even begins, as shown in Exhibit 2.

The value to clients of a design firm that comes to the negotiating table with
creative solutions in mind cannot be overstated. That value translates into a higher fee for the design firm as well as greater influence for the duration of the project because the influence begins before the project start date. This impact goes beyond fee. It can have an enormous effect on all of the interests your firm has at stake.

A few hours of preparation can reduce risks and raise the fee your firm receives. In many ways, the greatest impact you can have on the results of the project occurs during negotiations.

Preparation can be divided into three steps:

- Marketing
- Obtaining knowledge
- Preparing for the actual negotiation

**MARKETING**

**Negotiations Begins at Marketing**

Much of the groundwork needed to prepare for a negotiation is put in place by the marketing department, as it researches the initial response to the request for proposal. Marketing directors at architecture and engineering firms often claim that the single most wasted resource in the firm is market analysis. This information rarely is drawn upon when it comes to preparing for negotiations; yet much of what negotiators need to know has already been collected.

Marketing directors constantly speak with clients and prospects to ask them diagnostic questions. By the time an RFP is issued, marketing directors already know what the client’s organization seeks to achieve with the project and how that corresponds with the pressures and interests of the client. The marketing department knows who is influential behind the scenes, to whom the client answers, what problems he or she anticipates, and what outside pressures affect the project.

At the beginning of negotiation preparation, the first stop should be at the marketing director’s office to learn what useful information is already in hand.
Set the State for a Successful Negotiation

When the time comes to write the proposal, consider it as a part of the negotiation: You are already making offers to the client about who will work on the project and how it will be conducted. It is the nature of proposals to contain a certain amount of hyperbole, but you must be able to keep the promises you make.

Proposing a certain project manager and then turning up at the negotiation to say he or she is not available will immediately disappoint the client and set the expectation that more disappointments are in store. The client will negotiate with you with those expectations.

Once your firm wins the project, do not dive right into doing estimates; instead, take all the information the marketing department has gathered about the client and project and make use of it to set the stage for a successful negotiation.

CASE STUDY: Do Not Promise What You Cannot Deliver

What happens when a firm promises the same project manager in two negotiations and both clients elect to go forward with their projects at the same time?

A large architecture and engineering firm had an interview on Monday with a client for a major hospital project. On Tuesday, it had an interview with another client for a second major hospital project. The firm put the same project manager in both proposals and sent her out on both interviews. The Tuesday client called on Wednesday and said, “Congratulations, you have the project.” Everyone in the firm celebrated. On Thursday, the Monday client called and said, “Congratulations, you have the project.” Everyone celebrated again — two major projects in one week!

On Friday morning, the president of the firm sat down with the principals and asked, “What are we going to do? If we put Jane on both of these projects, she’ll be dead in six months — that much work will kill her, and we will fail.”

The team ran through the usual solutions: Find ways to split up the project manager’s time, put an assistant project manager on each project, and so forth. In the end, they realized none of the proposed solutions would help — the projects were simply too large and complex.

Finally, the president said, “We have to go with ‘first come, first served,’ explain to the client what happened and offer it someone else as the project manager.”

“Great idea. You do it,” one of the principals replied.

The president took the client out to dinner the next week to celebrate the new project and explained what had happened. After a 20-minute tirade subsided, the client said, “I really want to dump you, but first tell me how you propose to fix this?” The president responded, “We’ll bring you a different project manager on Monday, another one on Tuesday and another one on Wednesday. We’ll keep on until you find someone you are comfortable working with. I am not going to let us fail, and I will not fail you.”

“OK,” said the client. “I’ll pick another PM if he or she is good enough, but what if I can’t work with any of them?”

“What’s your suggestion?” the president asked.

“You. If I can’t find one I like, then you’re the project manager.”

“You’ve got it,” the president responded. “I’ll take that challenge if I have to, but we’re not going to let you down.”

The client chose an alternate project manager, and the project was ultimately successful.

Negotiation begins with marketing. Do not promise what you cannot deliver, and be prepared to negotiate even before you reach the negotiation table. Your willingness to find creative solutions establishes expectations — and your standing with the client — for the rest of the project.
Figure Out Interests

To negotiate effectively, you have to know what your firm’s interests are and have as much information as you can gather about the client and the project.

BATNA

Establishing the best alternative to a negotiated agreement (BATNA) can help you enter a negotiation with confidence. The BATNA is not the bottom line but an awareness of your alternatives if a settlement cannot be achieved. By knowing what your alternatives are before you enter the room, you will have more confidence.

One of the most common fears that architects and engineers bring into negotiations is that the client will say, “Look, I can find someone else to do this cheaper, on a better schedule, etc.”

That is true. There is always someone willing to say he or she can do it cheaper or faster or who is willing to sign a risky indemnification clause.

Yet the client has already picked your firm to do this project — that is why you are in this negotiation in the first place. The client is sitting with you because he or she believes you can keep him or her out of trouble. Architects and engineers are proud to be selected for their excellent design abilities, but a bigger factor for the clients, especially government clients, is the sense that you can keep them out of trouble and satisfy their interests.

Understanding that the client wants to work with you and has picked your firm for a reason makes a big difference in your attitude. Keeping in mind all the preparatory work you have just completed gives you confidence and allows you to have an open mind and be prepared to work with the client on building creative solutions.

Nothing can replace the value of entering a negotiation with confidence.

Analyze the Prospective Client’s Interests

A key item in preparation is to hypothesize your client’s interests. A significant amount of the knowledge was research in preparation for the interview. Marketing leaders always ask the question, “What are the clients’ interests? What are they trying to achieve?” You have used this knowledge as part of the effort to be selected for the project. Use it again to understand what the client needs to achieve during the negotiations. Combine this knowledge with your interests to search for creative solutions in order to achieve your interests.

Reviewing Past Experience with the Client

You have an incredible array of resources at your disposal to learn more about the client, how it works, what its interests are, what influences its industry and firm, and if there are any problems that you should know about. These resources include the Internet, publications and newspapers, your industry colleagues, your firm’s staff and your own experiences.
Review your previous experiences with the client and gather knowledge of other firms’ encounters with it. How many people are in your firm today? You have that many possible sources of information about this client, including staff that have worked for it previously or have other background with it. Your staff will have their own connections in the industry and many of them can likely find useful information with one or two phone calls. Do not be shy about asking for assistance.

Does your firm maintain a directory of everyone’s project experience and the clients each has worked with? This is information that your marketing department is highly likely to have in its database.

Ask your professional colleagues outside the firm. Have they worked with this client? What was their experience?

Run an Internet search on the client, review its website and read articles about it and its industry. What is going on in its business ecosystem that is influencing it?

Run a search for the client with the word “legal” in it. If your prospective client has a litigious history, this is a fast way to find out.

Industry Expectations

Industry expectations are an aspect of project reality that inexperienced clients may find unfamiliar. Does your client understand what the industry expects of your firm as well as the standard of care, regulations and reputation you must uphold? Clients who build many buildings will have a good understanding; those who have little experience with such projects may be completely unaware of your professional obligations.

For example, a group of doctors who get together to build a new office may consider the standard of care to be perfection, because if they conducted a less-than-perfect surgery, it could mean someone’s life. But a set of drawings is never perfect, and the potential building represented in those drawings will have to

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**CASE STUDY: The Value of Good Connections**

An architecture and engineering firm was selected to do five government labs across the country. The project leader had never negotiated with this client before, so he called a colleague who had done work on previous laboratories and asked how his last negotiation had proceeded. The colleague began laughing hysterically.

“You are going to love it! It will be fun! You’ll walk in the first day, and they’ll put you in a room. A woman is going to walk in; she is a head taller than you are and has earrings in the shape of daggers and a necklace shaped like a noose. It is all about intimidation. She’ll proceed to beat you up for two days.”

Armed with this information, the project leader went to the negotiation, was put in the room and in came the woman who was actually two heads taller than he was, with the famous dagger earrings and noose necklace. He walked straight up to her, shook her hand and said, “I really admire your jewelry.” Her face fell in surprise.

As negotiations concluded the second day, she asked the project leader to walk outside, gave him a hug and said, “That was so much fun. I really enjoyed our negotiation. Thank you.” He was convinced that because he had reached out to a colleague, learned what to expect in advance and decided he was not going to be intimidated, he saved his firm money and made the negotiation process smoother.
be adjusted due to site conditions, available materials and so forth. The standard of care is different and you may be called upon to educate your clients and lead them through a process that is outside their experience.

**PREPARING FOR THE NEGOTIATIONS**

**Discover the Implications of the Interests**

Discover the implications of your interests and the potential client’s interests. Start exploring solutions to possible problems even before the negotiation. Review your interests and your hypotheses of the client’s interests. Develop scenarios based on your interests and the client’s interests. The key is to build and test these scenarios before the negotiations start, instead of attempting to create them in the middle of a negotiation.

**Explore as many elements as you can think of**

How do your interests match these scenarios?

While some people are very good at coming up with creative answers on the fly, many of us are not, so use the time before a negotiation to plan ahead and think about how you will solve problems as they arise.

With good preparation, designers can use their natural talents to propose creative solutions that will produce excellent negotiation results with long-term positive impact on the project and the client relationship.

**Quantify as much as possible**

Try to quantify all items and options. For example, quantify the potential risk of a client as established in the indemnification clause. This can be done, but many of us are not willing to spend the time and effort discovering the implications of these scenarios on the great number of our own interests that are at stake.

The preparation tools outlined here can help you make a strong, positive impression on your clients and give you more impact during the crucial negotiations phase. Preparing for a negotiation, even for only an hour, can result in financial gains that would otherwise take days or even weeks of work. When clients see that you prepare in advance, and can offer creative solutions during the negotiation phase, it increases the desirability of working with your firm and helps build your reputation with clients as problem solvers.

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Knowinlaw Construction is a general contractor with an outstanding reputation based on project efficiency and competitive prices. Knowinlaw is seeking bids from subcontractors for the completion of a hospital project, and a new chief estimator is managing the bidding process for the first time.

The chief estimator has observed and participated in the bidding process before, but this is the first time that she is managing it entirely. She needs to have a working knowledge of the fundamentals of contract law, because the success of the overall project relies completely on these initial steps in the process. A well-written contract facilitates a project’s successful completion, and construction leaders benefit from the successful management of contractual issues.

As the Knowinlaw Construction example illustrates, nearly all projects within the construction industry require the use of a contract. Using a contract is expected, but the importance of the nuances involved in contracts cannot be overstated. These nuances and implications are what make a basic understanding of contract law important for construction leaders. Being able to complete a project without a contract would be ideal, but is unrealistic due to the ambiguous and volatile nature of the construction industry. Understanding the fundamentals of contracts is an important skill that leaders need to gain a competitive advantage over competitors.
Construction companies are constantly searching for competitive prices, preferred clients, ideal contractors and other methods of increasing the profit margin. Through the profit-oriented nature of the industry, promises are routinely broken and projects fail to be completed. Broken promises impact the profit margins and can cause additional unexpected costs to the project, affecting the overall performance. Therefore, contracts provide parties the assurance that is needed to ensure that construction projects are completed according to the agreements between the parties. Good contracts are similar to fences making good neighbors — having them improves the relationship. Contracts also promote economic efficiency by ensuring that agreements are completed, insulating parties from additional unexpected costs and providing remedies for any breaches. Contracts are much more than a promise, and certain characteristics are required to ensure that a promise is enforceable through the creation of a legal contract. The common definition of a contract is that an agreement is made between parties and is enforceable by law. Although correct, the common definition is shortsighted and can lead to inadvertent mistakes by a company’s leadership. A legal definition, such as an agreement with specific terms between two or more persons or entities in which there is a promise to do something in return for a valuable benefit known as consideration, provides a more thorough understanding of contracts and their importance in construction. Understanding the legal definition of contracts is a competitive advantage to construction leaders.

**Basic Contract Formation**

The creation of a contract can occur at any point during a project, and each project likely includes several contracts to ensure that the specifications of the project are met. The basic elements required for a legally enforceable contract are an offer, an acceptance and consideration.

An offer is a proposal to make a deal by promising to provide a service, purchase goods, abstain from conduct, etc. An offer includes terms that are useful in defining the scope of the agreement. These terms must be specific and definitive to sufficiently identify the promise and allow the offer to be valid. In our example, Knowinlaw Construction is the general contractor for a hospital project and is actively seeking bids from subcontractors. The bid from Contractors USA is an offer to perform the work for a specific price. The offer includes crucial terms that, upon acceptance, binds the parties to the terms.

Acceptance is an unconditional willingness by the party who received the offer to be bound by the other party’s offer. The acceptance must comply completely with the terms of the offer without modifications (known as the “mirror-image”
rule); otherwise it is a counteroffer. Depending on the type of contract, an acceptance most often occurs orally or through performance. In our scenario, Knowinlaw Construction can choose to accept Contractors USA’s offer, not accept the offer (which terminates the offer) or counteroffer for a different price or condition (which terminates the original offer and creates a new offer with Knowinlaw now providing the offer). Of course, Contractors USA can decide to withdraw the offer at any time before Knowinlaw Construction accepts it and prevent a contract from being created, as long as the desire to withdraw the offer is communicated to Knowinlaw.

The final basic element of contract formation is the concept of consideration. Consideration is the bargained-for exchange between the parties and is the mutual exchange of value, such as the benefit received by one party and the detriment imposed on another party. It is the reason that parties create contracts. Most commonly, consideration takes the form of money, objects or services. For instance, the consideration involved in our example is Knowinlaw Construction providing money in exchange for Contractors USA’s services. Knowinlaw’s consideration is the money, and Contractors USA’s consideration is the provided service. Agreements usually require consideration in order to be a contract. There are rare situations where an agreement without consideration is still valid, although these circumstances are too technical and advanced for the purpose of this article.

The most common mistakes made in contracts in the construction industry occur during the offer and acceptance phases of contract development. These mistakes usually are inadvertent, but may have a significant impact on the contractor’s operations. For instance, specifications on materials and resources may be misunderstood, price quotes incorrectly entered or time estimates flawed. The prevalence of mistakes emphasizes the importance of being precise in the creation of a contract. As a side note, the general rule of thumb is that honest mistakes, such as mathematical errors, are often excusable and relieve the party of the contract.

To summarize, a basic contract requires:

- **Offer** — Terms that define the scope of the agreement (e.g., Contractors USA offering to perform the work for $200,000.)
- **Acceptance** — Communicates that the party assents to the offer through conduct, which most commonly includes words of performance; must comply to the terms of the offer (the “mirror-image rule”); (e.g., Knowinlaw Construction accepts Contractors USA’s offer.)
- **Consideration** — Benefit that each party receives or expects to receive (e.g., Knowinlaw Construction will receive Contractors USA’s services, and Contractors USA will receive $200,000.)
Through an offer, an acceptance and consideration, a legally enforceable contract is created. Legal contracts use an objective standard to determine the parties’ intent to be bound by a valid contract. If it is reasonable that the parties intended to be bound by a contract, then a contract is created and the law will enforce it.

**OTHER ESSENTIAL CHARACTERISTICS**

Aside from the basic elements of a contract, there are certain characteristics that are essential to maintain contract validity. The parties to the contract must be competent and legally capable of fulfilling their proposal. This requirement mostly applies to individuals who lack mental capacity (e.g., mental illness or inability to comprehend a contract) or to individuals who lack legal capacity (e.g., due to a young age). Another important characteristic is that the contract’s subject including the duties of each party, must be lawful. For instance, a contract that violates municipal building codes is neither binding nor enforceable since it is based on an illegal premise. A contract also requires free consent of the parties to enter into a contract by not including force, undue influence, fraud or misinterpretation.

A common misconception is that contracts must be in writing and include a signature. This is not true. Contracts can be oral or written. However, there are certain situations when certain contracts need to be in writing, and these situations can be found throughout the construction industry. The statute of frauds is designed to prevent fraudulent conduct by requiring a written record of a contract in a few situations. Although the statute of frauds slightly varies by state, there are a few situations where the statute of frauds requires a contract to be in writing in order for it to be enforceable. Put simply, the statute of frauds traditionally requires a written form in the following examples in most states:

- Marriage contracts
- Contracts by the executor of a will to pay a debt of an estate
- Contracts that cannot be performed within one year
- Contracts for the transfer of an interest in land
- Contracts for the sale of goods involving a purchase price of $500
- Contracts when one party becomes a surety for another party’s debt

The last four are most applicable to construction projects, and if an agreement deals with one of those situations, then a contract needs to be in writing to be
enforceable. Certain circumstances allow agreements to be enforced even if the agreement does not comply with the statute of frauds, such as when:

- One merchant confirms an agreement in writing and the other merchant, knowing of this written agreement, does not object within 10 days.
- A defendant in litigation admits the existence of a contract under oath.
- A portion of the contract is performed; the agreement is enforceable for the portion of the contract delivered.
- Specialty manufacturing is performed or subcontracted and performed.

**TERMINATION OF A CONTRACT AND REMEDIES**

A contract is terminated when the parties have completed full and satisfactory performance of their obligations under the contract. A contract also is terminated when:

- There is a breach of contract caused by a party defaulting from its obligations.
- There is a mutual agreement to terminate the contract.
- Unforeseen circumstances render it impossible for a party to perform the duties.
- The contract is terminated due to an operation of law.

If a contract is terminated through a failure to perform by one party, then the other party will likely receive damages.

Contractual damages are primarily designed to provide the non-breaching party with the benefit that was lost or to “make the party whole.” Depending on the type of damages that are awarded, the non-breaching party will likely receive money damages, restitution, rescission, reformation or specific performance. Money damages mostly are designed to compensate the non-breaching party for the damages equal to the value that the party would have received if the contract had been fully performed or damages for the cost to complete the project after the breach. The difference is primarily on the stage of the project when the breach occurred; the earlier the breach, the more likely that the damages will be designed to provide the loss value. Restitution is a remedy that restores the non-breaching party to a position prior to the formation of the contract and can include money or property. Rescission allows a non-breaching party to terminate contractual duties if that party entered into the contract by mistake, fraud, undue influence or duress. Reformation allows a court to change the substance of a contract to correct any inequities that were suffered due to mistake, fraud, undue influence or duress. Lastly, specific performance is a remedy that compels a breaching party to complete specific duties and is available usually when money damages are inadequate.

**ADDITIONAL CONSTRUCTION INDUSTRY APPLICATION**

Certain situations in the construction industry provide additional angst. These situations can arise through clauses that are included in the contract. For example, the force majeure clause is used in contracts to free all parties of any liability or obligation for extraordinary events that occur beyond the control of any of the
parties. This clause is designed to protect the parties of catastrophic circumstances that could not reasonably be expected to occur during a contract’s completion. The force majeure clause would be relevant if a flooding occurred that ruined the land on which Knowinlaw Construction was going to build the hospital. The contract between Knowinlaw and Contractors USA may no longer be effective due to this incident, and all parties may be relieved of their duties because the event was not due to fault or negligence. The force majeure clause is often included in the standard terms of a contract, so a general contractor should diligently read the fine print but understand that the courts will most often recognize force majeure if the event is completely unforeseeable. However, courts have placed a high standard in proving the application of the force majeure clause to ensure that it is reserved for situations that are catastrophic. For relevant case law, refer to: Edgington v. Creek Oil Co., 112 P.2d 970 (Mont. 1934). Rule of law: force majeure clauses will not apply nor preclude termination of a contract when the parties could have reasonably prevented a problem from occurring.

Another clause that causes frustration is the “pay when paid/pay if paid” clause. The most common version of this clause is that the subcontractor is not paid until the general contractor is paid from the owner. This clause is generally within the standard terms of the contract and is largely enforceable in most courts as long as the conditions of the clause are expressed clearly. By expressing the conditions of the clause, general contracts can maintain a “pay when paid” clause that some courts will recognize although the standard is high to prevent other contractual issues such as unjust enrichment. For relevant case law, refer to: Thos. J. Dyer v. Bishop International Engineering Co., 303 F. 2d 655 (6th Cir. 1962). Rule of law: Pay when paid is applicable but limited to a reasonable period after the completion of work to provide the general contractor an opportunity to procure from the owner the funds necessary to pay the subcontractor, not to require the subcontractor to wait to be paid for an indefinite period of time until the general contractor had been paid by the owner.

The “No Damages for Delay” (NDFD) clause is a common clause that is added to construction contracts. Usually the project owner will add a NDFD clause to bar a contractor’s attempt to recover payment or compensation due to delays, but allow completion of the project. Courts will generally enforce NDFD clauses except in situations in which the delay is caused by fraud, bad faith or interference. For example, if Contractors USA is not able to perform its requirements due to Knowinlaw’s knowledge of a failure in the plans, then Contractors USA may be entitled to damages for the delay and the inefficiencies it caused, since Knowinlaw Construction was aware of the situation. For relevant
case law, refer to: *Triple R Paving, Inc. v. Broward County*, 774 So.2d 50 (Fla. 4th DCA 2000). Rule of law: Clauses providing for NDFD, except in the case of fraud, bad faith or active interference by the owner, are legal and enforceable because there is a right to recover on account of delays.

Indemnification clauses are added to construction contracts to expand the risk that a party will undertake and shift liability to other parties. It usually applies to additional remedies that are available and obligates one party to certain damages for specific occurrences that happen related to the contract. The definition of these occurrences and the damages are identified and defined in the agreement between the parties. For example, the contract between Knowinlaw Construction and Contractors USA includes an indemnification clause against all damages for personal injuries caused by or in connection with Contractors USA’s services. If a personal injury occurred on-site related to Contractors USA’s services, Knowinlaw will likely succeed in shifting liability to Contractors USA despite the fact that Knowinlaw is the general contractor. This allows Knowinlaw to shift the risk and responsibility. For relevant case law, refer to: *Bernotas v. Super Fresh Food Markets, Inc.*, 816 A.2d 225 (Pa. 2002). Rule of law: Provisions to indemnify for another party’s negligence are to be narrowly construed, requiring a clear and unequivocal agreement before a party may transfer its liability to another party.

**CONCLUSION**

Few industries require the use of contracts more than the construction industry. Each decision for completing a project likely requires the use of a contract. Therefore, construction leaders need to be aware of the fundamentals of contracts to be better prepared to bring projects to profitable conclusions. Understanding these fundamentals allows a leader to assess a project and make better decisions as well as understand available options. This article aims to provide the reader with an introductory perspective on the basic elements of contracts within the construction industry. It is not exhaustive, and legal questions should be directed toward an attorney specializing in construction law. This article serves to provide an overview of basic contractual elements and to expose the readers to introductory legal concepts dealt with by contractors and other members of the construction industry.

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**Construction leaders need to be aware of the fundamentals of contracts to be better prepared to bring projects to profitable conclusions.**

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Part 1 of this article addressed why and how to expand your worldview to encompass larger sets of information for expanding the number of connections your mind is able to make. Seeking a larger worldview and understanding the interconnection of ideas, forces, systems, ecologies of business, humanity and nature can help us reduce uncertainty and fear, prepare for dealing with uncertain or changing conditions and actively create preferred futures.

Among the ways of expanding viewpoints is the method of asking the three questions that matter:

1. What do I believe that is actually false?
2. What can I discern that others do not see?
3. What is my brain doing to blindside me now?

We looked at examples of how expanding your worldview can impact your firm, with Gray Plosser’s story of how his deliberate exploration outside the A/E/C world helped him prepare The KPS Group for impending market and
service changes before they happened, and how Bill Ford Jr.’s commitment to tackling the problem of gridlock on a worldwide scale will help ensure a future market for Ford’s motor vehicles.

This second part of the article looks at how to get started, who to talk to, and where to find information and data, including a list of favorite resources of people who are quoted here.

WHERE TO START

With those points in mind, where do you start? The learning organization approach to information, in which we take a much wider perspective and allow for seemingly unrelated data points to display unforeseen relationships, does not mean gathering information more or less aimlessly. Aristotle is credited with launching our Occidental approach to science through his attempt to classify all living things according to type; he invented taxonomy as a system. Taxonomy remains a good starting point for many efforts, scientific and otherwise, so the first step in intelligence gathering is to identify the areas we want to be smarter in and investigate how knowledge in that system is typically organized. The taxonomy of transportation systems is different from the taxonomy of financial institutions or computing.

One challenge is to figure out what data may initially seem unrelated that actually belongs in the category to be investigated, e.g., if a multiday vehicle gridlock in a developing nation can be caused by a herd of goats moving to market down a road, what knowledge about local goat husbandry and customs might contribute to solving the problem? Is there a reason goats cannot be shipped by truck or rail? Is it a cultural tradition to bring the goats to market via the proper city gate on a certain day? Are the farmers unable to afford trucks until after the goats are delivered and sold? Our initial reaction might be to look at gridlock as purely a modern traffic engineering concern; yet the simplest of elements may be at the heart of the problem.

This expansive attitude towards inquiry applies equally to the kinds of questions that affect our firms and our clients. Even though you seek to identify the categories of data to investigate — markets, marketing, operations, human resources, technology, economy, cities, transportation, project delivery, sustainability, etc. — you should simultaneously keep an open mind-set that allows for unexpected or unusual data to surface or turn out to be a core focus.

“Creativity is just connecting things. When you ask creative people how they did something, they feel a little guilty because they didn’t really do it, they just saw something. It seemed obvious to them after a while. That’s because they were able to connect experiences they’ve had and synthesize new things. And the reason they were able to do that was that they’ve had more experiences or they have thought more about their experiences than other people. Unfortunately, that’s too rare a commodity. A lot of people in our industry haven’t had very diverse experiences. So they don’t have enough dots to connect, and they end up with very linear solutions without a broad perspective on the problem. The broader one’s understanding of the human experience, the better design we will have.”

Steve Jobs, Wired, February 1996
KEEPING A BROAD PERSPECTIVE

Data gathering works best as an ongoing process, not as a one-time event or a short annual effort, although these efforts have their purpose.

Glenn Bell, CEO of Simpson Gumpertz & Heger Incorporated, says that, “In the past several years, I have come to rely less on traditional sources to inform my strategic and tactical thinking. Broad economic indicators seem less helpful — in fact, I think our overfocus on general economic news unnecessarily dampened our ambitions in the down economy. Increasingly, I seek richer, fine-grained data that will help us understand opportunities for strong niche-market growth in an otherwise flat economy. Learning from business models outside of our industry, thinking in countercyclical ways and finding nontraditional approaches to providing value are important to us.

“I think most firm leaders draw on a number of information sources. Some of my favorites include:

• **An informal CEO peer group.** We meet regularly, but talk individually more frequently. The members of our group include a bank president, the founder and CEO of a high-end diamond brander/retailer, the president of a prominent interiors contracting company, the founder of a company providing professional development to teachers, and then-Gov. Mitt Romney’s director of Budget and Administration, now a business school professor. The richness of knowledge and span of perspectives of this group are unparalleled.

• **Our participation in the Global Design Alliance.** This is a group of A/E/C industry leaders that seeks to share best practices and pursues projects and clients together.

• **Our clients.** This is a tried-and-true technique and a lesson I had to learn and relearn, but your customers are an invaluable source of information. I spend a good fraction of my time meeting with our company’s best clients, outside of project settings and agendas.

• **Our employees.** Our folks on the front line are incredibly plugged in to what’s going on in our industry. They can tell me the trends before the industry gurus. As our company has grown and established more offices, the opportunities to collect ever broader information have increased, but it requires more organized and deliberate efforts on my part to take advantage of it. I spend a great deal of my time in offices outside of corporate headquarters.

• **Universities.** I serve on several advisory boards of engineering schools in the U.S. Among other things, this helps me stay connected with technical, academic and research trends in our industry. I love to guest lecture, interact with faculty and staff, and, most especially, tour research labs.”

Looking outside the industry to universities and other sources broadens perspective.
Looking outside the industry to universities and other sources broadens perspective and can help reduce the chances of benchmarking the firm in ways that lead it into too much similarity with competitors.

**GETTING INFORMATION FROM CLIENTS**

No database or search engine can replace the lifetime of knowledge, study, experience, connections and learning from mistakes that accumulates in the human mind. Glenn Bell mentioned how much nonproject time he spends with clients.

Howard Wolff, consultant and former vice president and worldwide director of marketing for international hospitality architects Wimberly Allison Tong & Goo, agrees that there is no replacement for speaking directly with the source, particularly when seeking data about your clients. “After doing a little background digging, I’ll pick up the phone and call someone. Who better to ask about a company’s business plans than the CEO? I like to use what my friend, the late Ken Erdman, called the ‘Nine Magic Words of Networking’ — I have a problem and I need your help. People love to solve problems and this simple declaration gives them an opportunity to assist someone in need.”

Wolff recommends learning as much as you can from your clients by getting closer to them. “Ask what clients are reading, learn about the issues they are dealing with and the challenges they are facing. Hang out where they hang out. Learn to talk their language. Clients don’t care about you and your business; they are focused on their own businesses. You only become relevant when you can find ways to help them, to offer something of value, to solve a problem or suggest an innovative way of addressing an issue they face, save them money, make them money or make them look good.”

To do these things, your perspective needs to encompass your clients’ business ecosystems and the larger world in which they operate. Attending conferences in their industry will help you gain an understanding of their challenges. Ask clients what conferences they recommend you attend to learn more about their business.

**FINDING SOURCES BEYOND YOUR CIRCLE**

What about when your intelligence needs expand beyond the expertise of those you already know?

FMI senior research consultant Sabine Hoover determines who to talk to by
looking at key documents. She calls the authors as well as making a list of people quoted in a report or article, along with those whose works are cited.

“When I reach people, I always ask them who else I should talk to about the topic, what other authorities are out there,” she said. “They will often refer me to their own sources, who will then refer me on to more people. Eventually this tends to circle back around — the new sources will start sending me back to the first person. That’s often an indication that I’ve completed a circuit and talked to most of the experts.” She also points out that the people whose works are cited repeatedly by different authors are likely the top experts or the source of original research.

“I also find conferences a great way to make personal connections that will help me get information later on,” Hoover added. “When I was working on the report on P3 (public-private partnerships), I went to the P3 Conference. Most of the people I met there agreed to be interviewed later by phone. Since I’d sat through their sessions or had a chance to talk with them afterwards, I already had a sense of their context. Establishing a personal connection this way, even for a few minutes, definitely helps when it comes time to set up interviews with people.”

Hoover also tests concepts with people who are entirely unfamiliar with the topic; this helps her gauge how those who are outsiders to the ideas react. “Sometimes one of them says something that takes me completely by surprise; it can be a great reality check. Peers outside the industry are also good to do this with; it helps me gain some perspective to know if they’ve heard of something and what they think about it.”

**THE VALUE OF TIME TO REFLECT**

“Reflection time is a key component,” said Hoover. “I make time to think about what’s important in the material I’ve read and conversations I’ve had, how it ties together. This isn’t something where when you have a free half-hour, you can say, ‘I’m going to think about X for a half-hour;’ our minds don’t work that way. You need the opportunity to clear your mind of other concerns and let your subconscious work. Many executives find it hard to take this kind of time, but it’s key to making important connections. I recommend to people that they build it into their schedules and be disciplined about it — it’s tough in these times where we feel like we have to be in constant connection, but those interruptions don’t let your mind do its work. You have to be disciplined.”

This kind of thinking also is helped by changing environments. “If the project I’m working on seems to be getting stale, I can usually refresh my outlook by working somewhere else,” Hoover says. “Getting out of the office to a café,
working at home, taking some of the reading to a park. Changing your environment changes the energy and can shift your perspective.”

**KNOWLEDGE SEEKING AS A TRANSFORMATIVE DRIVER**

At a deeper level, the information and data you gather over the course of years can engender both personal transformation and change your approach to your work, as architect Ray Lucchesi has learned.

“The longer I have looked at architecture, the more I see it changing,” Lucchesi said. “Society is undergoing a shift from wanting buildings as beautiful objects akin to sculptures to wanting systems that are sustainable, preserve the natural environment and enhance the community. The coming stage in this shift already is being felt and is based on living systems. The next several generations of design professionals will be faced with clients and communities whose goals go far beyond preservation to regeneration: regeneration of the natural environment, a rethinking of cities not as objects set down on top of the ground, but as systems that operate as integral parts of the landscape — both as natural and cultural elements.

“Now, when I am looking for information, it is of a different order; I’m seeking a deeper understanding of place, almost the personality of the place, and how to understand that place as a living system. For example, food production is going to move closer to and inside cities. When you produce food locally, you end up with a better local economy and less costly energy expenditure. People get better quality food value than they do from products shipped for days or weeks from distant locales. You can close the loop in the food and water cycles through reuse and composting. So how many calories of food per year are needed for the population of a city, and how much of that can be produced near or even within it? This is a higher-value design proposition.

“What I’m trying to learn when I look out there is, ‘Why is the system I’m engaging with doing what it’s doing? What is its story? How did it come to be in this location, and is that function still a part of the place? What does this place need now?’ Seeking out these kinds of knowledge can generate a higher order of design thinking that will cascade back into building design, so that we move from simply working ‘on time and on budget’ to working ‘on purpose.’”

Research on this level can be the work of years, if not a lifetime, and Lucchesi has delved outside of architecture into sociology and systems thinking to help expand his perspective and understanding. What he has learned has completely shifted his approach to his work.
WHAT WILL YOU DO WITH THE INFORMATION?

For design firms, much of the research conducted will be in the service of strategic planning, scenario planning, decision-making and change management.

Strategic planning, especially when it is founded in scenario planning, must be grounded in trends research and the projection of varied possible futures that the firm should prepare to encounter.

Decision-making and change management likewise require that enough intelligence be gathered to make the decision or understand the direction of the change and how it will affect the firm.

Expanding your perspective and seeking to understand larger trends that will ultimately change the design professions requires a long-term commitment to being open, accepting a wide range of input and seeking out new ideas.

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APPENDIX: RESOURCES
Note that many of the sources listed here offer multiple media options — blogs, publications, conferences, videos:

Conferences
This site attempts to list every upcoming conference on the globe, searchable by keyword. http://www.allconferences.com/
Academic Conferences: a conference search site focused on academia http://www.conferencealerts.com/
Science Conferences: the prestigious publication “Nature” offers an extensive list of science conferences: http://www.nature.com/natureevents/science/
TED Conferences: http://www.ted.com/pages/registration

Design and Construction Industry Sources
American Institute of Architects: http://www.aia.org
American Consulting Engineers Council: http://www.acec.org
Associated General Contractors of America: http://www.agc.org/
Engineering News-Record: http://www.enr.com/
FMI Resources: http://www.fminet.com/resources
Governmental Sources

This page provides links to all U.S. federal government agencies in alphabetical order:
http://www.usa.gov/directory/federal/index.shtml

This page provides links to the agencies of each state and U.S. territory in alphabetical order:

This page provides links to the government of every European country:


Institutions

Brookings: http://www.brookings.edu/
Center for Strategic and International Studies: http://csis.org/
Center on Budget and Policy Priorities: http://www.cbpp.org
International Monetary Fund: http://www.imf.org/external/index.htm
Peterson Institute for International Economics: http://www.iie.com/
Pew Research Center: pewresearch.org/
Projects for Public Spaces: http://www.pps.org/
Urban Land Institute: http://www.uli.org/
World Economic Forum: www.weforum.org/

Media and Blogs

3QuarksDaily Blog: http://www.3quarksdaily.com/3quarksdaily/
The Atlantic Cities: http://www.theatlanticcities.com
Big Think: http://bigthink.com/
Brain Pickings Blog: http://www.brainpickings.org/
The Daily Beast (Atlantic author’s blog): http://andrewsullivan.thedailybeast.com/
Economist Intelligence Unit: http://www.eiu.com
The Forum: http://www.forum.com/
Kurzweil AI: http://www.kurzweilai.net/
MIT Technology Review: http://www.technologyreview.com/
PSFK: http://www.psfk.com
Science Daily: http://www.sciencedaily.com/
Springwise: http://www.springwise.com/
strategy + business: http://www.strategy-business.com/
Wired Design: http://www.wired.com/design/
Wired Science: http://www.wired.com/wiredscience/