

THE UNTAPPED POTENTIAL OF CORPORATE GOVERNANCE IN ENGINEERING AND CONSTRUCTION

2018 FMI/CIRT Corporate Governance Study



Construction Industry
Round Table



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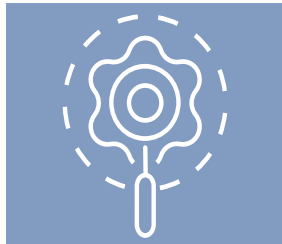
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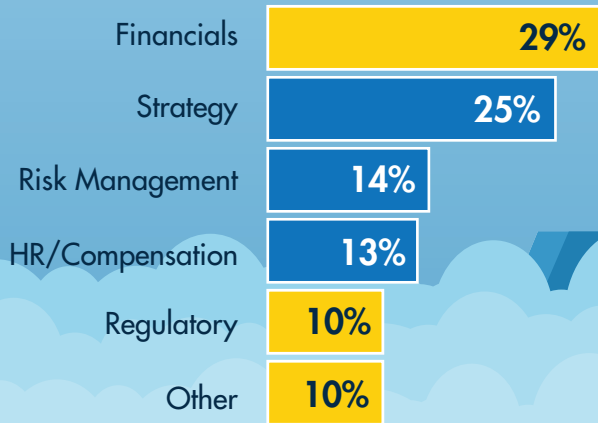
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The Team

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HOW BOARDS SPEND THEIR TIME



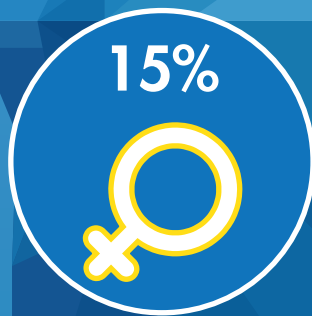
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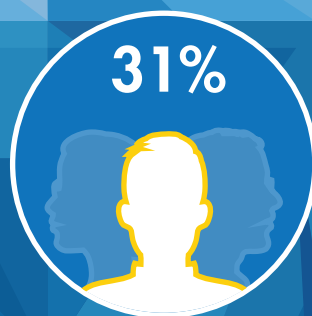
THE DIVERSITY GAP



of firms have **NO** single minority member.



of E&C firms have some gender diversity.



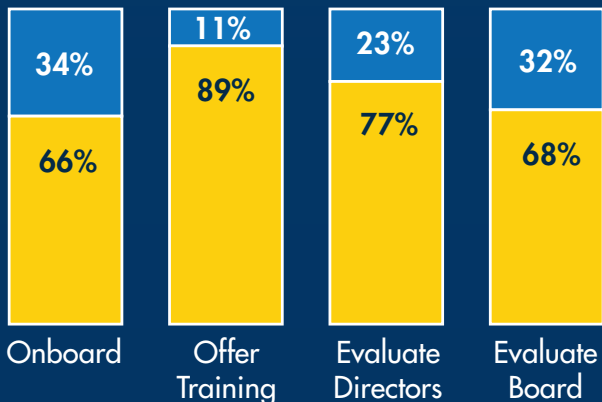
of directors feel confident enough to challenge the CEO.



of board chairs are also CEOs at the same organization.

UNTAPPED DIRECTOR POTENTIAL

E&C firms largely fail to invest in ongoing director education and development.



BOARD EFFECTIVENESS

Boards are more effective when they evaluate their directors.





The role of a director is not to provide management. It is to assure that management is provided.

**Norman R. Augustine, Former CEO and Chair
Martin Marietta/Lockheed Martin Corp.**

Executive Summary

With the economy in full swing, the Great Recession long behind us, and future opportunities for engineering and construction (E&C) firms often outstripping the business's ability to bring resources to bear on those new projects, it is easy to lose sight of the critical role that effective corporate governance plays in the long-term health of any organization. By aligning the actions of management with the interests of shareholders, a high-performing board of directors provides a reliable rudder for executive leadership strategies and tactics, while advancing the best interests of all stakeholders.

The rise of corporate governance as a business priority has been well-documented, with boards of directors serving as the cornerstone for these efforts. Working with the CEO and other organizational leaders, boards provide support and direction that ultimately help drive corporate success.

Of course, any given board is comprised of individuals, each of whom brings his or her own skills and expectations to the boardroom. Knowing this, the Construction Industry Round Table (CIRT)—an association of CEOs of America's leading design and construction companies—partnered with FMI in early 2018 to conduct a broad industry study focused on corporate governance. The purpose of this study was to explore industry-specific practices around governance processes and the degree to which these resulted in board efficacy. More specifically, we investigated an array of factors: leadership and demographic composition of corporate boards, director training and development methods, and key focus areas of E&C boards. In all instances, a fundamental question was forefront in the minds of the FMI research team: What are the factors that support great governance?

As part of this effort, FMI surveyed and/or interviewed 133 CIRT members who serve on boards to learn more about E&C corporate governance practices in North America. Participants represented a wide range of positions, with the majority being private corporate board members and other C-suite executives.

Key study findings are grouped into the following four main themes:

- 1) **Leadership Matters.** How board chairs play a critical role in creating and driving a healthy board culture.
- 2) **Different is Better.** Today's E&C boards lack diversity in areas such as gender, race, ethnicity, age and knowledge.
- 3) **The Big Training Gap.** E&C companies largely fail to invest in ongoing education and development at the board level.
- 4) **Reordering the Priorities.** The need for shifting a board's focus from being "historians" to "futurists."

As with any team or organization, strong leadership drives a highly effective board (or what FMI calls a “peak board”). Critical to any board’s success, the chair’s role should be crafted with the same intentionality that goes into building executive leaders. Our research underscores the importance of good leadership and reveals a strong positive correlation between board leadership and board effectiveness. In other words, **the more effective the board leadership, the greater the overall board effectiveness.**

We also explored the “dual-hat” scenario that occurs when the board chair is also the CEO. Findings from our survey show that 52% of board chairs are also their organizations’ CEOs. This reality presents unique challenges because the role of board chair is distinctly different than the role of the CEO, and the **dynamics of leadership in a boardroom are different from those in the C-suite.**

Through the survey process, we also learned that just one-third of directors feel confident enough to challenge the CEO “very often” or “always.” And **we found that in today’s E&C environment, diversity in the boardroom seems to elude even the most progressive firms.** For many, boardroom diversity means an assortment of industry experience or adding an external director. However, research shows that greater diversity in areas such as gender, race, ethnicity, age and knowledge often leads to improved thought leadership and innovation.

Along with the right people, an organization must prepare its board members for success. Yet, just 34% of E&C industry organizations onboard their new directors, according to survey respondents. **Compared to other business sectors, boards in the E&C space utilize the onboarding process at an alarmingly low rate.**

Finally, effective boards serve a vital role by keeping an eye on the horizon and encouraging the organization to think about its vision and long-term business objectives. This includes encouraging innovative thinking throughout the organization, driving strategy, assessing and mitigating risk, and fostering financial health. This requires a forward-looking perspective from individual directors, driven by a strategic agenda. Unfortunately, **study respondents say they spend more time reflecting on past performance than planning for future results.** Almost 40% of a board’s time is spent on financial results and regulatory matters, and **just 25% is spent on the organization’s strategy.** Best practice states boards should spend close to 80% of their time on strategic topics that shape the future state of the business.

As we dig deeper into our study findings, CIRT and FMI will keep you abreast of progress, while supporting the development of successful corporate governance strategies and business models that E&C firms can leverage both today and well into the future.





Our job is to make sure this business survives into the next generation and that the shareholders' interests are protected.

**Hugh Rice, Senior Chairman
FMI Capital Advisors, Inc.**

Key Findings

This year's study provides fresh insights into corporate governance practices for North American E&C firms. The study identifies big-picture trends around board leadership and demographic composition of corporate boards and investigates how board members are trained and prepared for their key roles. The research also identifies how E&C boards spend their time and the main challenges that they face.

Findings are based on responses from 133 CIRT board members who provided their input in spring of 2018 through an online survey as well as over 40 follow-up interviews with select study participants (see "Research Methodology" section for more details).

Key findings are grouped into the following four main themes:

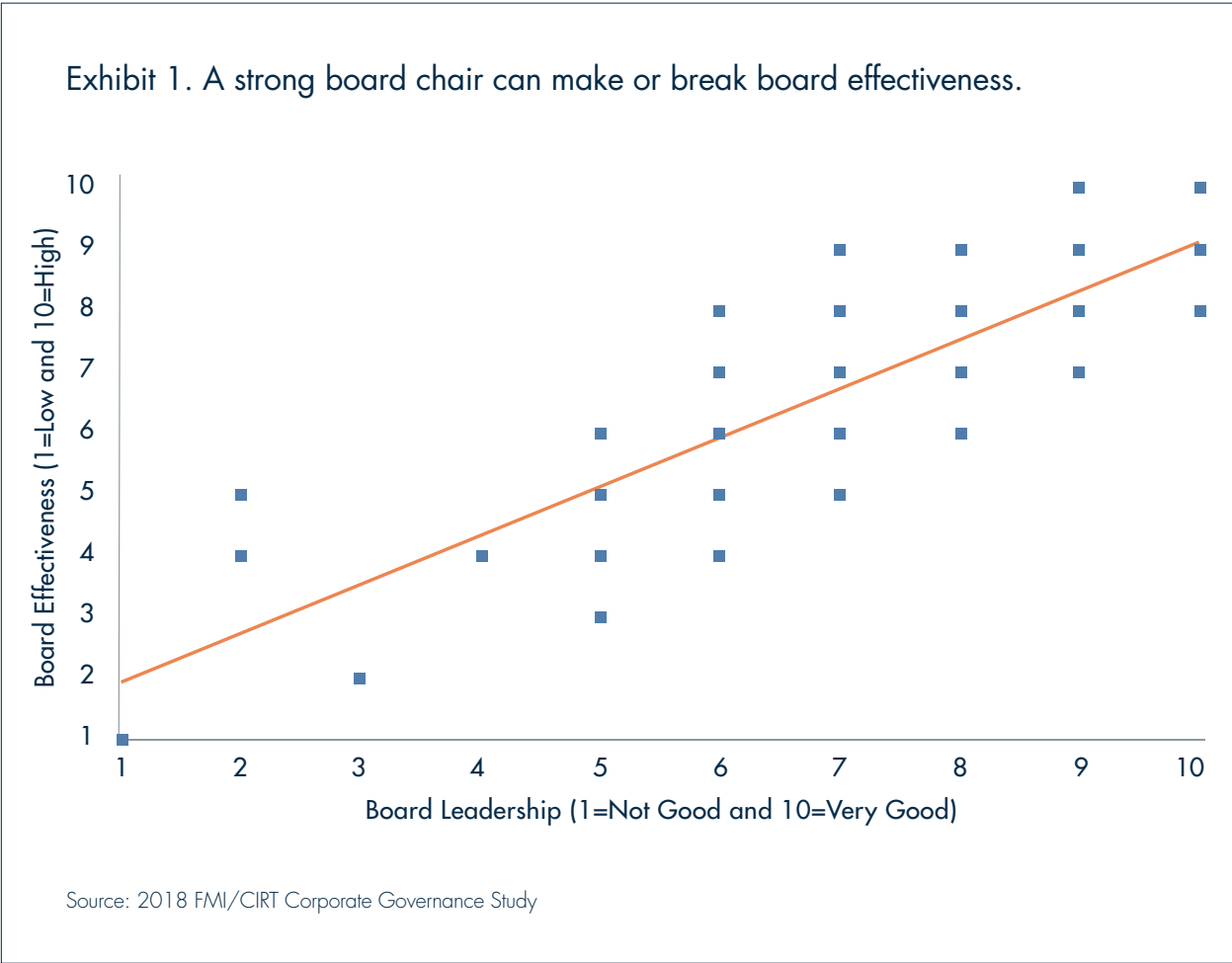
- 1) **Leadership Matters.** How board chairs play a critical role in creating and driving a healthy board culture.
- 2) **Different is Better.** Today's E&C boards lack diversity in areas such as gender, race, ethnicity, age and knowledge.
- 3) **The Big Training Gap.** E&C companies largely fail to invest in ongoing education and development at the board level.
- 4) **Reordering the Priorities.** The need for shifting a board's focus from being "historians" to "futurists."



Theme 1. Leadership Matters

The board chair plays a critical role in creating and driving a healthy board culture.

As with any team or organization, strong leadership drives a highly effective board (or what FMI calls a “peak board”). Critical to the success of any board, the chair’s role should be set up and groomed with the same intentionality that goes into building executive leaders. Our research underscores the importance of good leadership and shows a strong positive correlation between board leadership and board effectiveness (Exhibit 1). In other words, **the more effective the board leadership, the greater the overall board effectiveness.**



So what does good board leadership look like? **The primary role of the chair is to provide leadership to the board, allowing it to function as the highest decision-making body of the organization.**¹ Leadership in the chair's role is less about vision and decision-making and more about creating an environment of candor, trust, communication and collaboration.² An effective chair leverages the unique talents and perspectives of all directors in a collaborative manner to provide sound advice and decisions to the CEO for the organization's long-term good. **Here are several critical areas where good board leadership drives better results:**

- **Keep Things Strategic.** Successful board chairs are masters at facilitating conversations where every voice is valued and heard, and where board discussions focus on strategic topics that influence and shape the organization. A strong chair also prevents his or her board from becoming immersed in operational minutiae—rather, attention is focused on the organization's vision and what it seeks to accomplish. Similarly, a good chair takes the time to prepare the board agenda well in advance and includes strategic, thought-provoking discussion topics.

It is tempting, and often too easy, for boards to dive into operational and financial discussions that are best tackled by the management team. The most successful chairs clearly delineate roles and responsibilities for management and directors and ensure board members remain “nose-in, fingers-out” (NIFO). In other words, **directors are supposed to be nosy about all things (in a spirit of deepening understanding) while keeping their fingers out of management-related matters.** It is critical that directors understand that their respective roles are not to run the company, but instead to assure that management is effectively running the organization.

- **Don't Be Afraid to Confront Tough People Issues.** Corporate boards must provide guidance and strategic direction to the organizations they serve. This involves ensuring that the management team—including the CEO—is performing in a manner that contributes to the organization's growth. Study participants stated that one of the board's responsibilities is to oversee senior level executives' performance. “One of the main things that boards get involved in is the hiring and firing at the CEO, COO and CFO levels. That includes measuring individuals' performance and evaluating how those individuals impact the company. We try to make our decisions based on that information,” confirmed David Nash, external director for Weeks Marine and Caddell.

A good chair must remain impartial and make decisions based on the organization's needs. This presents challenges when the chair and CEO work hand in hand and form a personal relationship. In many cases, the CEO takes on the role of chair, which renders the situation even more complex. Despite these dynamics, and especially in cases of CEO misconduct, the board must prompt an investigation and tackle any leadership challenges.

- **Balance Director Input and Decision-making.** The board chair must also create an environment that balances candor and cadence during board meetings. For example, if a single director argues his or her case too strenuously, thoughtful comments from other directors may be stifled (especially those from subordinates in the organization). On the other hand, if the chair acts as a sole facilitator of these discussions, other directors miss out on the full benefit of management's thinking and rationale. While it is important to include all opinions in strategic discussions about the organization, finding balance can be difficult when members are passionate about a subject or veer off course. “A good chairman knows when to let discussions flow and when to shut them off. If you can get to

¹ Shekshnia, Stanislav. “How to be a good board chair.” Harvard Business Review. 2018.

² “How to choose the right nonexecutive board leader.” McKinsey Quarterly. 2010.

Our study found that only one-third of directors feel confident enough to challenge the CEO “very often” or “always” (see Exhibit 3). Robert Majerus, vice president at Hensel Phelps, posits, “To have an effective board, everyone must feel empowered to voice opinions, to make suggestions, to make recommendations, to support those recommendations and to drive the board to a consensus.” However, in some cases, directors do not feel that they can openly display opposition due to the nature of their professional relationship with the CEO, which can limit thought diversity in a boardroom.



Another area where the dual-hat role comes into play is in driving the board’s meeting agenda. Hugh Rice, senior chairman of FMI Capital Advisors, Inc., summarizes this situation well: “As chairman you get to set the agenda, establish priorities and decide what gets discussed. That is a subtle thing, but it is really important. Making sure the right topics get covered is critical. If management sets the agenda, then its subjects get visibility and others may not. If you have an outsider as the board chair, it’s not just about running the meetings. It’s about setting the agenda. We would talk about different things, and certain things would be at the top of the list, and I think that’s healthy. Because if you’re the CEO, you’re worried about running the business every day. If you’re an outsider, you’re more likely to push topics that are longer-term and bigger-picture, risks, strategic direction and all those kinds of things.”

In summary, strong board leadership will drive organizational effectiveness in both the short and long term, but leadership is only one piece of the puzzle. Extracting value from a board of directors requires the right people in the right places and at the right time—and that includes creating a positive group dynamic through diversity of thought, experience and expertise.





Performance NFR 11/24/2019

24	25	26	27	28
		June		
		V2 Release	V3 Rel	V3 Rel

SPM TG ~26D HRS
CH ~216 HRS

8 days

Theme 2. Different Is Better

Today's E&C boards lack diversity in areas such as gender, race, ethnicity, age and knowledge.

In today's E&C environment, diversity in the boardroom seems to elude even the most leading-edge firms. For many, boardroom diversity means an assortment of industry experience or adding an external director. However, research⁵ shows that greater diversity in areas such as gender, race, ethnicity, age and knowledge leads to improved thought leadership and innovation.

The Vanilla Membership Issue

Our research shows that although most directors are aware of the lack of diversity in their boardrooms, few have tackled the challenge of membership diversification. This is partly a direct reflection of the demographic composition of today's E&C industry. As one director put it, "What we're missing is diversity. We have a bunch of old, white guys and we need some different perspectives."

Rice confirms, "When we went through the last round of director recruitment and brought on two new directors, we looked really hard to find a female industry representative. And one just didn't rise to the top, unfortunately. There just aren't that many female candidates in the industry; that's the reality. But I think it would be beneficial to add more women."

Many firms realize that their leadership does not reflect the totality of employee diversity within the company, but still struggle to diversify in executive and director roles. "We have pretty decent diversity within our ranks as a whole. However, we don't look as diverse at our leadership level. It's terrible. On our board, we have just two women and nine men, with nine white directors out of the total of eleven," Peter Deveraux, chairman and CEO of HED Design, points out.

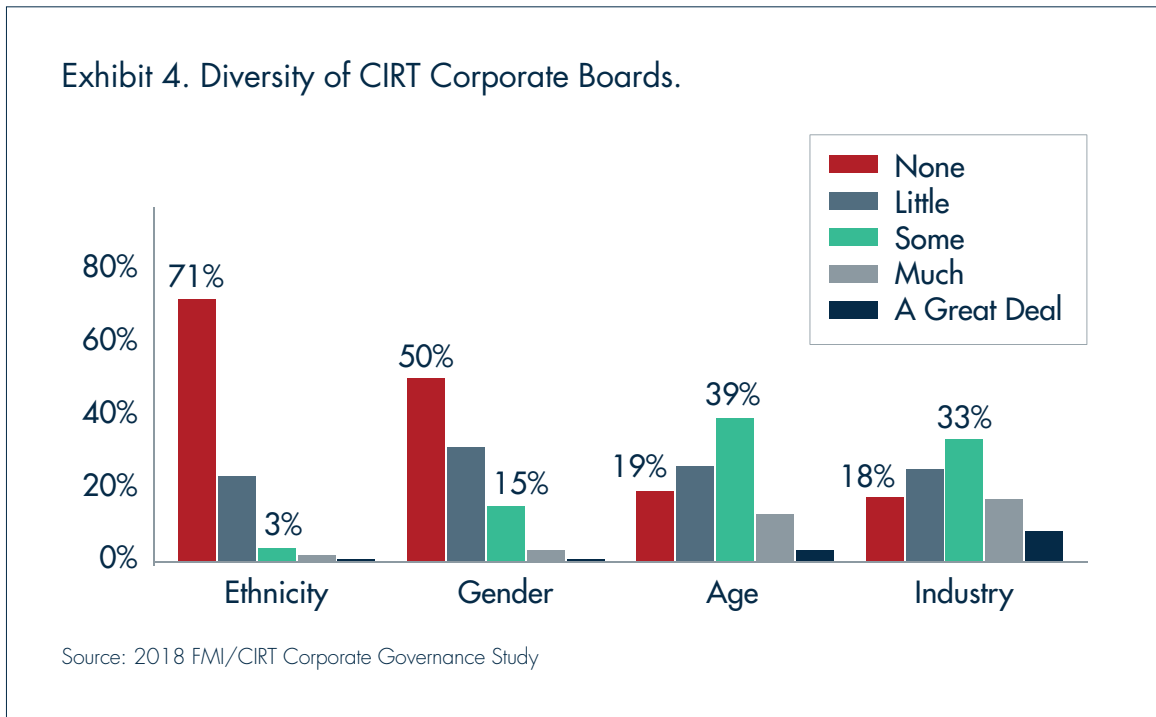
While recruiting diverse members to join the board is one obstacle, another challenge is that many boards lack ample opportunity to revitalize their membership through tenure-limiting mechanisms. As a matter of fact, **just 38% of respondents reported that their boards used term limits, while 55% reported no limits on tenure** (see Appendix). The National Association of Corporate Directors (NACD) recommends that using a mix of tenure-limiting mechanisms increases membership diversity and helps to improve the board's function based on a company's evolving needs.⁶ Limiting the length of time your directors serve on a board provides a way to replace board members who may not be actively contributing to the board with new members who have fresh or innovative perspectives. Moreover, term limits allow for a regular assessment of overall director effectiveness and provide a means to aid in member transitions (in and out of their director roles).

Strategically filling your board seats through deliberation and thoughtful planning can lead to a significant value add for both the company and its shareholders. Compared to other industries, E&C firms are severely lagging when it comes to the inclusion of women and racial or ethnic minorities. According to respondents, **only 3% of E&C firms**

⁵ "Culture as a corporate asset." NACD. 2017.

⁶ Sikora, Ted. "Is your board becoming a strategic asset?" NACD Directorship. 2018.

have some racial or ethnic diversity, and 15% of firms have some gender diversity (see Exhibit 4). To put this in perspective, a NACD study reported that, on average, 12% of director seats are held by a racial or ethnic minority and 20% of director seats are held by women. In the E&C industry, 71% of firms do not have a single minority member, and 50% of firms have no gender diversity on their boards, creating a diversity gap that can greatly limit the thought potential of the group.



A recent article⁷ suggests that diverse backgrounds and perspectives in a boardroom should reflect the firm’s evolving needs. A broad membership base in the boardroom allows for greater cross-pollination of ideas, more collaboration and less “group-think.” This approach supports greater innovation and problem-solving abilities and enables greater contribution to the organization. In today’s rapidly advancing world, thinking differently about problems and ideas can help to mitigate unforeseen risks and complications that organizations may face in the process of adjusting to today’s digital world.

The greater the membership diversity, the more likely the leadership roles are shared equally among members. Mike Burke, chairman and CEO of AECOM, explains, “Global companies benefit in so many ways from diverse boards of directors, workforces and leadership teams. They help generate different ideas and perspectives on behalf of our clients, allow us to recruit the best talent, and enrich an inclusive culture where the brightest professionals in our industry can grow their careers and thrive.”⁸

⁷ “Culture as a corporate asset.” NACD. 2017.

⁸ “2020 Women on Boards. Gender Diversity Index.” 2017.

Wanted: An Outside Perspective

Survey findings reveal a positive correlation between external directors and overall board effectiveness. This shows that the more external directors who serve on a board, the higher their self-rated overall effectiveness. A peak board uses all the tools at its disposal, including the knowledge and skills that come from external directors who provide a depth of knowledge and insight that can be invaluable to an organization.

For many firms, the board of directors comprises company executives and former employees. While these individuals may have a great breadth of company-specific knowledge, there are often gaps in the group's collective proficiencies. Steve Halverson, president and CEO of Haskell, explains, "One of the reasons we are looking to both enlarge our board and expand the diversity of experience and thought is to lay the foundation for effective long-term governance for the enterprise."

Expertise from diverse membership should include skills and knowledge in areas such as audit/accounting, cybersecurity, finance, engineering and construction, legal/regulatory, management, operations, strategic planning, risk and technology.

External directors also provide objectivity and candor. Patrick Whelan, general counsel for Weeks Marine, adds, "When outside directors hold you accountable, you can't just kick the can down the road." In many boardrooms, directors are also company executives who spend all day, every day, working together. This tight-knit relationship may distract from the role of setting direction for the company. For example, if you have several managers or company executives who all sit on the board and work together every day, the board meetings may become highly operationally focused rather than strategic and forward-looking. Add a few external directors however, and their objectivity and outside perspective will change the conversation dynamics immediately.

The challenge of onboarding new external directors is a primary concern among exclusively internal boards. **According to FMI's observations, it takes a significant amount of time for a new director to become completely familiar with a company, its people, perspectives, business plan, goals, etc., and some firms just don't want to make that type of commitment.**⁹ But despite the hefty upfront time investment, companies that take the time to bring on external directors gain overwhelmingly positive feedback.

Halverson talks about the transition from an "all internal board" to the inclusion of external directors: "We didn't have a board with outside directors until 2008, and so it's actually a relatively recent advantage for us. It was important to me, and we started with the idea that we wanted to use the board strategically. There is no question in my mind that our outside directors have made us a better company and me a better CEO. That's really what we were looking for."

Over the years, FMI consultants and directors have been involved in many boards across a broad range of E&C companies. Here's a list of key benefits that we've seen external directors bring to the boardroom:

- **Change of focus.** External directors change the focus during discussions from a myopic view of the organization and provide a broader perspective.

⁹ Dvorak, Kyla. "High-performing board of directors." FMI.

- **Mixing up conversation dynamics.** External directors change the dynamics among board members, especially board members who work as company executives.
- **Broader, diverse thinking.** Recruiting external directors allows the board to capitalize on a greater range of expertise and perspectives.
- **Objectivity.** External directors have no financial stake in the business except the compensation they receive for their board work.
- **Filling internal competency gaps.** Think about the people in your company: What is their knowledge base? Their areas of expertise? External directors can provide specialized knowledge in areas where your current employees are not experts or have blind spots.

Board Compensation: Fresh Insights

Our study with CIRT and [FMI's Executive Compensation Survey](#) both include fresh insights into E&C board compensation.

Our FMI/CIRT study data shows that:

- The range for external directors is \$0 to \$170,000, with the average annual compensation being \$46,073.
- For internal directors the range is \$0 to \$300,000, with the average annual compensation being \$26,918.

“FMI's Executive Compensation Survey” data shows that:

- Among private companies, the average annual retainer to outside directors is \$49,423. Currently, there is less interest in guaranteed compensation, like retainers; only one-third of large E&C companies (i.e., those reporting over \$500 million in revenue) participating in the survey pay an annual retainer to outside board members. Those that do, pay a median retainer of \$62,000. Not surprisingly, the median retainer among smaller companies is notably less, at approximately \$20,000. Retainer amounts vary widely from company to company and are impacted by whether a firm is privately held or publicly traded.
- Most private companies have four board meetings per year. The average meeting fee is \$3,836, but the median is closer to \$2,200.
- The average committee meeting fee is \$1,917, but the median is approximately \$1,250.
 - In our FMI/CIRT study, 58% of participants reported having committees on their board.
- Approximately 20% of private companies provide some form of long-term incentives (which may be equity- and/or cash-based) to outside directors.

See [“Walking the Corporate Board Compensation Tightrope”](#) by Priya Kapila, FMI Compensation, for more details.

The Buddy Club

Another challenge in filling new board seats is the selection process. The most common method of recruiting a new board member is through peer endorsements.¹⁰ Board members tend to have vast professional networks and access to many C-suite executives who would make strong board candidates. However, it is true that people are often drawn to like-minded people, which could lead to a highly homogenous board. As results from this study demonstrate, **having a homogenous board limits the innovative and problem-solving potential of its directors.**

Directors in this study explained how, too often, the boardroom is filled with a group of people who all share more than a professional relationship. While in some ways this dynamic can facilitate difficult conversations, sharing a boardroom with friends can get in the way of constructive criticism, dissenting opinions or opposition to poor ideas.

One participant adds, “The six of us are actually pretty good friends, at least from a work perspective. So I think there is still a degree of not wanting to upset each other’s apple cart. On one hand, it’s a great strength of this current board in that we’re all fairly new to playing on this level; we’re facing common enemies or common issues. There’s a real tendency to rally to each other’s support and make sure that everyone succeeds, which I think is great. However, if someone has a blind spot or is going about something in a way that the rest of the group doesn’t agree with, we will kind of say, ‘Well, give it a try. See how it goes.’ We’re not going to beat the heck out of you if we’re disagreeing with you in the meeting. But when something isn’t working, there’s a tendency to just say, ‘Well, he wants to do it that way. It’s not how I would do it, but it’s kind of his rodeo, so we’ll let that go,’ instead of us telling that person that he or she needs to find a different solution and change tracks. There’s definitely the tendency to just say, ‘Well, I like him generally and he does a good job, so I’m just not going to keep after him on this.’”

Creating the most diverse board by leveraging diversity in areas such as gender, ethnicity, experience, education, industry familiarity, age and so forth gives the organization the tools it needs to leverage the most unique perspectives. Boards can improve board diversity by looking for opportunities to network with other individuals through the community or professional networking events. Drawing from a wider net provides boards the best opportunity to include qualified, multifaceted perspectives, experiences and worldviews, bringing an organization closer to its long-term goals.

¹⁰ “The governance divide: boards and investors in a shifting world. Insights from PwC’s 2017 annual corporate directors survey.” PwC. 2017.



Case Study: Internal Versus External Directors

John* worked as the CFO for Harvey Building Manufacturers* (HBM) for over 30 years and sat on the board as an internal director for several years. After retiring, he served as an external director. “I joined HBM in the 1980s and had a long career with the company,” John says.

After the CEO retired in the early 2000s, the company made an attempt to diversify the board (prior to that, the board had always been internal). “We started bringing external members in one at a time,” says John. “We had the senior management group on the board, plus one external member.”

The company used this approach for over five years, but during that time, it “didn’t bear much fruit,” according to John. The board then moved to having two external members, while also reducing the number of internal members. John had been a member of the initial board as the CFO, but was later removed from the board. At the time, the board consisted of the CEO, president, COO and two external members.

“I was off the board and in the CFO role, but I attended the formal board meetings and most board functions,” says John. Following retirement, he was then asked to take on one of the two external roles that had previously been held by another external member who was completing his term.

“There’s obviously been a tendency to have internal boards and the thinking that absolute and total control over the organization is preferred,” John points out. “And when you move—particularly to the outside role—you gain a much different perspective.”

For example, external board members can provide a more holistic picture of the E&C industry and beyond. “I certainly started to do that because I just didn’t have to deal with all the day-to-day nuances of running the business,” John admits, “nor was I involved with the kind of relationships that can interfere with objective thinking.”

Calling HBM “an outstanding group of individuals and well diversified,” John says the company’s leadership tends to be institutionalized in nature. “Most people at the very senior levels of the company have been there for 20 to 30 years,” he notes, “and that just breeds a certain way of thinking.”

No longer expected to “carry the flag” for HBM, John found himself in the position to be able to challenge the organization—a role that’s benefiting the company, because he also has the “inside track” on how HBM operates. “I know its weaknesses and where the opportunities for improvement are,” says John. “I love the people, but I no longer have this day-to-day sense of having to protect those relationships.”

*Name changed for privacy



Theme 3: The Big Training Gap

E&C companies largely fail to invest in ongoing education and development at the board level.

One of the biggest challenges to creating a peak-performing board is finding the right people to fill the positions. This involves more than just choosing qualified directors; **it requires a deep understanding of how these people fit together.** Some key questions to consider might include:

- What are each person's roles and competencies?
- How do we prepare members for their new directorship?
- How are they evaluated as to effectiveness at both the individual and group level?
- How can we ensure cohesion throughout the board that truly drives its effectiveness in adding value for your company?

Having both the right people and right mix of people can be the difference between just going through the motions and driving transformational change across the organization.

People Practices for Directors

Your company probably has a standard way of recruiting, training and evaluating employees, and it likely starts with casting a wide net for all eligible applicants. Once a pool of candidates is identified, you review each person's qualifications, competencies, experience, background, skills and abilities. Then you consider the impact each person would have in the open role. Next, through an interview process, you identify candidates who have the desired qualities and background experience so that their additional attributes can be evaluated. Consider how well they articulate themselves, whether their personality is a good fit with other team members, and if their goals and aspirations align with the company's vision. Once a few top candidates emerge, you make the hiring decision based on all the information collected throughout the process.

Now consider the process for selecting a new board member. For many firms, new directors are selected in an entirely different way. [A recent article](#)¹¹ points out that most directorships in the E&C industry occur through peer recommendations rather than via a deliberate process used to find the best fit for the board and organization. Selecting directors via peer endorsement does not mean that directors who come to sit on a board through this channel will adversely affect the board. However, in an industry where diversity is scarce and peer recommendations tend to come from like-minded individuals, failing to cast a wide net when recruiting new directors may impede the process of identifying the optimal person to support the business.

Tom Gilbane, president and CEO of Gilbane, explains, "To succeed, you need the right people with the right skill sets. They have to understand the role of a director, which is not to run a company but to guide and assist the company. And you have to be open and transparent with them."

¹¹ Michael Mangum and Paige Kelly. "Eight Factors That Will Increase Your Board's Innovative Aptitude." FMI Quarterly, December 6, 2017.

Without the right people in the right roles, your organization is losing value. “When you have the wrong people in the wrong seat, that just marginalizes the quality of the decision-making conversation and the forward movement that everyone wants to make,” explains DiMaggio. So how do you ensure the board has those right people? Just as with any deliberate, thoughtful process used for hiring new employees in your organization, it takes time to evaluate what skill sets are needed or missing from your business that a new director could provide. You must also consider what contributions are needed to broaden the perspectives of the board. Then, you cast a wide net. Those who sit on boards that are rich in diversity of thought and perspective describe the organizational benefits of recruiting directors with new or different competencies. “You’re not diverse just to be diverse,” says Elias Karter, lead independent director for Cianbro Corporation. “You’re diverse because it is good for the organization. I mean, it’s important—you want a broad enough board so that you’ve got people who are cognizant of the markets the company serves and how they can help the firm in those markets, but you also want people who will help us think outside the box.”

Peak boards leverage the skills, knowledge and connections of their members in a way that elevates the position of the organization and provides a compelling strategic advantage.

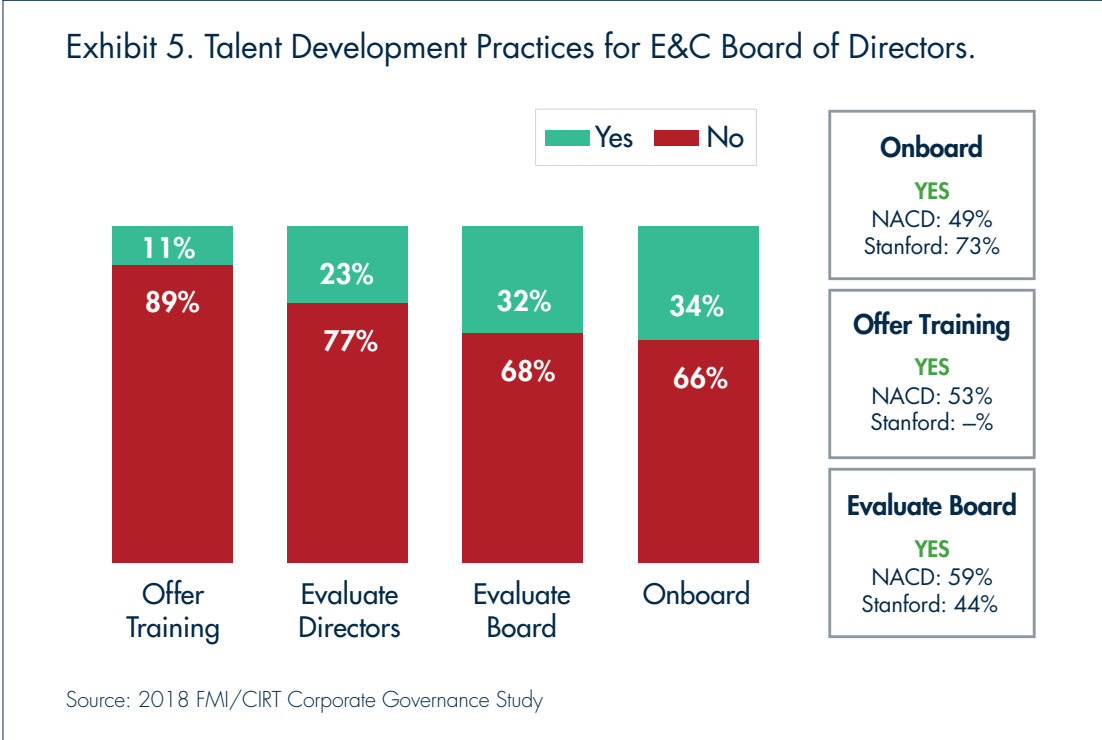
John Gavan, president and CEO at KPFF Consulting Engineers, explains how varying perspectives create enhanced thinking in the boardroom: “We’re really after diversity of thought and approaches to problem-solving. We’d like an optimist and a pessimist. We’d like somebody who’s always creative and wants to try new things and another who’s really ‘staunchy’ about the status quo and what’s always worked. We’d like somebody who’s thinking people first and another who is thinking money and business first. We think about those things. And we think about the relative strengths from a personality standpoint.”

Along with the right people, an organization must prepare its board members for success. Yet, **just 34% of E&C industry organizations onboard their new directors, according to survey respondents (Exhibit 5). Compared to other business sectors, boards in the E&C space are onboarding at an alarmingly low rate.** Participants in the 2016 NACD private boards survey reported that 49% of companies onboard their new directors, and respondents in Stanford’s “2016 Board of Directors Survey” reported that 73% of organizations onboard their directors.^{12, 13}

Much like a company takes time onboarding new employees, preparing new directors requires a similar level of time and energy commitment. Onboarding should include a review of the company’s history and financial statements, organizational structure, strategy, vision and clientele. While some directors may already have a “lay of the land” as company employees, effective directors understand that their roles as board members differ from their roles as employees. High-performing internal directors learn how to separate those responsibilities. Onboarding should begin prior to the first board meeting and is important for acquiring knowledge, building group cohesion, perpetuating board norms and ensuring that directors have the resources needed to step into new roles. Preparing a director to be an effective board member prior to his or her first board meeting will significantly decrease the amount of time it will take for that director to contribute meaningful insights.

¹² “NACD private company governance survey.” NACD. 2017.

¹³ Larker, David, Stephen Miles, Taylor Griffin and Brian Tayan. “Board of directors: evaluation and effectiveness.” Stanford Business School. 2016.



In addition to the initial onboarding, peak boards should offer training throughout the tenure of their board members. In FMI’s [recent risk study](#),¹⁴ nearly two-thirds of respondents said they expect to see more change in the built environment in the next five years than the last 50 years. With this rate of transformation, keeping directors up to date with relevant skills and training is vital to strategically guiding the organization. **Among directors who have received training, 92% expressed that director education and training has enhanced their effectiveness as a board member.**¹⁵ Not only do best practices dictate that directors should receive relevant ongoing training, but also **respondents in this year’s survey told us that they want training to help them become more effective board members.**

Even though directors want training, just **11% of boards surveyed offer any type of formal training to their members (Exhibit 5)**. Among the few directors who participated in board training, the impact was very positive, as confirmed by George Pfeffer, president and CEO at DPR Construction: “The strategic planning course we just had was very powerful. It was an in-depth week of questioning and reading and being pushed, from a broader industry perspective.”

Organizations regularly evaluate employees’ performance, be it annually or in consideration of a raise or a promotion. However, according to our study, **less than one-third of boards conduct regular evaluations—neither individual director evaluations or full board evaluations (Exhibit 5)**. Effective boards can contribute a competitive advantage to an organization and protect the interests of the executive team and the shareholders, but if the board is not evaluated regularly, it can be hard to determine its effectiveness.

¹⁴ “Managing Risk in the Digital Age.” 2018 AGC/FMI Risk Management Study. July 2018.

¹⁵ “NACD private company governance survey.” NACD. 2017.

Using regular evaluations, boards can detect what gaps they need to fill in areas such as board structure, people/diversity, skills/knowledge deficiencies and overall performance. Evaluations should include a review of both overall board performance as well as the performance of individual directors and is often conducted by the general counsel or outside legal counsel.¹⁶ Alternately, the governance committee chair can oversee and conduct the evaluation process. Regardless of how the process is conducted, clear expectations should be outlined for the roles of each individual director and committee. Moreover, peak boards should use evaluations to identify early successes (and potential problems) to maximize progress and prevent long-term complications. In addition to reviewing membership, evaluations can be used to ensure the board functions are aligned with the organization's mission and vision.

8 Characteristics of an Effective Board Member

Effective boards understand their purpose; drive the organization in the right direction; and provide guidance in strategy development, risk mitigation and service to the organization. To create effective boards, the executive and management teams must work with the board to uphold the cultural norms and values of the organization.

The most effective board members:

- 1) Are engaged and, as such, more likely to ask objective questions, evaluate management and assess organizational performance.
- 2) Seek information, question assumptions and challenge conclusions, creating more space for ideas and discussion to ensue.
- 3) Possess strong listening, diplomacy, negotiating and communication skills as well as the functional and organizational knowledge that allows them to actively participate in and contribute to board functions.
- 4) Don't simply "relegate" strategic thinking to board meetings; rather, they make it part of their regular, ongoing board work.
- 5) Contribute substantive content during board meetings, increasing the overall board effectiveness.
- 6) Actively prepare for meetings (both prior to the meetings and on an ongoing basis). For prepared boards, meetings are well-attended, agendas are clearly outlined ahead of time, and accurate minutes are kept during each meeting.
- 7) Participate in ongoing board education to deepen their knowledge of industry trends, current events and/or specific skill areas.
- 8) Set short- and long-term goals guided by the organization's vision of the future.

¹⁶ Larker, David, Taylor Griffin, Brian Tayan and Stephen Miles. "How boards should evaluate their own performance." Harvard Business Review. 2017.



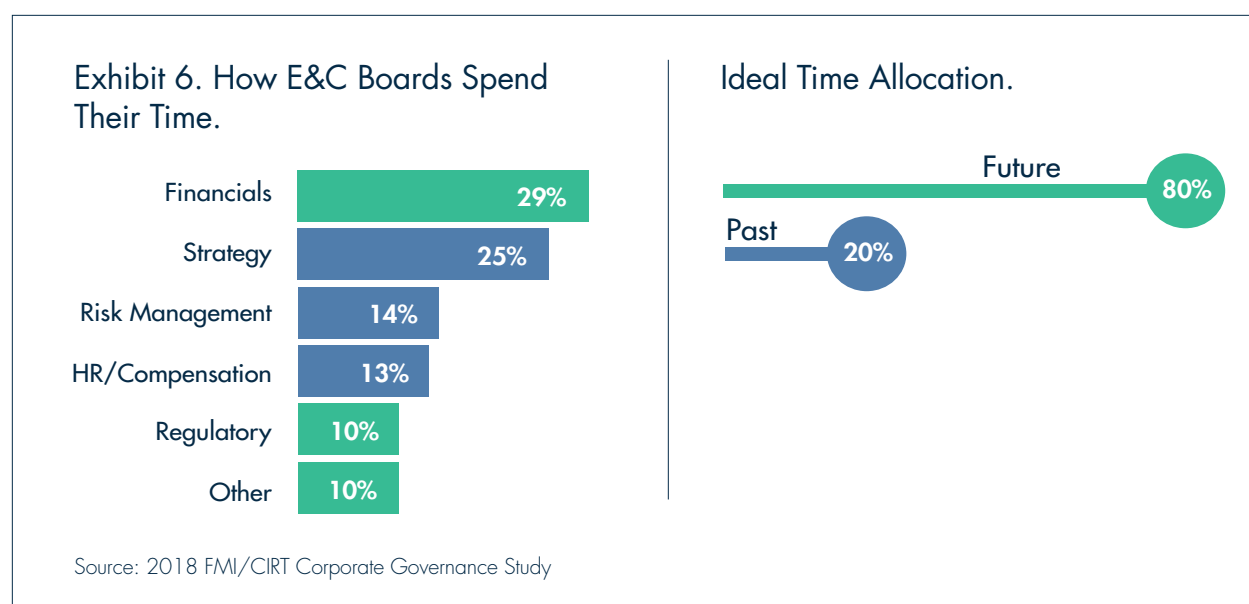


Theme 4: Reordering the Priorities

The need for shifting a board's focus from being “historians” to “futurists.”

In the E&C industry, effective boards keep an eye on the horizon and encourage the organization to think about its vision and long-term business objectives. This includes encouraging innovative thinking throughout the organization, driving strategy, assessing and mitigating risk, and fostering financial health, among other things.

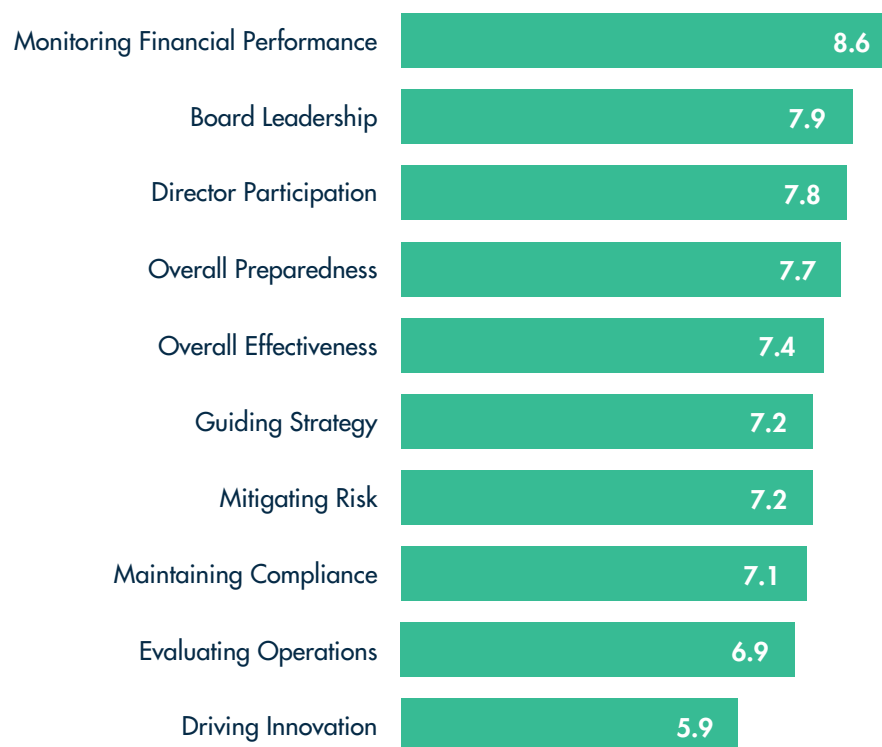
Boards work with management teams to set the strategic direction for their organizations and facilitate the successful achievement of this direction. This requires a forward-looking perspective from individual directors, driven by a strategic agenda. Unfortunately, **study respondents say they spend more time reflecting on past performance than planning for future results**. Almost 40% of a board's time is spent on financial results and regulatory matters, and **just 25% is spent on the organization's strategy** (Exhibit 6). **Best practice¹⁷ states boards should spend close to 80% of their time on strategic topics.**



Participants rated their boards' effectiveness at guiding strategy at 7.2 out of 10, while monitoring financial performance was rated highest of all focus areas at 8.6 out of 10 (**Exhibit 7**). Tom Sorely, president and CEO of Rosendin Electric, shared his thoughts on the challenges for the industry and some ideas on how to get a more future-focused board: “To get E&C board members' minds off the tactical issues and onto the strategic issues is sometimes very difficult. In fact, not only is it difficult to do, it's difficult to even understand, on our part, exactly what that looks like. Construction folks are so tactical and accustomed to solving problems that the dialogue goes immediately to how to get it done rather than what we ultimately want to accomplish.”

¹⁷ Bernie Tenenbaum. “Board of Directors – Fiduciary or Advisory?” Forbes. October 31, 2016.

Exhibit 7. Overall Mean Effectiveness Score in Driving Specific Business Areas (1=Low Effectiveness; 10=High Effectiveness).



Source: 2018 FMI/CIRT Corporate Governance Study

DiMaggio talks about the difficulty in changing the board's focus to look to the future instead of reviewing past performance: "I felt like we didn't spend enough time looking forward and really concentrating on setting direction for where the company needed to go over the next three to five years. We were constantly looking backward and spending time saying, 'What did this particular unit do?' or 'Why are we having financial challenges here or there?' rather than taking that information and looking at where we should be in the next three to five years."

Board makeup comes into play here. For example, internal directors are often trained to think about the company from a very specialized, tactical perspective, as described by their job titles. DiMaggio adds, "When we were at our most ineffective, we got really involved with the day-to-day finances and day-to-day decision-making." Switching to a more strategic, holistic perspective for a board meeting can be a challenge and takes deliberate practice and board leadership to keep everyone out of the weeds. One board chair captured this challenge well: "We have an internal board comprised of people who are very busy and who are focused on one particular aspect of our business. Getting them to remove the hats that they wear every day—well before they get into the meeting—and getting them into the frame of mind to think about what is really best for the company as a whole (as opposed to their little constituency of it) is an ongoing challenge."

Risk and succession planning are two other future-focused areas that challenge E&C industry boards. The survey results show that **43% of boards do not participate in risk planning and 35% do not participate in succession planning** (see Appendix).

This focus on “job title” makes it challenging to shift to a “director focus” for internal directors. It limits the group’s ability to generate new ideas and perspectives. This was displayed in the survey results, showing that **E&C boards are least effective at driving innovation, with an aggregate score of only 5.9 out of 10 (Exhibit 7)**. So how can boards better understand where they are spending their time and change their perspective from being “historians” to “futurists?”

Make Strategic Matters the Core of the Agenda

It’s important to consider the cadence of board meetings as well as meeting agendas. Future-looking agenda topics should garner the bulk of the available time, and historical topics should be limited. It is also important to review the organization’s strategic goals. Does this happen on an annual basis? Or more frequently? What about risk discussions or challenges related to succession planning?

Based on our research over the years, a peak board spends a minimum of 60% of its meeting time on matters directly related to business strategy;¹⁸ anything lower than that points to a board drifting into the realm of management. If a review of the past two years of meeting minutes reveals an imbalance of tactical over strategic issues, consider a change of the process associated with setting agendas. Identify strategic topics and build them into the schedule to drive meeting discussions; block out time for deep discussion as well as ample follow-up. If the board needs to dive into more tactical issues, identify the proper committee to work on them (in collaboration with the management team) and have them report out to the broader board as needed.

You can also look at your team of directors. Each person should be selected based on the unique perspective he or she brings to the team. Sorely adds, “The members of our board were chosen specifically for their knowledge base, their relationships in the industry and what they can necessarily contribute to our company overall in terms of those relationships and those competencies. So, to that end, we have a very, very active board. They are extremely experienced, so there is no BS. They are very engaged, so they get out of the building and walk our jobs and take the time to visit our people. They are informed learners, so they challenge us strategically to ensure that we remain focused on the future. Overall, they bring that balance that ensures ‘we eat in the present while we plant for the future.’”

Term limits keep board perspectives fresh, and fresh perspectives can spark new ideas within the team and drive the organization forward. Term limits can also shape the process to assess individual director effectiveness. In fact, **our study shows that boards that evaluate their individual directors have a mean effectiveness rating of 8.1 out of 10, compared to those that do not at 7.3 out of 10**. Directors who are not engaged and do not bring strategic perspective and insight to the boardroom should be asked to step down to provide opportunities to those willing to be more engaged.

¹⁸ Mangum, Michael, Lauren Ramsey and Emily Livorsi. “How your board can propel organizational strategy.” FMI. 2017.



Looking Ahead

Companies throughout the E&C industry are seeking innovative solutions to the myriad challenges they face in today's competitive business environment. Leaders are confronted with talent pressures, changing technologies, increased competition, demographic shifts, economic uncertainty and various other seemingly random obstacles.

To find solutions, leaders are considering a long list of options, including re-examining the way they recruit, onboard, train and develop their people; hiring talent with unique competencies precisely suited to their new job role; re-examining business models; forming new partnerships; joining peer groups; and finding ways to cut costs and increase productivity. Through it all, one powerful asset is often overlooked: the board of directors.

Our research findings confirm the notion that E&C firms are not fully leveraging the potential of their boards. In fact, as pointed out in a [recent ENR story](#) (“Engineering, Construction Corporate Boards Are Missing the Mark”), industry stakeholders confirm the struggle to make boards truly effective. However, these issues don't necessarily imply that E&C firms are poorly managed. Michael Mangum, principal with FMI, explains, “Firm leaders don't know what they don't know. They may not realize what a truly effective board can accomplish or what they could be doing better.”¹⁹

While boards can partner with executive teams to position for the long-term success of a company, our research reveals that directors and executives alike are mainly focused on short-term issues. To be in sync, an organization's governance model and its business strategy must be informed by management's helping directors understand and meaningfully engage in strategic-level thinking. Put simply, the C-suite must develop productive relationships with board members and possess the skills needed to engage directors in a manner that drives value creation while lessening enterprise risk. The only way for directors to succeed in such a lofty objective is to have their fingers on the pulse of the company's operational heartbeat—no small feat.

Four Fundamentals of Highly Effective Boards

Over the years, FMI studied board dynamics across a wide range of industries and identified **four elements that can help boards reach peak performance: vision, membership, process and focus**. Each component is described below with some self-reflection questions to help gauge the efficacy of your board.

VISION: Before any board-related discussion can take place, an organization must clarify its unique vision of the future: Who are we, and where are we going? Peak organizations have clearly identified and communicated their core purpose; core values; big, hairy, audacious goal (BHAG); and vivid description.²⁰ The board must understand the organization's vision and align its actions accordingly. **Without a clear vision to guide the board, its members can unwittingly lead the organization astray.**

Questions to consider:

- Is there alignment around the board's purpose?
- Is the organization's vision utilized to guide and provide context for the board's efforts?

¹⁹ “Engineering, Construction Corporate Boards Are Missing the Mark.” ENR. August 29, 2018.

²⁰ Collins, Jim and Jerry I. Porras. “Built to last: successful habits of visionary companies.” HarperCollins. New York, NY. 2004.

MEMBERSHIP: Many organizations select board members in a haphazard fashion and wind up with disappointing results. Leading organizations understand that the people who serve in the boardroom are the most critical component in its successful operation. **The best-designed boards have members with complementary knowledge, skills and abilities rather than large overlaps with the profile of current management.** The value of outside perspectives is priceless. Properly assembled, directors bring a slate of competencies that can help the business achieve its long-term goals and realize its vision. In addition, the board chair has a clear understanding of his or her role (versus that of the CEO) and creates a culture of open and honest communication among directors as well as between the board and management team.

Questions to consider include:

- Do directors understand their nonexecutive roles?
- Do the directors have varied areas of expertise and competencies that align with the longer-term strategic objectives of the business?
- Does the chair create a safe environment that promotes collaboration and candor among directors?
- Does the chair encourage all board members to participate in the discussion?

PROCESS: Many companies mistakenly believe that having an effective board is as easy as assembling a group of smart, experienced individuals. However, **the best organizations are intentional about building truly effective teams who leverage proven processes to maximize their output.** Absent careful consideration of structure and format, board meetings can easily deteriorate into unfocused, frustrating and ineffective events. The most productive meetings require advanced preparation and engaged board members who can focus their energies on organizational goals.

Questions to consider:

- Do all board meetings have an agenda, and is the agenda followed?
- Do directors review the briefing book prior to the meeting, and are they actively involved in topic discussions?
- Are comments during meetings clearly communicated, and do they align to the topics at hand?
- Are directors respectful of others' opinions?

FOCUS: Far too many boards lose sight of their intended roles. Members of these dysfunctional boards do not fully understand their roles and typically devote time to operational and day-to-day issues rather than fulfilling broader, more strategic roles. **Peak boards remain focused on high-level topics that are relevant to the strategic vision of the organization.**

Questions to consider:

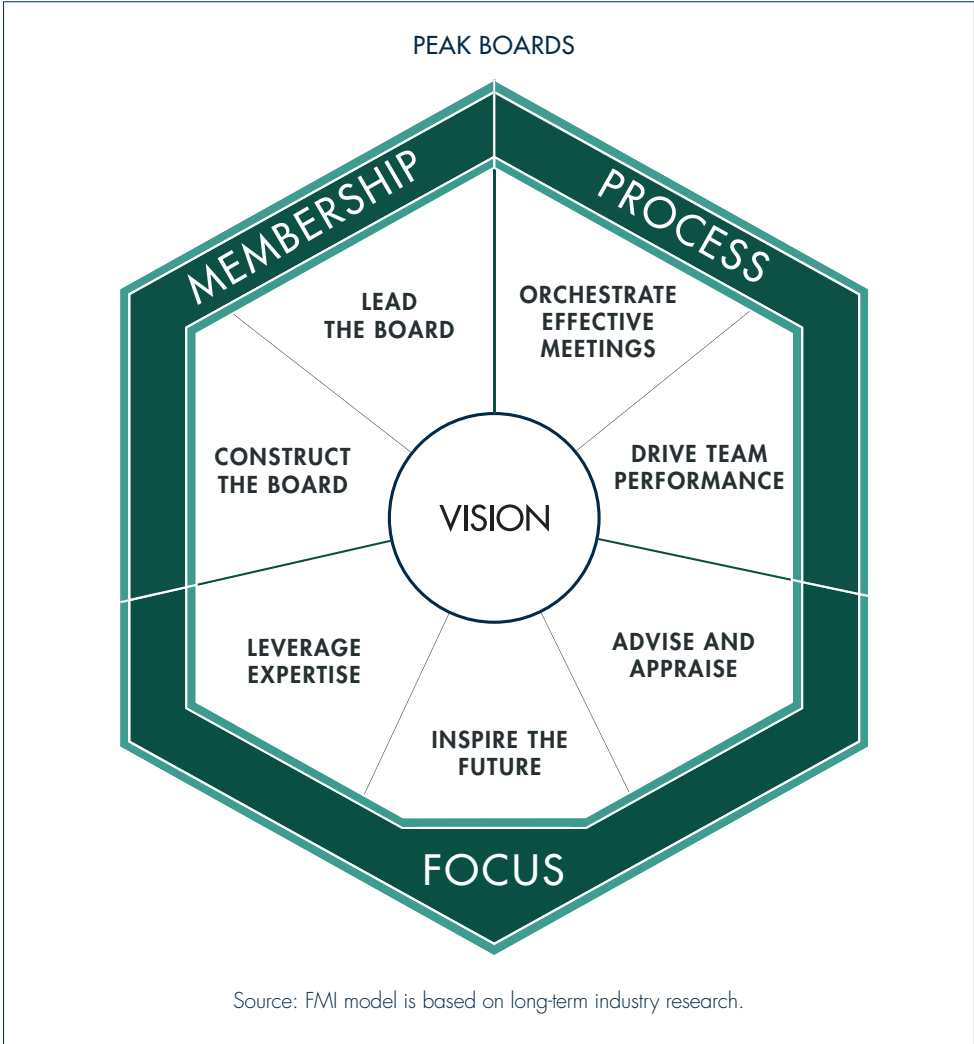
- Do directors actively engage with organizational leaders to create strategic goals that push the organization to excellence?
- Does the board discuss relevant talent management needs to meet the organization's strategic goals?
- Are defined performance indicators and metrics used to measure performance?
- Is risk discussed, and are plans to mitigate those risks clarified before decisions are made?
- Are there multiple solutions to issues discussed to ensure more effective decision-making?

Moving the Needle

Executives wrestle mightily with the question of how to create a sustainable competitive advantage for their organization. This challenge is further complicated in a mature, commoditized industry like engineering and construction (where differentiation is limited by detailed construction drawings and voluminous specifications). And while some businesses have successfully “cracked the code,” most fall into the pattern of providing virtually the same product with the same delivery model as their competitors.

In light of this, we find it odd that so few organizations tap the power and potential of a peak-performing board of directors. Sadly, this represents a collective miss on the part of the E&C industry.

Yet this missed opportunity clearly creates potential for others to capitalize. Today’s progressive, visionary companies will surely step into this void and begin leveraging the power of a truly strategic board. We see the fundamental question as whether an organization moves to differentiate itself through its board of directors, or whether the same business is confronted with a strong competitor who beats it to the punch.





Research Methodology

The Construction Industry Round Table—an association of CEOs of America’s leading design and construction companies—and FMI partnered in early 2018 to conduct a broad industry study focused on corporate governance. The purpose of this study was to explore industry-specific trends around the operational and procedural processes of corporate boards, including big-picture trends around board leadership and demographic composition of corporate boards, director training and development methods, and key challenges and focus areas of E&C boards.

From February through May 2018, FMI conducted an online survey of 133 individuals and completed 41 interviews with corporate board members. Participants represented a wide range of positions, with the majority being private corporate board members and other C-suite executives (see Appendix).

Firms represented in this study include a broad range of industry sectors, including general contractors, specialty trades, construction managers, engineering and architecture, and heavy/highway/civil. Firm sizes ranged from \$100 million or less to over \$3 billion (see Appendix for more details). Of the firms surveyed, 96% are privately held and only 4% are public. The split between fiduciary and advisory boards is 56% to 44%, respectively.

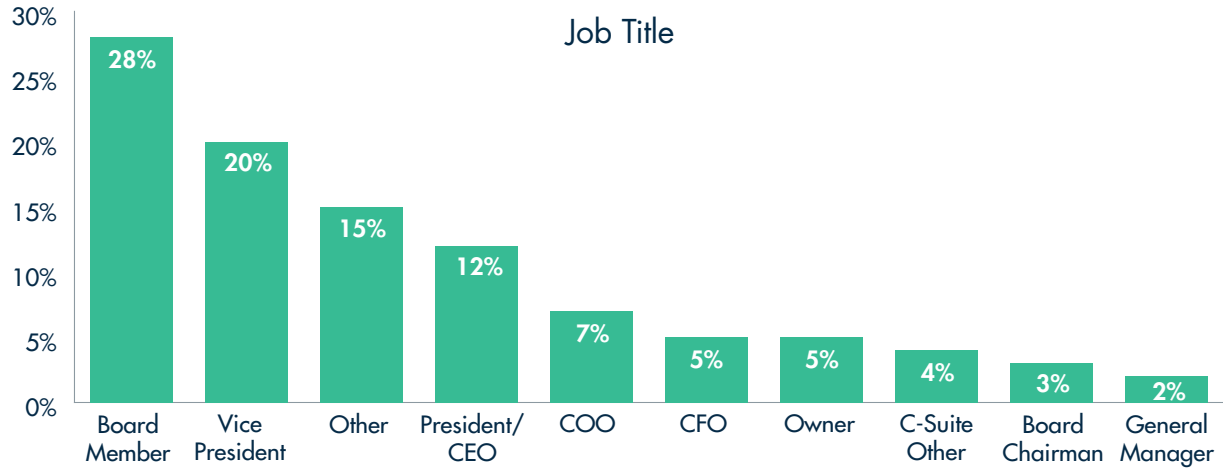
Data were analyzed using statistical methods such as descriptive statistics, correlation matrices and regression models. Results reflect aggregate trends from leading firms across the E&C industry.



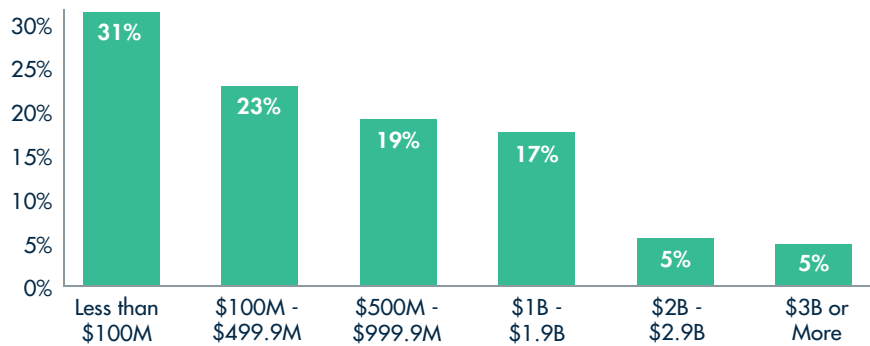
Appendix

Survey Demographics

Numbers may not add up to 100% due to rounding.

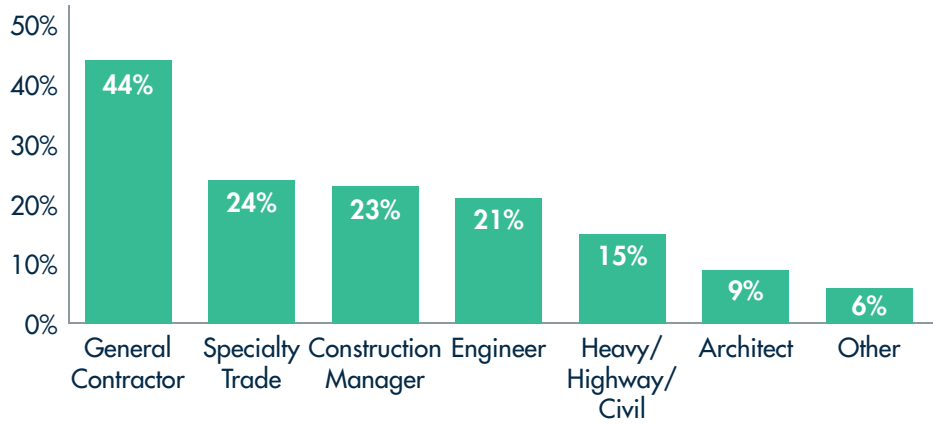


Firm Revenue

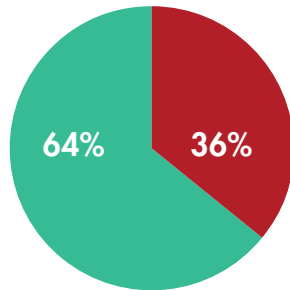


Source: 2018 FMI/CIRT Corporate Governance Study

Firm Type²³

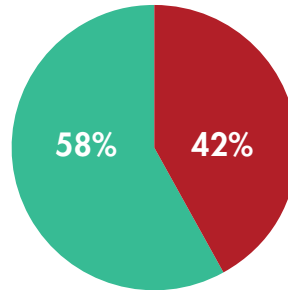


Board Has a Master Calendar



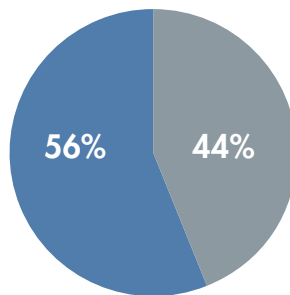
Yes No

Board Has Committees



Yes No

Board Type

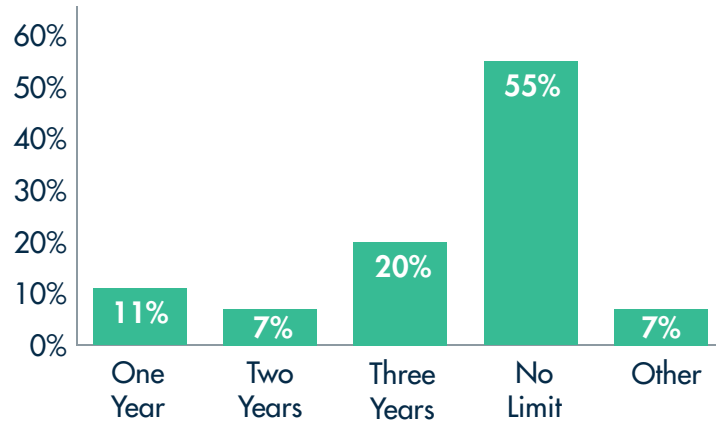


Fiduciary Advisory

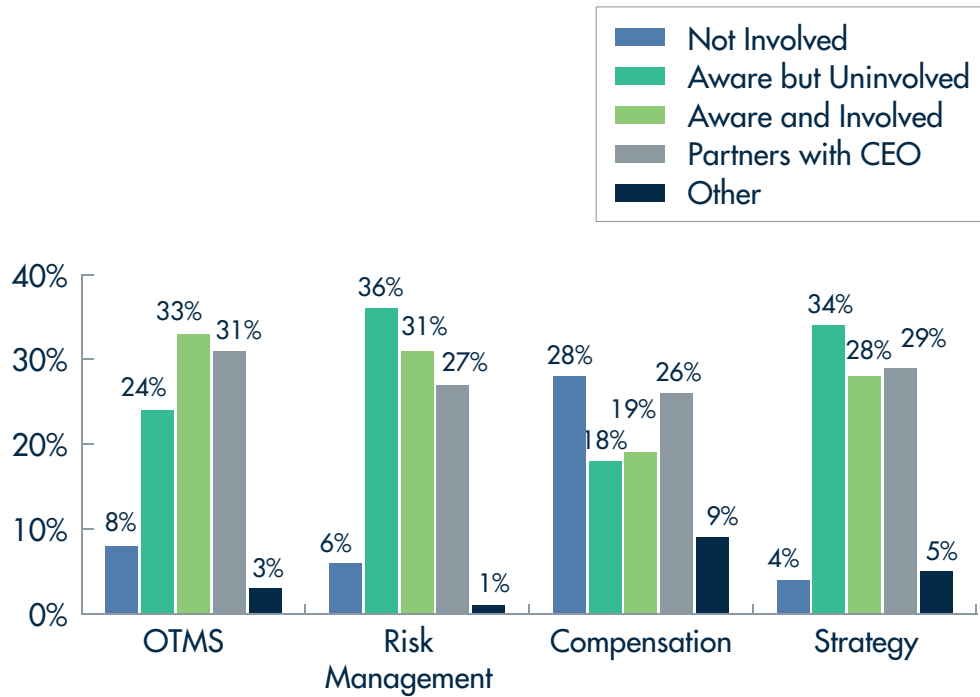
²³ Respondents were able to make more than one selection.

Source: 2018 FMI/CIRT Corporate Governance Study

Director Term Limits

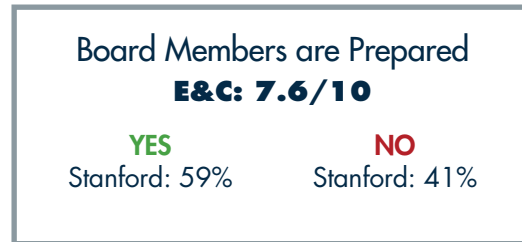
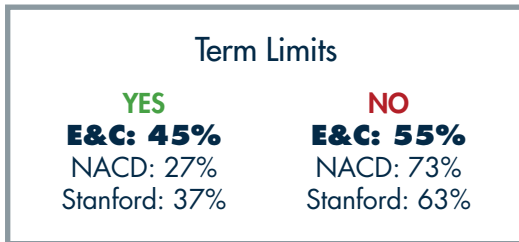
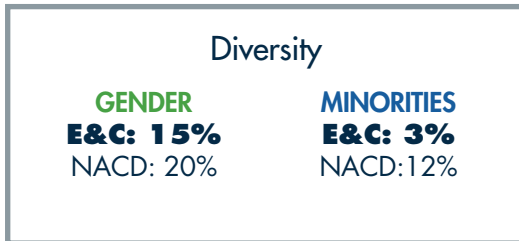
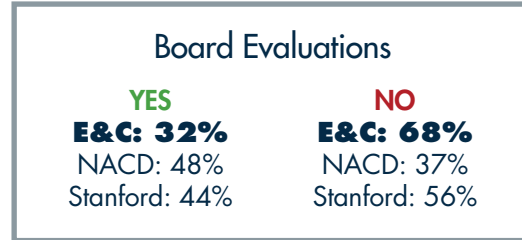
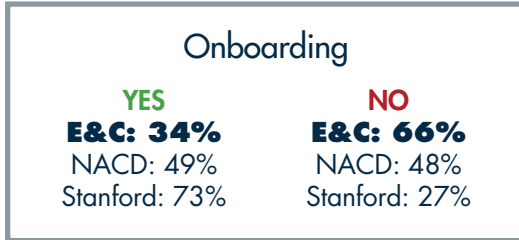


Where Boards Are Involved

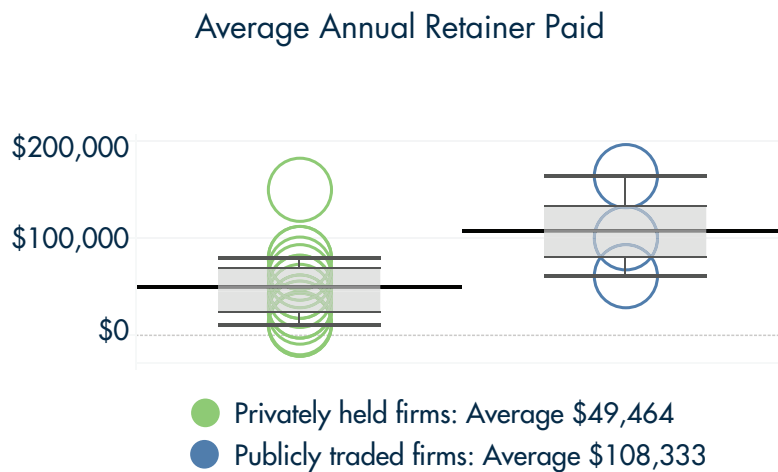
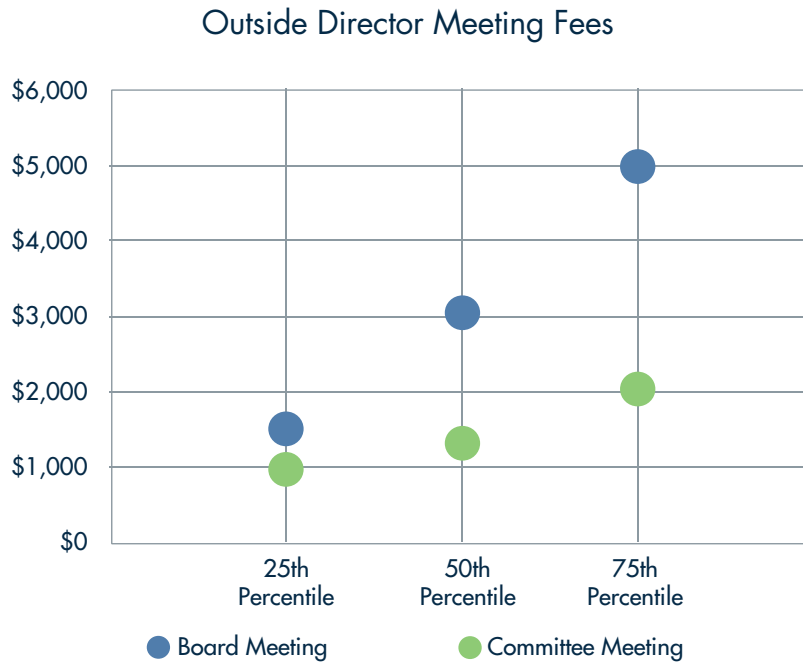


Source: 2018 FMI/CIRT Corporate Governance Study

E&C Industry Compared to Best Practices



Compensation Data from FMI's Executive Compensation Survey:





The Team

Mark Casso represents CIRT as its president, responsible for both leadership and management aspects of the business trade association. As such, Mark directs the resources and programs of the Round Table to achieve its goals to influence public policy to free the creativity and capabilities of the construction industry to competitively provide efficient and valuable services; improve the industry's image; and to provide a forum for networking and education of its members. He can be reached at 202.466.6777 or via email at mcasso@cirt.org

Jane Bonvillain is CIRT's director of association programs. In that role, Jane supports the CIRT president in all aspects of the association, including managing the logistics for the organization's events and collaborating with other groups and stakeholders on a variety of industry issues. She can be reached at 202.466.6777 or via email at jane@cirt.org.

Ron Magnus is managing director of FMI's Center for Strategic Leadership. He founded the Center for Strategic Leadership, which has focused on developing the strategic capability of leaders worldwide. Many of the largest engineering and construction firms in the world are clients and friends of the CSL. Ron also serves on boards as a director and trusted advisor. He can be reached at 303.398.7217 or via email at rmagnus@fminet.com.

Michael Mangum is a principal with FMI's Center for Strategic Leadership and the discipline lead for FMI's Peak Board practice. Michael brings his 35-plus years of experience in the construction industry to bear on the challenges confronting today's leaders. He is particularly passionate about helping drive organizational change through strategic thought and personal transformation. He can be reached at 919.785.9219 or via email at mmangum@fminet.com.

Sabine Hoover is FMI's content director. Sabine leads FMI's content and thought leadership efforts and collaborates with a broad range of stakeholders on a variety of industry topics. She can be reached at 303.398.7238 or via email at shoover@fminet.com.

Emily Livorsi, Ph.D. is a consultant with FMI's Center for Strategic Leadership. Emily brings a solid understanding of leadership research and the latest talent development thinking to best serve a diverse group of firms in the construction industry. She can be reached at 303.398.7216 or via email at elivorsi@fminet.com.

Tracey Smith is a staff consultant for the Center for Strategic Leadership at FMI. Tracey is passionate about helping leaders and organizations become the best and most productive version of themselves. Her primary work focuses on leadership training, content development and organizational consulting for individuals, teams and organizations. She can be reached at 303.398.7259 or via email at tsmith@fminet.com.

Alyssa Menard is a market research associate with FMI. Alyssa is responsible for conducting primary and secondary research around market trends within the AEC industry and built environment. Her primary objective is to ensure best practices in the collection, management, analysis and interpretation of data for content development within the organization. She can be reached at 303.398.7260 or via email at amenard@fminet.com.

Macrae Carreker is an administrative coordinator for FMI's Center for Strategic Leadership Raleigh, North Carolina, team and the Leadership Institute, with multiple locations in Colorado and one in North Carolina. Her work includes everything from billing and expenses to proofreading and editing reports for her team, while maintaining organization of the Leadership Institute registration forms, assessments and billing preparation. She can be reached at 919.785.9202 or via email at mcarreker@fminet.com.



About The Construction Industry Round Table (CIRT)

The Construction Industry Round Table (CIRT) is composed exclusively of approximately 120 CEOs from the leading architectural, engineering and construction firms doing business in the United States. CIRT is the only organization that is uniquely situated as a single voice representing the richly diverse and dynamic design/ construction community. First organized in 1987 as the Construction Industry Presidents' Forum, the Forum has since been incorporated as a not-for-profit association with the mission "to be a leading force for positive change in the design/construction industry while helping members improve the overall performance of their individual companies." The Round Table strives to create one voice to meet the interests and needs of the design/construction community. CIRT supports its members by actively representing the industry on public policy issues, by improving the image and presence of its leading members, and by providing a forum for enhancing and developing strong management approaches through networking and peer interaction. The Round Table's member CEOs serve as prime sources of information, news and background on the design/construction industry and its activities. If you are interested in obtaining more information about the Construction Industry Round Table, please call 202-466-6777 or contact us by email at cirt@cirt.org.



About FMI

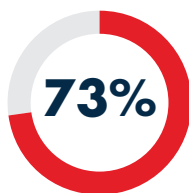
For over 65 years, FMI has been the leading **management consulting and investment banking** firm dedicated exclusively to **engineering and construction, infrastructure and the built environment**.

FMI serves all sectors of the industry as a trusted advisor. More than six decades of context, connections and insights lead to transformational outcomes for our clients and the industry.

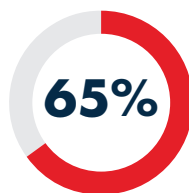
Sector Expertise

- A/E and Environmental
- Building Products
- Construction Materials
- General Contractors/CM
- Energy Service & Equipment
- Energy Solutions & Cleantech
- Heavy Civil
- Industrial
- Owners
- Private Equity
- Specialty Trades
- Utility T&D

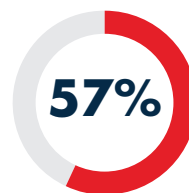
FMI Client Highlights



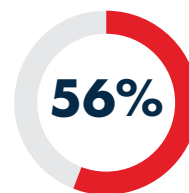
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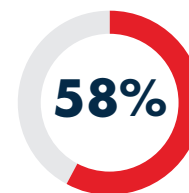
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