

Beyond the Day to Day: Strategic Thinking in the VUCA Environment



By Jake Appelman and Tim Tokarczyk

Six ways leaders in the construction and engineering field can go beyond putting out day-to-day fires and think more strategically in today's VUCA environment.

Every few years a thought leader in the industry writes about the unprecedented rate of change in our current business environment—and he or she is always right. Add in a few quotes about exponential shifts citing Moore's Law and cautionary tales about being a Blockbuster in a Netflix world; stoke some fear about you or your business becoming obsolete in a robot-driven, A.I. world; and you have enough for a blog post or white paper that may drive your CEO to "do something about it." Usually we see this resulting in some initiative designed around "building a sustainable organization," developing a strategic plan, becoming a "learning organization" or developing "change readiness." All these are perfectly reasonable initiatives that often fail spectacularly without considering the one factor that has shifted little in the face of all that rapid change: ourselves.

It is often a preconceived notion that we are logical and objective observers who see the world through an unvarnished lens. However, when it comes to reacting to change, we often stand in our own way.

Think back to the Great Recession of 2007-2009. How many of you spoke with someone after the crash who claims they "saw it coming" or they "knew it would happen"? Boardrooms and construction sites are loaded with these self-edited stories. And while the Great Recession may now be in our rearview mirror, economic and industry uncertainty still prevail.

In this article, we explore the current VUCA environment, outline the implications for construction and engineering firms, and give you six ways to rise above the rhetoric and make good decisions in even the most uncertain circumstances.

Rational Versus Irrational Thinking

In the book “You Are Not So Smart,” author David McRaney examines a psychological concept called naïve realism. This is the belief that we see the world rationally and free from bias. If you were to ask the average leader in the industry to justify any decision that he or she made—whether that was to bid on a specific project, to hire a new estimator or to pursue a new market—most would state emphatically that the decision was based on careful rational analysis. The leader would point to facts and data, expert opinions and/or previous experience to prove his or her point. Put simply, we generally believe we are rational, clear-minded thinkers.

The truth is humans rarely (if ever) think in a manner that’s free of personal bias, especially when it comes to emotionally charged issues. Consider the example of a team of construction executives that sits down to develop a strategic plan in the current environment, where:

- Since 2009, 11 million jobs have been created. The stock market has tripled, and the unemployment rate has been cut in half. Construction volumes are nearly back to pre-recession levels and we should invest for growth.
- The recovery since 2009 has been one of the weakest in history. The national debt has ballooned, and wages for most Americans are stagnant. Millions of Americans have given up looking for work altogether. The economy has been propped up by an overactive central bank through quantitative easing and cheap money, we are headed for a meltdown, and the only question is when that will happen.

Equipped with these hard facts, the same team that sat down with the goal of doing some strategic planning is suddenly beset by all the devils of individual beliefs, biases and cognitive black holes associated with these and other cold, hard facts. The result of this exercise is usually a strategic plan that falls prey to the polar responses of oversimplification or over-complication. Or, worse yet, it leads to a group that throws up its hands and decides to focus on the tangible work of managing operations.

Recognizing these biases in ourselves and in others is one of the fundamental challenges of modern leadership and critical in the process of developing one of the few enduring sources of competitive advantage, the ability to think strategically.

Key VUCA Trends in Engineering and Construction

For the modern construction leader, VUCA—a world characterized by volatility, uncertainty, complexity and ambiguity—is such a part of daily leadership that it almost fades into the background. In fact, it often moves to the forefront when something radical takes place, only to recede once the news cycle wears out. Consider these current examples of VUCA trends in the design and construction industry:

- The U.S. oil and natural gas boom, driven by fracking and spurring rapid growth of domestic industrial construction, collapses in the face of a protracted price war with OPEC.
- The U.S. housing market rapidly recovers in a low- to no-interest environment, but only in pocketed segments led by coastal cities.
- Construction put in place nears a pre-recession high, all while consumer confidence and unease reign strong.

- BIM, prefabrication and modularization represent a source of significant technological advantage to some and a competitive threat to others.
- Megaprojects emerge, but only a small slice of E&C firms with the resume and balance sheet to support them can compete for these huge opportunities.
- Mega engineering firms continue to add construction businesses; the largest get larger and crowd out the middle market.
- An election cycle brings uncertainty for taxes, immigration law and unionization.

Faced with these and other VUCA trends, many leaders respond in predictably irrational and polarized ways (e.g., a feeling of resignation which leads to foregoing any attempt to plan and just “take what the market gives us,” or attempting to control factors that prove uncontrollable by analyzing and planning for any and all contingencies). The best response usually lies somewhere in the middle of these responses: constantly calibrating between the two poles while remaining balanced and never tipping over to the extremes.

Thinking Strategically in a VUCA World

The emotional toll of VUCA on leaders can create an abundance of problematic issues. For example, leaders can easily feel helpless, hopeless and continually at risk. The unpredictability of the unknown erodes confidence, with many leaders reacting to the feeling of uncertainty by speaking with even more conviction and greater certainty as a coping mechanism. These negative emotions and their subsequent actions can lead to one of two extremes—either feeling paralyzed by the uncertainty and shutting down, or the opposite, needing so badly to feel like you’re making progress that you charge ahead without a clear plan. In this scenario, many leaders focus on easy tasks that give them a sense of accomplishment—even if those tasks aren’t strategic and aren’t moving their teams or organizations forward.

EXHIBIT 1 | FMI’s Strategic Thinking Model



Source: Model is based on in-depth industry research

For example:

Pick any leader in your organization and ask him or her, “How are you?”

The first response you’ll likely hear is “busy.”

That’s because so many leaders are feeling the pressure of the VUCA environment that their only response is to work harder.

The reality is that far too many leaders are scrambling, trying to keep up and are too busy to plan or think ahead. Key decisions that have enterprise-level impact (like opening a new office, moving into a new market sector or taking on a larger project than ever before) are given insufficient thought. Leaders make decisions quicker and with less input from others. With the mounting pressure to make a quick decision, leaders move forward without fully considering a broad perspective of opinions.

The good news is that leaders can effectively navigate in the VUCA world, think more strategically and look beyond the day-to-day “fires” to a more holistic view of the future. Here are six recommendations for leaders to consider, all of which require deep reflection, personal insight and disciplined practice to implement:

- 1. Practice mindfulness.** The mention of meditation or the term “mindfulness” to many engineers and contractors steeped in the science of building and designing actual tangible things often elicits a groan or rolling of the eyes. And yet, hard research from studying the highest performers in nearly every field consistently finds that all use some form of meditation, focusing or breathing practice. True strategic thinking almost never happens in the “busy mind” where attention is fractured across multiple competing priorities.
- 2. Build solitude for deeper thinking.** Many executives fall into the trap of scheduling meetings, calls, site visits, client dinners and association meetings until there is no “white space” on their calendars to think deeply. The most effective strategic thinkers build islands of uninterrupted time into their calendar to reflect. Then they guard this time zealously and look at it as an investment versus a cost.
- 3. Blend data with instinct.** Effective strategic thinkers recognize the value of both instinct as well as data. They use hard data to make decisions, while simultaneously trusting the value of years of accumulated experience and gut instinct. Consider, for example, the two contactors that are examining a location for a new office. One decides to open an office because the market is hot and because it has a client there and a PM who can run the office. The other embarks on a rigorous assessment of the potential market’s competitive landscape, analyzes its potential market share, looks at the underlying economic trends and makes a rigorous assessment of its potential leaders to run the office. The former takes great risk in trusting instinct without the supplement of fact-based analysis.
- 4. Combine decision-making and diversity.** Executives are at great risk of becoming insular or surrounding themselves with others like them, both of which create a deadly echo chamber of similar views. And yet, discerning good advice from bad is a critical piece of strategic thinking, and informed perspective is critical. Strong board governance is often an essential resource to drive strategic thinking—with the caveat that a truly effective board is rigorously selected, is clear on its purpose and brings perspective outside of the company.
- 5. Practice scenario planning.** Trying to predict or forecast a long-term future is difficult in a VUCA environment and runs the risk of being right but too early to

the game (or being wrong and overcommitted). This can push executives to dismiss planning as futile or to take the polar approach, attempt to predict factors outside of their control and plan for every contingency. Scenario planning, on the other hand, takes the middle ground by planning for various scenarios such as continued growth, significant slowdown, full-on recession or “muddle-through” economic conditions.

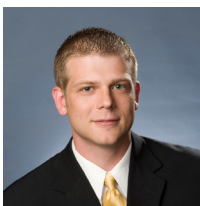
6. **Use organizational purpose and values as guideposts.** A clear, authentic core ideology comprising core purpose and core values can serve as the ultimate shelter in a VUCA storm. While many companies have some form of core ideology, the truest test is a company that is so committed to that ideology that it would rather lose money than counter that belief. While this may sound simple in theory, imagine the discipline and focus it would take to say no to work that doesn't fit with a company's purpose and values when the market is booming—or let go of a strong performer who doesn't fit the culture. That's where a clear dedication to organizational purpose and values can stand as a key differentiator between leaders who think rationally and those who apply a more irrational approach to their roles.

Applying the Key Principles

In the midst of an economic recovery, the natural temptation is to postpone the critical work of strategic thinking. Often, it seems counterintuitive for most engineering and construction executives to slow down, pause and think deeply about their businesses in the face of rapid growth and opportunity. Ironically, this is the perfect time to take these steps. Armed with awareness of our own natural biases and the human response to a VUCA environment, modern construction leaders often wind up expending great amounts of energy on the countless factors out of their control or to take control of the one factor over which they truly have control: themselves. By using the advice outlined in this article, industry leaders can not only effectively tackle the challenges that they're facing right now but also prepare for success in the future.



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