

LEADING THROUGH BUSINESS CYCLES: Lessons Learned From E&C Executives

2020 FMI Leadership and Strategy Survey



EXECUTIVE SUMMARY

As we move further into 2020, we find ourselves in a time of unprecedented change and uncertainty. Daily soundbites inundate us about the evolving Covid-19 pandemic, which is wreaking havoc across the globe and sending ripples through the stock market, business environment and the world economy at large.

Economists are debating whether the stock market will just fall into an extended bear market or whether we are facing a full-blown recession. In either case, executives worldwide are vigilant and trying to make sense of this fluctuating information.

Right now, many industry leaders are enjoying a strong backlog and may be facing a rapidly changing market. If, like other leaders in the industry, you're presented with this challenge, now is a good time to take a step back, revisit how you handled the cascading events of the last downturn, and plan ahead. It's time to ask yourself: How do I create a coherent and flexible strategy that allows my company to take advantage of the strong operating environment we're in today (in terms of backlog and available work) while also keeping a firm eye on the horizon? This is critical because, as we're currently witnessing, external factors can have a swift impact on today's business environment.

In this report, we present results that we gathered from more than 150 engineering and construction (E&C) executives who shared their experiences and strategies from the last downturn, how they focused their energy, and what key lessons they learned.

Our findings are organized into the following three main themes:

Theme 1. Building Long-Lasting Companies: Make Vision and Strategy Count

Theme 2. Winning Leadership Styles for Bull and Bear Markets

Theme 3. Lessons Learned From the Great Recession

Not surprisingly, one key lesson that emerged from the research was the value of staying true to your vision and core ideology in good times and bad. As Jim Collins explained in "Built to Last," "In a world of constant change, the fundamentals are more important than ever."

Based on what we know about the Great Recession and how it caught many companies off guard with its swift and lengthy economic downturn, there's literally no excuse for the same thing to happen again in 2020 and beyond. Whether your company starts exploring new markets, firms up its balance sheet, tests the waters of megaprojects, or finds some other new way to compete, this is not the time to wait until it's too late to do something about it.

The survey insights are particularly relevant because many emerging leaders and future executives in the Built Environment weren't in executive or leadership roles during the last downturn—and have mostly led through tremendous growth. Put simply, leaders in today's and tomorrow's environment may need to modify their approach in more turbulent times.

We hope our findings help you prepare your company for the next downturn because one thing is certain: Your business context is and will remain uncertain. The key is to get moving, make the necessary shifts, and deploy the strategies now that will help your company ride out the waves of uncertainty instead of being overpowered by them.



2020

FMI Leadership & Strategy Survey

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BUILDING LONG-LASTING COMPANIES: MAKE VISION AND STRATEGY COUNT

Since the Great Recession hit the Built Environment, many companies have reevaluated their services, clients, markets, visions and strategic goals. As a result, companies have redefined themselves and are looking at new and innovative ways to deliver projects, interact with clients and pursue work in today's modern world. Select companies have been very successful at making these transitions and have emerged from the recession as lean, innovative and very competitive players.

As we investigated these winning firms, we asked ourselves: What did E&C firms do to manage the challenges that came with the last economic downturn? As a start, we looked at where these companies increased investments and focus during the last downturn. The top three business areas that emerged include:

- Business development (51%)
- Financial management (46%)
- Strategy (35%)

Our research also shows that **leaders who increased their financial investment in strategy reported higher effectiveness in operations, strategy and overall company performance** compared to respondents who either didn't do anything or decreased spending in that area.

Research from the Learning and Skills Improvement Service (LSIS) confirmed these findings and demonstrated that strategic thinking and planning are among the top leadership skills needed to be an effective leader during a recession.¹

These findings underscore the importance of strategy in the context of planning and preparing for different market cycles. Many company leaders we spoke with admitted to being too slow to adjust company strategy – and act upon that strategy – both before and during the Great Recession and therefore ended up paying a high price.

As we find ourselves at a dramatic turning point in the business cycle, strategy should be top of mind for all executives. At the time of this writing, it is still uncertain how current economic, political and social events will unfold in the coming weeks and months. Now is the time to reflect on how you navigated the Great Recession and recalibrate your company for more turbulent times ahead.

¹ Cox A, Fairhurst P, Hadjivassiliou K, Hirsh W, Jones K, Pullen C, Reid B, Tamkin P, Walker E. "Leading and Managing in Recession: same or different skills?" Report LSIS233. Learning and Skills Improvement Service. May 2010.



E&C leaders who increased their financial investment in strategy during the recession:

1.6X

as likely to report leveraging long-term vision compared to leaders who did not change their investment in strategy.

1.8X

as likely to report setting direction in their organization compared to leaders who did not change their investment in strategy.

1.8X

as likely to report implementing a strategic plan compared to leaders who did not change their investment in strategy.



15%

On average, those who reported higher effectiveness and higher profit margins postrecession spent at least 15% of their time in executive meetings discussing strategy.

As we look to 2020 and beyond, leaders need to take a step back and revisit the three classic strategy questions:

- Where should we compete?
- How should we compete?
- What will it take to win?

These are questions that businesses have asked themselves for decades, of course, but the speed at which they are asked and acted upon has increased significantly. Where firms once developed their business strategies around five- or 10-year timelines, the pace of business today requires much shorter windows. Add industry disruption to the equation, and those timelines get ever shorter.

This was confirmed in many of our interviews, with today's leaders setting both short-term and long-term strategic goals and measuring progress continuously through key business metrics. In other words, strategic planning is turning into a more fluid, dynamic process – like tracking a health program that requires monthly, weekly or even daily tweaking and adjusting.

One respondent stated, “Each quarter we set goals for that given quarter and measure those against the annual goals. We ask, ‘How are you going to be chipping away at your annuals? Tell me what you’re going to do next quarter.’ When we get together every quarter, we look at how we made out with the previous quarter goals, and what’s the objective for the next quarter. We go through those in detail on a monthly basis, and we organize formal off-site meetings with the leadership team on a quarterly basis.”

This ongoing, *issues-focused* strategic planning helps foster a healthy debate among the leadership team and across business units while pushing strategic decision-making to a whole new level – with real facts, in real time.

However, this can't just be a monthly or quarterly cadence; you need to create space for your leadership to step back and think long term. One good way to do this is by asking yourself these questions about your firm's current strategic planning approach and whether it:

- Poses and answers the right strategic questions.
- Frames choices and forces decisions.
- Identifies the critical few strategic issues you must address.
- Takes objective stock of your current capabilities and limitations.
- Balances tensions between creativity and analytical rigor.
- Incorporates broad inclusion to enhance engagement while also getting the right decision-makers in the room to ensure candor with a focus on making the hard choices.
- Leads the business by setting direction, aligning resources, and motivating and inspiring as opposed to managing the business by planning, organizing and controlling.
- Factors in the needs of a variety of time horizons (i.e., long term, midterm and near term).

Use the answers to these questions to gauge exactly where your organization stands on the strategic spectrum and adjust accordingly, knowing that both industry and economic uncertainty are the “new normal” for the time being.

STAY TRUE TO YOURSELF AND DON'T LOSE FOCUS

When developing strategic priorities for the year ahead, E&C firms should stay focused on the long-term view while also taking advantage of the “now.” This requires good balance, solid leadership, deliberate succession planning and a holistic approach to business growth.

It's also key to stay *focused* and answer the critical “where to play” and “how to win” questions by identifying the right combination of markets, segments and delivery methods to outperform industry peers.

Surprisingly, our research indicates that strategy drives focus on critical issues for just **15% of respondents**. **Only 40% state that their strategy is based on an objective view of their context**. This is a systemic industry issue in that many firms can't control their appetite or risk for going after new projects, clients or markets. Not being able to say no gets E&C firms into trouble. They wind up burning a lot of energy trying to get out of those predicaments versus creating a stronger equity base that establishes success for the future. Companies that stay true to their vision² tend to avoid this trap.

Over the last few decades, FMI has evangelized the power of organizations staying true to their vision as a differentiator and driver of enduring success. But how did such companies fare during and after the Great Recession? Several leaders we talked to claimed that vision served as a lighthouse, guiding decisions through a deeply uncertain and foggy time. Many claimed that staying true to who they were helped them get through the recession.

² Vision, as defined by Jim Collins, is a unique combination of a core ideology (purpose and values) and an envisioned future (a Big Hairy Audacious Goal and a vivid description of what it means when you have arrived at your long-term goal).



FIVE COMMON PITFALLS IN STRATEGY:

1 Developing strategy without the foundation of vision

Strategy should align with your core ideology and advance toward your envisioned future.

2 Engaging in a glorified budgeting process masquerading as strategy

This is usually just a five-year forecast with no clarity on how that budget is going to become a reality. It is not uncommon for the company to abandon the “plan” as soon as the budget is wrong.

3 Only evaluating context sporadically

Make it an ongoing focus of how you think strategically about your business, not just annually or every three to five years.

4 Focusing more on vocabulary than substance

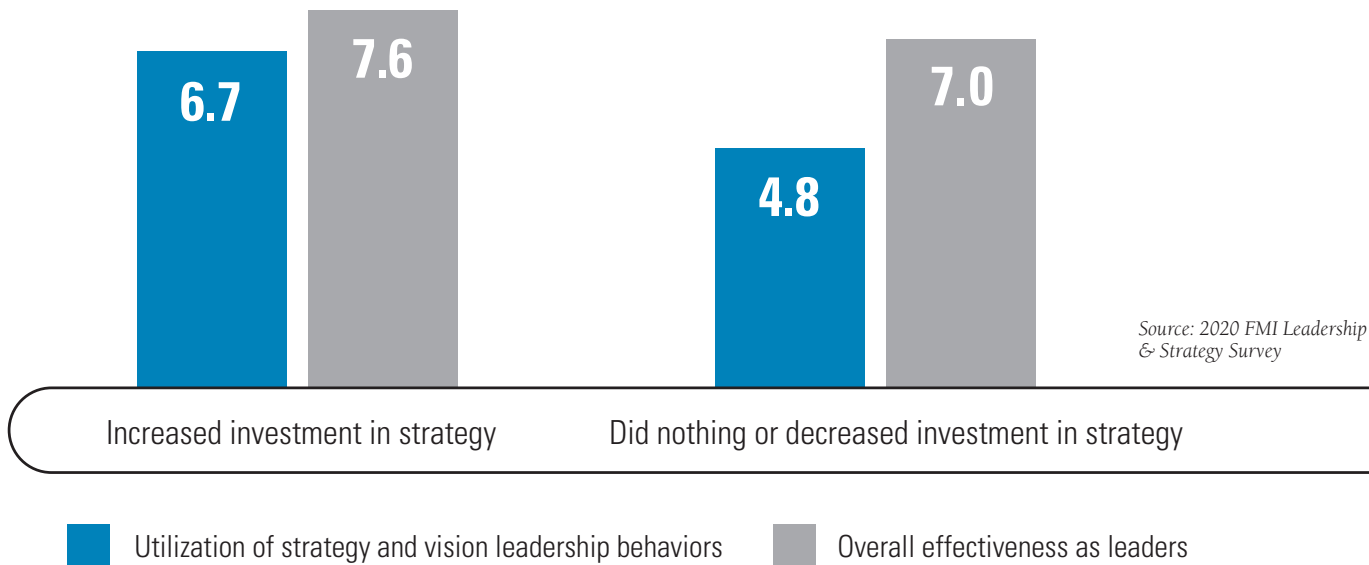
Too many companies put the focus solely on mission, vision and values instead of asking themselves:

- a. What are our priorities?
- b. What choices must we make?
- c. How will we achieve them based on market realities and our current capabilities?
- d. What must we invest to bring initiatives to life/achieve our objectives?

5 Not focusing on hard choices and decisions

This is a leadership failure and an oversight that companies can't afford to make in today's fast-paced business environment.

EXHIBIT 1: STRATEGIC INVESTMENT AND BEHAVIORS DURING THE RECESSION



Please rate how much you leveraged key organizational behaviors tied to vision and strategy, and please rate how effective you were as a leader (using a scale of 1 to 10; 1=never leveraged and 10=always leveraged. And for leader effectiveness; 1=least effective, 10=most effective).

Our research shows that leaders **who both invested more in strategy-related activities and behaved in more strategic ways felt more effective during this crisis**. Specifically, leaders who leveraged key organizational behaviors tied to vision and strategy such as “setting direction,” “establishing a vision” and “implementing a strategic plan” saw better company results compared to those who did not change their investment in strategy or even decreased spending in those areas (see **Exhibit 1**).

² Vision, as defined by Jim Collins, is a unique combination of a core ideology (purpose and values) and an envisioned future (a Big Hairy Audacious Goal and a vivid description of what it means when you have arrived at your long-term goal).



Steve Levy, senior vice president of Construction Operations with McCown Gordon Construction, discussed how staying true to your company values is critical through even the toughest times:

“Leadership needs to look at what sacrifice it can make so that you’re not sacrificing the things that made the company what it is. If the picnic down by the lake that you’ve had for 20 years defined the company, you need to keep that going. We’ll all make back the money that we lost. We have all been going full blast in the last five to six years and [through that] you’ll need to keep the morale at a high level. That’s really important to do because you’re going to be asking people to do more.”

As Jim Collins learned from his initial research (documented in [“Built to Last: Successful Habits of Visionary Companies”](#)), there are many benefits to having a visionary organization. In today’s Built Environment, visionary companies have an easier time attracting, retaining and developing top talent. They also have a clearer sense of the type of clients and the type of projects that align with their companies, which tends to result in more successful projects. Because they have a clear, long-term direction, these firms suffer fewer distractions and wasted efforts. Creating a truly visionary company is difficult, which is why so few make it there. However, the benefits are many and represent the foundation for a long-term, successful strategy. (For more insights on vision through the recession, see [A Recession Will Test Your Company Vision. Are You Ready?](#))

WINNING LEADERSHIP STYLES FOR BULL AND BEAR MARKETS

In our decades of industry leadership research, we've developed a point of view on what makes great leaders. Like a recipe long refined, it's a number of critical factors, including how leaders make decisions, communicate and plan for the future as well as how they build an organization of fully engaged and talented people. Our Peak Leader model comprises such key leadership ingredients (**Exhibit 2**). We argue that there are eight critical factors of leadership, all of which are continuously influenced by our own worldview and personal values and attitudes.

One thing we've long been curious about is how this mix of ingredients changes with the economic environment. What do great leaders do slightly differently when times are tough? What do they do more or less of when the market is red-hot?

We know that great executive leadership translates into real returns for the business: **Leadership can impact shareholder returns and a host of other metrics associated with a healthy business.**³ It would stand to reason that if leaders could lead masterfully during a downturn, then they could help the business recover at a faster rate—or see greater post-recession profit margins—than their competitors. And conversely, what does a leader do to maximize margins and avoid the dangerous trap⁴ of building too much confidence and ego when times are good?

Our research uncovered some interesting findings, including these **six distinct leadership styles**:

Leadership types during the recession:

1. Lone Wolf
2. Risk Manager
3. Maximizer

Leadership types in today's market:

1. Firefighter
2. Stabilizer
3. Coach

Of these six leadership types, two surfaced as winners in terms of profit margins and overall leadership effectiveness: **The Maximizer** (recession) and **the Coach** (today).

³ Aaron De Smet, Bill Schaninger and Matthew Smith. "The hidden value of organizational health — and how to capture it." McKinsey Quarterly. April 2014.

⁴ Hugh Rice and Ryan Howsam. "Why Large Contractors Fail—a Fresh Perspective." FMI Quarterly. June 1, 2016.

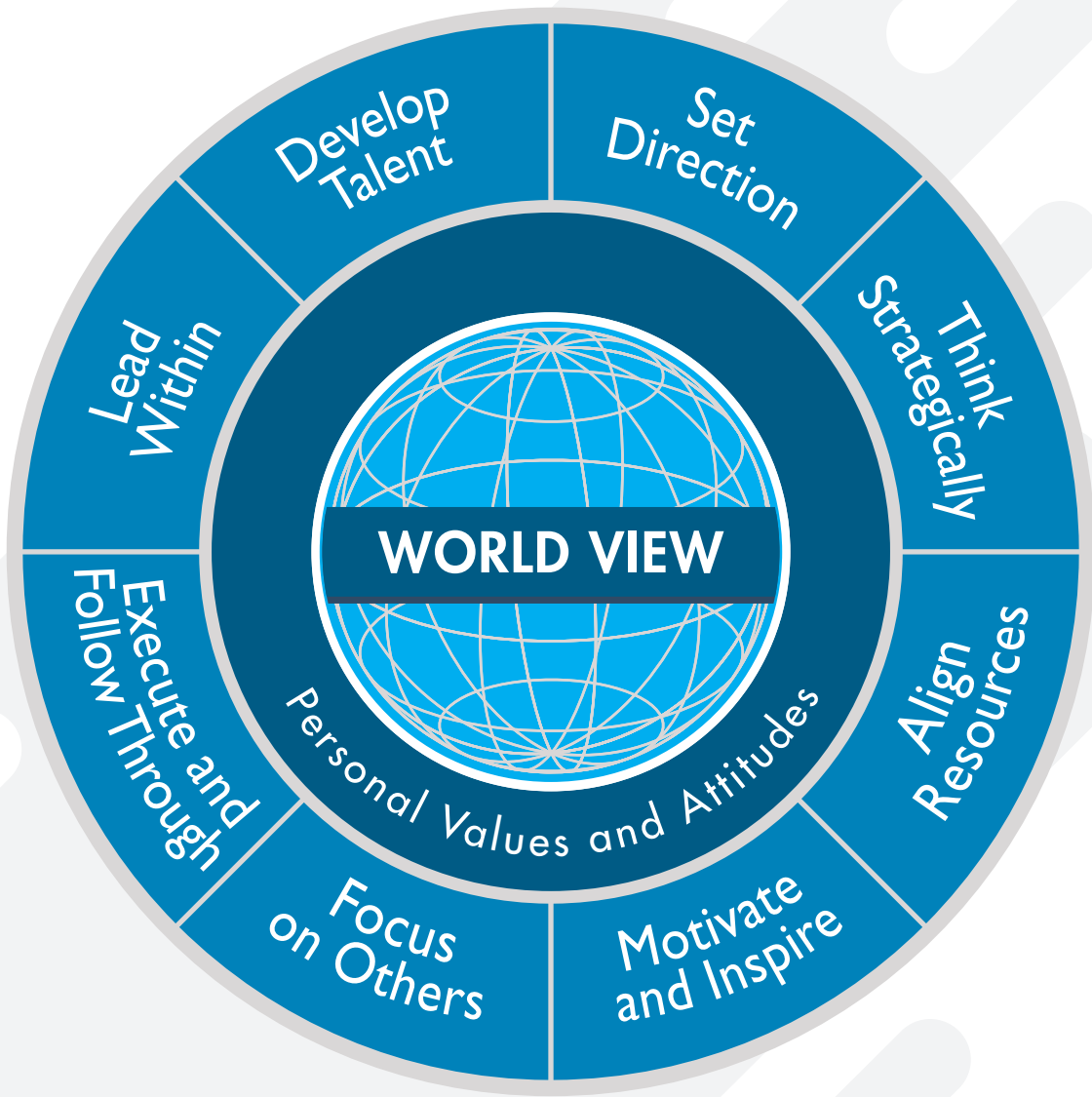


EXHIBIT 2: PEAK LEADERSHIP MODEL

Source: Model was developed by FMI and is based on in-depth industry research.

TYPES OF LEADERS IN A BEAR MARKET



Lone Wolf



Risk Manager



Maximizer

Primary Approach to the Recession	Survival and Austerity	Financial Security	Operational Effectiveness and Talent Development
Main Coping Strategies	<p>Heavily cut costs in the short term with limited focus on long-term future.</p> <p>Heavily cut anything that was future-focused; emphasize today only (“stop the bleeding” mentality).</p> <p>Invest in business development to increase total work volume.</p> <p>Show limited interest in go/no-go criteria or project selection rigor.</p>	<p>Make safe bets on reliable clients and build a rainy day fund.</p> <p>Maintain strong relationships with “good” clients.</p> <p>Maintain a “cash is king” mentality, focusing on cash flow by increasing productivity and increasing investments in risk management.</p> <p>Strong emphasis on finding the right project partners and reducing spending.</p>	<p>Cut costs by improving operations and emphasize the importance of maintaining high staff morale and motivation.</p> <p>Make sure talent remains engaged by staying accessible and showing care.</p> <p>Focus on opportunities to develop employees.</p> <p>Streamline processes and invest in tools and technology to increase operational efficiency.</p>
Profit Margins	81% of respondents show 5% or less profit margins.	69% of respondents show 5% or less profit margins.	61% of respondents show 5% or less profit margins.
Self-Reported Leadership Effectiveness During This Period	5.3	6.5	7.5

TYPES OF LEADERS IN A BULL MARKET



Firefighter



Stabilizer



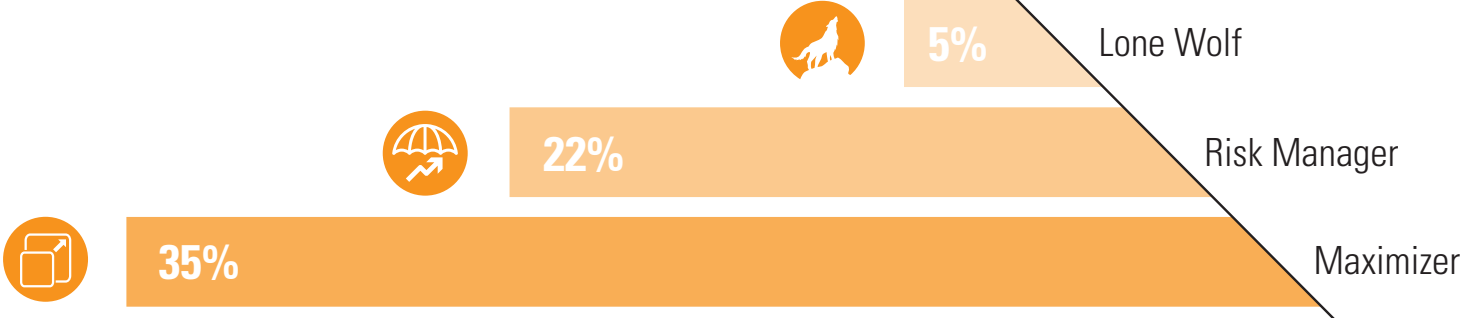
Coach

Primary Approach to Growth Market	Manage the Day to Day	Focused on Productivity	Think Ahead
Main Growth Strategies	<p>Closely track financial performance and make short-term decisions based mostly on information at hand.</p> <p>Quick, timely decisions based on current financial data. Focused on today—75% don't have a plan for a recession.</p>	<p>Invest in tools, technology and processes to improve margins.</p> <p>Streamline operations and focus on planning.</p>	<p>Build a talent pipeline and strategize/make plans for the future.</p> <p>Develop employees and leaders for the future—the only leader type who puts employee development at the forefront of strategy.</p> <p>Focused on the future by strategizing and growing people.</p>
Profit Margins	52% of respondents show 6% or greater profit margins.	64% of respondents show 6% or greater profit margins.	65% of respondents show 6% or greater profit margins.
Self-Reported Leadership Effectiveness During This Period	7.3	7.8	8.2



EXHIBIT 3: FOCUS ON PROCESS IMPROVEMENT DURING THE RECESSION

(Shown by Leader Type)



Source: 2020 FMI Leadership & Strategy Survey

A CLOSE LOOK AT THE WINNING LEADERS OF YESTERDAY AND TODAY

There's no such thing as one-size-fits-all leadership. In fact, every business has its own nuances, challenges and advantages that must be factored into a holistic leadership approach. Leaders also all operate differently and possess traits that help them operate more effectively in certain environments (versus others).

Leaders themselves are also unique, each bringing different skill sets, experiences and strengths to the table. By factoring these differences into the equation, E&C firms can come up with good, future-proof leadership approaches that not only fill current positions but also build bench strength for years to come.

These strategies will be more important than ever during the impending downturn. Our research shows that both during the recession and in today's growth market, distinct leadership characteristics differentiated winners from average or below-average performers. The following summarizes some of these characteristics, including the focus and impact such leaders have on the organization.

The Winning Leader During the Recession: The Maximizer

During the downturn, the **Maximizer was an operations-focused leader who focused on running lean and efficiently**. Of all three leadership types, Maximizers were the most likely to make process improvement a strategic priority for their businesses (**Exhibit 3**).

One Maximizer discussed his lean business approach and how it led to success (including higher profit margins) despite the downturn: "We were more competitive; we were more streamlined.

There's a lot of waste in this industry, and we run very lean. I mean, we have 47 coworkers, but we have about 500 subcontractors who we deal with daily. When you're running lean, the adage for us is: We make a dime every day rather than a dollar once a month. So that adage works really well."

Furthermore, the Maximizer's business was most likely to be diversified across different markets and geographies. In fact, **all Maximizers confirmed that diversification was an important growth strategy**.

Jeff Ehret, CEO of Penta, recalls, "As we were enjoying one record year after another leading up to the recession, we knew that the good times had to come to an end at some point. As a precaution, we were fiscally conservative and built up a substantial rainy day fund during the good years in order to be able to weather a downturn. We certainly didn't expect the downturn to be as drastic as it was, but having a substantial rainy day fund enabled us to hold on to more people than we otherwise could have. It also gave us the ability to fund diversification into other markets during the recession, where we otherwise would not have had the means to do so."

In addition to running lean and diversifying, Maximizers also work to develop people and show care for others amid chaos. **Staying approachable and transparent were key characteristics to Maximizers' success during the recession**.

With strong operational procedures, the ability to leverage diverse markets and clients, and an effective leadership style, executives who fell into the Maximizer category also enjoyed the highest profit margins compared to the other two leadership profiles.

The Winning Leader in Today's Growth Market: The Coach

In studying leaders in today's market, one leader type rose to the top. We call this leader "the Coach" because of his or her **relentless focus on improving performance through the growth of internal talent**. This leader type supports others and focuses on developing a future leadership pipeline. While others may be savoring immediate success experienced in a bull market, this leader is setting the bar high for the future and making plans to get there.

Coaches tend to be laser-focused on future-oriented topics such as strategy and succession. They spend more of their time than their counterparts addressing these topics (**Exhibit 4**).

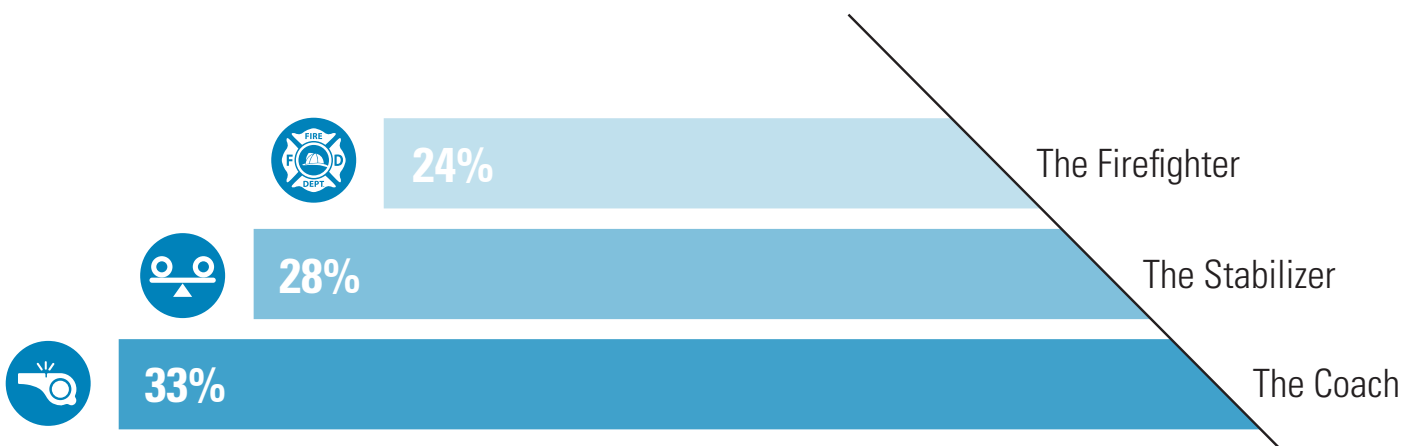
Coach leaders constantly asks themselves: Do we have the right people to execute on our plans, and how do we invest in our current talent in order to achieve these goals? Coaches manage operations and financials just like any other executive would, but what truly sets them apart is

their people focus. As one Coach leader shared: "We're not just focused on driving financials. Growth is about people. If you do other things than the financials well, the money will follow. It's all about giving our people opportunity to grow."⁵

While coaches directly develop people through feedback, they also invest in robust internal systems and processes that support talent development. One Coach leader explains: "We've invested in a director of people and talent strategies. She leads that effort for us, and that's our intern leadership academy. We made the decision that that's not in our best interest, recession or no recession, not to have a full-time focus on talent attraction, development and engagement."

Perhaps due to the Coach's greater understanding of talent management best practices, he or she also applies these principles when leading executive teams. Indeed, when compared to the other two leader types, the Coach's executive team is the only one focused primarily on aligning roles and responsibilities and establishing agreements

EXHIBIT 4: TIME SPENT ON FUTURE-ORIENTED TOPICS (Shown by Leader Type)

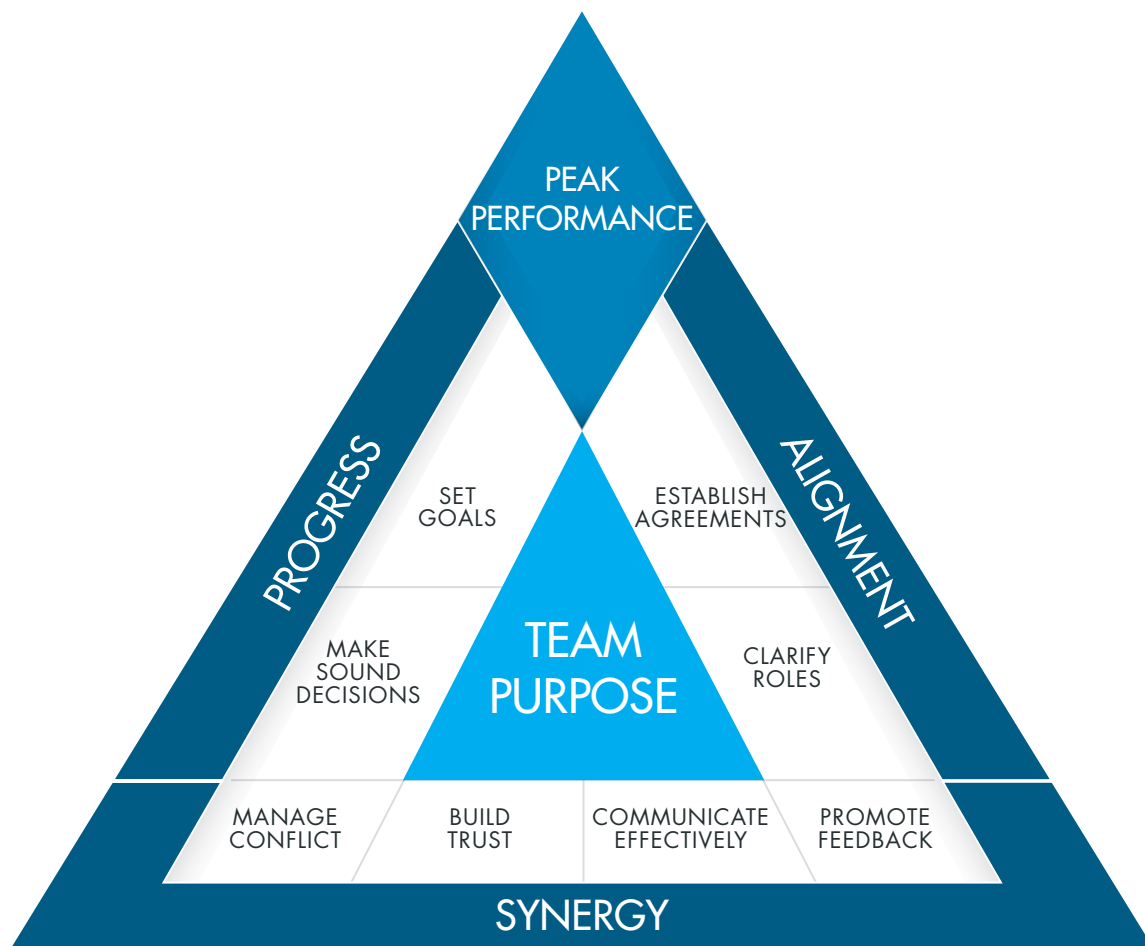


Source: 2020 FMI Leadership & Strategy Survey

on how to behave as a team. Effective team leadership, for instance, can help organizations increase their capabilities and retain the talent they want to keep. Furthermore, having clarity around expected behaviors is key to enhanced performance and driving innovation (for more details, see [Peak Teams: An Innovative Model for High-Performing Teams](#)).⁶

So how does the Coach's business fare in comparison to other leaders? Our research shows that the Coaches netted higher profit margins in the last few years versus what they made during the Great Recession. Specifically, based on self-reported financial data, about 65% of companies with Coach leaders experienced an average of 6% or more profit margins in a bull market. During the last recession, their margins were mostly between 2% and 5%.

In comparison, only 15% of Firefighters reported a profit margin of 6% or greater during the recession, and today 50% report 6% profit margins or greater. Similarly, 30% of the Stabilizer leaders reported a profit margin of 6% or greater during the recession, and today 60% report a profit margin of 6% or greater. **Hence, Coach leaders have been performing better in both markets and have also seen the greatest improvement in a strong economy.**



Source: Model was developed by FMI and is based on in-depth industry research.

⁵ Rusty Sherwood, Sara Tsahakis and Emily Livorsi. "A Detailed Look at E&C Leadership Styles During a Bull Market." FMI Quarterly. September 2, 2019.

⁶ By Rusty Sherwood and Emily Livorsi. "Teams at the Top: Tackling the Innovation Challenge." FMI Quarterly. December 3, 2018.



IMPLICATIONS FOR TODAY'S LEADERS

Today's best leaders are focusing on the future, maintaining a low-grade paranoia about what tomorrow will bring, and not resting on their laurels or developing big egos, which can result in catastrophe.⁷ Supportive and true to their name, Coach leaders are constantly giving others feedback to be more effective and develop systems to institutionalize great learning and growth in their businesses.

This was also confirmed during our [one-day think forum](#) in which we facilitated a discussion with three leading industry executives: Russ Becker (APi Group), Tom Scarangelo (Thornton Tomasetti) and Atul Khanzode (DPR Construction). One of the biggest findings from this forum was the strong agreement **that a leader's chief responsibility is to lead his or her people and organizational culture first**. "Shortcutting people development never pays off," they all confirmed.

Finally, great Coach leaders leverage the teams around them, understanding the power of other perspectives and building strong businesses through teams. This kind of team cohesion and collaboration mindset will be particularly crucial as we continue to see the proliferation of megaprojects across the globe (for more details, see our latest white paper on megaprojects, [Megaprojects: Changing the Conversation](#)).

⁷ Hugh Rice and Ryan Howsam. "Why Large Contractors Fail — a Fresh Perspective." FMI Quarterly, June 1, 2016



LESSONS LEARNED FROM THE GREAT RECESSION

The Great Recession of 2007-09 was a transformational event for the U.S. economy that hinged on significant losses seen primarily across the E&C industry. From peak in 2006 to trough in 2011, total annual construction put in place (CPiP) fell by 32%. Economic collapse was preceded by residential investment falling 60% beginning in 2005 through 2010 and ensued shortly before nonresidential building investment fell 33% between 2008 and 2011.

Likewise, **construction unemployment swelled from 4.5% in 2006 to a staggering 27.1% by 2010**. The E&C industry still faces significant challenges today related to this mass exodus of skilled labor. For additional perspective, during the same periods, U.S. employment fell only 4%, and the U.S. unemployment rate increased from 4.4% to 9.8%.

The Great Recession's six-year span of losses was uniquely transformational to our industry and overall economy. During that period, CPiP as a percent of domestic production fell from nearly 8.6% to roughly 5.1% of GDP and has since only returned to just over 6.4% of GDP. Further, though annual CPiP spending is back to above prerecession levels in current dollars, it still lags 2005 in terms of real dollars. These data points indicate that through the recovery – and the longest period of economic expansion in U.S. history – the E&C industry has failed to keep pace, falling well behind other high-growth industries.

Lessons From the Past

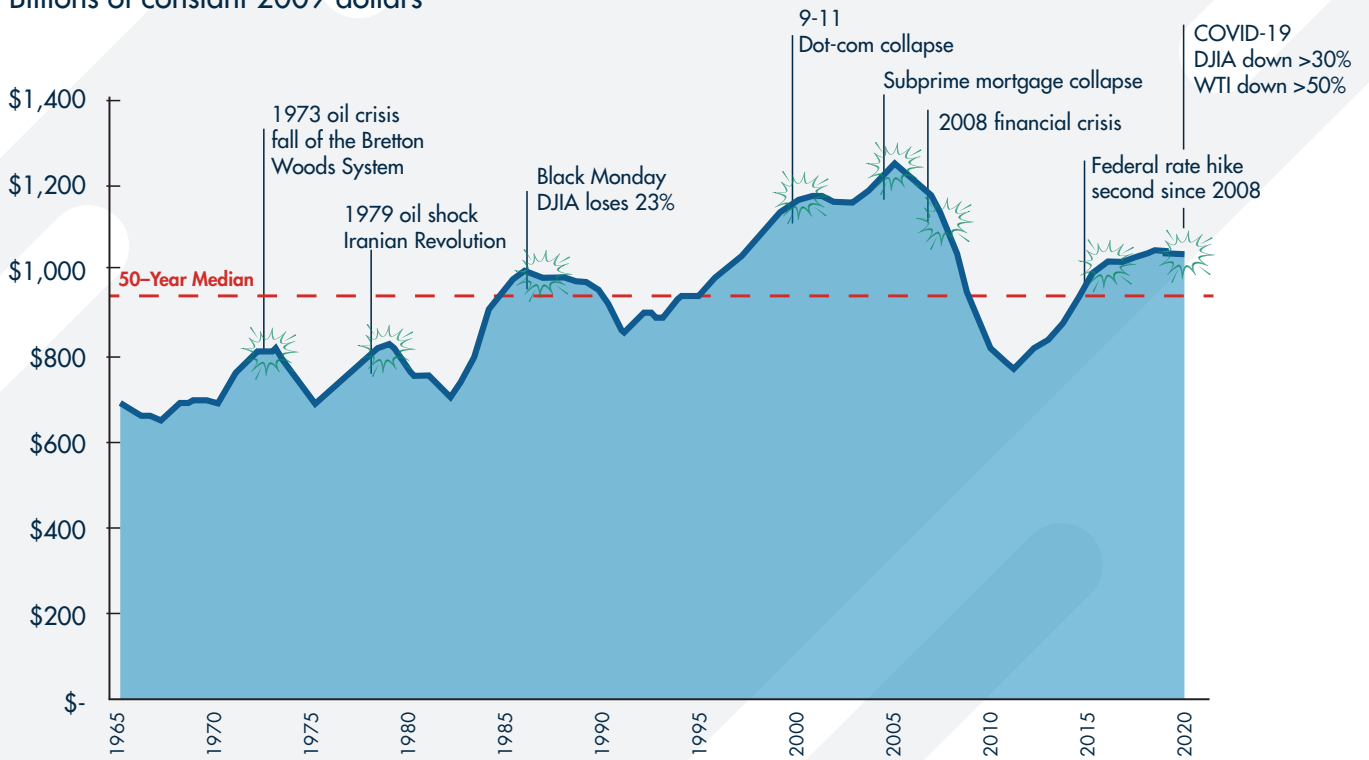
Today we find ourselves at a turning point in the market. With COVID-19 wreaking havoc across the globe, we are currently assessing what the short-term and long-term impacts will be on the Built Environment (**Exhibit 5**).

Based on what we know about the Great Recession and how it caught many companies off guard with its swift and lengthy economic downturn, there's no excuse not to start preparing given current events, and as these events unfold, more surprises are to be expected. Whether your company starts exploring new markets, firms up its balance sheet, tests the waters of megaprojects, or finds some other new way to compete, **the key is not to wait until it's too late to do something about it.**

Now is the time to take a step back and reevaluate your strategy and ensure you're staying true to your vision. Following are five valuable lessons learned from the Great Recession that industry executives shared with us during in-depth conversations – these lessons are worth revisiting as clouds start forming on the horizon.

EXHIBIT 5: WHERE ARE WE IN THE CONSTRUCTION SPENDING CYCLE?

Total Construction Spending Put In Place (U.S.)
Billions of constant 2009 dollars



Source: Yahoo Finance



Lesson 1

BUILD DEEP RELATIONSHIPS WITH CLIENTS AND PROJECT PARTNERS

During the recession, many companies learned the value of deep, authentic client relationships. Most agree that having high-quality relationships with a smaller number of clients—as opposed to having many clients but with shallower relationships—is the best approach. In fact, this notion of nurturing client relationships is something that equipped some leaders to be successful during a tough economy.

Mike Lancaster, president and CEO of Frank L. Blum, stated, “Go to your existing customers and have zippered relationships with them and hug them close, because certainly if they’re the type of relationships that you want to develop, they’ll help to the extent that they can.”

Claiming client focus is easy to talk about but hard to do. Client-centric organizations do the following in tough times:

- 1 Engage seller-doers.** Have seller-doers build a list of contacts that they want to keep in touch with and develop a strategy for following up with clients.
- 2 Build client management skills.** Create programs and opportunities to educate your people on “how to behave in a recession,” with a focus on estimators with project selection, field managers with scope management, and project managers with cash management. Considering where and how to invest through the lens of your customer needs can be a powerful filter to use when making investment decisions.
- 3 Don’t go it alone.** Make sure that you are finding ways to “zipper in” your next generation. Encouraging interaction up and down the hierarchy will not only increase younger people’s presence with clients but also offer them an inside track and build a foundation for collaboration among future leaders.
- 4 Reward and call out client success.** Find ways to highlight strong client relationships, rewarding talent who go above and beyond in building those relationships.



Lesson 2

DIVERSIFY, DIVERSIFY, DIVERSIFY

A well-known strategy for thriving and surviving in a cyclical market, diversification was often cited by study participants as key to weathering the recession. While some companies opted to diversify into different geographies, others saw the need to diversify into private and public work where they had previous experience in either markets. While betting on public work can sound like a surefire way to recession-proof your business, FMI tells companies to proceed with caution. Public work requires deep expertise and knowledge of regulations as well as a careful eye on the political climate, which can influence public work in a big way. Be forewarned: Not all diversification approaches are created equally, and there are critical ways to infuse them with intentionality. They are:

1

Diversify your risks. Go beyond diversifying segments, geographies or services by also asking yourself how these various settings respond to a recession. Diversifying in two geographies with similar economies could negate the positive effects of diversification.

2

Find a unique way to outperform the competition. When companies enter a new market, they are like the new kid on the block of established competitors. Develop a solid foothold by setting up strategic relationships, offering a unique service, or promoting a strong pedigree of projects that local players lack. Acquisitions can also be an option to offset the cost of organic growth.

3

Take an investment mindset. Entering a new territory rarely generates overnight success. View this as a long-term investment, diversify when the market is still strong, and take an honest look at your ability to compete in this new environment.

Executed well, diversification requires much more effort, data and insights than simply taking shots in the dark to expand client, market and job-type mix. Not surprisingly, leaders felt that *careful and well-planned* diversification was key to surviving the recession.

Chuck Goodrich, president and CEO with Gaylor Electric, recalled this example of a process built to carefully evaluate projects to guide strategy:

“Since the recession, we have built a business intelligence group that analyzes each one of our projects on a real-time basis in detail. This allows us to see which jobs were most productive, profitable and the types of customers with whom we work best. We use this data to make sure we’re picking the right jobs, clients and markets.”

A strong, recession-proof strategy is based on careful market research and analysis, versus acting on impulse to diversify as a last-ditch effort to survive a downturn.

STREAMLINE OPERATIONS

Lean times call for agile operations that helped one construction firm stay ahead of the curve in researching and implementing lean construction concepts for several years. As the company's processes and project management evolved, all staff worked with clients and partners (e.g., subcontractors, architects and engineers) to build awareness around lean approaches to collaborative building. "Waste in the construction industry has been talked about for decades. We are firm believers in lean construction, and clients who have participated say it has rewritten how they look at the construction process," stated one executive.

Another leader added, "We had to become more efficient and focus totally on our business. I had to get project managers and operations managers all focused on making sure that our jobs were run as efficiently as possible."

Zeroing in on project controls may seem obvious and is certainly a great operational best practice. However, some leaders admitted that the frenzy of the recession increased their focus on *getting any and all* jobs possible, regardless of whether those projects were a good fit.

Here are some key lessons learned from executives who got it right:

- **Focus on optimizing labor productivity through intense planning and support for the field.**
- **Scrutinize equipment utilization and liquidate nonutilized or obsolete equipment.**
- **Consider role reassignments before layoffs.**
- **Hold onto your "A" players, even if they have to spend some nonrecoverable/non-billable time on the bench.**
- **Avoid panicking when backlogs dip, and avoid taking cheap work that can potentially worsen your financial situation.**
- **Vet your clients; make sure they are good project partners who can pay the bills.**





Lesson 4

INVEST IN YOUR PEOPLE

We often hear leaders talk about cuts they've had to make in bad times, particularly around people development and talent management. Some variation of "learning and development efforts are a nice to have but are something we simply can't afford in tough times" is a common refrain in the industry. We saw many leaders adopt this mindset during the Great Recession, downsizing their workforces considerably and reducing expenses in all aspects of talent management.

Unfortunately, those decisions backfired in a big way. One leader explained, "One of the things I wish we had done in the downturn is *invest* in people. We are paying a price for that right now; we are constrained in terms of number of skilled leaders. In a future downturn, I hope we don't overreact. We need to have plans in place. The last downturn was bad; I don't want to brace for the apocalypse, but we must be agile enough to react either way. I don't want to overreact and let a bunch of people go that we end up needing. Instead, I want to keep the crew steady and invest in those people."

Many leaders emphasized the hard lesson learned of cutting people-development efforts during the downturn. Our research confirms the impact it had and shows that **those few leaders who did pursue "people efforts" despite a major drop in total project volume experienced higher profit margins post-recession compared to other groups.** This begs the questions:

- Why is cutting people investments bad for business?
- What do firms that stay focused on people development actually *do*?

Here are some answers to consider.

1

This is a people industry; businesses that kept their best people compete more effectively today. The deep labor cuts from the Great Recession still haunt the Built Environment today. Our latest [AGC/FMI Risk Survey](#) showed that for the third year in a row, lack of qualified talent was the top risk for study participants, with the limited supply of skilled craftworkers being the biggest challenge for 80% of respondents (**Exhibit 6**). The limited supply of field supervisors became the second most critical risk (44%) and reflects the ongoing demographic shift of baby boomers cycling out of the industry.

Those companies that kept top talent and invested in it during the recession wound up on the right side of the ongoing war for talent. Instead of just letting people go, they came up with creative solutions for retaining their key players, including furloughing employees or even reducing salaries for top executives in exchange for keeping lower-level employees.

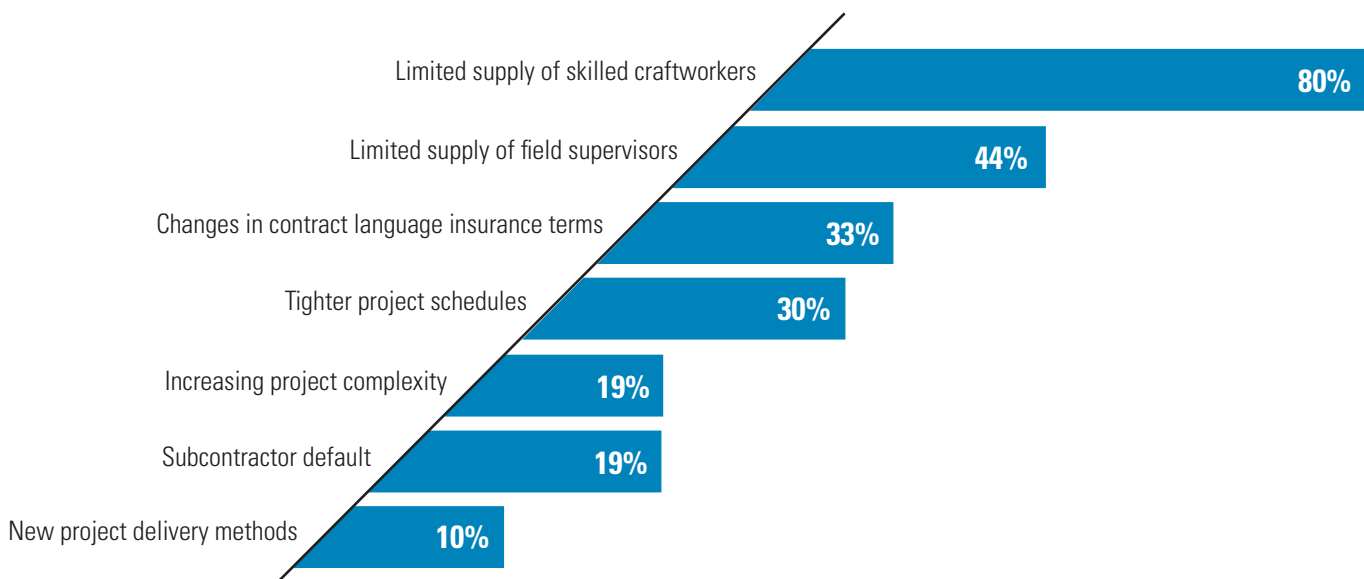
2

Cutting people development means the company will have fewer skills when business picks back up. Currently, FMI is working with countless executives who are lamenting over the skills of their next-generation leaders. Faced with pending succession, seasoned leaders are looking downstream and feeling like their future leaders are woefully underprepared to lead the business within the next five to 10 years. In a [recent FMI article](#), we spotlight a client who chose to stick with development during tough times because it meant a stronger bench of leaders when business picked up.⁸

3

Investing in people development should be connected to your strategy. If your ongoing learning and development efforts are average or poorly connected to business objectives at hand, why not cut them? The challenge is that learning and development activities, which are closely tied to the business (and where it is headed), take more time and effort. Some of our creative clients have leveraged the tough times as learning opportunities. For example, one contractor developed [Action Learning Teams](#) to tackle different recession challenges (i.e., markets to research or how to implement stronger project controls). Not only did the leaders help solve real issues that could benefit the industry, but also they learned more about the complexities of leading during an economic downturn, thus preparing them for leadership in E&C. Action Learning provides an opportunity to build the business while simultaneously growing greater leadership.⁹

EXHIBIT 6: TOP RISKS IN 2019



Source: 2019 AGC/FMI Industry Risk Survey

⁸ Jake Appelman and Sara Tsahakis. "JV Driver: Building a Strong Leadership Legacy Through Tough Times." FMI Quarterly. June 2018.

⁹ Denise Gettman and Tim Tokarczyk. "Four Steps to Implementing Action Learning in Your Organization." FMI Quarterly. April 2018



Lesson 5

CREATE A TRANSPARENT AND COLLABORATIVE CULTURE WHILE ACTING SWIFTLY

Leadership in a crisis often looks like a stoic figure, ever in control of the situation and knowing the right thing to do. Leadership is also expected to say the “right things” to reassure others and ward off chaos. Many executives we talked to said they were raised on this idea of leadership in E&C. In fact, some saw their fathers or grandfathers adopt a similar approach to crisis.

For many executives in our research, this leadership style was hardwired. When things started going haywire, the first reflex was to protect people by not telling them everything and instead to fix things behind the scenes and act decisively in solitude. These leaders have since learned that transparency and open communication are better approaches. In some cases, this means having the courage to be painfully honest, admitting to mistakes and leading by example.

Scott Peterson, CEO of Interstates, explains his learning experience, going from the stoic leader to an authentic one and equipping leaders downstream with transparent information:

“The first time [we faced a downturn], our instinct was to protect our people. We were telling them, ‘everything’s OK, don’t worry about it,’ and we tried to solve it all behind the scenes. It was stressful on our leaders and wasn’t very effective with our people. They knew it was bad, but we were asking them to follow us blindly without transparency into what we were doing. We lost trust.”

Inversely, [during this last recession] we brought it all out into the open. By sharing the tough information with our team, it built credibility and brought them along with us. They now had the opportunity to come with ideas to save overhead or bring a new offering or client lead forward. With all the information, it put them in a better position to help the company they know and care about get through a tough situation.”

Some leaders we talked to worried that sharing information could slow the decision-making process. Indeed, in a crisis it’s often important to act decisively. However, decentralizing information and sharing information downstream may have an even more significant impact in an economic crisis than in a robust market. Research published in HBR highlights that more collaborative decision-making and pushing decision-making downstream can yield stronger results: “What decentralization does is match decisions with expertise. [Companies] can fall into the trap of hoarding decision rights during a downturn. But the uncertainty of a recession necessitates experimentation, which requires that decisions be made throughout the organization.”¹⁰

¹⁰ Walter Frick. “How to Survive a Recession and Thrive Afterward.” Harvard Business Review. May–June 2019 Issue.



LOOKING AHEAD

Baseball legend Yogi Berra famously quipped that, “It’s tough to make predictions, especially about the future.” His assertion seems even more accurate today, when the pace of change in business, geopolitics, technology and nearly all facets of life seems to be in a constant state of acceleration. Classic approaches to strategy leave business leaders charged with navigating today’s environment feeling ill-equipped.

The notion of a “normal” planning cycle no longer applies, harkening back to what we may now view as “simpler times.” In fact, for the majority of E&C companies, standard three- to five-year strategic plans are no longer relevant in today’s constantly evolving business environment. This is a fundamental challenge and frustration for many company leaders.

In order to succeed, strategy must align with current and anticipated business conditions while those conditions are ever-changing and hard to predict. As E&C companies develop their business strategies for the remainder of 2020 and look ahead to 2021, new issues like the trade wars, the coronavirus, the upcoming presidential election and other uncertainties are all sure to play a role in the Built Environment.

Our research shows that during ambiguous and volatile times, staying true to your company’s vision and core values is critical. It’s also important to keep a close eye on your ever-evolving [business context](#), while deciding how best to respond and act on those choices. Now is not the time to panic but instead to be proactive and keep a pulse on key factors influencing your business environment. Then, monitor those external and internal dynamics on an ongoing basis. Indeed, now is the time to anticipate and prepare for different contingencies while taking a probabilistic view of the future as it relates to the factors influencing tomorrow’s big picture.

In addition, we hope our findings around winning leadership styles provide insights for leaders on how to adapt and adjust in the coming months. For example, as shown in our research, working to develop people and showing care for others amid chaos — and all while staying approachable and transparent — were successful leadership characteristics during the last downturn.

As we move further into 2020 and beyond, it’s important to take a step back and look to the future. This means setting long-term goals and using them as the North Star. This is important in the midst of a potential recession, when it can be tempting to focus on “battening down the hatches.”

As one leader explained, “When you make those cost-saving decisions, it’s important to ask, what will this mean in two or three years, when the recession is over? We tend to look at it in the short term. I just need to fix it now to stop the bleeding today, to save cost today, to survive, without thinking about what your health is going to be when you climb out of [the recession]. Having lived through the climb-out part, I hope I have learned my lesson. Don’t get caught up in the desperation.”

Many leaders learned important lessons from the last recession, including not focusing on mitigating risk and managing financials to save the business today exclusively, but to prepare the business for a better future. As we look ahead to the next few weeks and months, we see that a recession is likely. While we can’t predict how long and how deep it will be, it will surely impact the Built Environment. Visionary companies are already taking steps to ensure that their visions will be preserved through tough times, and all while remaining agile and adaptable from a strategy standpoint. What are you doing to ensure you have an enduring organization that roars out of the next downturn?



RESEARCH METHODOLOGY

In 2019 FMI partnered with ENR to conduct a broad industry study focused on leadership and strategy trends. Specifically, the research team investigated what makes leaders effective in various economic climates—namely bull or bear markets.

Sample questions the research team explored included:

- What are the key leadership behaviors and competencies that are effective in a slower economy?
- How are those behaviors different from those that are effective in a robust economy?
- What mindset changes are necessary for executives to lead successfully through tough times?
- What are some examples of companies in the Built Environment that were successful through the last recession? What did their leaders focus on?
- Which strategic decisions helped some firms weather the storm while remaining ahead of the curve?
- What did firms that outperformed their competitors post-recession do differently?
- Which strategies presented the most risk heading into the last recession?
- Which strategies enabled some firms to recover more quickly than others?
- What are key lessons learned from the Great Recession?

From May 2019 through August 2019, FMI conducted an online survey of more than 150 industry leaders and completed 30 interviews with company executives. Most study participants were executives during the last recession and are still in leadership positions today. Participants represented a wide range of firms, including:

- Specialty trade contractors (about 37%)
- General building contractors (about 30%)
- Highway/heavy/civil contractors (13%)
- Architecture and engineering firms (about 10%)
- Construction managers (9%)

Data was analyzed using statistical methods such as descriptive statistics, correlation matrices and regression models. Interview transcripts were analyzed using theme-based analysis. Results reflect aggregate trends from leading firms across the E&C industry, including participants in [FMI's peer groups](#).

It's worth noting that many current emerging leaders and future executives in the Built Environment were not in executive (or even leadership) roles during the last downturn and have mostly led through tremendous growth. With looming uncertainty about an economic correction, we hope these study findings will help E&C leaders of all ages understand how to best prepare themselves and their companies for tougher times.



ABOUT THE AUTHORS



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Exclusively Focused on the Built Environment

Who We Are

FMI is a leading consulting and investment banking firm dedicated exclusively to the Built Environment.

We serve 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.

FMI CONSULTING

FMI Consulting has a deeper understanding of the Built Environment and the leading firms across its value chain than any other consulting firm. We know what drives value. We leverage decades of industry-focused expertise to advise on strategy, leadership & organizational development, operational performance and technology & innovation.

PRACTICE AREAS

Strategy

- Market Research
- Market Strategy
- Business Development
- Strategic Planning

Leadership & Organizational Development

- Leadership & Talent Development
- Succession Management
- High-performing Teams
- Corporate Governance
- Executive Coaching

Performance

- Operational Excellence
- Risk Management
- Compensation
- Peer Groups

Technology & Innovation

- Market Accelerator
- Partner Program
- Tech Readiness Assessment
- Sourcing & Adoption

FMI CAPITAL ADVISORS

FMI Capital Advisors, a subsidiary of FMI Corporation, is a leading investment banking firm exclusively serving the Built Environment. With more than 750 completed M&A transactions, our industry focus enables us to maximize value for our clients through our deep market knowledge, strong technical expertise and unparalleled network of industry relationships.

SECTOR EXPERTISE

- Architecture, Engineering & Environmental
- Building Products
- Chemicals
- Construction Materials
- Contractors
- Energy Service & Equipment
- Energy Solutions & Cleantech
- Utility Transmission & Distribution

SERVICES

- M&A Advisory
- ESOP Advisory
- Valuations
- Ownership Transfer

EXECUTIVE EDUCATION

- Acquisitions in the Construction Industry
- Ownership Transfer & Management Succession



for the Built Environment

TRAINING PROGRAMS

Over 10,000 industry leaders have completed FMI training programs, which span the entire management spectrum, from new managers to senior executives.

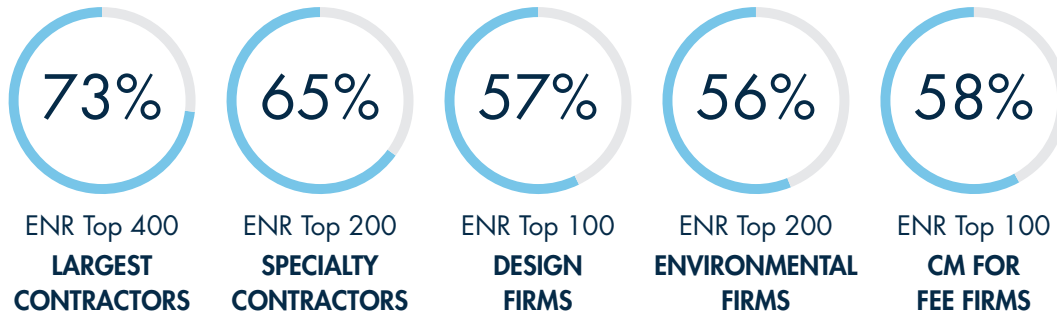
- Emerging Managers Institute
- Field Leader Institute
- Project Manager Academy
- Construction Executive Program
- Leadership Institute
- Leading Operational Excellence
- Construction Selling Skills
- Market & Selling Strategies
- Ownership Transfer & Management Succession
- Acquisitions in the Construction Industry

FMI PEER GROUPS

FMI manages nearly 50 individual peer groups across the industry. Connecting businesses through networking, expanding visions and providing feedback.

- Organizational Structure and Development
- Human Resources
- Business Development
- Information Technology
- Operations Management
- Financial Management

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