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Leading as Partners: An Innovative Succession Trend

By Jake Appelman, Steena Chandler and Emily Livorsi

How E&C firms are using shared leadership strategies to transfer their businesses to the next generation of leaders.

In today's engineering and construction (E&C) environment, an estimated 66% of companies are owned by baby boomers—a generation that is expected to retire in the next 10 years.¹ While there may be few clear options for ownership transfer between the current and next generation, the business of transitioning leadership to the next generation is highly complex.

“Since I started this business, it's grown exponentially. For us, the traditional model of selecting one successor for me didn't work—we needed a more creative approach to succession,” says one former CEO of a \$1.5 billion general contracting firm. “One person didn't have it all, our business is complex, and it's just not what the next generation wanted or needed. For us, passing the baton to a few leaders to lead the enterprise was the right choice. But candidly, it was complex, required a whole new set of skills for these leaders, and, quite frankly, wasn't always easy.”

FMI has seen a growing number of organizations turning to unconventional methods of leadership transition, including those where senior leaders pass the baton to a few different individuals (versus just one who then leads the enterprise).

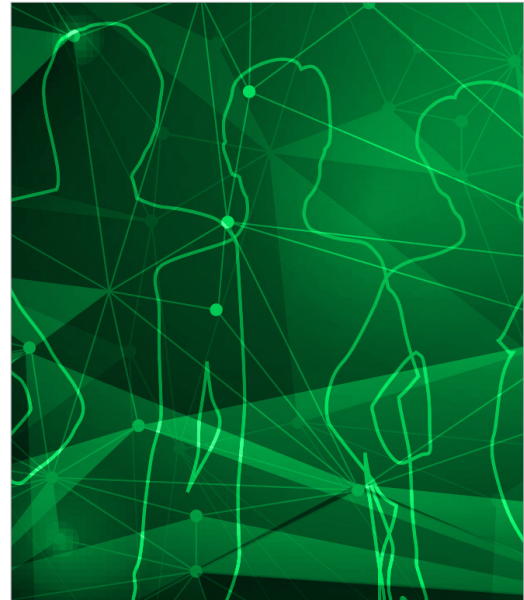
In this article, we explore the emerging “shared leadership” trend, share insights into how and why this trend is evolving in the context of executive succession, and explore its use as a leadership transition option.

¹ Jeff Wing. “Construction's Baby Boomers Are Leaving With the Instructions.” Jobsite. October 3, 2016.

Shared Leadership in the Executive Suite

Transferring enterprise-level leadership responsibilities to a group of people—rather than to a single individual—helps address many of the challenges E&C owners face today. While structure and titles can differ across organizations, FMI’s emerging definition of shared leadership in this context is “**a group of two or more leaders with a common purpose to lead and oversee the business, and shared influence to do so.**” In this approach, a select group of executives work collaboratively and brings their diverse perspectives and skills to their new leadership roles.

So what does shared leadership look like in the real world? Based on our initial research, it happens at the enterprise level and is characterized by:



- 1. Less formal structure combined with clarity and transparency.** Organizations pursuing a shared leadership structure generally place less emphasis on titles and traditional hierarchies. Instead, leaders emphasize roles that play to their individual strengths or competencies versus a specific title or functional role. For this reason, an overly rigid and formal structure can impede the shared leadership model. Leading in today’s environment requires agility and quick responses to challenges. And while role clarity is essential, rigidly following those role descriptions or titles is unrealistic. Rob Fallow and Tim Sissel of Fortis Construction, an organization that has modeled shared leadership at its most senior levels for over a decade, say they “have learned that shared leadership requires an organization to develop role clarity, not titles. And those roles must be clearly communicated across the organization.”
- 2. Interdependent leaders.** This leadership model requires high levels of interdependence, fewer silos and a focus on functional areas and expertise. When transitioning to a shared leadership model, one group of executives was struggling to identify who was fundamentally responsible for strategic planning (i.e., who would do it, who would be involved, who would “own it”). Some pointed to the leader who had deep internal operational roots, while another suggested the named president. “If we really believe in the shared leadership model, where all three of us are responsible for the direction and health of this business, then we all do,” one leader said. “And fundamentally, strategic planning will be a lot better with all of us involved, utilizing each other’s expertise effectively.” This leader’s insights follow the logic of shared leadership. For the concept to work, there must be an interdependence mindset, even if that occurs at the expense of efficiency.
- 3. Shared power and authority.** Organizations that have shared leadership require executives who believe in equal distribution of power and authority. Fallow and Sissel of Fortis confirm, “We strongly believe in the concept of shared leadership, even if we can’t completely define it. We have always worked best in teams, and we have never worried about who ultimately gets the credit. We also believe that the best learning and growing opportunities come from working very closely with peers.”



The Transition to Shared Leadership

For many E&C firms, business is not simply about selecting good projects and maintaining great relationships. It's also about tackling a host of other challenges around volatility, uncertainty, complexity and ambiguity (VUCA). For example, construction employment levels have reached a 10-year high, just as unemployment levels hit an all-time low (AGC).² The sustained economic growth following the Great Recession, emerging technology advancements, and the need to operate profitably in a competitive industry that's primed for disruption have all left E&C leaders stretched thin.

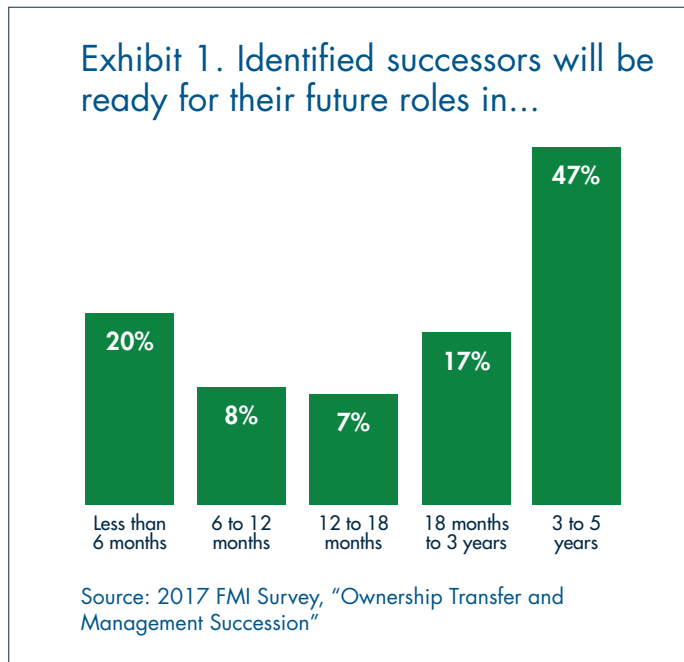
Coupled with an increased number of employees on the payroll, revenue growth also presents challenges for E&C firms. While revenue and company growth are encouraging, combining this expansion with multiple VUCA challenges puts additional pressure on leaders. This reality makes shared leadership an attractive option because it allows more people to bring their perspectives on how to deal with complex issues from an enterprisewide lens.

Consider this real-world example: One West Coast general contractor saw its business grow from approximately \$10 million in revenue to \$1.5 billion in almost 15 years. The senior leaders are in the process of transitioning the business to the next generation of leaders. The existing leader was able to do it all, partly because he had seen all the changes, knew all the local players, and understood how the business had been built from the ground up. While the exiting executive still handles components of risk management, human resources, information technology and large projects, he was there to witness the evolution of those key business components. As he passes the baton, the next generation of leaders will have a narrower view, making shared leadership a more attractive option. Without the deep institutional knowledge of its founder, the next generation will lean on one another to fill its knowledge and skill gaps. "I have a next generation of leaders who are all capable, but not one 'has it all,'" says one E&C company leader.

² "Construction Employment Reaches 10-Year High as Industry Adds 19,000 Jobs in July and 303,000 for the Year." AGC. August 3, 2018.

Preparing for the Exodus

Less than one-third of businesses successfully transfer to the next generation, and even fewer make it to the third generation.³ One driving factor is leadership decisions that are made too late. As a result, the baton is passed before the next generation is ready to lead. In fact, our [recent study](#) found that 47% of identified successors will not be ready for their leadership positions in the next three to five years (Exhibit 1).⁴



Put simply, E&C owners are stymied by decision paralysis, waiting for a leader who “has it all.” By identifying a group of shared leaders who can help mitigate some of the common succession challenges (e.g., delayed selection), companies can buck this trend and continue down the path to succession.

Some CEOs set unrealistic expectations for their future leaders—a phenomenon we fondly refer to as the “unicorn effect.” When searching for the next CEO, current leadership may lay out unrealistic skills and capabilities (e.g., the need for college degrees and desired experience levels), in the name of finding the perfect fit for the role. By determining the fundamental differentiating leadership competencies, organizations can simplify the selection process and find a next generation of leaders that can take them to the next level.

Through the Looking Glass

It's no secret that E&C firms are struggling to recruit and retain talent. In fact, a recent Associated General Contractors study highlighted the severity of this problem. The unemployment rate for individuals who have construction experience is 3.4%, a few points below the national average, which is a sign that the industry is operating at full employment. Even by offering competitive pay and opportunities for career advancement, many contractors fail to retain their talent.⁵

³ Family Business Institute. <https://www.familybusinessinstitute.com/consulting/succession-planning/>.

⁴ “Ownership Transfer and Management Succession. 2017 FMI Survey.” FMI. 2017.

⁵ “Construction Employment Reaches 10-Year High as Industry Adds 19,000 Jobs in July and 303,000 for the Year.” AGC. August 3, 2018.

“I’m afraid that if I name one successor, I will lose another,” one general contractor pointed out. “I simply can’t afford to lose that person, especially in this hot market.”

The shared leadership structure is one way to address these retention issues, and especially with the younger generation. In “[Debunking Millennial Myths](#),” FMI noted that younger workers come from a “connected” generation that values collaboration, teamwork and social opportunities.⁶ A shared leadership approach certainly speaks to these values.

According to new FMI research, companies that embrace shared leadership models refer to their corporate cultures as “collaborative” and “nontraditional.” These organizations are bucking the status quo when it comes to organizational structure and personnel titles. That’s because companies with shared leadership teams are relatively flat, with decision-making authority spread throughout the organizations (versus resting with a few key individuals).

Right now, E&C companies that are leveraging shared leadership models at the executive level are in the midst of rapid growth. They’re expanding into new markets, diversifying their project portfolios and staying on the cutting edge of new technology adoption. These organizations and their leadership teams view shared leadership as an innovative approach to the challenges of today’s E&C industries.

Over the next few months, FMI will be pursuing further research into shared leadership, including where it is effective and how best to transition to a shared leadership model. We’ll keep you up-to-date on our findings and give you more insights into how to make a shared leadership model work for your firm.

⁶ Sabine Hoover. “Debunking Millennial Myths.” March 1, 2016. FMI.



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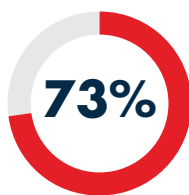
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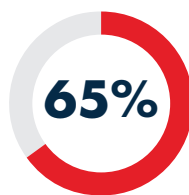
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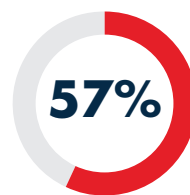
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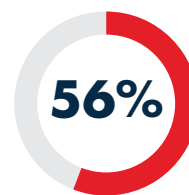
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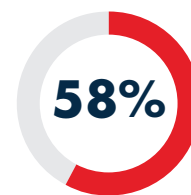
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