The People Agenda:

Top Strategic & Operational Issues Facing the Architectural, Engineering and Construction Industries

Executives use current downturn to plan long-term human capital strategies

FPL ADVISORY GROUP
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Construction Industry Round Table

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Preface

FPL Advisory Group, in conjunction with The Construction Industry Round Table (CIRT), is pleased to present *The People Agenda: Top Strategic & Operational Issues Facing the Architectural, Engineering and Construction Industries.* Based on interviews with leading executives as well as a survey on human capital trends, this unique report addresses the challenges and key talent management questions A/E/C executives face in developing their human capital strategies. Our sincere thanks go to all participants. Their generous contribution of their time and insight made the creation of this report possible.

Executive Summary

Construction executives use current downturn to plan long–term human capital strategies

Industry will again face talent shortage

The global recession, the credit crunch and a dearth of new business have forced A/E/C companies to reduce staff through attrition and layoffs. Of 13 industries, construction currently has the weakest employment outlook[1]. But the cyclical slowdown in hiring masks a long-term trend of rising employment in the construction industry. Employment of construction managers, for example, is forecast to increase 16%, or faster than the average for all occupations, in the period from 2006 to 2016[2].

When global economies start to recover, capital will again become available and construction demand will rebound. However, the talent shortage that has plagued this industry over the past few years will not go away as quickly. Before the downturn, A/E/C CEOs identified attracting and retaining talent as the number one strategic issue facing the industry (see Exhibit 1), and the problem will only be exacerbated when the global economy starts to rebound.

Exhibit 1
Top Human Capital Concerns

Executive Summary

While economic conditions have eased hiring pressures temporarily, talent management remains a key concern that will become even more pronounced once hiring picks up and competition for talent intensifies. To prepare for that eventuality, executives are evaluating their current strategies for finding, recruiting, and managing employees and for developing future leaders of their organizations. But the challenge for companies is not simply to recruit enough people but also to recruit the right people — those who have the training and skills to succeed in an evolving industry. For example, as the industry consolidates and the size and complexity of projects increases, the demands placed on managers will grow. One CEO recently observed that bigger projects "will require a higher level of sophistication in executing them, and issues such as environmental concerns and safety issues will be of paramount importance." He went on to note that "with this increasing project complexity, there is even higher demand for outstanding general managers, who appreciate how a whole host of functional disciplines integrate under them ranging from human resources to regulatory, legal, and financial issues."

Another important trend in construction that impacts the demand for talent is a new emphasis on value. Construction companies are looking to more effectively leverage the talents, skills, and experience of their employees to create more value for their customers. "There has been somewhat of a change in procurement philosophy relative to what our customers are looking for," said one CEO. "They are much more focused on the qualifications of the construction firm versus the lowest price. Given this qualifications orientation, it is extraordinarily important that a firm like ours be able to compete for talent." Another CEO noted that "potential customers are evaluating a firm's 'relevant experience' as well as the quality of its people. They look for people who have been with the firm for a long time and whose backgrounds are relevant to the project in question."

This report is designed to help today's leaders address these challenges as they develop their human capital strategies. It addresses key talent management questions including:

- **What are the most effective strategies for recruiting talent?**
- **How can a company manage the risks of hiring new employees?**
- **What are the best strategies for reducing unwanted turnover?**
- **How do you develop your people?**
- **How can today's leaders prepare the next generation of leaders to succeed them?**

Our Study

FPL Advisory Group, in conjunction with The Construction Industry Round Table (CIRT), has conducted several months of extensive research to identify best practices in human capital management in the A/E/C industry. The research is based primarily on interviews with more than 40 leading A/E/C executives (primarily CEOs) as well as a survey on human capital trends that was completed by more than 70 firms. Where appropriate, we have supplemented the interview and survey findings with our own extensive experience advising companies on a variety of human capital related issues.

This report is broken into three main sections:

Attract Top Talent

One way to quickly source talented employees is to hire them directly from competitors or other industries or to acquire them via mergers and acquisitions. While this strategy comes with advantages, most companies prefer to focus on an organic strategy, hiring employees at a young age and bringing them up through the system. But this strategy can be difficult to implement, as there is a shortage of young talent coming into the pipeline every year. Successful companies have responded to this challenge by expanding their search beyond the traditional pool of engineering and construction management students. This helps broaden the pool of prospective hires, however, companies still face competition and must therefore develop a compelling value proposition to differentiate themselves to prospective employees. Key elements of a strong value proposition usually include a strong company culture, career advancement and professional development opportunities, and safety. A powerful value proposition is most successful when combined with a focused set of recruiting tactics such as a well-rounded recruiting team and internship programs for reaching candidates early. Finally, an aggressive screening process for new employees helps companies limit "bad hires" and reduce costly turnover.

Retention and Development

Attracting talent is important, but it proves meaningless if new employees are not retained. While turnover of low-performing employees is good for a healthy organization, unwanted turnover can be extremely costly. Indeed, our research indicates that employee turnover is a major problem facing the A/E/C industry today. So what can companies do to create an effective retention program? We identified four key strategies: the first is to develop your people through on the job training, formal educational programs, and mentorship initiatives. The second retention strategy is to provide a career path, especially for the strong performers. Effective communication between management and employees and fair compensation programs are two additional factors that can improve morale and reduce turnover.

Succession Planning

One of a leader's most important responsibilities is to identify and groom his/her successor. While hiring replacement executives from the outside is always a succession option, the most successful leaders are grown from within. Despite the importance of building an internal pipeline of next generation leaders, many companies fail to make it happen. This succession problem will only intensify as more Baby Boomer CEOs retire in the coming years. In planning for succession, best-practice companies follow five key principles:

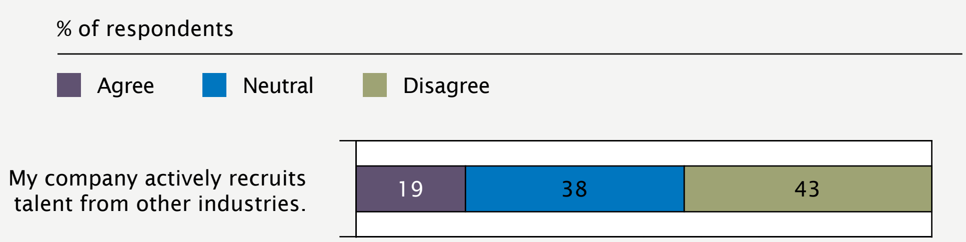
- Identify Candidates Early
- Train Your Candidates
- Communicate
- Go Deep into the Organization
- Hold People Accountable

Section One: Attract Top Talent

Hire From the Outside for a Quick Solution

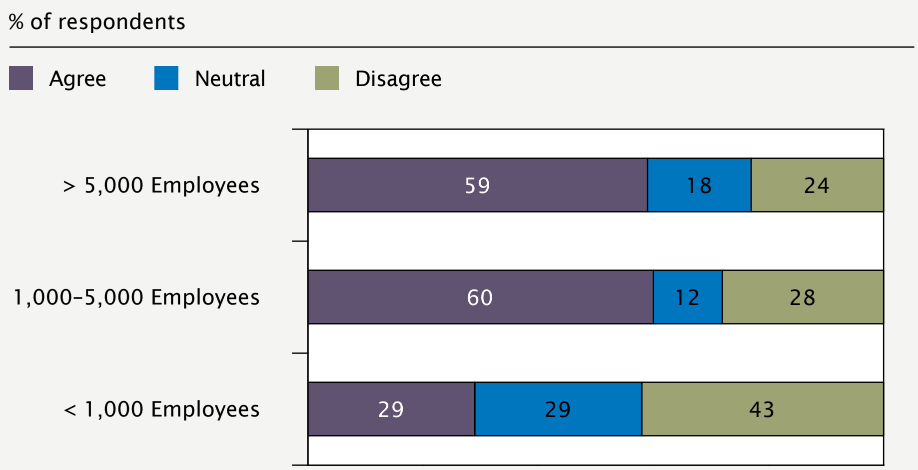
One way to fill a gap within an organization is to hire employees directly from the outside. Many companies do this to some degree, through a variety of different strategies. Some hire directly from competitors, ensuring that new employees have relevant experience. However, this is not easily done because the industry's talent shortages makes finding qualified candidates difficult. Said one industry CEO, "We have tried to recruit from our competitors, but that doesn't solve what is an industry-wide problem." Other companies recruit from outside the A/E/C space; as shown in Exhibit 2, 19% of the companies we surveyed actively recruit employees from other industries. This strategy dramatically increases the pool of candidates, though their lack of industry experience means additional training and development is required. Finally, corporate acquisitions represent a third option for sourcing employees from the outside. While acquisitions are pursued for many reasons, almost 60% of survey respondents indicated that they would use them as a strategy for sourcing new talent (see Exhibit 3 on page seven).

Exhibit 2
Sourcing Talent



Regardless of the specific method used, hiring from the outside has significant advantages. First and foremost, it enables companies to quickly obtain expertise that they don't already have. This can be helpful in jump-starting new business lines or entering new markets. One CEO put it succinctly, saying, "We need to recruit senior hires to effectuate our strategy and to build businesses where we are not as strong today." Another advantage of outside hires that is often overlooked is that they can bring fresh perspectives to their new companies. This cross-fertilization of ideas can have enormous impact, especially in an industry that has been starved of productivity gains in recent years (see page 18 for further discussion on productivity).

Exhibit 3
Acquisitions as a Source of Talent



Growing People Organically is a Superior Long-Term Strategy

While external hiring is an effective strategy for filling gaps quickly or opportunistically sourcing needed expertise, it does come with challenges. For example, senior hires, used to their own way of doing things, often have difficulty adapting to new cultures. Senior hires can also be a de-motivating force for existing employees looking for promotions. Said one interviewed Chairman, "We don't recruit from outside at the officer level but instead promote internally. This provides people with great career opportunities."

These challenges, combined with the difficulty of finding experienced talent, have led many executives to the conclusion that organic development should be the foundation for a successful human capital strategy. One CEO put it as follows: "we have had much better success with organic growth, hiring people at a young age and allowing them to develop through the system."

Creating A Diverse Workforce

There is a shortage of women and minorities in this industry, particularly in the management ranks. Aside from representing a large pool of untapped talent, a diverse workforce provides further benefits as public projects oftentimes come with minority requirements. So what can A/E/C companies do to attract and retain a diverse workforce?

Get serious about it

Just as with talent management in general, real change will be hard to come by if it is not a priority for the organization. One company we spoke to has implemented an active diversity program co-chaired by the CEO along with business unit Diversity Councils led by each group head.

Tailor your communications

The first step in attracting top talent is to create a compelling value proposition. For example, researchers have found that making an impact in the world tends to resonate more with women than men[3]. Adjusting marketing/recruiting communications accordingly may help in attracting women.

Utilize your role models

Women/minorities in management and supervisory roles can help with recruiting. One construction company Chairman said, "one of our senior executives is a woman who provides excellent mentorship. She, along with other women in superintendent roles, are great ambassadors for recruiting other women."

Provide educational training to improve the work environment

Many companies provide learning opportunities in areas such as diversity sensitivity training and/or English and Spanish lessons.

Form a partnership or alliance with a minority owned firm

Many firms joint venture with minority contractors and/or utilize minority subcontractors. "By hiring a Hispanic consultant and incubating start-ups, we have developed excellent relationships with the Hispanic community and have created a very diverse work force," said one CEO.

Broaden the Candidate Pool

The first step in implementing an "organic" strategy is to hire talented young people. Unfortunately for companies in the A/E/C industry, there is a shortage of young talent coming into the pipeline — and this shortage is going to get larger. According to some estimates, the construction industry will need to attract approximately 240,000 workers each year over the next decade to replace those leaving the workforce while still allowing for industry growth[4]. This represents a significant challenge considering that the U.S. Bureau of Labor Statistics is estimating that the number of 16-24 year olds in the labor force will actually decrease by 0.5% from 2006-2016[5].

So how can the A/E/C industry overcome this shortage and fill the pipeline with young talent? One obvious source of talent is colleges and universities, where approximately 75,000 students graduate with Engineering degrees every year in the United States[6]. But this group does not come close to filling the industry's hiring needs, especially since many of them pursue careers outside the A/E/C space. One interviewed executive lamented the fact that these engineers "went to dot-com companies in the 1990s and, more recently, have been going into other industries like finance and consulting."

In order to find enough talented people, the industry has begun expanding its efforts beyond the traditional pool of engineering and construction management students. "There are not enough engineers to fill the pipeline, so companies like ours have to be creative and hire liberal arts graduates. This non-traditional workforce is critical," said one construction company CEO. Another CEO, who himself has a liberal arts background, echoed this sentiment, adding, "we have to recruit others into the industry from other functional disciplines." Another way that companies are broadening the pool is through increased recruiting efforts at vocational or community colleges, and even for those without degrees, in addition to students from four year institutions. Recognizing this trend, one CEO commented, "we will have to hire more people without college degrees and then train them appropriately."

Women represent another large, under-utilized pool of talent. While some companies have been successful at recruiting women — "our entry level arrivals are split evenly between males and females," said one executive — the industry as a whole still has a long way to go towards taking advantage of this immense resource. "Only 10% of civil engineers are women, and that number hasn't changed in the last 30 years," commented another.

Expanding the pool of candidates will help in sourcing talent, but companies will still face stiff competition for qualified hires. This leads to the obvious question, what else are companies doing to separate themselves from the pack and win the recruiting war?

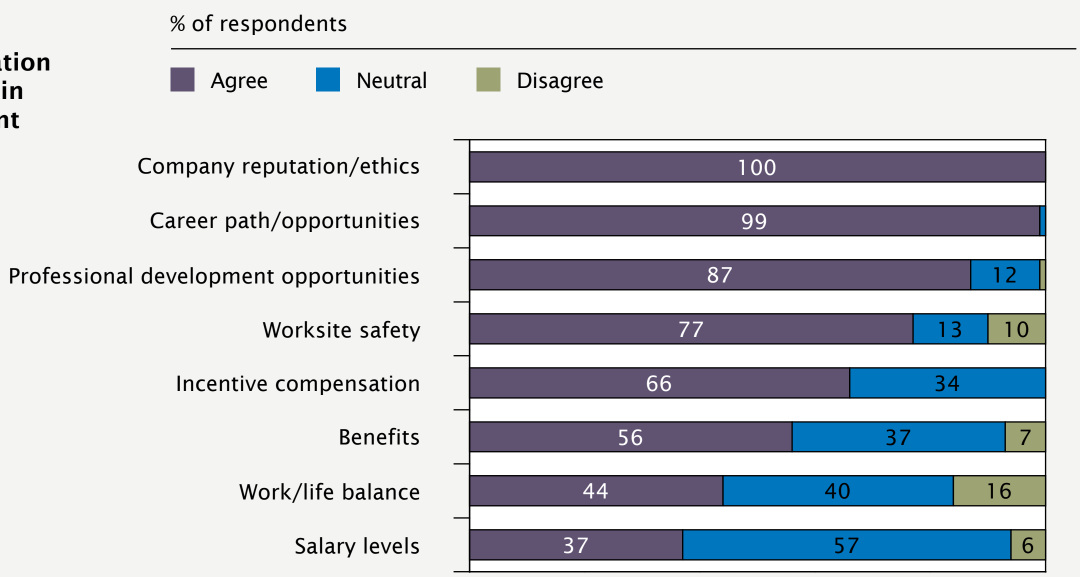
Differentiate to Win Over Young Talent

First and foremost, to successfully attract talented people, companies must develop a compelling value proposition to answer the question "why would I want to work here?" This means creating a value proposition that communicates the unique strengths of the company while at the same time addressing recruits' most important job selection criteria.

Before exploring the components of a compelling value proposition, it is worth noting that there is no single "correct" approach. Each individual company will have its own unique strengths that it can promote. For example, large companies may want to highlight their stability (particularly in today's recessionary times), international opportunities, and/or involvement in large and high profile projects. Smaller players, on the other hand, may choose to focus on accelerated growth opportunities and/or exposure to senior executives. For any company, there can, and should, be more than one value proposition; after all, recruits' needs and desires are not all the same. The most successful firms adapt their messaging to different segments by appealing to their unique sets of values, goals, and expectations.

Exhibit 4

Differentiation Strategies in Recruitment



So what constitutes a compelling value proposition, and how do companies differentiate themselves? According to our research, best practice organizations in the A/E/C industry offer the following:

Strong Company Culture

This is an absolute must, according to our research. Every single organization we surveyed highlighted company culture as a key differentiator in attracting talent (see Exhibit 4). As one CEO stated, “we are attractive because we market ourselves as a family contractor with a low-key culture, where any new employee is not a number and loyalty is rewarded.”

Compelling Career Path

Providing compelling career paths employees is also critical. “We have clearly defined career paths for our people, which is enormously advantageous when we are trying to recruit,” said an executive with one infrastructure and construction firm. Another CEO added, “we must recruit people into this industry as a profession, and not as a trade.”

Professional Development Opportunities

Professional development opportunities also remain important. Many executives we spoke with highlighted their educational training programs as well as the responsibilities provided to less experienced employees as key sources of competitive advantage. “We sell the concept that someone at 32 years of age can become responsible for a $70 million project,” said one CEO.

Emphasis on Safety

Safety, of course, remains a concern. Since, as one executive put it, “the current regulatory environment is not addressing the safety issue sufficiently,” individual firms will have to be responsible for safety improvement in this industry. Not only is a strong safety record good for business, it can also provide an upper hand in recruiting talent. As one CEO commented, “as a culture, we push integrity and safety. Our people feel that we care about them and this is a big part of our ability to attract and retain people.”

Compensate Competitively

Interestingly, compensation and benefits ranked relatively low on our list of differentiators (see Exhibit 4 on page ten). While firms do need to remain competitive with pay packages, this is not the most effective area to focus on when recruiting talent. “Today, in order to be successful, an organization needs to offer more than just financial incentives,” noted the CEO of one construction services company.

Recruiting Tactics Matter

While a powerful recruiting message is necessary to make a company attractive, this alone will not win the war for talent. To be successful, companies also must have a focused game plan for finding and recruiting new employees. Although the specific recruiting tactics vary widely from one firm to the next, we did find a number of common elements during the course of our research.

One common theme in successful recruiting programs is the involvement of more than just the Human Resources department. To be truly effective, the entire organization must be committed to the program. Some companies we spoke to feel that broad participation is so important they actually provide monetary incentives to encourage it. While this policy remains in the minority, most best-practice firms we spoke with do have their most senior executives involved in the process. This reinforces the importance of recruiting and leads to better participation from others in the organization. While involvement of senior executives is beneficial, recruiting teams should also be balanced, both in terms of seniority and functional discipline. Said one CEO, “we weren’t doing a great job at college recruiting, and when I got the team together I realized that everyone was over 50 years old. We revamped the committee to include younger people, and we had our best recruiting year ever.”

Another common tactic employed by best-practice firms is to reach recruits early. Most of the companies we spoke to have some form of internship program in place. In some, up to 85% or more of college hires are sourced through the internship process. There are several benefits of internship programs. First and foremost, they allow companies to get in front of potential recruits at a young age. As one executive put it, “we offer undergraduate internships which give us a leg up in recruiting them on a full-time basis after graduation.” Internships also educate recruits on the nature of the job in a way that cannot be achieved through interviews. This reduces the risk of turnover in the first year of employment. In fact, for this reason alone many companies require all undergraduates with non-traditional degrees (e.g., liberal arts) to go through an internship program. To give a true picture of the company and the job, internships must be “real” in that interns are expected to make significant contributions. “We give them legitimate assignments on site, versus pushing paper like at other companies,” said one CEO.

Internships are not the only way to reach students early. One company we spoke to holds case competitions at select construction management schools; this helps them build awareness and identify the top candidates. Other companies try to reach recruits even earlier than college, via ACE or similar programs for building interest among high school kids. For example, one company requires every branch office to participate in a local ACE program. Another company builds awareness at an even younger age, inviting grade-school children to take field trips to prominent construction sites.

Choose Your Hires Carefully

While building awareness and attracting the interest of young people is critical, selecting whom to hire from the candidate pool is equally important. Poor hiring decisions come with significant costs, as weak performers create inefficiencies and those that fail to fit in with the company culture tend to turn over quickly.

There are several strategies that companies utilize to improve the quality of hiring decisions. As mentioned earlier, many place a heavy emphasis on internships. Others supplement the interview process with various types of personality tests. “Psychological profiles are done to assess fit and long-term potential within the company,” commented one CEO. Team interviews, as opposed to one-on-ones, are another effective method of determining fit with company culture. Finally, in addition to standard practices of checking references and conducting drug tests, some companies even research candidates’ online profiles on sites such as Facebook.

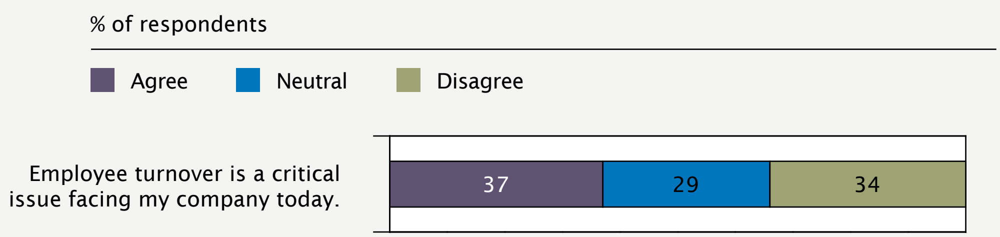
Section Two: Retain and Develop

Minimize Costly Turnover

Attracting talent is important, but it proves meaningless if new employees are not retained. While turnover of low-performing employees is good for a healthy organization, unwanted turnover can be extremely costly. When you add in a reduction in efficiency, a negative effect on morale, and damage to the company's reputation, the tangible and intangible costs of turnover increase even further.

But is turnover a common problem in the A/E/C industry? Our research says yes. According to the Bureau of Labor Statistics, the average voluntary turnover rate in the Construction industry is 21%[7]. In addition, 40% of surveyed executives said that turnover is a critical issue facing their company today (see Exhibit 5). One CEO described the problem well, saying, "turnover in our industry is high. Hence, we are constantly recruiting people and teaching them the same old stuff time and again."

Exhibit 5
Employee Turnover



So what can companies do to create an effective retention program? According to our research, the following four strategies are key: develop your people, provide a career path, communicate, and compensate appropriately.

One of the most effective ways to keep people motivated is to ensure that they are constantly provided professional growth opportunities. While many industry insiders view training activities as yet another cost to the organization, the most successful firms find it a necessary investment for the future. “We invest a tremendous amount in training and development simply because mistakes in this business have huge repercussions,” one CEO noted. Several other companies we interviewed even have senior level executives (e.g., VP level) dedicated solely to managing employee development. This appreciation of the value of training is especially important in today’s difficult economy, when budgets are being cut and developmental programs are often the first to go.

Retention Strategy One: Develop Your People

From a tactical standpoint, there are three primary venues for promoting employees' development: on-the-job training, formal training, and mentorship.

On–the–Job Training

Many leading companies offer inter-disciplinary management development programs in which employees rotate through various functions. These programs offer several benefits; firstly, they create well-rounded employees with in-depth knowledge of the industry and all facets of the company. This knowledge is an essential skill set for those who hope to eventually run a P&L. "They need to be generalists understanding human resources, finance, legal, contracts, and administration," said one CEO. These programs also promote teamwork, help employees build relationships across the organization, and illustrate potential career paths. Some firms with an international presence even have exchange programs that allow employees to rotate through international assignments. In addition to the educational benefits, these travel opportunities can also help on the recruiting front.

Another important consideration for on–the–job training is the contribution of the managers in the organization. For most people, the best learning comes from day-to-day interactions with experienced managers. Therefore, it is critically important to foster a "coaching culture" where managers take an active role, not only in project management, but also in the development of junior employees. This is easier said than done, as coaching does not come naturally to everyone. Therefore, some form of training is usually necessary even for the managers in your organization. "We started training programs so that people who were managing people could be sensitized to the critical basics of management," commented one CEO.

It's a well–known maxim that employees don't leave companies, they leave managers. Poor relations with managers are a main driver of turnover in almost every industry, so training managers on how to interact with subordinates can be very helpful in retaining people. Training should encompass not only coaching skills but also soft skills such as people management and relationship management.

But training alone is not enough; bosses must also be held accountable for how they manage their employees. One firm we interviewed uses staff turnover rate as one criterion in evaluating managers' performance. Some companies take even more drastic steps to encourage retention: "people leave companies because of lousy bosses, and grow because of great bosses. If there are unhappy people working for bosses, those bosses are exchanged out," said one CEO.

Formal Training

To supplement on the job training, many A/E/C companies have instituted formal educational programs (some branded as Corporate Universities) to provide growth opportunities and help foster a culture of learning. These programs tend to have a broad curriculum that includes project-related topics (e.g., construction processes), cross-functional skills (e.g., finance, marketing), and soft-skills (e.g., communication, leadership, diversity). In terms of execution, these programs can include many different forms of learning, such as:

- Full-time trainers employed by the company
- Internal subject matter experts (i.e., regular employees who occasionally teach courses on a specific topic)
- External speakers
- On-line courses
- Classes at local universities

While these educational courses are primarily meant as a learning resource for employees, some companies have stringent requirements regarding participation. Many require individuals to complete specific courses and/or a minimum number of hours per year (a 20-40 hour requirement is typical). Other companies place the burden on the firm's leaders by using overall classroom participation as a performance metric for office or division heads.

Mentorship

Mentors are also an important resource for employee development. Typically, there are two different types of mentors. One is a "buddy," usually someone who has recently held the same position and can provide guidance on day-to-day issues. New employees are assigned a buddy to help to them learn and adapt to the company and its culture. The other type of mentor is a professional development mentor, usually a more senior executive who provides guidance and acts a career resource. To encourage open communication, the professional development mentor is usually someone other than the employee's direct manager.

Human Capital Management Affects Productivity

In comparison to other sectors, it is evident that the construction industry lags in terms of productivity. According to the University of Pennsylvania, nearly 50% of all labor costs on construction projects are wasted, primarily as a result of workers "waiting" around[8]. Furthermore, according to the Bureau of Labor Statistics, over the past 40 years, productivity per worker has declined in construction, versus an increase of 125% for all non-farm industries[9]. This productivity drought is particularly troublesome given the industry's razor-thin margins that are under constant pressure from rising commodity prices and increasing competition (particularly from international players).

There are a variety of tactics companies are employing to enhance productivity. Some methods include improving technology and re-thinking delivery methods. On the technology front, better construction equipment (including slip-form pavers and laser screens), software applications (including BIM technology), and supply chain management solutions have all played an important role. In terms of delivery methods, many executives we spoke with discussed the benefits of integrated project delivery versus the more traditional design-build model.

Above all, however, the management of human capital remains the biggest productivity driver. Providing managers with training on how to manage workflows is a first crucial step — after all, on average only 51% of the day is actually spent working. Training managers on communication and leadership also leads to benefits through increased teamwork and engagement on the part of craft workers. Improving retention in general (by doing all the things discussed in this report) is also an important driver, as it takes time and money to bring new employees up to speed. In general, keeping the workforce happy and motivated has been shown to have a significant effect on overall productivity. Said one executive, "at the end of the day, productivity is about people feeling good about what they are doing, and doing it in a safe and positive environment."

Retention Strategy Two: Provide a Career Path

In many cases, the best way to retain people is to give them career advancement opportunities. This is particularly true in the construction industry, where one insider said, "people are our number one issue. The only way to retain them is to give them career opportunities." To successfully manage employees' careers, leading companies typically do the following three things:

Communicate and Articulate a Career Path

At the very least, leading firms make it a priority to communicate potential career paths to their employees. The most effective way to do this is to have mentors or supervisors communicate directly with the employee. Communication is important, not only for educating employees on their available options but also for motivation purposes. "We found that our employees were not being communicated with sufficiently by senior management," one CEO said. "So we created a career conversation program which has enhanced their comfort level that we care about them."

Hold People Accountable

Simply describing a career path is not enough. Someone must be held accountable for actively managing careers to ensure that they progress. This can be handled in a variety of ways; at some companies individuals are responsible for creating and tracking their professional development plans, with mentors and/or supervisors serving solely as guidance counselors. At other firms, it is the responsibility of managers to see that their subordinates' careers are progressing. "Bosses are evaluated on how well they develop and career plan their people," said one CEO.

Fast-Track Top Performers

Most companies pay particular attention to their stars, the future leaders of the organization whom they can least afford to lose. The first step is to identify the stars and recognize them as such. This communication alone can be enormously beneficial. "Acknowledging that these people are special is a wonderful retention tool," one CEO observed. "As a testament to the success of acknowledging these high performers, only one of 48 in the last four years has left the company." These stars, once identified, need to then be cultivated for future leadership; the best way to do that is to put them in big jobs before they are ready. "We tend to drive high performers towards managing profit centers as quickly as possible," another CEO said. "Often, we will ask them to run small offices, where they are responsible for selling and completing business, as well as being attentive to profitability."

As might be expected, fast tracking does not come without its challenges. While moving people into new jobs is good for an individual's career advancement, client and project needs often require employee continuity. Moreover, managers tend to resist giving up their star performers. These obstacles can be overcome only if the entire organization buys into talent management as a top priority.

Retention Strategy Three: Communicate, Communicate, Communicate

Effective communication can be a powerful tool for improving employee morale and minimizing turnover. Best–practice companies communicate with their employees in a variety of ways, including:

Recognizing Performance

Providing public recognition for a job well done makes employees feel valued and is an easy and cost-free way to boost morale. The CEO of a construction contractor said, “we celebrate successes where people are personally recognized for their achievements, whether it’s winning new contracts, or making a recommendation on a cost-savings measure.”

Giving People a Voice

Many companies we spoke to utilize employee sentiment or engagement surveys. These surveys have many benefits. First and foremost, the simple act of soliciting feedback communicates respect for, and commitment to, the employee. These surveys also provide management with actionable information that is valuable in many ways. First, by understanding employee needs, companies are able to create a more satisfying work environment, which strengthens morale and reduces turnover. Second, employees often have good strategic insights and ideas for improving operational efficiency. Providing an open forum enables management to capture this untapped value. Finally, measuring employee satisfaction provides valuable feedback regarding management performance that cannot be captured in a standard 360–degree review process. However, it is not enough to simply field a survey. Companies must follow through with action or risk losing the benefits. One company we spoke with requires that each business unit describe, in its annual strategic plan, its approach for addressing results from the prior year’s employee sentiment survey.

Providing Continuous Feedback

Surprisingly, despite the well-documented benefits of regular performance feedback, many firms fail to implement an effective review process. In fact, less than half the companies we surveyed have performance reviews more than once a year. Best–in–class firms take great pains to ensure that communication regarding performance is a continuous process rather than a once a year event.

Keeping People Informed

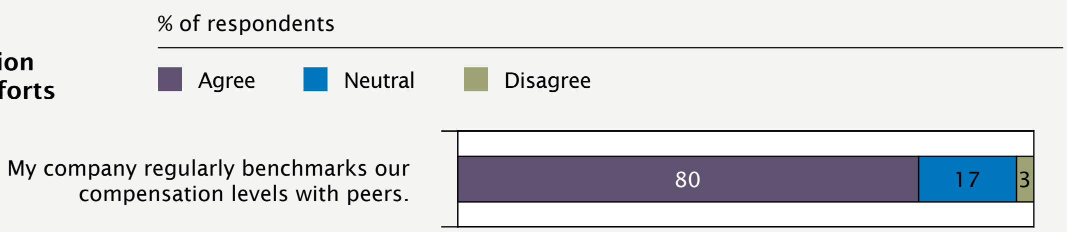
Another simple and easy way to boost morale is to keep employees informed of what is going on with the company. Doing this helps foster a sense of belonging and teamwork. Said one CEO, “we go out of our way to communicate with employees. I write a monthly newsletter, and our regional Presidents meet with their organizations once a month, to detail what is going on with the company and what we are doing/pursuing from a project perspective.” Another executive added, “we’re building an internet-based communication platform, where our younger people find information, whether it’s about the business or who within the company enjoys playing lacrosse.”

Retention Strategy Four: Compensate Appropriately

While compensation is not the most important factor for retaining talent, it cannot be ignored. Effective compensation programs usually consist of two components: salaries that are competitive with market levels and meaningful performance incentives based on specific and measurable metrics within the employee's control. Surprisingly, more than one-fourth of the companies we surveyed do not benchmark compensation levels with peers on a regular basis (see Exhibit 6).

Equity ownership is another component of compensation that some companies utilize with success. "This concept of employee ownership is a powerful concept," a CEO said. "For example, one of our employees driving a bulldozer will stop and pick up a shovel, versus running it over, because he owns it!"

Exhibit 6
Compensation Planning Efforts

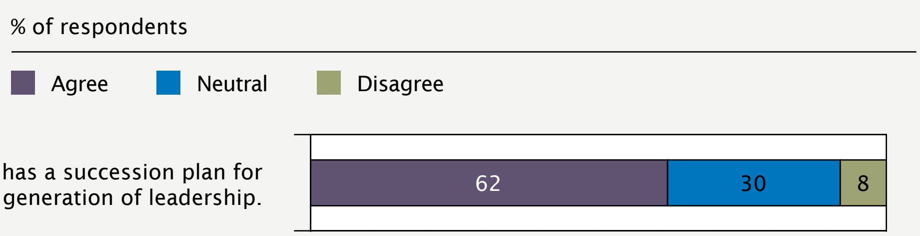


Section Three: Put Succession Plans in Place

One of a leader's most important responsibilities is to identify and groom his/her successor. While hiring replacement executives from the outside is always a succession option, the most successful leaders are grown from within. Insiders have many advantages over outside hires, including an existing network of relationships as well as an understanding of company culture, organization structure, and internal dynamics among people and departments.

Despite the importance of building an internal pipeline of next generation leaders, many companies fail to make it happen; almost 40% of survey respondents indicated that their companies do not have a formal succession plan in place (see Exhibit 7). Many CEOs, and particularly founders, do not like to think about succession, as it reminds them of their own mortality. This succession problem will only intensify as more baby boomer CEOs retire in the coming years.

Exhibit 7
Career Path Planning Efforts



Section Three: Put Succession Plans in Place

In planning for succession, best-practice companies follow these key principles:

Identify Candidates Early

The first step is to identify potential candidates. It is usually a good idea to pick more than one person to minimize risk and ensure that each candidate stays motivated. CEO succession should start at least five years in advance of the current CEO's retirement to ensure there is enough time for candidates to develop necessary skills before taking over. The succession plan should then be revisited often and adapted as necessary. "We meet once a month, for approximately two hours, to discuss succession planning for our top 15% of executives," said one CEO.

Train Your Candidates

Succession planning and management development are really two sides of the same coin. Successors must be provided with ample opportunities to learn the different skills needed to effectively fill a position. Training often includes inter-disciplinary classwork in fields such as finance and marketing as well as soft skills like communication and team building. Many companies also train future leaders in general management by giving them broad P&L responsibilities (of an office, division, or region).

Communicate to Them

Succession planning is often shrouded in secrecy. As a result, star candidates sometimes leave a company without even knowing about the opportunities they had. Letting them know their status helps retention and helps motivate them to perform in their current roles.

Go Deep into the Organization

Succession planning should not be limited to the CEO. It should be put in place for all members of senior management at the very least. Ideally, it should include all key positions within an organization from middle management on up. "Every business unit, and in fact every project, is expected to have a succession plan," said one executive.

Hold People Accountable

Holding people accountable for developing a succession plan is important for ensuring that it gets done. One leading company has a strict policy of not promoting managers until they have identified their own successors. Another CEO added, "we have eight executives on our management team, and each is required to pick his successor."

Outlook

The time will come when the economy recovers, construction activity picks up, and companies once again are competing for people in the midst of a talent shortage. The winners in these talent wars will be the companies that were the most diligent about proactively implementing strategies to recruit and retain people. To put themselves in a strong competitive position, best-practice companies currently are assessing their future talent requirements based not only on the number of people but, equally important, the type of people they want in their organizations. A high level of professional skill is important in an employee, but so, too, is the ability to learn, grow and adapt in a fast-changing industry.

To find the right people when the need arises, companies are planning future investments in recruiting, and they are looking at how to broaden their recruiting efforts, strengthen internship programs, and sharpen their recruiting messages. To improve retention and reduce turnover, they are considering how to improve their procedures for evaluating prospective employees. Once employees are hired, they are looking to provide professional development and career planning programs that motivate employees, empower them, and create opportunities for advancement. Most importantly, companies are planning for the eventual succession of their current leadership by the next generation. In doing all these things, companies are laying the foundation to compete for talent well into the future. The time to prepare is now.

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Quotations in this paper are taken from our interviews with top executives in the architectural, engineering, and construction industries between October 2008 and January 2009.

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The Construction Industry Round Table (CIRT) is exclusively composed of approximately 100 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 President's 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 interest 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.

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