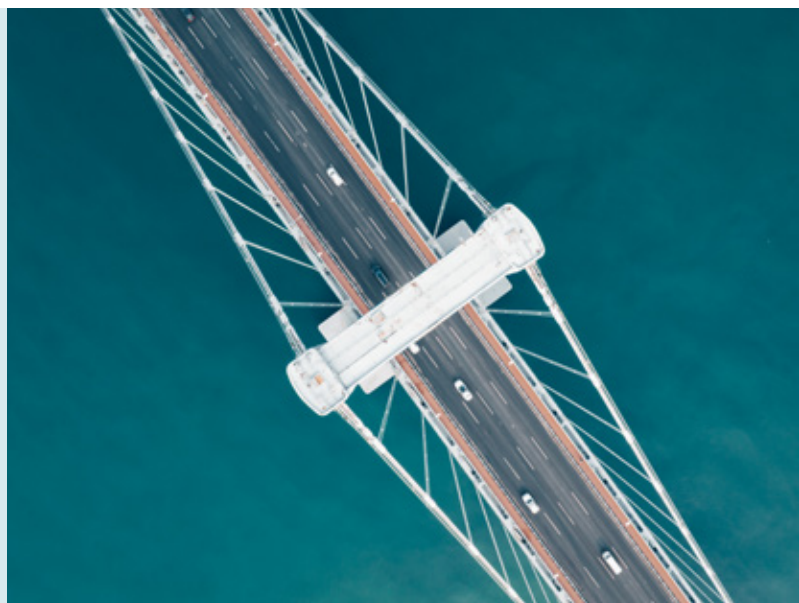


The Infrastructure Sector Leaders of Tomorrow — and the Challenges They Face



The engineering, procurement and construction (EPC) industry continues to evolve. Leading EPC companies are on a journey away from high-risk fixed-price contracting and instead becoming providers of solution-oriented professional services. The data tells an interesting story: Almost 80 percent of the top 20 companies generate work

primarily from service relationships today, compared to five years ago when the ratio was nearly reversed. This model's growing dominance raises relevant discussion points around differentiation and collaboration, talent and cultural diversity, the changing role of technology, and the broader issue of successful leadership.

To further examine this leadership change, we spoke with several of the leading executives in the EPC industry about this rapid transformation. In this piece, based on our discussions and

on our experience as leadership advisors for many of the world's top infrastructure companies, we look at the industry's changes and what they mean for company leaders, hear about the specific challenges of the industry, and look at the steps companies have taken to find the right leaders to lead through those challenges.

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Interviewees

John Beck, Founder and Chairman, Aecon Group

Michael Della Rocca, Board Director and Industry Advisor

Ian Edwards, President and CEO, SNC-Lavalin

Greg Kelly, President and CEO, STV

Hisham Mahmoud, Chair and CEO, Qualus; Chair, Cumming Group

Steve Morriss, President, Engineering Services, SNC-Lavalin

Farhan Mujib, President, JGC

Steve Nielsen, CEO, Dycom Industries

Terry Ruhl, CEO and Board Chair, Lochner

Tom Shelby, EVP, Kiewit

A new leadership equation for EPC

The 2008 economic crisis and ensuing recession led top EPC companies to rethink how they do business. Pure-play engineering leaders diversified and entered into construction, hoping that by expanding their boundaries, they would find themselves less exposed to market fluctuations and economic downturns.

However, the outcome of this shift was less than optimal for many key companies. Margins often fell as costs offset any increased revenues. Risks increased significantly with exposure to construction work and the corresponding delivery, supply chain and logistics risks. The larger EPC firms often struggled against established construction players, which offered more experience while also typically boasting higher profit margins despite being significantly smaller in size.

“For bigger players, the only way you can sell business is to be low cost and offer something more,” said Steve Nielsen, board chair and CEO at Dycom Industries, a construction services company in the telecom industry. “That may get you in the door. But it usually just ends up as generating lots of top line while always having to explain why the bottom line isn’t there.”

As a result, the days of a true “EPC” approach may be over. In speaking with leaders at top firms across the industry, it became clear that a new hybrid approach, where companies lead the engineering and procurement element (along with some elements of construction management), but leave the construction execution to outside companies, may increasingly come into favor.

The days of a true “EPC” approach may be over. Leaders are increasingly pointing to a new hybrid approach where companies lead the engineering and procurement element but leave construction execution to others.

This changing environment brings not only real leadership challenges, but also shows that the skills that served leaders well in the old paradigm no longer apply. In shifting away from engineering in favor of professional services, EPC leaders must be less about just driving plans and processes. Instead, they need to focus on partnership and developing solutions with their clients. Simply put, what it means to be commercially successful and client-centric has changed.

Embracing technology’s impact on the industry

Technology is a key element of this industry’s rapidly accelerating change and transformation. Data and information are being shared across previously segmented areas and are also being gathered and disseminated much more quickly. The increasing precision and accuracy of this information is helping design and construct projects. Further, the industry’s blurring lines are raising questions about intellectual property and the ultimate responsibility for the work.

Leaders are only beginning to grasp the wide-ranging impact of technology. In our work in the industry, we’re seeing more firms hiring for technology — seeking chief digital officer positions or others with transformational technology experience to fill open positions. Given the need to evolve, there is growing appetite for leaders from outside the industry who have experience creating a road map for change that aligns with the broader strategy while successfully managing stakeholders.

“Technology is increasingly impactful and leads to a rapid and exciting change in our ability to support our clients. As leaders, we need to learn and adapt,” said Steve Morriss, president of engineering services at SNC-Lavalin, the Montreal-based EPC provider. “It’s not just seeing around the corner to find out what’s coming, but it’s actually laying down a deliverable path of how we get there.”



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PRESIDENT OF ENGINEERING SERVICES, SNC-LAVALIN

Managing the cultural shift

Becoming a solutions-oriented service provider instead of an EPC provider is a cultural shift that leaders must now manage carefully. How a professional services company thinks is different than how an engineering company would, and it has a significant impact on how leaders focus on serving their clients.

A professional services approach requires a leader with a nuanced understanding of the interaction among several goals: managing successful businesses, building client partnerships and delivering feasible solutions. Protecting the bottom line while also looking to build partnerships needs to be a companywide effort.

“The culture of both construction and consulting companies is to find win-wins, to find solutions that satisfy clients,” said Terry Ruhl, CEO and board chair at Lochner. “However, you have to find the appropriate balance — sometimes the consultant may place customer service at such a premium that internal budgets and company returns may suffer. And a contractor may be so focused on delivery costs and required margins that the client and the consultant relationship may be negatively impacted. Getting this balance right is critical to the successful delivery of infrastructure projects and programs and the development of long-term partnerships.”

One key cultural shift comes from the difference in how construction companies and professional services companies typically approach a project — whether a customer-first approach, or one more focused on projects’ commercial success. Each comes with its own challenges. The overarching focus will need to be less about the “right or wrong” costs and more about the future and how the costs and risks balance with opportunities. In this case, the company may be seeking inspirational leaders who are able to drive team-building and culture.

“When I hire project directors, I look at the full body of experience — their soft skills, their ability to relate to clients,” said Greg Kelly, president and CEO of STV, an infrastructure-focused professional services company. “At STV, we say we like to hire for fit, so I look at whether they embody our values and purpose as well. That’s a part of what’s required in those big jobs. They have a high level of trust in dealing with clients and partners.”

Said John Beck, founder and chairman of Aecon Group, a Canadian infrastructure company: “A primary driver of CEO success in construction is still managing P&L, team-building and finding solutions to problems.”

From a talent perspective, the leading firms are much more open today to people with backgrounds in business or other nontraditional areas.

“Historically, Kiewit didn’t hire many MBAs, but now we’re very intentional in hiring people with that schooling,” said Tom Shelby, EVP at Kiewit Corporation. “For the types of leaders we look for and develop, the skill sets we find in many with business or related degrees are very helpful. We obviously need talent with strong technical engineering or construction backgrounds or expertise, but we also need strong leaders of people. Not to mention, we can never have enough people who can understand and negotiate contracts, truly understand risks and see the big picture. We appreciate those skills even more today and look hard for them.”

Navigating ownership structures

Common ownership structures within the infrastructure industry are also shifting. While engineering companies have traditionally been privately owned firms, many have gone public in recent years, putting pressure on the traditional model. As M&A continues to be an integral part of the industry, the pull between protecting the private companies’ partnership culture and the public company outlook on longer-term view of performance with shorter-term pressure is a key task for industry leaders.

“When engineering companies go public, it can be hard to focus on changing culture and strategies for a long-term vision when your shareholders are pushing for quarter-to-quarter operational improvement and things like that,” one executive told us. “It becomes an internal conflict. Unlike manufacturing- and technology-type businesses, where they are continuously upgrading and changing things, there’s less room for fast change.”

Meanwhile, private equity is also spreading its wings into this space. As firms look to invest, they are examining companies’ cultures and succession plans to see if the growth potential is there, warranting investment.

“They want to see how the company has blended institutional memory with new perspectives, where the new people have come from, how much they align with the leader, and how much elbow room the leader creates for people to bring in new ideas,” said Michael Della Rocca, a board director for several infrastructure companies whose background includes four decades as an industry executive and consultant. “How do they balance bottom-line performance with client satisfaction?”



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TOM SHELBY
EVP, KIEWIT CORPORATION

The profile of tomorrow's infrastructure industry leaders

What does all this mean and where are companies finding their leaders of the future amid this challenging and changing landscape? Our experience working with many of the world's top EPC companies finds that at this point, nearly everyone is seeking talent externally — and several are even looking outside the sector, a sign that creative, unique and disruptive approaches to the challenges of today and tomorrow are in high demand. More clients today are beginning to opt for leadership capabilities and strategic insight and impact, rather than just sector-specific experience.



STRATEGIC THINKING



DRIVING RESULTS



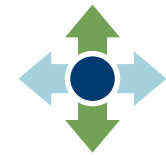
LEADING CHANGE



LEADING PEOPLE



COLLABORATING
AND INFLUENCING



BUILDING PEOPLE
CAPABILITY

Using Spencer Stuart's proprietary Individual Style Profile, which assesses leaders on their potential fit within an organization, we looked at candidates' leadership styles for those who were the best fits within their infrastructure organizations. Not surprisingly, results," characterized by achievement, is the leading style among leaders surveyed. The second most preferred style, however, is "learning": open-mindedness and curiosity about the world around them, and a style linked to the independence and flexibility of organizations. Learning-oriented leaders are focused on innovation, agility and finding new ways of solving problems.

These findings align with the industry's trends, as new business models present myriad challenges. At one end of the spectrum is the stability of finding talent internally — the tried and tested model based on learning on the job. Mentorship and apprenticeship remain critical elements of success in this industry, a key reason that as many as three-quarters of executive placements in this industry come from other companies within the sector.

On the other hand, the leadership skills required to lead in the professional services model — providing quality solutions to engineering challenges — are quite different than those needed to lead a mega-project from start to finish. Numerous executives told us they are giving more consideration to candidates with MBAs, whose business acumen will be key as the industry's margins and growth projections change. The compartmentalized structures beneficial in the old way of thinking will give way to more collaborative, less hierarchical setups that someone with expertise outside the industry may prove most adept to combat.

Conclusion

With the industry at such a critical inflection point, leadership is at a crossroads.

“With the constantly evolving and dynamic market and operating conditions, leaders need to challenge the conventional wisdom and practices,” said Hisham Mahmoud, chair and CEO of Qualus, a leading provider of specialized power engineering and technical field services, and chair of Cumming Group, a leading international project management and cost consulting firm. “We can learn a lot from other industries and how they have tackled similar challenges. This can be accomplished through partnering and by adding more leaders to our teams with diverse experiences from other industries.”

By taking a client-first approach, embracing technology and understanding how the industry will look and feel in the future will prove critical. This will demand a new kind of leader, one who must understand how to distill insights across the organization and serve as a truly transformative leader.

“Leaders today need to make decisions that lead to a sustainable business,” said Ian Edwards, president and CEO of SNC-Lavalin. “The skills required to be a CEO today are different than 15 years ago. They are driven by our clients, by our values and purpose. In the future, the bankable companies will be the ones that have the values right.”



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IAN EDWARDS
PRESIDENT AND CEO, SNC-LAVALIN



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