FMI
QUARTERLY
ISSUE THREE
2018

Untapped Potential: Closing the Training Gap for Corporate Boards

By Tracey Smith and Michael Mangum

E&C companies largely fail to invest in ongoing education and development at the board level. Here's how they can get on the right path.

In today's race for talent, organizations are spending more time and money training and developing all levels of talent. In a world where leaders must quickly step into new roles and hit the ground running, engineering and construction (E&C) organizations must be both strategic and deliberate in developing talent—an effort that correlates with the amount of money organizations spend developing individual employees.

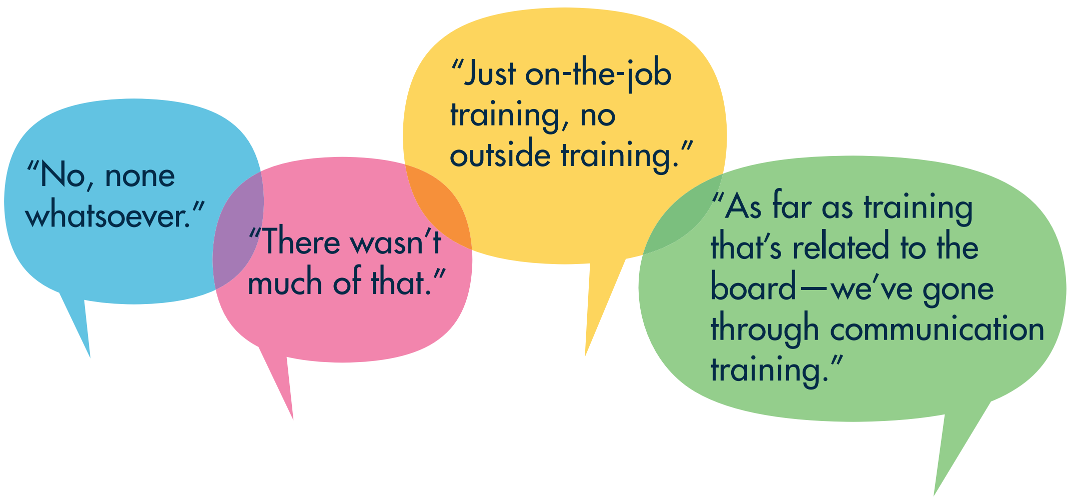
Talent Development 101

In FMI's most recent talent development survey, we found that E&C companies spend significant sums on training (expressed in dollars per person per year) across the entire spectrum. For example:

■ Senior Executives/Business Development	$9,067
■ Project Management	$7,275
■ Trade/Craft	$7,163
■ Field Management	$7,032

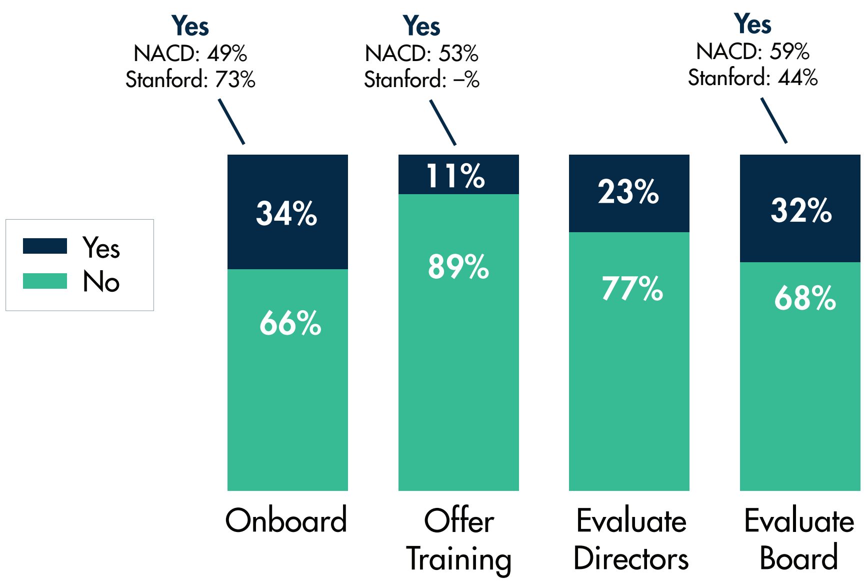
While there appears to be broad awareness of organizational performance relating directly to a firm's willingness to take existing talent to new (and more impactful) levels, E&C companies' talent development practices tend to fall short at the highest level: the board. Virtually no time, effort or money goes into developing board members to prepare and advance them in their key roles.

In a recent study conducted with Construction Industry Round Table (CIRT) member firms, FMI surveyed over 120 directors and executives engaged with their corporate board.[1] When asked if they had been provided board-specific training, respondents answered:



These responses were the norm across the E&C industry, as you can see in the results displayed in Exhibit 1.

Exhibit 1. Talent Development Practices for E&C Board of Directors



Source: 2018 FMI/CIRT Corporate Governance Industry Study

[1] Study findings will be published in August 2018.

Exhibit 1 also highlights how the E&C industry stacks up against a broader range of organizations polled by both the National Association of Corporate Directors (NACD) and Stanford University. Particularly noteworthy were the responses to the NACD survey as to whether director education had enhanced their effectiveness, to which an overwhelming 93% of directors said "Yes!" While broadly acknowledged as highly valuable, **E&C companies largely fail to invest in ongoing education and development at the board level**.

If onboarding and training are so effective for boosting director effectiveness, why aren't more E&C companies doing it? FMI has identified three myths that speak to this lack of attention regarding board-centric onboarding and training programs. They are:

Myth #1 – The skills required to become a director can be developed through managerial experience.

This myth centers around the notion that leaders experientially gain the necessary competencies to perform as high-impact directors by merely being executive-level leaders. While true to some extent, this logic begins to break down when the very specific director role competencies — displaying curiosity, listening closely and taking a strategic perspective when addressing issues — come into play. And while some managerial roles may stress these traits, they are by no means required or promoted among executives in all organizations.

Many of the CEOs FMI interviewed said their executive teams lacked strategic vision when considering an enterprise-level view of the business. Effective directors must understand how all parts of the organization work together to accurately identify future opportunities and challenges. This often requires a shift from a "see-think-**do**" approach to more "see-think-**ask**" mindset.

A board chair from a major engineering company described his challenge this way: "Look at those engineers who are serving as directors; they were profit-and-loss-type people from a business point of view. So the board did not have enough outside thinking or big-picture, long-range planning thinking. They were execution-type people."

This statement highlights how the strategic thinking skills needed in the boardroom are not automatically gained through managerial experience. A board chair and/or CEO must take deliberate action to train all directors in how to view the organization from a strategic and long-term perspective. One way to help gain this "see-think-ask" mindset is by adding external directors who already display this competency. They will be far less likely to bring an execution-first mindset into the boardroom.

Another E&C director offered this: "You put three outsiders in the room, and the dynamics and conversation change completely. All these guys (on the management team) have worked together every day for years; they talk about one thing. If you put three outsiders in the room, the subjects, the conversation, everything is completely different. That's a healthy thing."

Myth #2 – A former (or current) CEO from another firm who has "sat in my chair" will instinctively know what my company needs.

This myth assumes that you don't have to onboard or train new directors who have been in the leadership seat — a worldview that all CEOs (as if by some form of osmosis) understand the intricacies of any organization, even one vastly different from their own. Unfortunately, this assumption is usually unfounded and inaccurate.

There is no one-size-fits-all formula to understand the dynamics within a given company. Time and effort are required to deeply understand anything in life, especially a system as complex as a sizable organization that's comprised of many different people who serve an array of customers with a wide range of products and services. This dynamic was highlighted in a recent interview with an executive team member: "I think it's very difficult for board members who meet with us four times a year, to truly understand the nuances of our organization and what's happening on a daily basis. Whereas (with) management, we just live it, we breathe it every day. When big-picture strategic issues come up and we hear some of the recommendations from external directors, we (as a management team) think, 'They just don't get it.' And I think it's not from a lack of competence or anything like that. It's just that it's hard to come in four times a year, listen to a couple hours of dialogue, and really make keen insights into certain issues."

To overcome this dynamic, firms must give new directors detailed information. This is important because understanding the background of the organization—its financials, strategic goals and market trends—is vital to maximize director effectiveness at the start of their term.

Myth #3 – Directors are smart, accomplished people who sooner or later will "figure it all out."

A lot of leaders learn to do their jobs through trial and error. Many of today's senior leaders were placed into new roles throughout their careers and left to "figure it all out" on their own. Ironically, our success in independently overcoming those challenges fosters a belief that this is the optimal way for everyone to grow. While this may have worked in an isolated instance, little to no thought is given to alternative approaches and process efficiencies (i.e., could I have learned more, faster and with less effort through a different process?). We also observe a parallel worldview that if someone is smart enough, eventually he or she will make sense of a given situation and begin to perform well in a specific role.

These perspectives represent a classic "sink or swim" mentality, born out of a time where people resources were abundant and training options limited. Many of us can envision a time when we were put in such a position. We recall the extended length of time required to master the skills necessary to perform well in the role. Looking back, we can readily identify the essentials that the "older me" wishes the "younger me" would have known sooner.

It's Time for a Change

Today's rapidly changing E&C landscape means leaders no longer have the luxury of time to figure out the new skills needed for peak performance by trial and error. The same urgency holds true for the director's role. For example, the fact that it will only require a couple of board meetings for new directors to accumulate the knowledge necessary to support role proficiency is a false notion. Research shows that it typically takes about 200 hours for a new director to become very familiar with a given organization.[2] With most boards meeting just four or five times per year, even the brightest directors will be hard-pressed to <u>ever</u> develop a sense of organizational awareness, absent some form of purposeful intervention.

[2] Heidrick and Struggles. "2013-2014 NACD Public Company Governance Survey."

This also holds true with internal directors; many insiders often bring to the boardroom an understanding of the enterprise developed solely from their (narrower) experiences as managers. Indeed, shifting from a profit and loss (P&L) focus to a companywide strategic perspective takes time, practice and coaching. As one board chair recently shared with us: "Internal directors need to understand the differences between their role on the management team and their role as a director. Take time to talk through how these roles differ."

For organizations that lack onboarding and/or director training programs, here are some potential ways to start down this important path:

1. **Create a formal onboarding process.** FMI's recent blog post regarding onboarding programs is a great place to start. In it, we describe the elements of a comprehensive onboarding process. Broadly, the process involves exposing new directors to the history of the organization, recent financial reports, organizational structure and strategic planning documents. New directors should also be given opportunities to meet with the executive team, clients and key external partners (e.g., banking and surety providers) to gain different perspectives on the current state of the organization.

2. **Provide ongoing training opportunities.** We recommend the full board join NACD to avail itself of the organization's vast array of training offerings. In addition, local NACD chapters offer programs that include formal courses, webinars and networking events. Other training opportunities include programs sponsored by major universities (Northwestern and Stanford) as well as the Directors and Boards Private Company Governance Conference, which is held annually in Washington, D.C.

3. **Create a director mentorship program.** Assign a seasoned, experienced director as a mentor for new directors (the governance committee chair often handles this task). This mentor provides one-on-one coaching and support, especially throughout the new director's first year. A fellow director mentor can provide helpful background on current issues facing the board as well as feedback on participation and engagement during meetings.

FMI believes that onboarding new directors is just as critical as the time and money spent onboarding new employees and developing executive leaders. Investments of this nature accelerate the learning curve, inspire rapid engagement and drive meaningful contributions from new directors. "The board has to be a learning board in order to be effective," said one E&C industry director. "People come and they're not quite sure what they're supposed to be doing. And so they tend to either not participate or they tend to over-participate. A good board has to be a learning board…learning how to be effective with each other and how to help the CEO and the company leadership figure out what needs to be done." Building a board culture of continuous learning—spanning from each director's first day to his or her last—will significantly benefit both the board and the broader organization.

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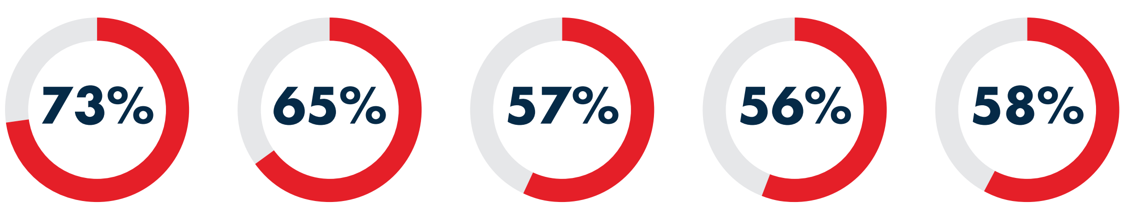
FMI Client Highlights



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