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The Best Organization Structure For Your Firm

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More Problems In Executive Compensation, Says Court

by Bill Fanning AIA

After the Taylor decision (see PSMJ May 2012) additional ABSCA court action has invalidated just about all that remains of the DCAA (and AASHTO) methodology for establishing reasonable Executive Compensation. With the decision in Metron, Inc. (ABSCA 56624, 56751 and 56752) the Board invalidated most of what was left.

Among the techniques no longer valid:

- *Using multiple surveys rather than just the relevant survey, even if there is only one. Note, the NCM added two non-A/E surveys, as the relevant surveys did not have sufficient participation to provide the DCAA, and AASHTO required three surveys. This decision says one survey may be acceptable but any survey used must be of a relevant set of firms.*

- *The decision also states that in considering performance, year-end discretionary items such as profit sharing, retirement contributions, and bonuses are to be added back to profit when considering performance. PSMJ believes that this alone will mean virtually every firm will meet and exceed the guidance that says firms are to be considered as compared to publically held companies. Since these firms have different pay and profit distribution practices, the majority of privately held firms should be able to beat their profit marks and thus qualify for superior performance compensation levels (the 75th percentile)*

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Strategic Re-Organization Is Not What You Think

by John Doehring

This year, a couple of my clients have been working to implement new strategic plans, both involving big changes (improvements) to their organization structure. Working with these leaders has reminded me (yet again) of both the challenge and simplicity of organization design. Some highlights:

1. Strategy before Structure – Though it always makes conceptual sense that strategy should come first, in practice it's tempting to reach for reorganization as the prescription for change per se. Resist this urge always! Instead, use strategy – the "Big S," overarching, enterprise-scale strategy which defines the firm's primary focus – to decide how best to organize. There are no perfect structures; the one you want is the one that helps most in achieving the strategic intent of the company.

2. Boxes before Names - All change involving people is challenging and difficult. And too often leaders began organization redesign by focusing on finding a home for existing staff. This thinking is backwards - for at least two reasons. First, it's important to first determine the key roles (boxes on the organization chart) before deciding who should fill those positions (names in the boxes). Second, filling boxes with names first implies that the firm already has all of (the best of) the leaders it

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Who's Buying And Selling...

Jacobs Engineering Group (Pasadena, CA) acquired a majority ownership of **DM Petroleum Operations Company** (New Orleans, LA). DM manages and operates the Strategic Petroleum Reserve under contract to the U.S. Department of Energy. Under the terms of the transaction, Jacobs now owns 80 percent of DM, and International Matex Tank Terminal of New Orleans holds a 20% ownership interest.

Multi-disciplinary engineering firms **CHA** (Albany, NY) and **RW Armstrong** (Indianapolis, IN) merged to form a 1,250-person global engineering firm. RW Armstrong, which is now a wholly-owned subsidiary of CHA, will retain its name. RW Armstrong has 11 offices in the United States, and five offices in the Middle East, North Africa, Azerbaijan and the Pacific. CHA has 30 offices stretching from Maine to Florida and Texas.

Meinhardt Australia (Melbourne, VIC, Australia) acquired **Bradlees Civil Consulting** (Southport, QLD, Australia). Bradlees' experience extends to all areas of land development including engineering input to conceptual planning, feasibility studies, engineering design of residential communities, canals, lakes, commercial developments, and urban infrastructure.

Global multi-disciplinary firm **HDR Engineering** (Omaha, NE) acquired **DKS Consulting Engineers** (Spring Hill, QLD, Australia). DKS provides civil engineering, project management, and consulting services on road infrastructure and land development projects. "We see Australia as a long-term market for HDR," stated Eric Keen, HDR Engineering President, in a press release announcing the transaction.

Infrastructure and environmental services firm **Cardno** (Brisbane, QLD, Australia) acquired **Marshall Miller & Associates** (Bluefield, VA). This 180-person firm specializes in mining, energy, and environmental consulting services. According to a press release announcing the transaction, the acquisition is expected to contribute around US\$33 million in revenue and US\$5.5 million in EBITDA in FY13. Cardno will pay up to US\$31 million, with approximately 10% of the purchase price subject to attainment of performance targets over the next 12 months and an additional 9% of the purchase price deferred for 18 months.

Stantec (Edmonton, Alberta, Canada) signed a letter of intent to acquire **Cimarron Engineering** (Calgary, Alberta, Canada), a 290-person engineering consulting company specializing in the development, design, installation, and integrity maintenance of oil and gas pipeline systems and station facilities. Cimarron's current projects include TransCanada's Keystone Pipeline between Canada and the United States, and Enbridge's Woodland Pipeline in northern Alberta.

Merrick & Company (Aurora, CO) acquired **McLaughlin Water Engineers** (Denver, CO). This acquisition provides Merrick with the added wet-infrastructure resources to continue its reach throughout the U.S. in the firm's focus markets of energy, sustainable infrastructure, life sciences, national security, and geospatial solutions. ■



ASK THE EXPERT

If you've got a question about a particular management or marketing challenge facing your firm, PSMJ's Ask the Expert is the place for you!

PSMJ's consultants often charge \$300 to \$500 per hour for proven, professional advice. But as a newsletter subscriber and PSMJ member, you get free access to the sharpest A/E/C industry experts. Each month, we take a question posed by one of our readers and share it with one of our consultants. The question and corresponding response will then be published right here in PSMJ.

Q. I'm the owner and creative director of a 25-person design studio. We have a family-like culture – and I've instituted kind of an informal no-growth policy, because I don't want to be any bigger than what we currently are. So, here's my question: Is this reasonable? Can a firm like mine expect to survive if we don't grow? And if so, what sort of things should I expect and plan for with my staff?

– Brent J, Richmond, VA

A. This is a wonderful question. Firm success begins with an understanding of the end game. If you are clear that your culture is to remain a small family-like firm, then embrace it and success will still be yours!

Growth is not a strategy for everyone. The monikers of your success will be in the ability to identify, cultivate, and deliver clients who want, appreciate and respect YOUR value. So, what does this mean for staff?

1. They must be clear on the clients you service and the niche you provide. You didn't mention what market sector you're in, but if it's residential, they have to be clear on what a residential client wants, needs and expects from a family-like culture.
2. They must be clear that "the buck stops with them" and more importantly, they must be empowered to take responsibility.
3. You must mentor them—not just on design, but on business. In a small firm, mentorship is key. Adopt a Shadows Program, where others can shadow not only your design decisions, but your business decisions. It is important in a small firm that everyone understands where and how you make and lose money.
4. Finally, embrace failure. Yep! I said it. Staff will make mistakes, and in a large firm you can hide. But, not in a small firm. So, create a safety net for failure—not by chastising, but by seeking what could/should have been done differently. Success is yours regardless of size.

– Karen Compton

PSMJ consultant and principal of A3K Consulting

If you have a question on a particular challenge or just about anything relating to your A/E/C practice, let us know! You can submit your question to asktheexpert@psmj.com.