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# How to thrive in the engineering and construction sector:

## A conversation with Steve Demetriou

In an era fraught with change, senior partner Robert Lewis and partner Jose Luis Blanco spoke with Jacobs chairman and CEO Steve Demetriou about how E&C companies can set themselves up for success.

Steve Demetriou

Chairman and CEO
Jacobs

**McKinsey:** *What are some of the biggest trends in the E&C industry today?*

**Steve Demetriou:** In the United States, everyone knows that our aging infrastructure is an issue. Everybody wants to improve it, especially our government—yet we are in a logjam while our government figures out how to unleash funding. We have a very partisan environment, and both parties know that we need to address the infrastructure spending gap, but they can't agree on how. Even so, we are seeing plenty of opportunity and view the eventual influx of federal funding as "upside."

Some of the most impactful trends are happening outside of Europe and the United States. There is a growing demand for water and energy as well as for new innovations around resilience to climate effects, resource recovery, and zero emissions. We are also seeing urban migration and the creation of megacities. Add on top of that security threats—not just physical terrorism but also, increasingly, a more insidious and pervasive variety of threats such as cyber warfare, data piracy, and phishing scams—and it's clear the landscape is changing.

Then we have the overlay of technology with the rise of digital, artificial intelligence, and automation technologies, which have us racing to upgrade our skill base and increase productivity. This shift is causing a major war on talent since we are all competing for a new breed of skilled workers. At the same time, we are navigating significant demographic differences in our workforce. For example, younger generations expect new and different benefits from their employers, including those related to health and wellness.

**McKinsey:** *In light of these trends, what must E&C companies do to be successful?*

**Steve:** First, companies need to shift from a "billable hours" mind-set to one focused on being a solutions provider, effectively becoming thought partners for clients rather than focusing on pushing services and submitting bids.

Second, the companies that leverage global capabilities and delivery platforms are going to be winners because most of the big opportunities out there are in translating proven experiences across the globe to deliver projects locally.

Third, portfolio management is going to be key because companies can't do everything. You have to articulate what you are going to focus on and what you're not—and then be relentless on staying true to that strategy. We launched our portfolio strategy in 2016, communicated it externally, and for the past 18 months have worked hard to deliver against it.

And finally, we need to take a different approach to culture and talent. We have been talking about this as an industry for years. But it starts by taking culture as seriously as we take our financial performance priorities.

**McKinsey:** *E&C players have faced a tradition of performance challenges—big write-offs, low total return to shareholders. What are you seeing successful companies doing that others are not?*

**Steve:** In the past, our industry seemed to believe that it was acceptable to deliver revenue growth without ensuring profitability, and that driving volume without the necessary delivery capabilities and disciplines was okay. I believe successful companies will be the ones who look at the bigger picture and change their mind-set about what matters. At Jacobs, that means focusing on higher returns, stronger cash flows, and better margins, and reinvesting back in our business.

The other outcome of chasing volume is write-offs. The industry has a long history of taking write-offs, which clearly erodes the collective bottom line. At Jacobs, we were right there with the rest, with record high write-offs in 2015. So, we took the difficult steps required to correct course. We shut down offices. We restructured our cost base. We established new processes to deliver projects, and we installed IT systems to improve enterprise resource planning across our supply chain. We are now totally focused on execution excellence, and I am very pleased with the progress.

**McKinsey:** *A lot of E&C companies are undertaking significant M&A—including Jacobs, which recently acquired CH2M, a global engineering firm. What do you see as the keys to a successful merger?*

**Steve:** The E&C industry has struggled when it comes to merging big companies together. The keys to success as I see them are strategic fit, aligning cultures, and achieving costs and revenue synergies that are visible in the P&L statements.

The more a merger can be complementary, rather than overlapping, the better. Two-thirds of CH2M's business exactly complemented areas where Jacobs was not strong and satisfied many of the strategic priorities we set—like their leadership in environmental services, Tier-1 nuclear capabilities, and track record delivering water solutions.

Second, we looked at where acquisitions through the years failed, and one of the common themes was cultural fit. Failed mergers generally have one set of employees who become demoralized and frustrated. They feel like everything they had been working on for decades was torn up, stripping them of their legacy and identity and are at the mercy of a conquering acquirer and its culture. That is a recipe for failure. Positive culture fit and purposeful culture integration—where a new inspirational culture emerges—takes the conversation of "winners and losers" off the table.

Delivering cost synergies is another place where a lot of mergers fail. Companies have all these quoted synergies starting at the announcement date, and then in the next 12 to 18 months, you don't see them delivering improvements in operating profit or EBITDA. They seem too focused on claiming synergies with too little focus on controlling other cost segments. Before long, shareholders recognize the smoke-and-mirror tactics and take their investments elsewhere.

Finally, once we have delivered the cost improvements, our challenge will be to turn the company to the more exciting aspects of our combination—realizing profitable growth synergies that arise from the complementary capabilities of both legacy companies. This will help employees get excited about the future.

**McKinsey:** *You mentioned culture fit; why is culture so important in this industry and for Jacobs specifically?*

**Steve:** Culture is important for every industry, but one distinguishing characteristic of the E&C industry is that it's driven by people who are trained in engineering, science, and analytics—the backbone of the industry's success. But, in many cases, these individuals are underprepared for how to lead people and build a culture that engages and inspires.

I have always believed that in any company, including ours, the most important thing is to inspire employees. So many companies fail because they don't truly know their people, how to engage them, how to communicate, and ultimately, how to win hearts and minds. Employees want to feel a sense of belonging in the workplace and know that they're making a positive difference in their work. I have never met anybody who didn't respond to that. And even if you gain clear cultural benefits and success at the top levels of the company, real success is only going to occur when we have a full cascading of this culture down through the organization—meaning that all leaders behave the same way and demonstrate these same attributes.

As a starting point, it's helpful to have a mechanism to assess and measure culture. You need to have a baseline and benchmarks to diagnose strengths and weaknesses. In our case, we discovered a number of broken internal management practices that stood in the way of our aspirations of an accountable culture. Our cultural journey has involved identifying and addressing the elements that threaten a culture of accountability.

**McKinsey:** *What are your thoughts about the E&C industry's approach to the role of diversity and inclusion (D&I)? And how do you think about it at Jacobs?*

**Steve:** The data show that the E&C sector is behind the curve when it comes to D&I. To start, I choose to define D&I more broadly, as spanning cultures, genders, generations, geographies, politics, socioeconomics, and even business units—all of the differences that reflect the population. This broadens the view and supports both innovation and equitable leadership to ensure employees on every team feel equally included.

Of course, one of the major opportunities is gender diversity. We understand that our approach and mind-set has to be comprehensive. It's not enough for us to hire more women and call it a success. It's not acceptable if most female professionals are consigned to lower-level positions. We can only claim success when we have authentic equality across all levels of our organizations.

To make this real, we need to rewire our processes, people, and systems to effect and sustain the change. As an example, we have improved our talent management and development processes to ensure we're affording equal opportunities in training and development to position people for success and advancement. Along with this, we're improving mentoring and sponsorship efforts to more effectively support that whole system.

Successfully executing our strategy means that we accept our responsibility to lead on this front, to sustain an inclusive culture that consistently enables us to attract, develop, and retain a truly diverse population. And being visible starts with me, so I am now the executive sponsor for the Jacobs Women's Network, an employee network that strives to address the unique challenges women face in the E&C industry. They help me think differently about how we could change to improve our performance surrounding diversity and inclusion. I believe this will differentiate us and elevate our capacity to innovate, grow, and create higher shareholder value. ■