

Redefining Leadership: Strategic Thinking in Today's VUCA World

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It's a Different World Today

Leaders in the design and construction industry have long dealt with volatility, uncertainty, complexity and ambiguity ("VUCA") on a daily basis. VUCA is part of the industry's DNA. Today, though, the rapid pace of change is transforming the global business landscape more and more, rendering traditional leadership skills obsolete and challenging executives to equip themselves with new insights and leadership abilities.

The concept of VUCA originally gained traction in military circles in Afghanistan and Iraq in response to the proliferation of nontraditional warfare. These environments required a new set of tactics and methods for dealing with conditions on the ground, where existing combat strategies and personnel experience no longer matched the new challenges. The VUCA concept also resonates with an increasing number of CEOs who are trying to make sense of the constantly changing challenges brought on by politics, economics, society, technology and the environment.

This article presents one component in effectively responding to a VUCA environment – the ability to think strategically. The research includes information gathered from FMI executive coaches and senior consultants, and interviews with more than a dozen senior executives from both design and construction companies. In addition, FMI captured input from almost 140 industry leaders through an online survey focused on decision making in today's business context.

Defining VUCA

Each of the four components of VUCA present unique challenges, with the impact of all four simultaneously generating a "change tidal wave" that threatens to overwhelm today's leader. The following examines each element of VUCA and describes ways to lead more effectively in the VUCA environment.

V is for Volatility. The design and construction industry is notoriously volatile, given all of the different market dynamics that are at play. One of the most relevant areas of volatility for design and construction leaders is the flow of capital into certain project sectors. The solar industry is a prime example: an opportunity fueled by state and federal spending, which generated rapid growth, and was followed by an equally rapid decline once subsidies diminished. Without the ability to think clearly and strategically, leaders find themselves chasing volatility into the next "hot" market, but always arriving a step too late. As we look to the future, we anticipate more unsettling and unforeseen shifts in financial markets, commodity and base materials prices, and many other key drivers of design and construction activity. As our world becomes more intertwined and connected, the more intense the impact and implications of

“We are in the most volatile times in construction that I have seen in my entire career. That said, we are not in a state of panic and we are not allowing ourselves to make decisions that aren’t rational. That could be life threatening to a company.”

Robert W. Bacon, CEO,
Kirlin Group, LLC

volatility will be on our businesses. Key to preparing for volatility is anticipating where the critical shifts will occur, predicting how they might affect the industry (and the company specifically) and testing various scenarios. Equally important in responding to volatility is knowing what NOT to do, and avoiding impulsive and uncoordinated responses.

U is for Uncertainty. The modern leader faces uncertainty at an unprecedented level. One need only look to the events of the debt-ceiling debate less than one year ago for a prime example, with leaders facing the scenario of Congress refusing to raise the U.S. debt ceiling. Consider the case of an engineering and construction firm working in transportation markets trying to plan and strategize when federal, state and local entities are all saying different things. In addition, one need not look far to find an expert predicting a sustained recovery or an equally pedigreed expert threatening the dire consequences of a fallback into recession. Rushing to comprehend the uncertainty is also dangerous. Some of the symptoms of excessive uncertainty include acting with more confidence, when we are actually less certain than ever or increasingly, chasing immediate and short-term opportunities.

Our mental models and paradigms for assessing threats and challenges are often too simplistic and inadequate to protect us against the uncertainty inherent in today’s VUCA environment. Using mental models, we compare the new, unexpected challenge to past hurdles, assuming that those experiences will help us push through the new obstacles. Comments like, “The market will go back to what it used to be – it’s just another cycle,” are very emblematic of our industry mindset. Unfortunately, relying on our deeply held beliefs can sometimes result in flawed assumptions and force us to assume that the solutions that worked in the past will also work in this new VUCA world.

C is for Complexity. Quantitative easing, credit default swaps, collateralized debt obligations, integrated project delivery (IPD), federal health care and building information modeling (BIM) are just a few examples of the many external factors increasing the complexity of today’s business environment. Any one of these factors is a study in complexity, with many intervening factors, various inputs and outputs, and deep, far-ranging social, economic and technological implications. Leaders operating in today’s world must be able to make the “if/then” connections among these factors and go beyond viewing challenges and opportunities as collective; rather, they must see them as interactive.

Consider the example of contractors who have tried to move their businesses from private markets to chase federal markets, learning painful lessons in managing the complexity of new requirements and processes. Such complexities frequently result in confusion and increased attempts to make sense of the increasingly sophisticated business environment.

A is for Ambiguity. As we look around our industry, macro-and microeconomic trends continuously influence and shape our everyday business environment, requiring leaders to approach both opportunities and challenges from multiple perspectives without falling subject to their own viewpoint. There is no shortage of data to process, interpret and analyze. With a few clicks of a mouse, a leader can collect information on unemployment rates, consumer confidence, GDP growth and public market performance. However, without the clarity of strategic thinking, this information is ambiguous at best and can mislead us or only confirm what we

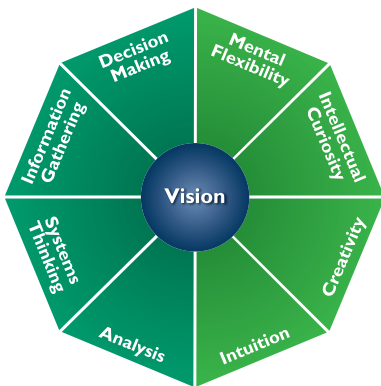
want to see. For example, consider the rapid rise of key public market indices such as the Dow Jones Industrial Average and the S&P 500. Simply using these as indicators of a recovering economy leads to dangerous assumptions for leaders in the design and construction industry who operate in fractured, local and regional markets. The typical human response to ambiguity is to look for incremental problems to solve, but failing to grasp the larger root issues.

Success Factors

There are no easy answers or quick fixes to think more strategically in the face of a VUCA world. Following are some key success factors – each of which comes with a warning that they are “simple, not easy,” meaning that they sound simple but fall apart without rigorous discipline and dedicated attention:

- **Don't lose sight of the big picture** by trying to solve all challenges at hand. Be ready to flex and respond to rapidly unfolding scenarios while also retaining a clear vision over which judgments should be made. Make sure your employees understand the company's vision. This will equip them to handle unpredictable and/or violent shifts in your business environment.
- **Set up incremental milestones and develop consistent messaging and clear direction**, particularly when goals and priorities keep shifting. The path itself may not be clear, but having tangible milestones in place – and achieving them – will help assure that the organization is moving in the right direction. Small successes boost morale and are also great motivators for employees.
- **Carve out open space on your calendar to think on a regular basis**, and don't let immediate needs usurp this important planning time. Many construction leaders seem to embody the admonition, “Don't just sit there, DO something!” when sometimes the best advice may be, “Don't just do something, sit there and think”.
- **Uncertain times bring opportunities for bold moves**. Find ways to challenge the appropriateness of your company's mental models, both individually and collectively. Develop processes and concepts to test new ideas and challenge existing ones. Don't be paralyzed out of fear of making the wrong move. Always stay open to new opportunities without losing sight of the longer-term goals.
- **Encourage networks rather than hierarchies**. Develop interdisciplinary, collaborative teams and avoid “silo-like” problem-solving approaches. Ensure that employees across the company communicate openly with each other.
- **Develop independent thinkers**. Employees who can think for themselves and make the right decisions in the right moments will help your firm effectively tackle new, complex projects. Be deliberate with your training and development campaigns.
- **Focus on how the company can improve in the future**, rather than looking to the past. The past is not necessarily an indicator of the future; moreover, it is highly unlikely that things will return to the way they used to be. Place value on innovative, temporary solutions that perform well in today's unpredictable climate, and don't rely too heavily on solutions that worked in the past.

Figure 1. Elements of Strategic Thinking



Source: FMI's Center for Strategic Leadership

The VUCA environment drives many behaviors that are exactly opposite of the most-effective response. To avoid impulsive, uncoordinated and ultimately ineffective responses to the increasingly challenging market, today's leaders must develop new strategic-thinking mindsets. FMI's experience working with hundreds of senior design and construction leaders underscores a strong belief that strategic thinking is like many other abilities, such as managing projects or learning a new language. That is, strategic thinking can be taught and developed over time through intentional practice, discipline and reflection. However, just like in athletics, some are blessed with exceptional natural ability, while others are not.

Elements of Strategic Thinking

The Strategic Thinking Model created by FMI's Center for Strategic Leadership illustrates the necessary elements for developing strategic thinking skills (Figure 1). At the center of the model is organizational vision, which provides direction for strategic thinking. This allows leaders to match their thinking and decision making with the organizational strategic initiatives, and often results in long-term success.

The outer circle of Figure 1 shows eight different elements for strategic thinking. The right side of the model includes Mental Flexibility, Intellectual Curiosity, Creativity and Intuition. These skills are internal traits that help with strategic thinking. Some people feel that these skills are innate natural abilities, but psychological research shows that these skills can be developed just like any other skill. The left side of the model includes Analysis, Systems Thinking, Information Gathering and Decision Making. The skills on the right are centered more on insight and intuition, and the hard skills are built more on facts, logic and reasoning. Most leaders are stronger in one side to the detriment of the other, just like a weight lifter who only exercises one part of his body.

A quick way to self-evaluate is to think about one's own decision-making process, asking questions like "Do you tend to base your decisions using aptitudes from the right-side or the left-side?" While some of these elements may come naturally to individuals, others may require development and training. These aptitudes cannot be developed overnight. Honing each area requires focus, time and energy from leaders who want to reach their peak potential.

So why is it important that today's design and construction leadership teams — and more to the point, those of tomorrow — think strategically about the world around them? More importantly, what can be done to develop this capacity? Experiences over the last decade suggest that operating environments will become increasingly volatile, uncertain, complex and ambiguous in the years ahead. The future will be defined by VUCA.

Strategic Thinking Versus Strategic Planning

Many design and construction companies have faced, or will face, a decisive inflection point that will sort them into two main groups: Those that pine for the past by reacting to a rapidly changing environment and those that anticipate the future by capturing opportunities. In fact, the capacity of leaders to think strategically is one of the greatest differentiators in the new reality of our current economy.

Strategic thinking is often misconstrued as strategic planning. Though the two are similar, there are distinct differences between them. When conducted without hard data and unflinching analysis, strategic planning involves very little “true” strategic thinking. In fact, it can diminish into a predictable and routine exercise conducted every few years, with decision makers taking an already agreed upon strategic direction and deciding how the organization should be reconfigured to align with that direction. The result is some form of extrapolation of the present and the past, with little consideration given to reinventing the future. This can create a “comfort zone” for the company instead of forcing it to face the reality of an uncertain future.

Strategic thinking goes beyond the creative process of understanding and adapting to a changing environment. It is a different way of thinking about the impact of markets, trends and other external factors on your organization, including the way you, as a leader, react to those changes. It also encompasses a different perspective and approach to dealing with the current and future environments we are all operating in – as individuals and organizational leaders. Jake Appelman, director of FMI’s Executive Coaching Practice, adds, “Many of the leaders we work with are dealing with the erosion of their traditional competitive advantages. They can no longer count on capturing their historical market share or avoiding competition from vertically integrated mega-firms. Many are realizing that one source of enduring competitive advantage is their ability to read their environment clearly, make sense of it and respond – to think strategically.”

Strategic planning and thinking are essential components in great organizations and neither is sufficient without the other. In fact, creative, groundbreaking strategies emerging from strategic thinking still need to be operationalized through convergent and analytical thought (strategic planning). The great challenge organizations face is capturing the best of both.

Five Successful Tactics of Strategic Thinkers

FMI spoke with executive coaches, senior consultants and more than a dozen executives from design and construction companies to find out how they were adjusting to the new VUCA world. The following section summarizes five key areas that strategic thinkers are focusing on in today’s uncertain design and construction environment. These areas are also displayed in relationship to FMI’s strategic thinking model (see graphic inserts), which covers all the strategic thinking tactics described below.



1. Be Aware and Anticipate

More than ever, company leaders need a deep understanding of their entire “ecosystem” – both within their organization and the industry as a whole. They must also keep a pulse on how competition, owner behavior, political and economic drivers and other forces are influencing each other. Good business intelligence promotes faster, more effective decision making and

can mean the difference between seizing an opportunity or being left behind. This type of business intelligence requires a solid information network that incorporates all levels of the organization. Executive mandates should center on developing “eyes and ears” that span geog-

Strategic planning tends to be:

- Designed to generate a tangible product
- Usually conducted every three-to-five years
- A product that brings value through a data-driven evaluation of clients, customers, markets and organization
- Often systematic and linear
- Often conducted by the most senior members of an organization

Strategic thinking is:

- More of a process than a tangible product
- A mindset and way of seeing the world that takes place constantly
- A way of thinking that brings value through individuals’ ability to identify both opportunity and risk
- Emergent and adaptable
- Takes place at all levels of an organization

“The kind of strategy that works is to be very clear about where you’re going, but very flexible in how you get there.”

Bob Johansen,
Distinguished Fellow,
Institute for the Future

ographies, industries and businesses, with a specific focus on understanding customer and competitor behavior. Glenn Bell, senior principal and CEO at Simpson Gumpertz & Heger (SGH), explains, “I’ve been in practice for 38 years now, and there’s been more change in the last three years than in the prior 35 years. The world changes too fast to make a five-year plan and stick with it. Therefore, we’re doing a lot more scenario planning, anticipating different outcomes and getting prepared for different opportunities that might arise. It’s more of an opportunistic planning approach, where we look beyond the current boundaries of our business.”



2. Collaborate and Constantly Test New Ideas

Company leaders consume a vast amount of data and information on a daily basis and are often left overwhelmed and paralyzed in their decision making. As leaders try to make sense of the available information, they must engage in collaborative dialogue with their peers to test and confirm ideas and assumptions.

Bell adds, “I am certainly much more flexible and open minded about doing things differently than I was in the past. I’m finding it valuable – even necessary – to make decisions in a more collaborative manner and reach out to others and ask: ‘Should we try this? What do you think about that?’ and so forth. It has changed me a lot.”

This kind of “empirical creativity” and collaborative dialogue is a concept confirmed by Jim Collins in his book “Great by Choice,” which advocates “firing bullets, then cannonballs.” According to Collins, successful companies test out their ideas by “firing bullets” rather than putting all their resources into one basket and “firing a cannonball” with the hope of hitting a target. Firing bullets helps successful leaders gather empirical evidence on which to base the bigger decisions and usually represents a low-cost, low-risk solution. The subsequent decision-making process itself may not always be based on total consensus or complete information, and thus requires a thoughtful balance between speed, rigor, quality and agility.

BakerTriangle, a successful contractor specializing in the drywall and plaster markets, exemplifies this way of thinking. “Change is uncomfortable, but has to start at the top and flow through all the way down,” says Michael Vickery, senior vice president. “When you go to the field, are they thinking differently? Are they saying, ‘Hey, I’m comfortable with 3D modeling? I’m comfortable working on an iPad; I’m comfortable doing a layout of my job with a robot as opposed to a tape measure?’” BakerTriangle’s management encourages positive changes in process or technology to achieve greater efficiency and believes that employees at all levels can drive change through peer influence.



3. Develop Critical-Thinking Skills

Leaders who qualify as critical thinkers constantly question their beliefs and mindsets and ask themselves what they should be doing differently. Such leaders are, by nature, skeptical – always asking questions and analyzing – and consciously applying tactics and strategies to reinforce meaning or confirm direction.

This ability is essential in a complex VUCA world. It allows leaders to self-correct and monitor their rationality of thinking. When using critical thinking, individuals step back and

reflect on the quality of that thinking. Mary Shippy, PhD, PCC, senior executive coach, explains, “My successful, nimble leaders are saying ‘Wow, things have really changed. What do we need to do differently?’ They are open to new ideas and perspectives, and are willing to challenge their beliefs and investigate contrasting opinions. Such leaders are truly critical thinkers.”

Developing critical thinkers begins with hiring the right people. Many company leaders are starting to realize that by leveraging diversity, they can draw on multiple viewpoints and experiences, which in turn increases the potential for innovation and change. Scott MacLeod, COO, Skanska, states, “Diversity is the cornerstone of our Talent Management program. When we talk about diversity, it is not limited to gender and race but expanded to diversity of thought. We have modified our recruiting efforts to reach out to individuals with a broader range of educational, cultural and economic backgrounds as well as life and work experiences. These new hires provide different perspectives, improve creativity and in many cases relate better to our customers. This is an industry that historically has been resistant to change. By improving diversity of thought we can break down past barriers to change, enhance industry-wide productivity and deliver a better value proposition.”



4. Never Stop Learning

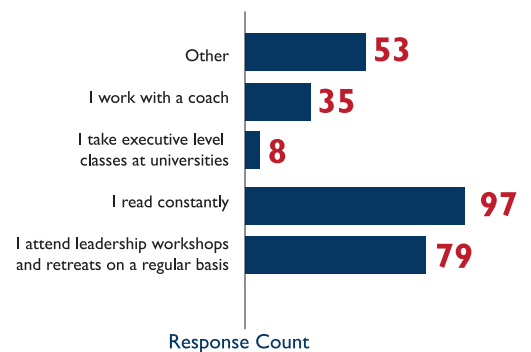
Strategic thinkers never stop learning, and are always looking for new content and people to stimulate thinking. FMI’s online survey revealed that most leaders develop their strategic-thinking ability through reading, leadership workshops or retreats (Figure 2). Many of the

reading materials listed are non-industry-related and focus more on leadership topics.

Lifelong learning is an essential ingredient of any successful business. Instead of simply sticking to what they know, strategic thinkers actively seek new perspectives and new ways of thinking about problems and organizational processes. A combination of training, mentoring and executive coaching can help such leaders stay on lifelong learning tracks. Informal groups of casual acquaintances from outside of the company can also help executives broaden their focus and help them gain a fresh perspective. Jake Appelman advises leaders to form a “Personal Board of Directors,” comprising of mentors, friends and experts who all share a deep investment in the individual’s leadership success. This setting also holds leaders accountable and identifies gaps in their thinking. In addition, formal peer groups can provide executives with a circle of like-minded individuals who can speak confidentially and in a non-competitive manner, about the challenges of their roles and responsibilities.

It has been proven repeatedly that the higher an individual rises within an organization, the less honest feedback he/she receives and the less willing people are to question his/her beliefs and assumptions.¹ Leaders who try to go it alone in a VUCA environment are a constant danger to themselves and their organizations.

Figure 2. How Leaders Develop Their Strategic Thinking Ability



Source: FMI Leadership Survey, 2012

¹ See FMI’s paper “The Isolated Executive” for more details.



5. Become Agile, yet Focused on the Horizon

Nimbleness and flexibility are the new leadership mantras in today's business environment. Company and industry boundaries are shifting and forming global networks of complex stakeholder relationships – both on the ground and in the virtual space. Agile strategic leaders maintain a hyper-vigilance towards the world around them, while keeping a singular focus on their internal goals. Such companies are dedicated to what Collins calls the “20 Mile March” – “...Hitting stepwise performance markers with great consistency over a long period of time”.² Bill Elkington, president of JV Driver Group, explains, “When you have a lot of market volatility, you become more risk averse. You don't want to find yourself in a capital shortfall or other such problems. But your strategies don't necessarily change with volatility. What changes is your time horizon and how you execute those strategies. Because otherwise, if you're changing strategy all the time, you really don't have a strategy. You're dealing with tactics.” MacLeod confirms, “You have to be incredibly flexible in today's marketplace. We have a business plan based on our prediction of the future. However, this plan is a living document in which assumptions are continuously being challenged and adjustments made to leverage changing conditions. The one constant is change, and companies that proactively manage change will be the industry leaders.”

Anticipating the Future

There is no doubt that today's design and construction industry is increasingly volatile, uncertain, complex and ambiguous. It is also changing at a quickening pace, yet very few leaders know what to do about it. The answer lies in intentionally and purposefully developing the “strategic thinker” mindset. Those who neglect to think deeply and strategically will find themselves facing a future of entrenched competition and a constant struggle to catch up.

Yesterday's design and construction industry has transformed drastically over the past several years and will continue to reshape over the coming decades. New leaders have emerged from the field, challenging former lynchpins with new ways of thinking and doing business. Tomorrow's successful leaders will be able to anticipate and adapt to this all-encompassing VUCA environment and its inherent change, thus positioning themselves for the major shifts that occur not just over the next few years, but throughout the next decade. Companies that invest the time, effort and money into developing the human capacity to think strategically today will survive and be led by insightful executives who are poised to make the best decisions for their company. ■

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2 Jim Collins and Morten T. Hansen. Great By Choice. Uncertainty, Chaos, And Luck – Why Some Thrive Despite Them All. First Edition. 2011.

About FMI

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