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CEO
Conference

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Professor Flanagan warns of challenges ahead



Professor Roger Flanagan told chief executives to be wary of the “blur of similarity” that competition across the sector can generate.

Giving an opening morning lecture, Roger Flanagan, professor of construction management at the University of Reading, looked at a range of upcoming challenges for engineering consultancies, spurring discussion among CEOs.

Market differentiation would remain important. Even as costs were made a significant driver in many markets, a company’s greatest strength could often still be to remain unique.

New global competitors were expected to change the landscape in the years ahead and play by different rules to established players. This drew particular attention to Chinese firms that are often guided by state backing as they, along with India, look to move up the economic ladder into higher value services.

While this will lead to change, Roger Flanagan made clear that there was plenty of opportunity for companies to adjust.

It was expected that organisations would change their structures and their ways of thinking. They may move away from multi-national structures as large firms had developed a transnational approach. This sees national activities around the world feed into each other directly rather than into the single head office in the country of origin.

Lessons from the credit crunch

- Be lean and mean, even in the good times.
- Diversification is vital, but is not a magic bullet.
- Manage cash well and collect debts.
- Act quickly and decisively – the fast will survive.

European CEO Conference



ACE held its first ever European CEO Conference in November, bringing together leading figures from engineering consultancies from across Europe. Chief executives came to London for the two day event from twelve different countries to discuss issues facing the industry and how the sector is performing as a whole.

The event was held to follow up on ACE’s latest round of benchmarking. This has been running for five years but has now been opened up to include participants from across the continent.

Delegates heard from a range of speakers including a lecture by Roger Flanagan about the “blur of similarity”. There were also discussions on what could be learned from the credit crunch and how to approach entry into foreign markets.

“It is noticeable the level of openness and honesty among what are at the end of the day competitors, so there is a benefit for us all in that.”

The conference included a keynote speech from Paul Zofnass, president of EFCG, in which he gave analysis of the benchmarking results and the comparison between European and American data.

“I planned to leave after day one, but it proved too interesting so I had my ticket changed to fly out after the second day instead.”

Geography and markets

- Take a long-term approach to entering new markets.
- Aim to become local; adapt to new cultures.
- Europe has too many companies trying to do the same things.
- Europe is still important, but growing markets show promise.
- Growth means opportunity. Look for economic and population growth.

“It has gone very well indeed. This is the first time ACE have done this and they’ve done outstandingly well.”

CEO roundtable

- American companies are dominating, so how does Europe respond?
- Focus on value-adding professional services, perhaps with less emphasis on traditional engineering.
- Respect and adapt to different cultures.
- Be involved in the political debate – industry has answers.
- Creativity adds value.

Engineering strength

Two days, a central London location and the leaders of around seventy of Europe's leading consultancies. This was ACE's inaugural European CEO Conference, and it was no surprise that discussions looked at how to lead firms through tough times, along with what could be learned from the last three years.

The consultancy and engineering sector is extremely diverse. Firms range in size from the very small to what the conference termed mega-consultancies. Some firms operate globally, others nationally, and others have an even more local focus. Meanwhile, some companies enter every sector while others target a key area of activity, servicing the main client or clients engaged in it.

Despite these differences, there was a lot of common ground covered as business leaders talked with remarkable candour. They discussed some of the problems faced through the credit crunch and the lessons learned. Most felt it had been too easy for many firms to relax when times were good, and that a key lesson was to remain lean under all circumstances. Some noted how hard they had worked recently to speed up their billing and bring down the time it takes to be paid for their work.

The keynote lecture by EFCG president, Paul Zofnass, drilled down into the detailed figures ACE and EFCG had collected on the industry. There were key questions raised as to why American business appeared to have better margins and was able to grow quicker than European engineering firms.

However, while engineering often appeared unglamorous to the wider public, Mr Zofnass noted that in 20 years of EFCG benchmarking in America the industry's internal growth rate only underperformed US GDP growth in four years. He stressed that was quite a feat and unlike almost any other industry.

This served as a backdrop to a degree of confidence that the long term future should be strong. While Chinese and Indian competitors would change the market in some ways, the feeling remained that expertise and innovation, not low costs, would remain the key driver of success.

Chief executives spoke of the convergence of the world's major

problems on engineering solutions. A rising population, resource shortages, climate change and urbanisation all pose profound challenges for the world. CEOs recognised that the solutions to those challenges were, first and foremost, engineering solutions.

In meeting these challenges, firms must to look at their own conditions and plan to thrive, not merely survive the present hardship that has not yet finished. As such, diversification drove a lot of the discussion, despite its multiple meanings.

Some firms were looking to ensure their presence in new geographical markets, while others sought to broaden their expertise to additional sectors. This flowed into debate about how to enter new markets, and the view was clear that to do so is a long-term undertaking.

Building a presence and establishing a firm in a new market takes time and CEOs enjoyed sharing stories of reported overnight success that had taken more than a decade of hard work to achieve.

Inevitably, with so many industry leaders in one place, there was a great deal of discussion about what leadership really is and where the next generation of leaders comes from.

Comparisons between CEOs and orchestra conductors or managers of sports teams were offered. The analogy suggested that the key role of a leader was to build the talent of those around them and help direct them rather than try to play every instrument or score every goal themselves. And while they agreed there was a place for firm analytical testing of potential young leaders, there was little replacement for the "gut feeling" that a person was or was not right to be a future CEO.

Concern was raised at how few women had made it to the top of engineering firms. Some speculated whether women were held back by social influences and working practices. Others suggested that women were starting to emerge as leaders now and that a culture shift was starting to emerge.

Mergers require a good emotional fit

A wide ranging discussion among leading CEOs raised a number of issues in light of recent consolidation in the consultancy engineering sector.

Business leaders noted that diversification was a key driver of M&A activity, with companies looking to ensure they have expertise in a range of markets, both geographical and sectoral. It was also noted that with little yield on cash holdings, it was often sensible to use available funds in acquisitions.

However, there were warnings sounded that not every deal is a good deal. There was little case, CEOs felt, in merging with or acquiring firms that offered little new capacity. Likewise it was suggested that an inexpensive deal was not necessarily a good deal. Instead, price should be considered to be an outcome of the strategic fit between firms, rather than a driving force to find a fit.

The notion of how companies fit together also held something of an intangible concern. While companies might fit in other regards, business leaders were quick to acknowledge the importance of an "emotional" fit. Two companies, each with a very different ethos, might not function well together even if, in other regards, a merger seems to make business sense.

There was a pragmatic view of mergers in the present market. Many firms represented at the conference were themselves the product of past mergers and acquisitions. Everyone was aware such deals had been taking place since before the recent spate of transactions.

Mergers and acquisitions

- Ensure a good "emotional" fit.
- Diversification is a key driver of mergers and acquisitions.
- Now is a good time to be buying for long-term growth.
- Any merger/acquisition must add significant value or add new capacity – otherwise do not merge/acquire.
- Price is an outcome of strategic fit, not a driver.

"It's a unique experience and I don't think one could pick up so much information about our industry anywhere else."

Mark Prisk speaks to Parliamentary guests



ACE's annual Parliamentary Reception on November 3, heard from the Construction Minister, Mark Prisk MP. He said his door was open to the engineering industry, which he acknowledged as key to delivering the infrastructure that will drive the UK's economic recovery.

Leading figures from the industry across Europe mixed with MPs and Lords in surprisingly mild weather on the Terrace Marquee at the Houses of Parliament. A packed audience heard speeches from high level speakers, including Nick Raynsford MP, the Construction Minister, Mark Prisk MP, ACE Vice Chair Graham Nicholson and ACE Chief Executive Nelson Ogunshakin OBE.

During his speech, Mr Prisk said he hoped ACE and the wider industry felt it could approach him with their expertise. He also warned that tough times could not be reversed in a few months. But, while everyone understood that capital spending would be down on previous highs, he hoped that support would be maintained as best it could.

Mr Prisk went onto say that the Comprehensive Spending Review aimed to boost skills for the construction sector, and that investment in green infrastructure was still being pushed forward. He was pleased to highlight the publication of a National Infrastructure Plan that should help to unlock £200 billion of public and private infrastructure investment. These

investments, he said, were crucial to the UK. He also promised continued support for Crossrail and for High Speed 2.

Meanwhile, he expressed his gratitude to industry and to ACE for helping to drive down waste. He noted that the government needed to become a better client and that that would require help from industry.

Recognising that he was with party political friends and foes, when he turned to sustainability he pointed out that there was no party political issue there. The Minister emphasised the opportunity to exploit the UK's expertise on sustainability. In China, he said that there was immense interest in the work being done by UK engineering, which he suggested represented an opportunity to improve balance sheets in future.

Finally, the Minister accepted that moving to zero-carbon development would prove very challenging. But he wanted the UK to work to get that right now and promote success abroad.

Supporting these positive words from the Minister, the event host, Nick Raynsford MP (a member of the All Party Parliamentary Infrastructure Group),

told guests that the UK should be very pleased with what engineers do to support growth.

ACE vice chair Graham Nicholson noted that politics had changed a lot following the general election. He said few had expected a coalition government the last time ACE's guests stood on this terrace. But he welcomed that the focus on skills and engineering had not weakened.

The last couple of years had been tough, he accepted. Banks had not proven willing lenders recently and he didn't expect a return to easy lending. But he stressed that there were some remarkable successes right now.

Mr Nicholson called for celebration of the success of those working on the Olympic Park, and the successful upgrade of London Overground. He also welcomed support for Crossrail, and pointed to the ongoing regeneration of urban areas.

Finishing the speeches, ACE Chief Executive Nelson Ogunshakin OBE commented on the key role that engineering played in developing the UK's prosperity. However, this would be dependent on the continued ability to find funds for projects for the industry to stay healthy and deliver the needed infrastructure.

The Parliamentary Reception, now into its third year, also saw some thank-you words from the event's financial sponsor MWH. MWH's Andrew Cowell, then presented a donation of £500 to the engineering disaster relief charity, RedR.

The Parliamentary Reception saw a donation made by the evening's sponsors MWH to engineering charity RedR, marking their thirtieth anniversary.

MWH UK director of operations Andrew Cowell made the presentation. He told guests that it was positive to see so many people recognise the contribution engineers make to society.

RedR trustee Ian Smout collected the cheque and thanked engineering firms for supporting his charity to train thousands of people in disaster areas to provide the aid work that is helping to save lives in Haiti and Pakistan.