

Providing Vision and
Leadership for the Future
of the HVAC and
Sheet Metal Industry

ENGAGING A WORKFORCE IN TRANSITION – KEEPING SKILLED LABOR

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EXECUTIVE SUMMARY

For more than 25 years, the skilled labor shortage has been a primary concern among stakeholders across the E&C industry. Although not a recent industry challenge, it is one that has persisted and intensified over the past two decades and one that shows few if any signs of easing near term. In such an environment as this, it is therefore vitally important that those people employed in the industry remain so. In short, few organizations can afford to lose the critical talent necessary to operate and grow successful businesses.

Over the next 10 years, the E&C industry will undergo one of the most significant transitions of multiple generations. Yet few seem adequately prepared. This poses significant risks, chief among them the ongoing viability of the business. Reducing voluntary turnover provides the organizational consistency necessary to navigate this transition, and engaging employees continues to prove the best means of accomplishing this. Simply stated, highly engaged employees are loyal employees and less likely to leave.

To understand how construction-related firms are preparing for the generational transition, what they perceive as the most needed skills among their youngest employees, and how they intend to ensure a successful outcome, we collected survey questionnaire responses from 300 self-performing general contractors and specialty trade contractors and conducted 30 in-depth interviews. This was further compared to FMI's database of almost 7,500 employee engagement assessments and other third-party research to deliver a comprehensive analysis designed specifically for the E&C industry. Our research revealed five key themes.

1. Most contractors (general and specialty trade) are ill-prepared for the accelerating generational transition.
2. Leadership and project execution are the skills most needed by the next generation workforce.
3. Minimizing voluntary turnover is critical to creating the organizational consistency necessary to successfully manage the transition from one generation to the next and transferring knowledge and skills.

4. Engaging employees is the best means for reducing voluntary turnover.
5. Engagement requires clear defining roles and responsibilities, providing career development opportunities, creating a learning environment, and giving consistent feedback.

This white paper will explore each of these five themes in detail.

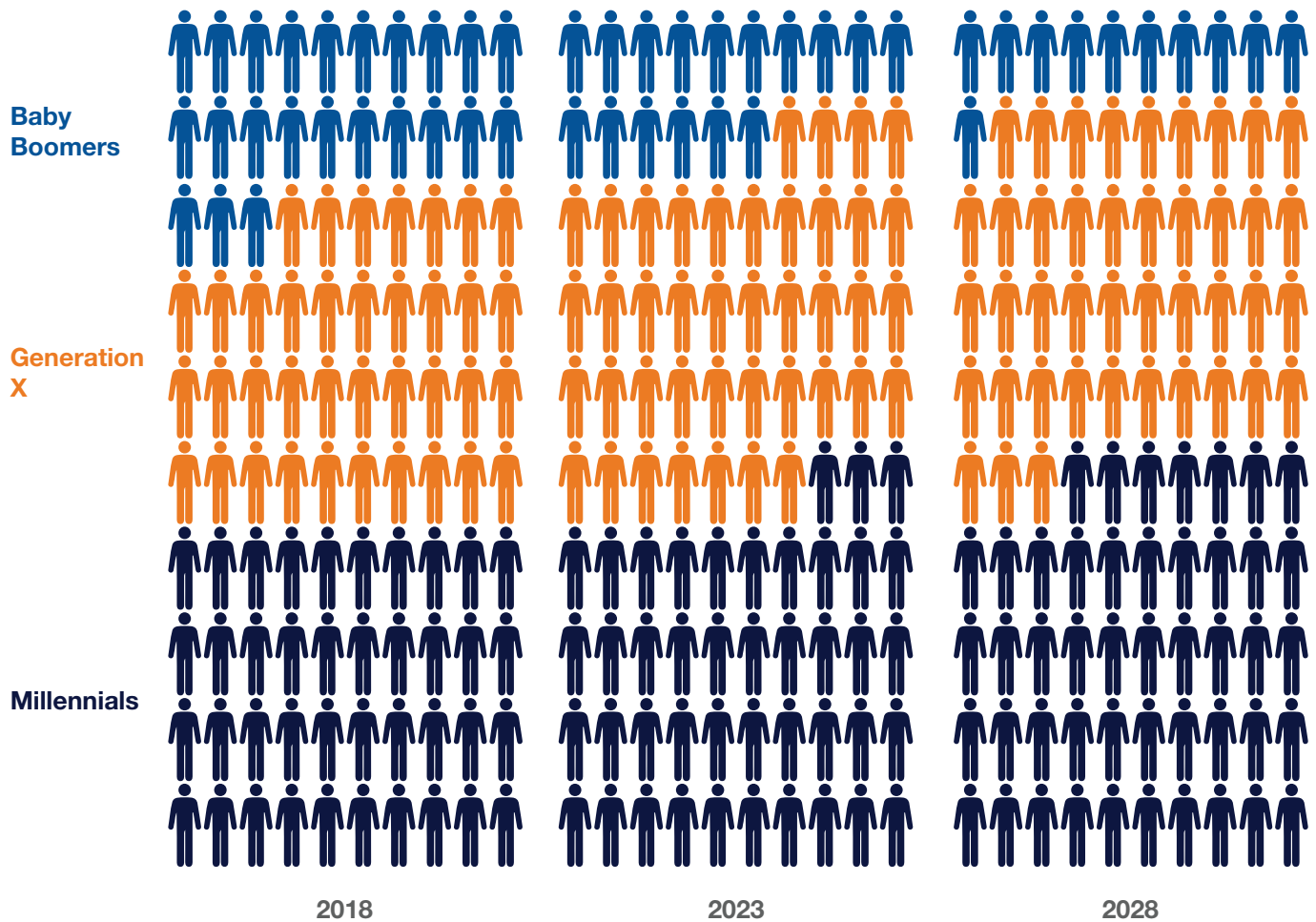
Theme 1: Most contractors (general and specialty trade) are ill-prepared for the accelerating generational transition.

The construction labor force is undergoing a significant demographic shift. Within the next ten years, two-thirds of the remaining Baby Boomer construction workforce will exit the industry, along with 35% of Generation X (see *Exhibit 1*). The older generations are taking with them a tremendous amount of knowledge and capabilities that have been developed over the course of their careers. This loss of knowledge and experience manifests itself in many ways, from client relationship management to operational efficiencies and the know-how to deal with unforeseen challenges that often arise on projects. New talent is not entering the industry at a rate that backfills the talent exiting or to make up for this gap. Thus, it is imperative for this knowledge and experience to be captured, retained, and passed on to subsequent generations in the workforce. The window to do so, however, is quickly closing as the pace of retirements quickens.

"One of our key people in the shop is going to retire next month. We knew he was going to retire we just didn't know it was going to be this soon. The fact that we have all of these baby boomers that have reached retirement age and can go out at any time makes me nervous."

– Study Participant

Exhibit 1: Construction workforce generational composition, 2018 – 2028



Despite the increasing severity of this problem, most contractors are not prepared for the loss of Baby Boomer employees and the knowledge and skills they will take with them. Almost two-thirds of survey respondents (64%) do not believe they are effectively managing the pace and timing of retirements (see *Exhibit 2*). At the same time, about a third have formal

plans in place for career advancement, knowledge transfer, and mentoring, and only one-fifth of survey respondents have formal plans in place for employee engagement (see *Exhibit 3*).

Exhibit 2: Percent of respondents that strongly agree that their organization effectively manages the pace and timing of retirements

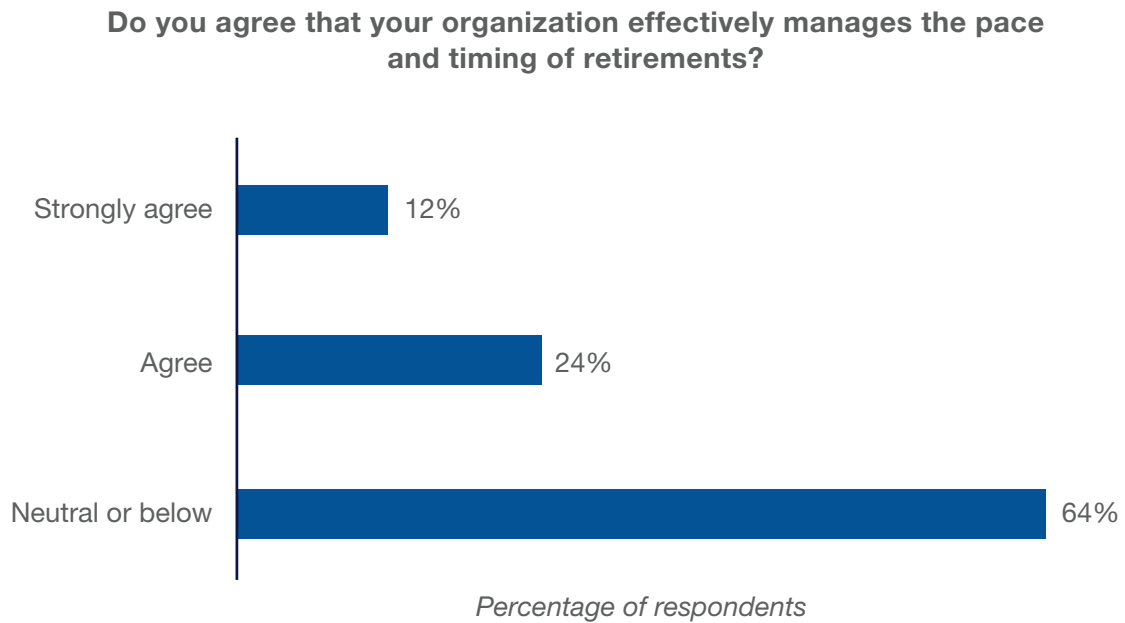
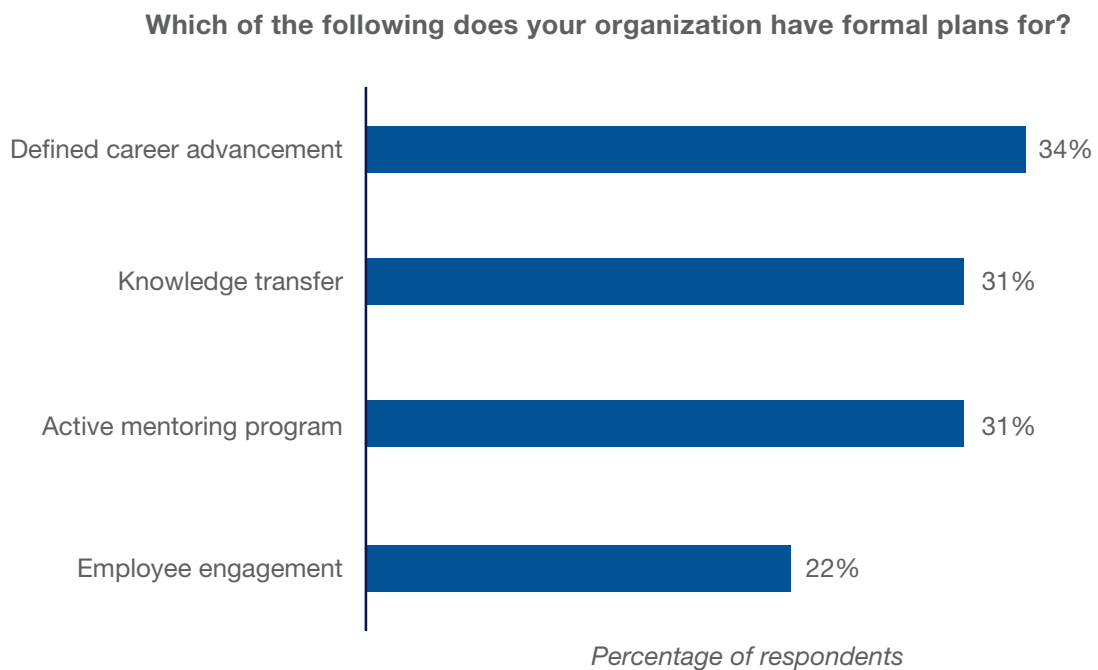


Exhibit 3: Percent of respondents that have a formal plan in place



Theme 2: Leadership and project execution are the skills most needed by the next generation workforce.

As the transition occurs, many have concerns about the preparedness of the next generation to fill the shoes of their predecessors. Study participants most frequently cited the loss of leadership and the ability to execute work as the areas their organizations are most at risk in the current generational transition (see *Exhibit 4*).

“We are really trying to focus on the improving the leadership skills of our younger employees. We have grown a very robust leadership development program that quickly identifies high potential employees and puts them through a series of training programs to help build their leadership skills.” – Study Participant

Leadership styles differ greatly between Baby Boomers and Millennials. Baby Boomers are more likely to lead in a competitive manner, valuing chain of command reporting structures. Conversely, Millennials often take a much more collaborative approach to leadership, reaching critical decisions by consensus. Neither style is better or worse than the other, but each has its own appropriate place at different times.

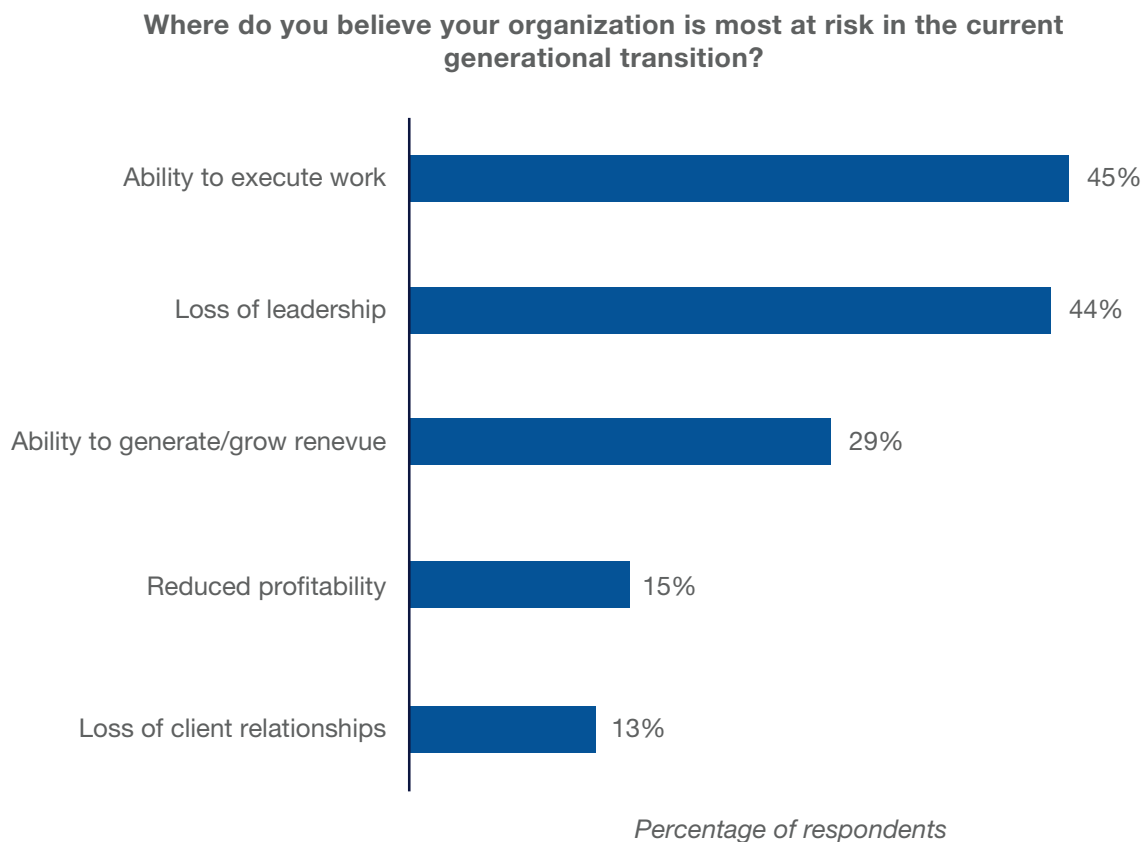
At the same time, the U.S. construction market is currently in the longest period of economic expansion since World War II, having experienced sustained growth for the last ten years. As a result, many people in the industry have never experienced a recession during their professional career. Therefore, it is important to develop the necessary leadership skills in this segment of the workforce for them to effectively manage work and for organizations to successfully navigate the next recession.

Leadership and work execution are paramount to contractors' ability to deliver projects, particularly given the increasing complexity of the work facing the industry. The demands and expectations of owners have increased, and managing these outsized expectations and risks is necessary for successful

project execution. The characteristics of projects thus reflect these changes in owner expectations, most notably in the rise of megaprojects, the increase in building system complexity, and the acceleration of project schedules. Spending on megaprojects, defined as project values in excess of \$1 billion, is projected to increase approximately 600% over the next decade. Currently, there are 674 megaprojects in planning in the U.S. alone, representing \$2 trillion in investment. Although few general contractors and specialty trades currently participate in these megaprojects, the effect they have on the broader industry—from aggressive absorption of available labor to rapidly escalating construction costs—is felt by most.

Concurrently, the performance expectations of buildings are much higher, ranging from automation, energy efficiency, and remote monitoring and servicing. Urbanization only compounds these issues, as the logistical challenges associated with projects in dense environments like jobsite access, permitting, etc., intensify. In addition, more than \$1 billion in venture capital funding has been invested in construction technology, introducing altogether new products and tools that accelerate the learning curve required.

Last, accelerated construction schedules decrease the amount of time in which contractors are expected to address these issues. FMI estimates that nonresidential buildings have witnessed average construction schedule reduction of approximately one-third over the past decade. Therefore, the ability to place work quickly with minimal error is increasingly important.

Exhibit 4: Percent of respondents that believe their organization is at risk

Theme 3: Minimizing voluntary turnover is critical to creating the organizational consistency necessary to successfully manage the transition from one generation to the next and transferring knowledge and skills.

Perhaps the most common characteristic among study participants that indicated they are well prepared to manage the generational transition within their organizations was a low voluntary turnover rate (see *Exhibit 5*). Voluntary turnover is defined as when an employee chooses to leave your organization willingly and by their own doing (i.e., not due to termination). A good voluntary turnover rate is less than 5% annually, yet roughly half of all study participants indicated having a voluntary turnover rate greater than

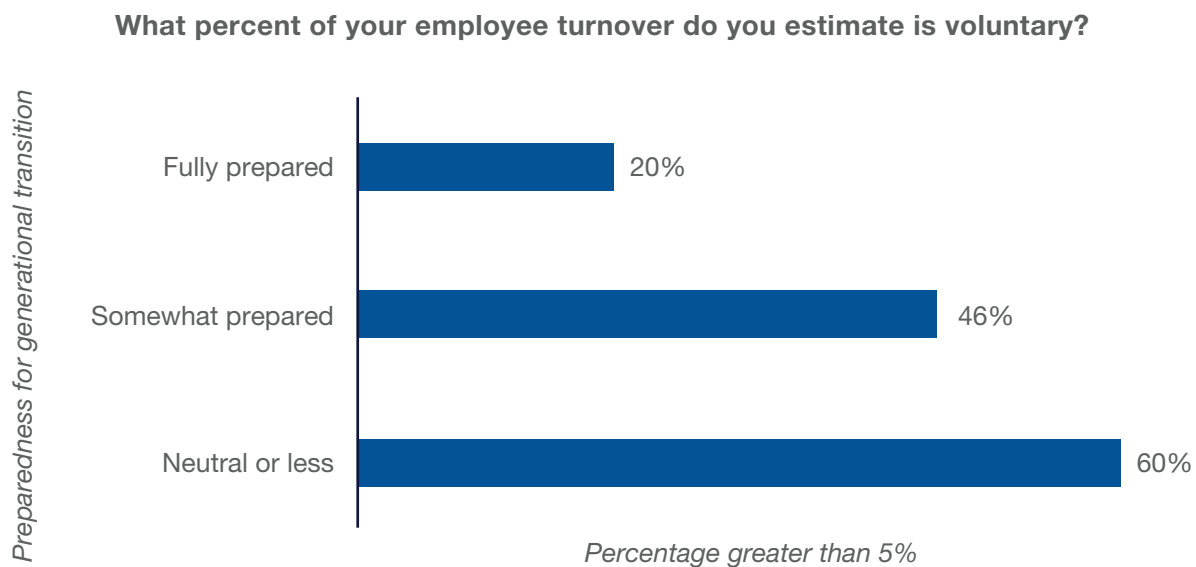
5% (see *Exhibit 6*). When voluntary turnover exceeds this amount, it can have significant impacts on an organization due to its unanticipated nature. Just as most study participants indicated they are not fully prepared for the coming generational transition, more than 80% of survey respondents indicated voluntary turnover is a problem for their organization (see *Exhibit 7*), and for good reason. Voluntary turnover is very costly and disruptive. Study participants most commonly highlighted the costs of voluntary turnover in three ways: increased costs of training and development, restricted ability to grow their business, and lower productivity (see *Exhibit 9*).

“If you would’ve asked me this question 12 months ago, I would’ve said that our employees are very happy where they are, and our employment was very stable. Now, in this current market condition where there’s a shortage of talented labor, we are seeing a lot more movement.” – Study Participant

Low voluntary turnover provides the organizational consistency needed to successfully navigate the generational transition. By retaining a higher percentage of your employees, you are not training and retraining people on introductory issues. According to a 2014 study by HubSpot, an average company loses anywhere between 1% and 2.5% of its total revenue on the time it takes to bring a new hire up to speed.

It is equally important to measure voluntary turnover and determine why those people are voluntarily leaving. One-third of study participants indicated that they are not tracking turnover, and 75% of respondents to FMI’s survey believe people are leaving for more compensation. This highlights a larger problem of firms not tracking and understanding why their employees are leaving their companies in the first place. For example, if an organization assumes its employees are leaving for a reason that does not reflect reality, the time and effort spent will have no impact at best and may even exasperate the problem at worst.

Exhibit 5: Level of voluntary turnover by organizational preparedness for the generational transition



“We found that companies that are most prepared for generational transition had the lowest voluntary turnover rate.”

Exhibit 6: Level of voluntary employee turnover (n=136)

What percent of your employee turnover do you estimate is voluntary?

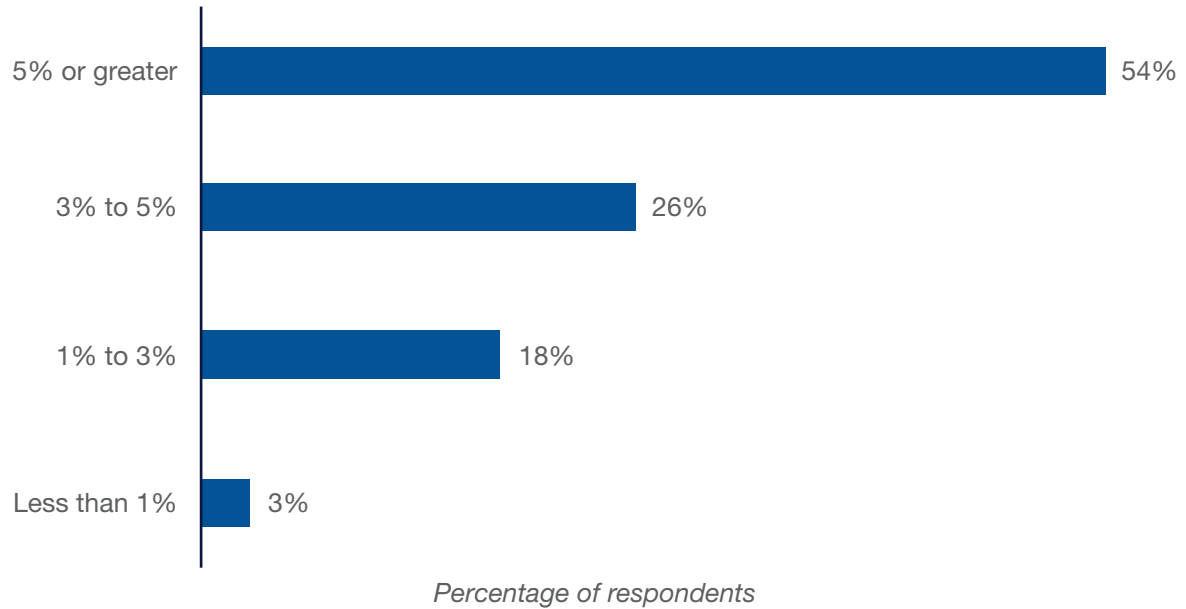


Exhibit 7: Extent to which voluntary turnover is a problem

To what extent is voluntary turnover a problem for your organization?

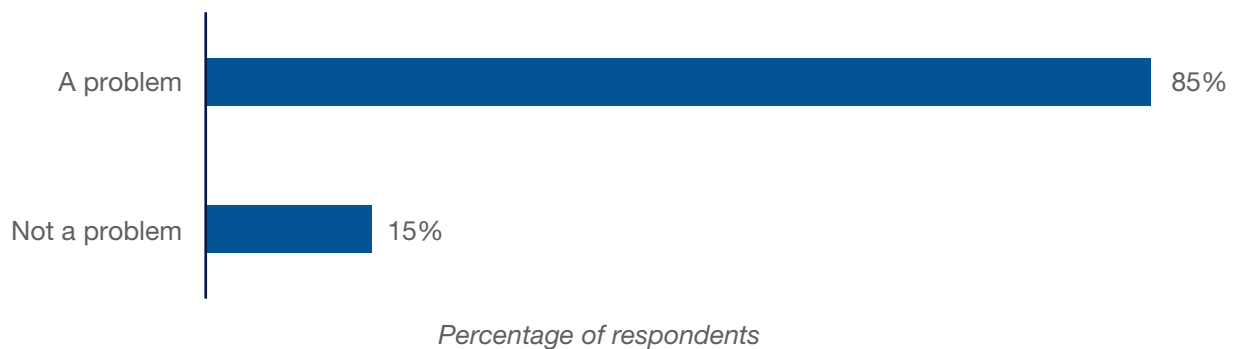
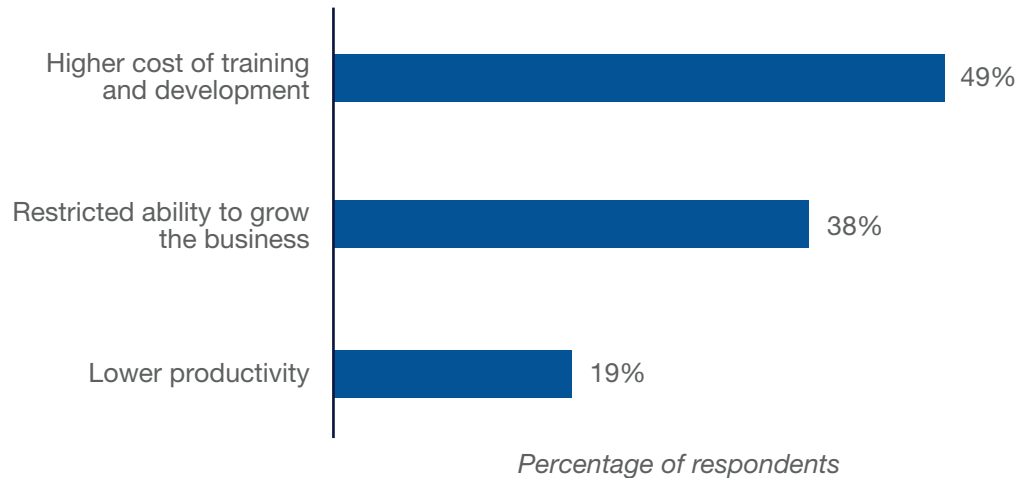


Exhibit 8: Effects of employee turnover

How does employee turnover most negatively affect you?



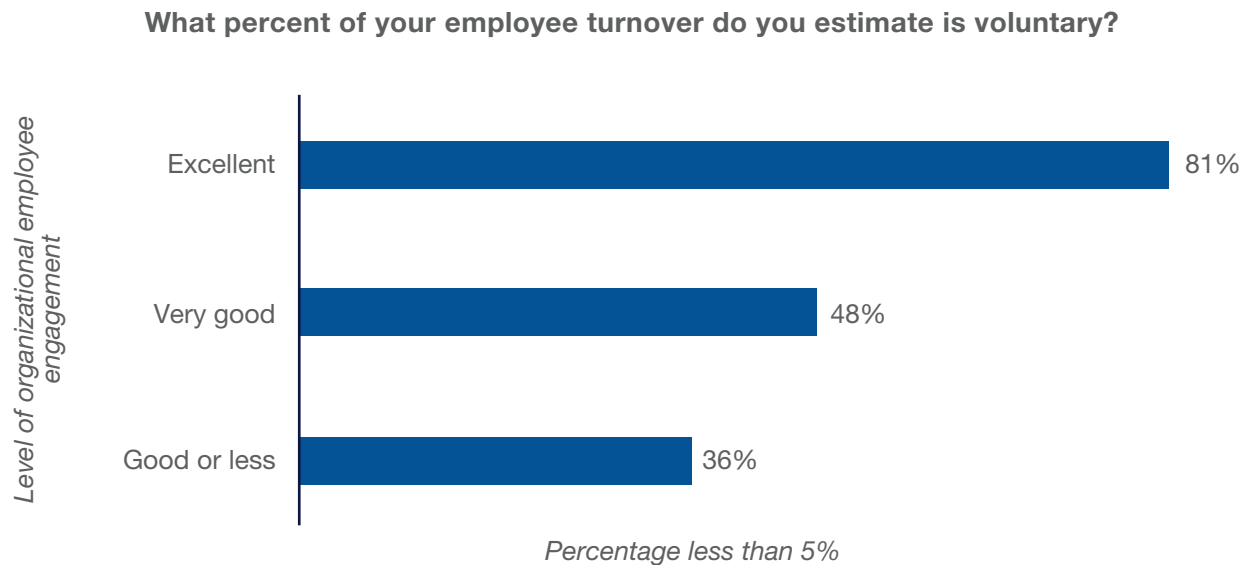
Theme 4: Engaging employees is the best means for reducing voluntary turnover.

Employee engagement has proven to play a critical role in a business' success, and it continues to be one of the best means for retaining people. Employee engagement creates loyal employees, which in turn, promotes retention, improves organizational performance, and fosters customer loyalty. Loyal employees stay with an organization longer, as they are not just satisfied with their jobs but are energized by them. Loyal employees also care more about the organization and work harder, going above and beyond to actively look for ways to improve the organization and/or projects. Last, engaged employees understand how their work contributes to the overall success of the organization and understand how to maximize their contributions.

Survey respondents that indicated their organizations as having high levels of employee engagement also reported experiencing less voluntary turnover than those that did not have as high levels of employee

engagement. Eighty-one percent of organizations who have “Excellent” employee engagement reported experiencing less than 5% voluntary turnover, while 48% of organizations with “Very good” employee engagement experience similar levels, compared with only 36% of organizations with “Good or less” engagement (see *Exhibit 9*). Thus, increasing employee engagement within an organization will help drive employee retention and better position firms for the generational transition.

“We need to do a better job engaging the younger generation.” – Study Participant

Exhibit 9: Level of voluntary turnover by organizational level of employee engagement (n=147)

Theme 5: Engagement requires clear defining roles and responsibilities, providing career development opportunities, creating an effective learning environment, and giving consistent feedback.

There are four factors that, when working together, comprise the employee engagement ecosystem. These factors include: (1) defining roles and responsibilities; (2) providing clear career paths; (3) creating an effective learning environment; and (4) providing consistent and direct feedback. These factors can have diverging meanings and are interpreted differently by the various generations (see *Exhibit 10*). It is important to recognize these differences, as these varying perspectives can cloud judgement. For example, Baby Boomers are motivated by pay-for-performance/direct compensation, are driven to win on projects and with customer, and appreciate opportunities to grow as individual. On the other hand, Millennials are motivated by career development and growth opportunities, are driven by collaboration

and innovation on projects, and appreciate roles and expectations being clearly defined. In addition, their communication styles vary greatly. Baby Boomers prefer long and deliberate face-to-face or phone contact and emphasize body language, while millennials are more apt to be brief via email or text while also seeking constant or immediate feedback. Baby Boomers learn best in classroom settings, while Millennials prefer collaborative learning environments. This is all expressed in varying leadership styles, with Baby Boomers valuing competitive, chain-of-command leadership versus the collaborative and consensus style preferred by Millennials.

“The younger workers have priorities that are a whole lot different than Baby Boomers. You have to respect that. The challenge is understanding what their needs are. Otherwise they will find somewhere else to work. They will find a place that has a good culture, where their opinion is respected and where they feel empowered.”
– Study Participant

Exhibit 10: Generational differences comparison, Baby Boomers & Millennials

	Baby Boomers	Millennials
Engagement drivers	<ul style="list-style-type: none"> ■ Motivated by pay-for-performance/direct compensation ■ Driven to win on projects and with customers ■ Appreciate opportunities to grow as individuals 	<ul style="list-style-type: none"> ■ Motivated by career advancement/growth opportunities ■ Driven by collaboration and innovation on projects ■ Appreciate roles & expectations being clearly defined
Communication styles	<ul style="list-style-type: none"> ■ Face-to-face/Phone ■ Show me/“Body language” ■ Long and deliberate 	<ul style="list-style-type: none"> ■ Email/Text ■ Constant/Immediate feedback ■ Brief
Training methods	<ul style="list-style-type: none"> ■ Classroom ■ Personal 	<ul style="list-style-type: none"> ■ Collaborative ■ Career
Leadership styles	<ul style="list-style-type: none"> ■ Competitive ■ Chain of command 	<ul style="list-style-type: none"> ■ Collaborative ■ Consensus

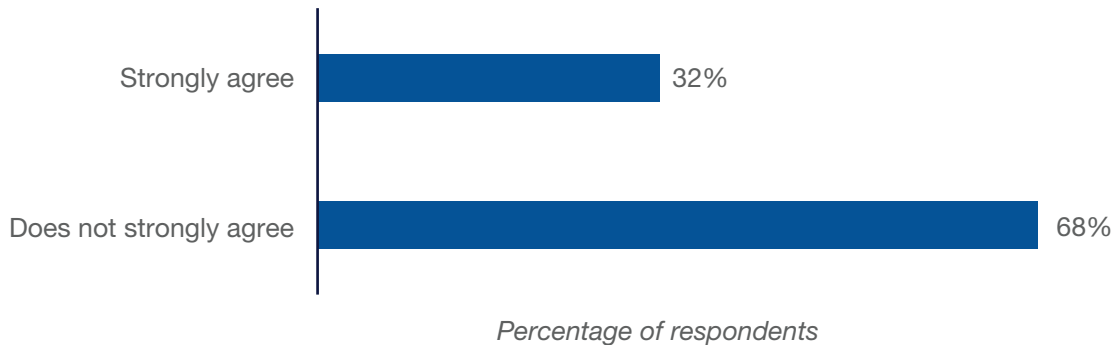
A. Clearly define roles and responsibilities

Clearly defining roles, responsibilities, and expectations of employees is the first critical step in engaging them. Only 32% of survey respondents strongly agree that their organization has defined roles and responsibilities well, suggesting that most companies have not set clear expectations for their employees (see *Exhibit 11*).

This includes establishing reporting and communications lines, outlining tasks and responsibilities, and helping employees understand how these are tied to both an individual project and the greater organization's success. Without this roadmap, you cannot effectively tell someone how to develop their career, train effectively, or give good feedback.

Exhibit 11: Percent of respondents that feel roles and responsibilities are well defined in their organizations

Do you believe individual roles and responsibilities are well defined in your organization?



B. Provide career development opportunities

As previously stated, companies have traditionally approached employee retention through direct compensation. According to FMI's survey, 75% of survey respondents assume their employees are leaving because of compensation. While compensation may be a component of why an employee leaves, it is often not the reason they were searching for another opportunity to begin with. As shared with us, "Money may be the reason someone ultimately leaves a company, but it's not the reason they were looking to leave."

"I would say pay is a component, but the primary reason people leave is for stature and promotion."
– Study Participant

"I think there's always a compensation aspect to turnover. People are trying to move into different markets where they can make more. Money and benefits are stuff that will motivate people to go someplace else. What we see in our organization though is that turnover is more about a cultural fit." – Study Participant

Most Millennials (87%) say professional development or career growth opportunities are very important to them in a job, yet only 26% of respondents believe their employees are leaving because of a lack of career advancement opportunities. This disparity must be addressed in order to retain key employees. Career advancement and development opportunities may exist within an organization, but providing clarity around how an employee can advance and develop their skills can have a profound impact on their engagement. Millennials operate under a "show me and I will prove it" mentality, meaning they want to know what the expectations are of them in order to advance, and they will go out and meet those. Baby boomers operate under a "prove it and I will show you" mentality, where they expect employees to work hard and justify why they should be given career advancement opportunities.

"What we've heard is that people leave out of frustration. They are pigeonholed in a position and don't see a career path. They don't see 10 years from now where either they or their company will be."
– Study Participant

“I think we are well prepared for the generational transition because we have developed clear career paths in several areas including project management, field supervision, field production, etc.”
– Study Participant

“A lot of the younger folks think that advancement comes over night. They think they should get a raise and then they should show that they can take on the position.” – Study Participant

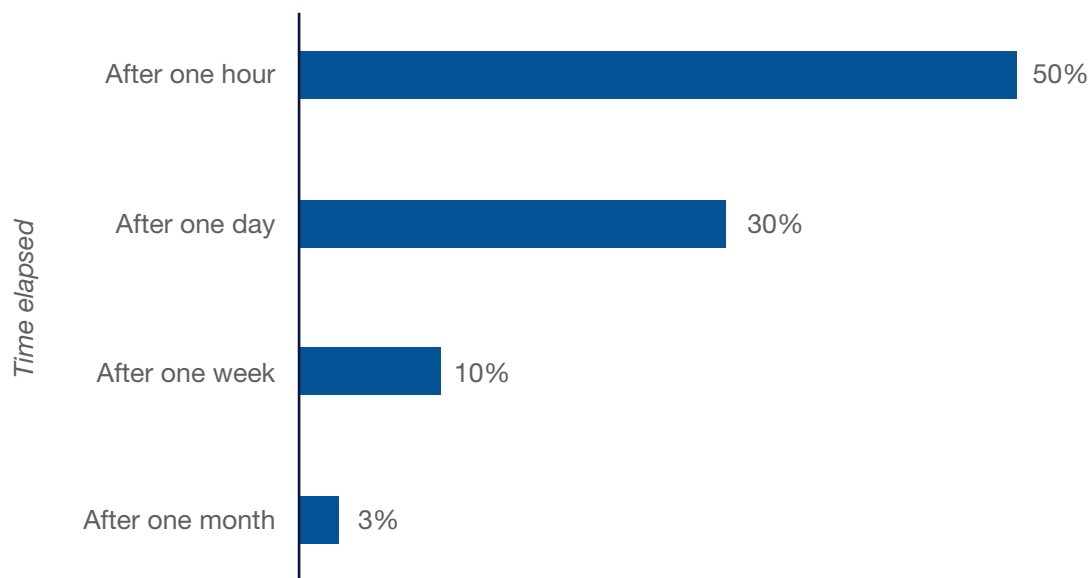
C. Create an effective learning environment

To facilitate the transfer of knowledge from older generations to younger ones, companies must create an effective learning environment within their organizations. Traditional teaching environments fail to transfer knowledge without experimentation and

repetition, as younger and less experienced employees are less likely to absorb and retain the information that is passed on to them via these methods than they are through an experiential learning environment. The percent of knowledge retained by people from traditional training methods is 50% after one hour, 30% after one day, 10% after one week, and 3% after one month, illustrating the need for a more progressive approach (see *Exhibit 12*). A progressive learning environment, by comparison, is more experiential and places the focus on both the instructor and the trainee, where the instructor models and the trainee interacts with and asks questions to the instructor.

“We don’t do any job shadowing or classroom learning. I mostly believe in learning on the job.”
– Study Participant

Exhibit 12: Percent of knowledge retained by people from traditional training methods



Regardless of the teaching or learning environment, the industry as a whole appears to lack any formalized knowledge transfer plans to address the generational transition. Only a third of survey respondents have formal plans for knowledge transfer or have formal plans for promotion of younger employees. Of those that do, survey respondents that are best prepared for the generation transition suggest one-on-one, experiential learning is most effective, like mentorship and guided experiences. Work shadowing, formal training and knowledge management are perceived to be less effective (see *Exhibits 13 and 14*).

“As now the third-generation owner coming through the business, we did recently go through a period where the baby boomers retired. We lost that knowledge base. We didn’t do a great job of retaining that information and, in many regards, we lost that tribal knowledge.”

– Study Participant

“I think mentoring is the way to go. Having a foreman mentor someone to explain the thought process, how things work, and engage and challenge them is important.” – Study Participant

Exhibit 13: Percent of respondents that perceive knowledge transfer methods to be extremely or very effective

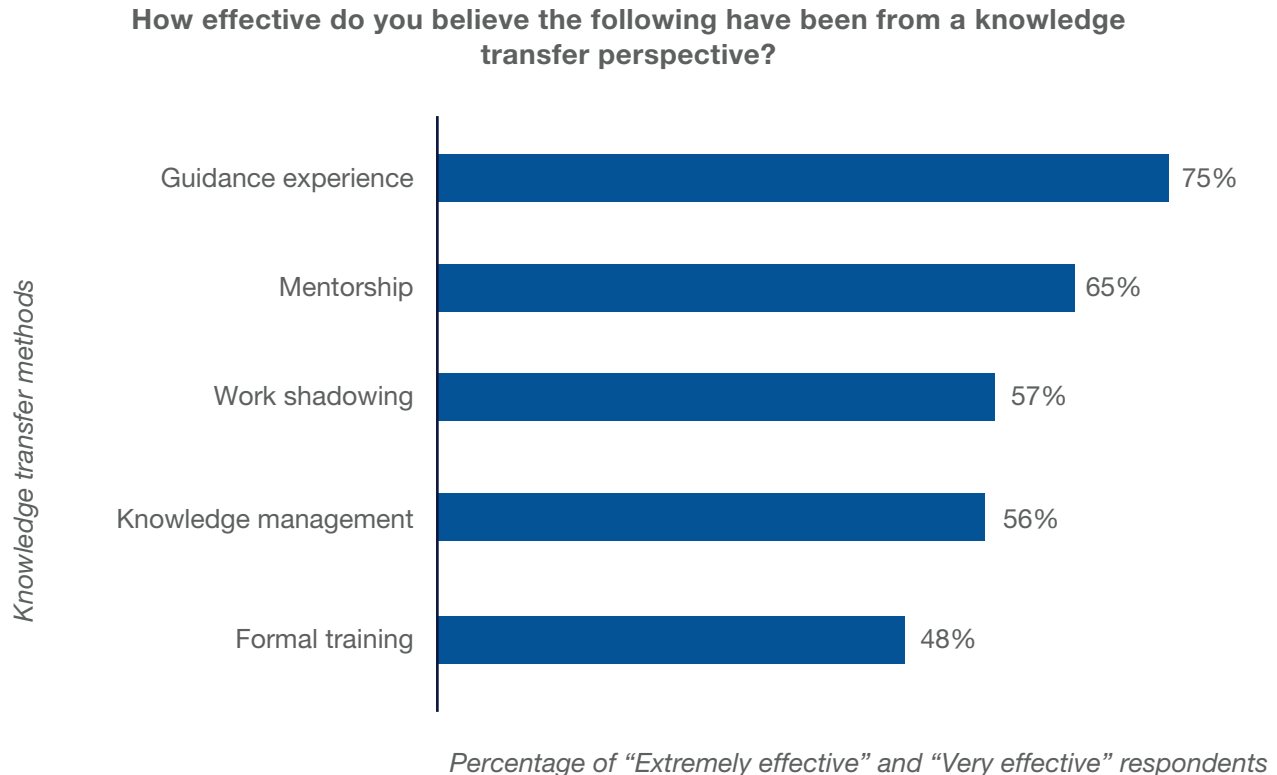
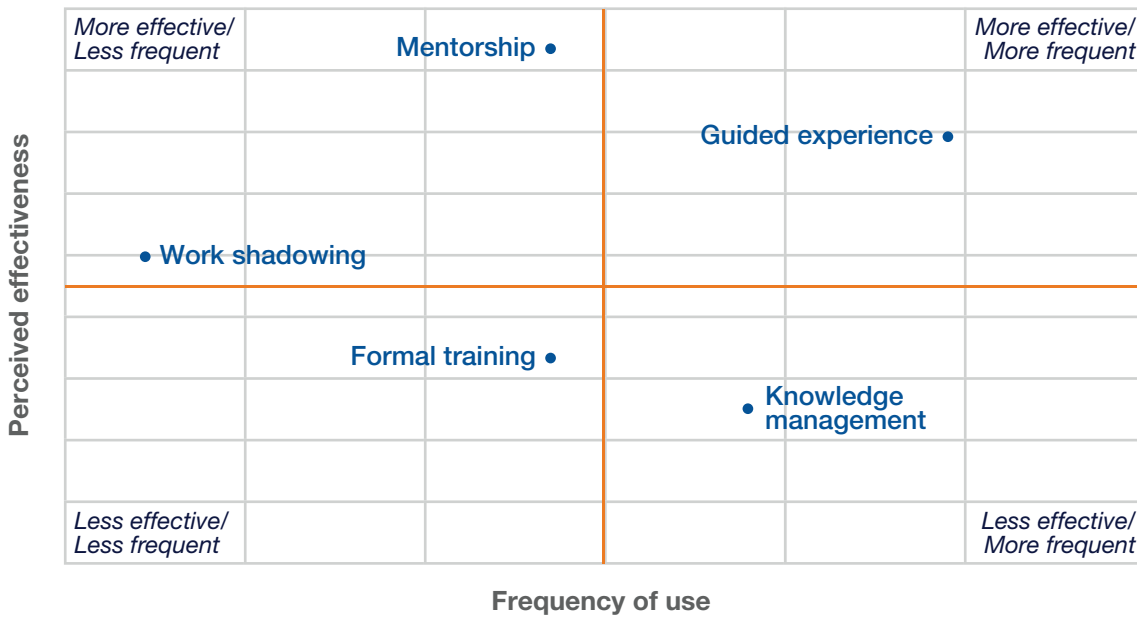


Exhibit 14: Learning styles frequency of use and perceived effectiveness comparison



D. Give consistent feedback

Communicating expectations and how employees are measuring up to them is critical. The intent of providing feedback is to improve performance and further development, something younger generations value in particular. There are two kinds of developmental feedback—*Plus* and *Delta*. Plus feedback means, “That’s really effective. Keep it up.” Delta (symbol for change) means, “You could be even more effective if...” Developmental feedback is always delivered with the intent of helping someone improve their performance. While over half of respondents indicated having formal plans for employee engagement, only 43% provide consistent formal or informal feedback (see *Exhibit 15*).

"I think the big thing is communication. Giving them a path for growth and promotion and then talking about how they can achieve it."
— Study Participant

Exhibit 15: Percent of respondents that always or very frequently use employee engagement strategies

CONCLUSION

A sustained and successful organization does not happen by accident. It requires good planning and constant nurturing. This is especially true for the preparation necessary to navigate the current generational transition. Maintaining organizational consistency is a critical aspect of this preparation, which requires minimizing voluntary turnover. As our research demonstrates, creating a highly engaged workforce is the best means of accomplishing this. Not only will high engagement reduce voluntary turnover and thus provide the organizational consistency to retain and transfer the knowledge and skills of the older generation to the younger one, it will benefit organizations in several other ways, most notably greater productivity.

Creating a highly engaged workforce is straightforward, but it does take work. Begin by being clear on roles and responsibilities, and also the “why” behind them. Then, with the youngest, demonstrate how these create a foundation by which they can develop their skills and grow in their careers. Next, create a learning environment that includes more hands-on learning and guided experience vs. a classroom style format. Mentorships are also key. Last, provide consistent performance feedback. This will be most effective when it can be given in the context of roles and responsibilities and contribution towards career development. Consistency is the key.