Portfolio Management
A Case Study of the Transportation Business at CH2M

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Organizations: CH2M Transportation
Industry: Engineering
Lesson Learned: Focus on the core business proposition that leads to long-term growth and simplify the organization

Background
To compete successfully in today’s complex business environment, organizations must simplify their strategy as well as their operational execution to meet shareholder-return expectations. Moreover, even with a properly conceived plan, the ability to perform can oftentimes be a struggle, especially when facing today’s frequently shifting market conditions.

So, whether you are gauging the success of a complex program or a business entity, effectively managing the overall portfolio is a strategic imperative. To paraphrase PMI’s Thought Leadership Series Report (Winning through Project Portfolio Management: The Practitioner’s Perspective), there are three key drivers to successful portfolio management: (1) a commitment to provide the right resources; (2) a cultural change to eradicate silos; and (3) effective communication and cooperation.

The Challenge
For a professional services firm (PSF) and a large-scale program manager, proper communication and the ability to collaborate successfully, gain goal alignment, and motivate people are the most important actions a leader can take to achieve successful strategy execution. The ambiguity that can reside

The Economist Intelligence Unit Report, sponsored by the Project Management Institute (PMI), found that 61% of firms have problems bridging between strategy formulation and execution and that only 56% of strategic initiatives are successful, essentially a coin flip. (Why good strategies fail: Lessons for the C-suite)

When portfolio management becomes part of an organization’s DNA, senior leaders devote the time, education, and resources necessary to instill the practice into how everyone—from team members to executives—thinks, believes, and acts. (PMI Thought Leadership Series: Delivering on Strategy: The Power of Portfolio Management)
within complex programs and businesses can generate resistance that must be overcome for positive business results. The more complicated the program or business, the simpler the strategy needs to be. At its most basic level, strategy is about making choices, and then providing clarity, consensus and alignment (Harvard University Leading Professional Service Firms Executive Education).

During the global economic recession of 2008, many businesses looked to expand their offering, thinking that diversification would lead to additional business opportunities and profitability, while providing a more robust portfolio that could withstand downturns in certain sectors. However, in the world of PSFs especially, and as witnessed by the continuing trend toward consolidation in the marketplace, the move to new or even adjacent businesses is not easy as the market for new services is often oversaturated, leading to additional, continued consolidation. (EFCG 2015: Rising Leaders Conference for Engineering/Consulting Firms)

While this case study reflects the lessons learned in the PSF industry, it has implications in other industries and even programs. The overarching message is that in today’s complex global environment, one must focus on the core business proposition that leads to long-term “win-win” partnerships with our employees and the clients that we serve. I am not proposing that this is a new concept, but the lessons learned from my CH2M experiences have proven the heightened emphasis on maximizing the results of the core business. (Profit from the Core: A Return to Growth in Turbulent Times)

The Solution

This paper focuses on recent events within CH2M, and what the Transportation business did as a result of new leadership being put in place, the transition for which started in 2011. CH2M took the following steps to strengthen its portfolio:

- **Diversification strategy**: The 2008 global economic recession led the company to a diversification strategy that placed CH2M in a position of being in all points of the project/program life cycle, and within the complete engineer, procure and construct value chain with a larger focus on the at-risk Design-Build business. Problem projects and significant losses in this area, combined with less than expected performance in certain markets, led to the development of a new, more appropriate business strategy. These issues were taking place at an enterprise level, but were also reflected in the company’s Transportation business.

- **Re-profiling the business**: In 2012, we made the decision to re-profile the business. As a result, we shifted focus to the core services which provided the best opportunity to partner with our clients and establish long-term, value-added relationships—working in both directions. The specific actions we took in the Transportation business included:
  - Exiting the Design-Build, self-performance construction business, moving more towards the starting point of a project or program (incubation and development), as opposed to the endpoint (self-performance construction).
• Focusing on the core market segments, in professional consulting services, that are actually leading businesses within the entire CH2M enterprise portfolio (surface transportation as well as aviation and ports and maritime services), and exiting land development and other adjacent businesses (e.g., surveying). The guiding principles we used were:

  • Core markets or service offerings must be ranked in the top tier of the industry
  • Following Jack Welch’s guidance: you must look at your businesses and harvest them, fix them, grow them or close them
  • In addition, you must consider the distraction that less profitable businesses or service lines can have on the more valued business portfolio

• As a part of the firm’s diversification strategy, the company also made a large-scale acquisition to increase CH2M’s footprint outside of the United States. When asked to integrate the transportation components of this acquired business, we very quickly moved to focus on those geographies where we felt we could have the best chance at long-term success. This resulted in significant downsizing to allow more investment with those clients and regions where we saw the greatest potential for sustained growth. At the time of the acquisition, we went from operating in 119 countries as an enterprise, to focusing on 20 countries, globally, in the transportation business.

■ Clearing the long tail in professional services: Beyond exiting non-profitable geographies, additional, tougher decisions regarding clients and service offerings had to be made. As an example, at the time, we were working with 1650 transportation clients throughout the world. As a result of the process, we are now aligned with 400+ clients, globally. The specific actions we took are as follows:

  • Focus on profitability driven by win-win agreements with key clients who have sustainable infrastructure programs, understanding that 80% of the business may come from less than 20% of the clients. Too much revenue from too few clients is not good, but neither is too little revenue from too many clients. Sometimes we forget that more is not always better. Better is better.

  • Also, you can’t be all things to all people, no matter how hard you try or how much money you spend. This proved to be a hard cultural dynamic to overcome.

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  ~ Terry Ruhl, President, CH2M Transportation
Transportation Client Portfolio - 2013

Findings:
- 168 Clients (10% of the 1650 total Clients) delivered 80% of the GM
- 641 Clients delivered 98% of the GM

Figure 1

Transportation Client Portfolio - 2015

Findings:
- 106 Clients (12% of the 925 total Clients) delivered 80% of the GM
- 432 Clients delivered 98% of the GM

Figure 2

- **Focusing on key accounts:** deepening client relationships through key account and executive ownership programs—our entire leadership team and our best and brightest people must be close to our clients. We’re taking a short- and long-term view on these actions:
  - We needed to think very hard about repositioning people to their highest and best use, and we needed to do a better job focusing on succession planning to instill the culture of developing a long-term, sustainable practice.
  - We developed an “executive owners” and key account program with an emphasis on better “listening” to our clients, strategizing with them and providing the best resources—from across the enterprise—to meet their opportunity/program needs.
  - To break down our company silos, approximately 40 key accounts are being stewarded at the enterprise level to better leverage our cross-business expertise in transportation, water, environmental, energy and industrial and urban environments.
A PSF’s only assets are people: If you take care of your people, they will take care of your clients. In addition, if you embed Ron Kaufman’s concept of **Uplifting Service** (always looking to provide a win-win dynamic in each transaction, internally and externally) in the culture, revenue and profitability will be maximized.

**Gaining alignment:** alignment is needed for all functional stakeholders throughout the organization—some specific observations and guiding principles are as follows:

- The keys to leadership reside in the ability to maintain trust, to be transparent and to operate at the highest levels of integrity. You must build trust, internally and externally using influence, not command and control, to engender loyalty (see graphic below). Through this transition, our client ratings have maintained above a 4.5 out of 5.0 scale, each year.

- Integrity is at the heart of all actions and establishes the culture of the business.

- Don’t get entrenched in the internal mindset—far too often we look internally outward, instead of beginning with a better analysis of the true market conditions.

- As much as possible, avoid personal bias. In business, we can often be selective in using data to justify our personal passions. For example, people tend to use the term “strategic” far too often to gain traction for their project or program. I remember my time during executive education training at Harvard that the “…definition of strategic clients and projects comes about when we are too scared to calculate the business metrics to prove the point.”

- Lastly, streamlining business processes and reducing bureaucracy are among the greatest gifts we can give to our employees. Doing so frees them to better focus on serving our clients and delivering value. This will always be a work in progress, but we must reduce the burden on our project managers.

The results of our transformation within the Transportation business, and CH2M overall, have been impressive. From a company standpoint, we went from one of our most challenging performance years in 2014 to one of our best in 2015. In Transportation, outside of the Design-Build business which we are exiting, we have grown revenue and profitability at three times the industry average (see **Figure 4**). We are now one year ahead of the five year plan we put in place in 2012. In fact, without increasing headcount from 2011 levels, we have doubled our profit. Our rankings in the industry improved from No. 7 to No. 3, domestically, and from No. 30 to No. 4, internationally.
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Summary

The goal moving forward will be to maintain the momentum around portfolio management and the culture of trust and partnership with our core clients. This transformation has required a change in our corporate DNA, which is never easy. The key will be continuing to provide outstanding leadership, focus, and most importantly, showing the highest level of empathy for our employees and our clients as we help them solve their most important challenges.