FINANCIAL POST

Tuesday, November 3, 2009

Outstanding CEO: The builders' builder

Cooper Langford and David Dias , Financial Post Magazine

Dermot Cleary

In person, Ross Grieve, chief executive of PCL Constructors Inc. and Canada's Outstanding CEO of the Year for 2009, comes across as a family man. He's relaxed and friendly, even folksy, just the sort of person you might expect to find leading a 103-year-old business founded by a small-town Saskatchewan family near the turn of the past century and now owned entirely by its employees. But don't let Grieve's down-home demeanour distract from his executive acumen. His career at PCL, Canada's largest construction firm - a company that today boasts a North American footprint - spans four decades, and in his 12 years as chief executive, Grieve has overseen a period of tremendous growth. His tenure is now winding down. On Oct. 31, he turned over the chief executive reigns to his successor, Paul Douglas, and now serves PCL as its executive chairman. Before making that transition, however, Grieve sat down with Financial Post Magazine to discuss PCL's achievements, its unique ownership structure and the outlook for the North American construction industry.

FINANCIAL POST MAGAZINE: You've had a great run as CEO at PCL Constructors Inc. Since you took office in 1997, the company has tripled in size. You've set records for earnings growth almost every year of the last five years. Even in a recessionary year, you're still projecting strong results. What's your secret?

Ross Grieve: Well, a few things. We caught the wave of the economy in the past decade. We had an organizational structure that was ready to take advantage of the good economy. I'm very much a believer in the idea that you have to have clear organizations and structures. We were fortunate in that we had the right people in the right place at the right time to take advantage of what turned out to be a very, very good economy for our industry. I have an absolutely outstanding executive team. They're very good at what they do. We all work very well together. We're a very collegial group and we respect each other, and that team of leaders really did take advantage of the good economy.

FPM: Being an Edmonton-headquartered company, the energy sector,

especially the oil sands, is obviously a big client for PCL. But the boom in the oil patch this decade doesn't explain all of your company's results. What else was happening?

GRIEVE: We operate in three distinct sectors. There's heavy industry, heavy civil, and commercial buildings. In that improving economy, all three of those divisions were very robust. There was an explosion in the need for office space, especially in Calgary. There was a lot of demand for transportation infrastructure. Pearson International Airport was getting expanded. We did the super-terminal. We were in many airports right across North America at the same time. The hospitality sector - there was a lot of work going on in terms of new hotels and resorts. Sports and entertainment. You've got the Air Canada Centre in Toronto, the Staples Center in Los Angeles. It seemed that virtually all parts of the economy were firing pretty good. Then you skip over to the heavy civil side. There was a tremendous amount of spending taking place there too, for bridges and expressways, water transportation projects down in the States.

FPM: Business is much tighter today, obviously. What's the outlook for PCL and other companies in the construction industry?

GRIEVE: I think all companies like ours, and smaller companies, are going to feel what happened last year. We're burning off past work that we had acquired. And our new work is secure enough, but I'd say that most contractors are down from what they were by perhaps 30%. All of us are probably going to feel a decline in the amount of work that we'll be putting in place for the next few years.

There is, however, the stimulus happening, whereby we are seeing projects being announced that are going ahead, that are beneficiaries of that spending. Luckily, PCL is multi-sectoral and diversified geographically. So we are preparing ourselves to go after that work. That's helping to fill the void. And because we are a large contractor, there are certain projects that the smaller or midsize contractors can't compete for because they don't have the balance sheet or the sophistication or the appetite for risk that we have. We're optimistic that good opportunities will come our way.

On the heavy industrial side, there's been a bit of a hiatus in Alberta. Projects have been delayed or deferred. That's starting to turn. Exxon and Imperial are going ahead with Kearl Lake, a big oil sands project north of Fort McMurray. We'll hopefully be doing a large part of that. We're hopeful we'll be able to continue to expand our footprint in Saskatchewan on the oil and gas side. There's the potash industry in Saskatchewan that's going to be spending big capital dollars. We hope to be involved in that. So, in answer to your question, in the next few years, it's not all that bad when you see it through our eyes. But for the smaller work, it's going to be rough. There are a lot of businesses. It's very competitive.

FPM: We hear a lot about infrastructure these days, specifically as a way for the government to pump money into our weakened economy. This is obviously good for PCL as a business. But there are long-term costs in terms of deficits. How do you feel about infrastructure spending as economic stimulus?

GRIEVE: I endorse governments directing spending in tough times to support public infrastructure. I think that is a smart thing to do to create jobs and keep the economic engine going as best we can, and spending the money strategically. You don't want to be wasteful, for sure. That would be stupid. But to address the aging infrastructure needs of Canada in these times is a good way to be spending money. We want to keep our unemployment rate down as low as we can. It's a very unproductive thing to have people sitting around drawing welfare or unemployment. It's horrible for them, for their own self-esteem and their own quality of life. So there are many spinoffs to keeping the populace working. I'm all for it.

FPM: Let's talk about PCL's ownership structure. You're one of the largest companies in Canada, yet you operate under an employee-ownership structure. Can you talk about that, tell us how it works?

GRIEVE: We were founded in 1906 by Ernie Poole, and PCL was a family-owned private company for a very long time, right up to 1977 when the Pooles decided that the time had come to sell the company. The president of the day, Robert Stollery, was a very dynamic leader and a real visionary. He and his executive team at the time came up with the notion that they could buy the company from the Pooles. Bob's strategy was to assemble 24 of his managers of the day - get 25 guys together, including himself, who were leading the company - and get them to put some money up and see if they couldn't buy up the company. I was lucky. I was the youngest one of the bunch, one of the junior guys. Great West Life came in for 15% as an institutional lender (its shares were later bought back by the company). The employees bought 85%. The Pooles were wonderful. They really tried to make it happen.

But Bob wanted to carry this further. Rather than just 25 people owning the company, he wanted everybody in the company to have the opportunity to own a piece of it. He wanted it to be more broadly held. So he started to divest his shares, and those shares went to employees. Now we've got 3,000 owners who are all active employees. They're anybody in the company who we view as valuable, who has skills that we want. That's the key. These are employees who've demonstrated that they want to be long-term employees. When a person shows that, we will offer them shares.

FPM: What happens when a shareholding employee leaves the firm?

GRIEVE: We are a private company. Our shares have no market, other than ourselves. To own shares, you have to be an active employee. If you leave the company, you have to sell the shares back to PCL. We strike a price once a year. It's a modified book value on a formula basis. It's been like that for 32 years. You take the book value of the company. You adjust the physical assets of the company to the market, you add in a little bit of goodwill. And that's it. That's what shares will transact at for the next 12 months.

FPM: You also pay a dividend on the shares, so it's sort of like a profit-sharing program. Is that right?

GRIEVE: Yes. We have traditionally given over a large percentage of our earnings to our shareholders. It's a balance between what's needed for retained earnings, to have working capital in the company, to execute our strategic plan for the next couple of years. Also, we have to satisfy certain partners of ours, like the sureties that bond the work we do. They want to make sure that we have a certain amount of capital in the company for them to back us. We have some strategic banking facilities to help us in some of our project pursuits, and there are some ratios that the banking syndicates want to have. We weigh all that together and that will determine how much we retain and how much we pay in dividends.

FPM: Being part of that original management buyout must have been an entrepreneurial adventure.

GRIEVE All of us really didn't get it. We were largely following Bob, who we all respected. He told us it would be a good thing. It was a complex transaction for us to absorb. But we all stepped up and said things were going to be OK. We were all feeling privileged that we were one of these 24 people being brought in as partners at the time. Our business is high risk, so Bob was concerned that people invest only to their ability to invest, that they weren't betting the farm. He had a huge fear that people would take their retirement money, or money that they should be keeping safe, and putting it into our company. He warned people constantly that there was no obligation to buy. That your decision to buy was confidential and that the details of your holdings would be kept confidential, and that if you didn't buy shares, it wouldn't hurt your career, or your salary or anything like that.

FPM: How did you find out about the plan?

GRIEVE There is a story there. (Laughs) I was living in Toronto at the time. I was a junior manager at our office there. I got a phone call one day saying that I had to be in Edmonton on a Saturday morning. Don't ask any questions. Just go to Canadian Airlines at midnight tonight. There's going to be a package expressed to you. Go get it. It was all this documentation about the company being sold, and I was invited to buy $800 worth of common shares and $7,200 dollars worth of preferred shares. My investment was going to be $8,000 to buy into this company.

I had no idea where I was going to get my $8,000. On my way back to Toronto, I stopped in Winnipeg to see my folks. I also saw a friend of mine, Bob Sparrow. He's still there, a hotel owner and a great friend of mine since we were school kids. I told him what was going down and said, ‘I gotta find eight grand.' Bob said I had to buy the shares. He went to his hotel and took $8,000 out of the vault, put it in a brown paper bag and gave it to me.

I couldn't believe it. I had my $8,000. We set up a repayment schedule for me to pay him back, so much a month over the next number of years. One year later, PCL bought back the preferred shares, the $7,200, so I only had an $800 investment in the company. I was able to pay my friend back. That's the story. Friendship.

FPM: How has PCL's employee-ownership structure affected the culture and performance of the company?

GRIEVE: I think our employee-ownership structure is absolutely at the core of our success. The amount of return to shareholders has been very good. We believe that's because employee ownership attracts people to our company. They are very proud to be part of the ownership group. They like the feeling of being owners and having those rights and privileges. Our people are very much engaged in making sure that we are a special contractor. It's significant for attraction and retention of staff, which is critical for any company.

FPM: PCL's investment in training must also be a major contributing factor to employee attraction and retention.

GRIEVE: Training has been an important part of our organization ever since I joined it 40 years ago. There's always been some type of training going on. Whether it's how to lift a load, or how to put up a winter heater properly or put out a fire with a fire extinguisher, there's always somebody being taught something. But we never had a formal banner around it. In the late 1980s, Bob Stollery spotted a little story about a contractor in the U.S. who was forming his own university. Bob sent me a note saying, ‘Why don't we do this?' So, we created something called the PCL College of Construction. We went and hired a teacher - his name is Peter Greene (vice-president of educational programs) - who had been vice-president of the Banff School of Management. Peter came in to run the PCL College, and we started to develop a training organization within our organization.

The PCL College is flourishing today. We put on a lot of in-house annual programs. We put on a leadership program for 30 people each fall in Banff. We have something called the PCL Construction School of Excellence, where we do technical training. We bring in about 60 people a year for that. We've got a video library with a couple of hundred technical presentations. All the other training we do flies under the banner of the PCL College. You get rewarded for accumulating college hours. We encourage people to take external courses, as well. We partially fund that if it will enhance their career.

FPM: Is the college a physical place?

GRIEVE: It's a virtual college. We have college co-ordinators in every one of our business units throughout North America. They're coordinated by a small professional-development team that's housed at our Edmonton headquarters. Some of our business units will have an office in their offices that they call the college. They'll have a computer set up for distance training from headquarters. There are other resources, like tapes and videos. If you had a big group, you might use a lunchroom or if you have a big training room, you might use that.

In Edmonton, a few years ago for our centennial in 2006, we built a legacy building. We didn't quite know what to do for our 100th year. So we said, ‘let's build a facility dedicated to learning.' So we built the PCL Centennial Learning Centre at our business park in Edmonton. It's a wonderful building. It's LEED Gold, so it demonstrates environmental stewardship. It's a showcase for the kind of materials we typically work with, like concrete and glass and steel. And in there, we've got big training rooms built for teaching purposes, with audio, video and sound and all that stuff. The idea is that we can bring people from all over the company, all these different cities, to this spot at headquarters, where a lot of them had never been. So they can come here and see some of our history - we've got pictures from our history on the walls - and rub shoulders with the corporate people and use it for our primary training centre.

FPM: You mention LEED. You've had a 40-year career in construction. You will have seen the rise of many types of thinking about construction. How far have we come with the green building idea?

GRIEVE: I think we've come a long way. The technology has been there, but it's been seen as expensive or too much trouble. It wasn't until our society developed a higher awareness of the jeopardy that the planet is in that people started to make these things happen, coming up with sustainable design approaches. Even though they might carry a premium, they have become important because they were going to be demanded of. People were going to want these things for altruistic reasons. It's become the right thing to do. A lot of the purchasers of design and construction services are saying, ‘Unless you can deliver a LEED silver or a LEED gold or platinum, you're not going to be working for us.' Because that's happening, the industry has responded with a lot of good ideas.

FPM: There must be an advantage in green construction, as well. There may be higher costs up front, but those can be recovered over time due to efficiencies. Is that right?

GRIEVE: Yes, you should be able to look at a lifecycle cost-benefit analysis. There are assumptions you make to do that calculation. But if you are going to be the owner and operator of a facility for the next 50 years, you should be looking at it on a lifecycle perspective. There are absolutely long-term benefits in the newer design approaches.

FPM: Your company has worked on many iconic projects. Do you have a favourite?

GRIEVE: BCE Place in Toronto. I think that's a beautiful development. We had a wonderful team of people on that. The project went very well. We had a great client to work with. I was involved with that from start to finish. I'm very proud of that.

FPM: Your title is about to change, to executive chairman from CEO. What does this mean for you and for PCL?

GRIEVE: On Nov. 1, Paul Douglas will become the chief executive officer of PCL. I will be there to support Paul. He will be on the road a lot during his first year, getting to know his company. I'll just be backing him up, supporting him when he's travelling, keeping the minutiae of the office going while he's away. I'll also chair the board, and after one year, I will be a non-executive chairman.

FPM: We also understand there's been another change in your life. You've just become a grandfather for the first time.

GRIEVE: Yes I have! The little guy is seven weeks old. It's going to be fun to have more time to get to know him. Hopefully more of them are on the way.

FPM: That's a pleasant thought to end our interview. Before we wrap up, do you have anything you would like to say?

GRIEVE: Yes. Something that sticks in my mind is that PCL is a wonderful Canadian success story. When you think of it starting 103 years ago in a little wee town in Saskatchewan. To see it become the largest construction company in Canada and the second in North America. That's a hell of a story, that this thing didn't blow apart. This company has gone through a couple of generations of family ownership. It's gone to employee ownership. It has stayed true to itself for a very long time and has been very successful, and today is stronger than it has ever been. I think that's a great story. It's not my story, but it's a story of what can happen with a company. FP