



Built Upon Faithfulness

An Interview with Frank T. MacInnis, Chairman and Chief Executive Officer, EMCOR Group, Inc., Norwalk, Connecticut



Frank T. MacInnis

EDITORS' NOTE A graduate of the University of Alberta Law School (Canada), Frank MacInnis began his construction career in Tebran, Iran, in 1975, as an officer of Paris-based Spie Batignolles. The following years included postings and construction projects in such diverse locations as Baghdad, Bangkok, the United Arab Emirates, and London. MacInnis moved to Oklahoma from London in 1981, when he was named chairman and CEO of H.C. Price Construction, a continent-wide builder of large-diameter oil and gas pipelines. After serving for several years as the chairman of Comstock Group, a New York-based construction company, MacInnis joined JWP, the predecessor company to EMCOR Group, in early 1994. MacInnis sits on the boards of directors of the Williams Companies, IIT Industries, and the Greater New York chapter of the March of Dimes.

COMPANY BRIEF Norwalk, Connecticut-based EMCOR Group, Inc., is among the world's largest specialty construction and facility services firms, with a client roster that includes 75 percent of fellow Fortune 500 companies, plus other firms in the industrial, commercial, institutional, governmental, and utility sectors. The company's services include the design, installation, operation, and maintenance of the sophisticated and dynamic

systems that create facility environments – such as complex mechanical and electrical systems, power generation and distribution, lighting, voice and data communications, plumbing, heating, ventilation, and air conditioning systems. It also manages and maintains some one billion square feet of facilities space. Through approximately 70 subsidiaries, EMCOR operates in more than 140 locations, primarily in the United States, Canada, and the United Kingdom. Employing about 26,000 people and traded on the New York Stock Exchange as EME, the group reported total sales of \$4.7 billion and net income of \$33 million in 2004.

Looking first at EMCOR's facilities services business, how optimistic are you for sustained growth in the coming years?

I'm very optimistic about our growth prospects for facilities services. Unfortunately, my optimism is based upon a fairly pessimistic view of the ability of American asset owners and operators to compete internationally. They need to do a lot more to improve the efficiency – and especially the energy efficiency – of their assets. North America, and the United States in particular, used to be distinguished by the fact that it had the best hardwired communications system, the best network of intertwined airports and highways, and by far the most efficient and extensive manufacturing base of anywhere in the world. That is, of course, no longer the case. Our manufacturing capability, in particular, is plunging toward obsolescence and is becoming a greater drain to their bottom lines as we speak.

I think the only way that the owners and operators of those magnificent manufacturing assets will be able to extend their competitiveness for even a few years more, in the face of the broad international competition that grows every day, is by improving the efficiency of those existing assets. That can be accomplished through energy efficiency and through outsourced facility services, and that looks good for EMCOR. This trend is based on a pattern that we've seen many times over:

Facilities services do well when customers are not doing particularly well and need help with improving their efficiency.

What about the energy side of your business? Have the higher oil prices helped it to grow, and what is your outlook for that side of the business?

Everything that EMCOR does has something to do with energy in one way or another. For example, we are running thousands of vans that provide mobile services to thousands of customers, and the operating costs of those service vans are going nowhere but up. However, it is in the nature of our business that we can pass along those cost increases fairly efficiently. More to the point, the basis of EMCOR's energy service business has always been our ability to help our customers reduce the volatility – or unpredictability – of their energy costs. We can do that through the installation and maintenance of systems that help to control energy utilization. This is very important for the owner of any large commercial or industrial plant or commercial building. That customer's need for certainty in terms of energy-cost volatility is only increased when gas prices get to the crazy levels that we are seeing today.

There are a couple of other factors involved in the process as well. The recent energy bill will help to define the rates of return that investors in proposed energy-generation plants or energy-transmission lines can earn. However, I think it will still be a few years before the regulatory climate is predictable enough that there will be a lot more coal-fired, simple generating plants built, or a lot more major transmission lines. In the meantime, I think the answer to a great many customers' short-term energy needs will be merchant power or dedicated cogeneration plants, both of which are specialties of EMCOR. So I like our chances of not only bringing real value to our customers during this era of high and unpredictable energy prices, but also bringing substantial value to EMCOR stockholders.

Do you see equally promising opportunities for the construction side of the business?

Both electrical and mechanical construction are profiting from the macroeconomic improvements that we've all experienced in the last 18 months or so. Our segment of the construction market tends to lag behind the overall economy in terms of economic improvement by a year or so, because our services are typically provided during the latter stages of the construction cycle. Nevertheless, we are beginning to see an increase in business opportunities in the construction sector, as corporate customers who have been reaping profits over the last couple of years are seeking to invest those profits, in order to prolong this period of positive economic growth. EMCOR always prospers when customers are hiring more people and having to house those people in new offices, retail stores, hospitals, or manufacturing plants. That's the reason why I watch the employment statistics – to determine who is hiring and where, and who is going to have to find a place to put all their new employees?

How well does your current brand awareness reflect the size and scope of the company?

There is still work to do in this area. We used to be accurately described as the biggest company nobody had ever heard of, and I suppose we're now the biggest company that some people have heard of. One of the reasons for the relative lack of awareness of EMCOR, in the past and perhaps in the present, is that while we do some business under the EMCOR brand, we also do business under about 50 individual local brands, especially in the construction sector. We made a conscious decision 10 years ago to continue to trade on the very strong local franchise value of our individual subsidiaries, some of which have been in business for 100 years in their local environments. Those are franchise values that one doesn't throw away lightly. Remember that 10 years ago, EMCOR was the freshly minted reincarnation of a failed company called JWP and had a brand name that was not worth very much. We decided that we would try to have it both ways, not by making it "either, or," but by building the EMCOR brand while at the same time retaining the local franchise value of all the individual brand names that had performed so well for their local customers for so long.

Is the United States your primary market? Where else do you see opportunities emerging?

I think that the U.S. market is by far the most promising mar-

ket for EMCOR, both in general terms and also by region. First of all, because of the tremendous investment of purchasing power of our corporate customers, who are generally very liquid and ready to invest in internal expansion and organic growth. They need EMCOR's assistance to expand, upgrade, or install new facilities for that purpose. Second, I think the tremendous potential for facility service growth is centered in the United States, where the asset base requires a significant makeover in order to become sufficiently competitive with foreign companies and to maintain America's place in the world economy.

How competitive is your market? Do companies need to be a certain size and scope in order to succeed?

I think so. Our strategy, among other things, calls for us to continue to create closer and closer direct ties with the owners, or the end users, of commercial and manufacturing assets, rather than dealing with them through intermediaries like construction managers or architects. Accordingly, EMCOR must have a brand that those corporate customers understand and identify with. In a nutshell, I think we need to look like them. They need to understand that we're a *Fortune* 500 company with a strong balance sheet,

which is managed just like theirs, and that we have the same values and the same interest in establishing long-term relationships. Once they do, EMCOR will bypass the middleman and become the trusted partner of the corporate entity that it's trying to serve. A very good example of that is our relationship with Siemens Building Technologies, with which, some time ago, we signed a strategic alliance agreement that commits us to promoting our joint capabilities to our respective customer bases.

It seems as if strategic alliances are fundamental to EMCOR's success. Are you planning to continue forging such partnerships going forward?

Absolutely. I think that investing financially in strategic alliances is a very low-risk way of accomplishing the functional equivalent of an open-market purchase. I can visualize circumstances in which EMCOR would be willing to acquire, or invest in, the installation of maintenance capability in a partner's business.

Ultimately, EMCOR's business is built upon faithfulness: to our customers, employees, lenders, and suppliers. We like to establish relationships on which we can rely. It's not so much about getting absolutely the best price during the up market but, rather, it's about having friends during a down market. That's very important. I've found over time that establishing and maintaining relationships is a great way to manage risk.

Are you focused on any particular types of business?

Broadly speaking, we're interested in customers who have large portfolios of commercial or manufacturing assets. They are the ones who have the most to gain or lose from variations in the efficiency – and especially the energy efficiency – of their major productive assets. As a result, it is they who can profit the most from the kinds of services that EMCOR can provide. We will always be available to build whatever the customer wishes on the construction side of our business, and we do a good job of covering the entire landscape in that respect. Likewise, facility services can fulfill a truly critical role in establishing, maintaining, or improving the effectiveness, efficiency, and competitiveness of an asset like a manufacturing plant in the face of growing worldwide competition.

Do you also work with public sector clients?

During periods of reces-



EMCOR's construction services helped build 111 South Wacker Drive, Chicago.



EMCOR provides services for many of the buildings shown behind the San Francisco Sky Bay Bridge.

sion, companies like EMCOR have been forced to rely more significantly on the public sector for project work, simply by virtue of the lack of private sector investment. This is normal. It is customary for governments to adopt stimulative spending policies in order to help maintain employment and growth rates through recessions. Likewise, it is part of the typical patterns of companies like EMCOR to adjust their sights to embrace more public sector work during such periods. However, it's always a relief when a recession eases and there is more private sector work available, so we can achieve a more healthy balance between our public and private sector work.

One reason we like to get back to private sector work is that there are more opportunities for value engineering and success premiums, if you will, in the private sector than there are in the public. EMCOR operating companies undoubtedly provide very valuable, high-quality services. Nevertheless, we are always looking for ways of doing even more for our customers than they expect. That kind of bonus is frequently available in the private sector, but very rarely in the public.

When dealing with your client companies, how high up the hierarchy do you communicate? Are you always dealing with the C-suite?

We have found that it is essential to discuss EMCOR's services with the C-suite of a large corporate customer, because the initiation and continuation of a relationship with EMCOR frequently involves EMCOR's takeover of portions of the maintenance personnel base of the customer. Similarly, in other cases the relationship might involve a change in the customer's energy policies. So we find that it's essential to speak plainly with the officers of the client company – people who can understand and accomplish the changes needed

to make sure that the outsourced blend of services works most efficiently.

You mentioned outsourcing. When that word is mentioned, employees often start worrying about losing their jobs. Do you think that outsourcing issues are beginning to be better understood throughout the business community?

I think that the cost benefits of outsourcing are quite well established, in general. However, it is certainly true that there is some degree of uncertainty about the political, and even the moral, acceptability of certain kinds of outsourcing – the kinds that take away jobs from Americans and transfer them abroad. Fortunately, I am able to say that EMCOR is not in that kind of outsourcing. In fact, our kind of outsourcing ensures that jobs remain in the United States, as all of our services are performed domestically and locally. In addition, we render our customers' assets and operations more profitable, thereby ensuring that our customers stay in business longer than they otherwise might. So I would say that we're on the good side of outsourcing.

How much of a role does technology play in your business operations?

Some of our work is high tech; some of it is low tech. That's the benefit of the extreme scope and diversity of our services. By virtue of our size and the sophistication of our customer base, we are always installing the latest state-of-the-art equipment, and that's why we can provide such high-end value to our customers. We provide the broadest geographic scope, with the best combination of experience and expertise, even with systems or products that have only just been introduced. Somewhere or another in our company we have almost certainly installed and maintained such a device, and we share best practices throughout our company to

ensure that this valuable knowledge is not kept in one place, but is transmitted through the company as it's developed.

In your business, you have a good vantage point on how the global economy is developing. Are you optimistic that it is going in the right direction?

Yes, I am optimistic. One might say that in my business, one needs to be optimistic by nature, but I think that there are strong reasons to be optimistic today about the future of the world economy. One of the major reasons for my optimism is that there seem to be more things happening whose likely result is peace than there are events happening whose likely result is war. Peace and prosperity are very good for economic trends. I've heard it said, for example, that we should be concerned about the growth of the Chinese or the Indian economies. Well, that's just nonsense. It is manifest in history that the more things people have to live for, the less interested they are in going to war with their neighbors. Many of the world's really serious problems are caused by poverty and desperation. So, when I see major events taking place that seem more likely, on balance, to provoke peace rather than war, and when I see positive statistics being published about the growth of the Indian and Chinese economies – just as examples – I think it's great news for the world.

Corporate citizenship has always been a focus for EMCOR. How important is it for you to be involved in that side of your corporate culture?

This is a very significant cultural issue for EMCOR. I mentioned earlier that the EMCOR brand is really not a single brand, but an amalgam of the EMCOR brand together with the local franchise names of more than 50 of our companies. Those subsidiaries of ours work in local commu-



Miami International Airport (above and right) utilized EMCOR's services for its massive air-conditioning system.



nities across the country and across the world. The result is that they are in close proximity to the events, needs, and problems that are shaping community life every day. Our local presidents and their officers and staff are, by definition, out among all of us in society every day. We believe it's very important to be aware not only of our customers' needs, but also of the needs of the communities in which we operate, and on whose success we depend. And it's for that reason that we established our Touching Lives program, which motivates and rewards EMCOR employees for participating in educational, charitable, compassionate, or other outside activities that enrich their communities and, in turn, enrich all of us.

In light of the new legislation on corporate governance in the United States, is it becoming more difficult for CEOs to balance their commitments? Do you have enough time for the strategic elements of your job?

Yes. I am afraid that, in many cases, the defensive nature of Sarbanes-Oxley and the generally negative mindset associated with both the excesses of the Enron period and a fairly difficult recession have rendered many corporate boards very defensive and self aware. We are all in the business of risk. We are in the business of identifying risk, pricing it, and managing it. Without risk there would be no profit. And I think that America, American boards, and American managers need to become more accepting of risk and more accepting of the necessity of risk-taking as part of the normal corporate state of affairs. They also need to be less reflexively defensive when presented with a potentially risky situation.

You have been in leadership positions for some time now. How do you define the role of a CEO today?

I was calculating the other day that I've been a CEO for more than 25 years now, and I couldn't believe the number when I added it up. So I guess I can speak with some authority about what I think the job entails. The old saying, of course, is that it starts at the top. The tone has to be

set at the top, in terms of the integrity of the organization and the organization's willingness and ability to speak plainly about its potential and its problems, its strengths and its weaknesses, its plans, and its dedication to its important constituents: its customers, employees, lenders, and suppliers – all of those whose relationships are intrinsic to corporate success – and, of course, its stockholders. Additionally, I think that a leader today needs the ability and confidence to admit weakness and to admit error when it occurs. He or she must not rely upon hubris or false pride to get through the day, but must admit that CEOs, like everybody else, are human and ought to be accepted as such. Now, I certainly accept that there are rigorous standards that need to be met, and any well-trained and confident CEO should be willing to accept those standards and to admit it if he or she doesn't meet them.

On the people side of the business, how successful is your industry in attracting and retaining talented young employees?

I'm very worried about the ability of our industry to attract and retain the top-quality talent that we need. We have seen some deterioration in the ability of the unions to provide highly trained personnel, and that reflects the decline of the union movement's influence in general. We've also seen an aging of our personnel overall, and an inability to recruit all of the talented young people that we would like to have. I'm speaking of the industry as a whole.

In terms of EMCOR, I think that the fact that we have just completed 40 consecutive quarters of profitable operations – which is a remarkable accomplishment for any company, let alone one in our business – and the fact that we set about 10 years ago to develop a company that would be a trustworthy, dedicated employer in which people could have long and fruitful careers, full of growth and opportunity, have put us in the best position in our industry to make our business

enticing and interesting to young people outside the company. Of course, it is just as important that employees inside the company know that there's room to grow at EMCOR. There's room for them to improve their skills and broaden their experience, so they can spend their entire careers with a company that will be here tomorrow and the day after tomorrow.

As you mentioned, you have been a CEO for more than 25 years. When you look back on how your career developed, were there any people in particular who provided essential advice or guidance?

My father is one such person. One story that sums up the influence that my father had on my career has to do with my indecision about leaving the law practice and moving to Tehran with a construction contractor some 20 years ago. I described the work opportunity to my father for 10 or 15 minutes, then I finally mentioned the compensation. He said, "Oh, you mean they're going to pay you as well?" In other words, he thought that the opportunity to move abroad, to participate in a vibrant, interesting business in an unusual location, was worth whatever it took to get there, and he was right. I think that risk-taking attitude is one that has influenced my whole life, and I'm grateful to him for that kind of guidance. I always will be.

After 25 years of leading different businesses, do you ever think of slowing down? Do you still feel excitement for the job when you get up in the morning?

Yes, I certainly feel excitement for the job every day. Our opportunities are much greater than they ever have been. We are in the luxurious position of being able to choose between opportunities. Today, I have the best, most exciting, most experienced, and most capable management team working with me that I've ever had the pleasure of working with. My job is still stimulating and fun every day. ●