

Skanska's Strength

An Interview with Michael F. McNally,
President and Chief Executive Officer, Skanska USA Inc.

EDITOR'S NOTE Michael McNally joined Skanska in 1998. He began his career as an offshore field engineer in Cairo, Egypt and has more than 35 years of construction experience. Before joining Skanska, he served as vice president in charge of construction for Fluor Daniel's Industrial Group. He currently serves as vice chairman of New York Building Congress and is on the national board of directors of the ACE Mentor Program. McNally holds a BSCE degree from the University of Notre Dame and an M.B.A. from the University of Rhode Island.



Michael F. McNally

COMPANY BRIEF Skanska USA (www.usa.skanska.com) is one of the largest, most financially sound construction and development networks in the country, serving a broad range of industries including healthcare, education, sports, data centers, government, aviation, transportation, power, energy, water/wastewater and commercial. Headquartered in New York with 39 offices across the country, Skanska USA employs more than 8,300 employees committed to sustainable construction and development and an injury-free workplace. Skanska USA Building, which specializes in building construction, and Skanska USA Civil, which focuses on civil infrastructure, generated \$5.8 billion in revenue in 2012, representing 30 percent of Skanska's global construction revenue. Development units Skanska USA Commercial Development, which invests in and develops office and multi-family projects in select U.S. markets, and Skanska Infrastructure Development North America, which develops public-private partnerships, are both leaders in their selected markets. Global revenue of parent company Skanska AB, headquartered in Stockholm and listed on the Stockholm Stock Exchange, totaled \$19.5 billion in 2012.

What is the secret to Skanska's success?

Internationally, we're a \$20-billion business, one of the biggest construction companies in the world. In the U.S., we're the fourth largest in terms of revenue. We have been here since the early '70s and the formula is the same across the world – it's all about having the best people who want to work hard and work together, service our customers, and build exciting projects. We also have a balance sheet that has basically no debt.

How was the company positioned during the recession?

We were never big in the residential sector so we didn't get hurt.

We have a vertical building business in the U.S. – we're redoing the United Nations complex, for instance; and our civil business is the biggest in New York – we're doing the No. 7 Line extension and Second Avenue Subway. But neither of those construction units suffered much because the downside was in the residential sector.

The stimulus that came in helped the civil folks. It has been going up and up.

The building group did see a dip when the nonresidential sector got hurt, but they have come back.

Construction volume for New York City has about \$30 billion in place, historically half of that public. Now the public is coming down but the private sector is coming back with projects like Hudson Yards.

It will get back to 50/50 with the Hurricane Sandy relief money.

How does Skanska participate in public/private partnerships (PPP)?

PPPs are great because they bring private money in. We design the project, build it, and collect the revenues. However, the deals we make with authorities require us to hold to certain standards to avoid being penalized. The concession then flips back to the authority after so many years.

It's a great way to get private money involved so public debt isn't paying for the project – and there is loads of private money out – there today.

Some suggest that selling government bonds would be a cheaper alternative to private money. But the way these PPPs happen is often with government backed incentives, like low interest transportation infrastructure loans. Private activity bonds, which involve an investor piece and are very low interest, can compete with these public bonds but they only account for about 10 percent of the PPPs. For all the efficiencies the private sector brings and the fact that the public doesn't have to go into debt means PPPs are a great idea.

What is Skanska's approach to creating an innovative culture within the firm and has it had the desired results?

Yes. One of the things we're pushing nationwide is prefabrication and modular construction. We're working with Forest City Ratner on the B2 residential tower in Brooklyn, which is 32 stories with 360 units. We have a prefabrication yard in the Brooklyn Navy Yard where we build the components. It's safer, faster, more productive, and cheaper, because it's being done in a factory environment. We then take those pieces and build the high-rise one element at a time. It has proven to be much faster, the quality is better, and we're doing it with New York union personnel.

Is it difficult to differentiate in this space?

There are always niches, like what our folks can do with energy savings and green refurbishment on the building side. There are companies that specialize in some of the areas that we cover, but there are some areas in which it is tougher for others to compete with us because our resume is so broad and strong.

Some of the advantages our competitors don't have exist on our balance sheet, such as our bonding capacity. On the civil side, they don't have our blue-collar workers. The key to our success in metropolitan New York is our union foremen, workers, and crews that have been with us for generations. These people are the best in the business. They work for us because we take care of them.

How important for New York's future is it to continue to invest in infrastructure?

Manhattan is an island and what makes it so successful is its infrastructure. If the tunnels get neglected and fail, if the subways fail, if just one of the bridges fails, this place becomes not such a great place to be anymore, and everything that has been growing will shrink.

We also have to do something about hardening against storms like Sandy. This is an international city and international businesses based in New York can only stand so many of these disruptions. These firms can be anywhere but they choose to be here. But if we don't have an infrastructure that can withstand storms and catastrophic events, they will leave.

Do you ever take time to reflect on all that the firm has accomplished?

Every man and woman is here to appreciate what he or she has done. The reason we focus on sustainability, in particular, is because the people who work here want to make a difference. It's not just about a paycheck but about making the world a better place. ●