

Companies

THE CORPORATION MAY BE AT RISK, BUT SOME KEEP GETTING BIGGER

ENGINEERING AND construction CEOs confronting market challenges now are faced with a new one—a predicted demise of the corporate business model.

More than 250 executives debated the future of the corporate structure in construction at a financial management conference Oct. 17 in New York City. "The corporation has more predators today than ever before—lawsuits, judgments, bankruptcy, government vendettas," said Paul J. Zofnass, president of EFCG Inc., a New York City-based financial management advisor to E&C firms. "Our data suggests that [the corporate model] may no longer be the basic building block of business."

Even so, EFCG's statistics show continuing industry consolidation over the past several years. Among the 168 firms in its survey, the number of firms with more than 250 employees grew to 27 in 2002, up from 19 in 1997. The number with more than \$250 million in annual revenue rose from 10 to 22. Those mega-firms now make up 74% of EFCG's survey revenue total of \$29 billion, up from 61% five years ago.

But Zofnass also noted that 75% of 30 industry firms EFCG tracked since 1997, both private and public, have had a "major ownership" change, and that 40% have gone bankrupt or "disappeared" (see table). The statistics "suggest that a CEO's game plan should not be to build a monolith that will be here 100 years from now," he said.

The push for size over the last decade has been fueled by market demands, attendees claimed. EFCG's data show increases in overhead and marketing costs as firms vie for larger contracts. Those costs now average 6.5% of revenue, versus 5% in 1993.

In some cases, size counts. Andy Seidel, president and CEO of Vivendi Water North America, Palm Desert, Calif., said the firm's municipal water/wastewater privatization business is growing as city

LARGE ENVIRONMENTAL COMPANIES THAT HAVE DISAPPEARED SINCE 1997

Company	'97 Revenue	Status in '02
ICF Kaiser	\$500 million	Bankrupt, disappeared
Dames & Moore	\$400 million	Acquired by URS
IT Group	\$400 million	Bankrupt, acquired by Shaw Group
OHM Group	\$300 million	Acquired by IT Group
AWT	\$300 million	Acquired by Vivendi
Woodward-Clyde	\$300 million	Acquired by URS
Arthur D. Little	\$200 million	Bankrupt, disappeared
Morrison Knudsen Enviro.	\$200 million	Bankrupt, Acquired by Washington Group
Radian	\$200 million	Acquired by URS
Law Group	\$200 million	Acquired by MACTEC
GTI	\$200 million	Acquired by Fluor Corp.
Metcalf & Eddy	\$200 million	Acquired by AECOM
Rust Infrastructure	\$200 million	Acquired by EarthTech
Smith Environmental	\$200 million	Bankrupt, disappeared

Source: EFCG Inc.

managers' budgets tighten. He noted that the firm's backlog in this niche grew from \$300 million in 1999 to an anticipated \$2.3 billion this year.

Such ventures require lots of capital from a well-heeled parent like France's Vivendi, he said. "Size really does matter in this business. Companies bidding privatization jobs have big bidding bonds to put up." But the firm's connection to the high-flying Vivendi parent, which has endured management changes and \$14 billion of debt, is a problem, he says.

Another speaker with tales of a "troubled" parent was Diane Creel, CEO of Earth Tech. While Long Beach, Calif.-based Earth Tech grew from \$175 million to \$1.5 billion in annual revenue under Tyco International, it tries to distance itself from the alleged financial improprieties and notoriety of Tyco's ex-CEO, Dennis Koslowski. "It drives us crazy to be in the same sentence as Enron and Worldcom," says Creel.

Creel says Tyco's troubles have halted Earth Tech's acquisition activity. And she conceded that "it's a big distraction" in pursuing work. For example, a recent concession contract in Australia was in jeopardy until Tyco, now under new management, "sent \$17 million to the banks there to cover the project cost."

Creel noted that all Tyco units' books have been combed by "forensic lawyers and auditors," and new corporate-wide governance procedures have been implemented. "We will be the squeakiest-clean organization on Wall Street." □

By Debra K. Rubin

Environmental Work

ATLANTA IS READY TO CLEAN UP ACT

ATLANTA'S NEWLY FORMED DEPT. OF watershed Management will advertise about \$200 million worth of consulting contracts within the next 60 days to begin implementing the city's new \$3-billion clean-water plan.

The five-point plan, announced Oct. 16 by Mayor Shirley Franklin (D), will attack the city's sewer and stormwater problems that prompted a lawsuit by local citizens, and both the federal and state environmental protection agencies. The plan will set in motion the work needed to meet a federal consent order settling that legal action. It requires the city to meet federal water quality standards by 2007. "The program weaves together a combination of monitoring and enforcement of water quality issues, as well as lays out the long-anticipated plan to improve Atlanta's aging sewer system," says Franklin.

To achieve that goal, the city will separate 27% of the 330 miles of combined sanitary and storm sewers, primarily found in the downtown area. A new \$834-million tunnel storage and treatment system will capture and treat 99% of the sewage and 85% of the stormwater from the remaining combined sewer area until the systems are totally separated 25 years from now.

Two consent decrees between the city and the environmental agencies that deal with sanitary sewers and storm sewers are large and encompassing, says Jeff Larson, program manager for the water protection branch of the Georgia Dept. of Natural Resources. "They require big fixes and major overhauls," he says. Atlanta has paid about \$19 million in fines for noncompliance over the last 10 years. The city's plan to work itself into compliance must be approved by the U.S. Environmental Protection Agency and Georgia DNR.

One of the major problems facing the city is how to pay for the improvements, which could push typical sewer bills up to \$150 a month. Jack Ravan, the newly appointed commissioner of the city's Dept. of Watershed Management, says that Atlanta is looking toward the federal government for assistance, especially since the fixes will benefit the entire Chattahoochee River basin, which includes Alabama and Florida. "We think this could lead to a national demonstration program. We're not the only U.S. city facing aging infrastructure," he says. □