Freese and Nichols, Inc.

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2010 Malcolm Baldrige National Quality Award Application
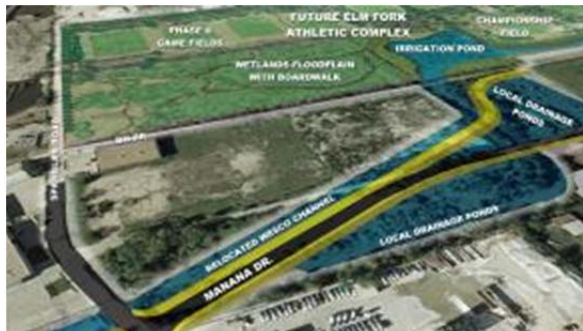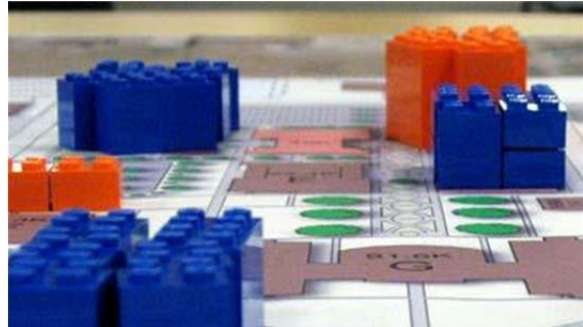
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Freese and Nichols, Inc. Organization Chart

Board of Directors
Bob Herchert, Chair

Chairman Emeritus
Jim Nichols

President Emeritus
Bob Nichols

President/CEO
Bob Pence

Human Resources
Peggy Freeby

COO
Ron Lemons

CMO
Mike Nichols

CAO/CFO
Cindy Milrany

N Texas Water/ Environmental Division
Gordon Wells

- W/WW Reuse & Treatment
- Environmental Science
- Water Resources
- W/WW Master Planning
- W/WW Transmission & Utilities
- Construction Services

North Texas Infrastructure / Facilities Division
Alan Greer

- Infrastructure Dallas
- Infrastructure - Ft. Worth
- Municipal Planning
- Stormwater
- Energy
- MEP
- Architectural
- Structural

Southeast Texas Division
Jeff Taylor

- Infrastructure Pearland
- Water Resources

Central Texas Division
John Wolfhope

- Infrastructure Central Texas
- Infrastructure Coastal Bend
- Water Resources, Treatment & Utilities

Sales
Mike Nichols

- Sales Development & Maintenance
- Account Directors
  - Account Managers & Client Reps

Marketing
Pam Fry

- Marketing Materials & Proposals

CAO/CFO *Cindy Milrany*

- Accounting Services
- Risk Management
- Purchasing & Information Services
- Technology Services CIO

FNI Lead Team

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Glossary of Terms and Abbreviations

Account Director	Account Directors are responsible for one or more market segments, are dedicated full time to understanding the needs of their respective markets.
Account Manager	Account Managers are responsible for major Key Accounts.
Account Type	Key Account, Emerging Key Account, Potential Key Account.
ACEC	American Council of Engineering Companies
AOP	Annual Operating Plan. Part of the Strategic Planning Process that focuses on a one year operating plan.
Backlog	Remaining project work for signed contracts. Measured in number of months of revenue.
Bookings	Bookings represent the entire value of a contract, which may span several years. The entire amount of bookings are recognized in the year the contract is signed.
Business Technology	Information Technology
CI Steering Committee	Oversees and coordinates CI activities across the organization.
CI Model	Continuous Improvement Model. The model we use to continuously improve our processes.
Client Representative	Person with the responsibility to develop and strengthen communications and relationships with clients. Serves as the client advocate within FNI.
Competing Values Framework	Four cultural profiles that compete for primacy within an organization. From *Diagnosing and Changing Organizational Culture*, 2006, by Kim S. Cameron and Robert E. Quinn.
Corporate Expense Ratio	Corporate overhead labor and expense divided by total revenue.
Corps of Engineers	Government agency that is responsible for planning, designing, building and operating water resources and other civil works, as well as designing and managing the construction of military facilities in the U.S.
DBE	Disadvantaged Business Enterprises.
Design-build	Alternate project delivery method with one contract for design and building of a project rather than the more traditional design, bid, and build method.
Discipline	A specific technical service offered by FNI, such as water resource planning.
Division Managers	Managers responsible for performance of technical Groups in each of the four divisions.
EIT	Engineer in training. An employee with an engineering degree who is not yet licensed.
Engineering News Record	A publication that showcases engineering projects, firms, and practices.
Enterprise Fees	Fees charged, and used, for a specific purpose. For example, water usage fees are used only for water acquisition and delivery.
FN University	Freese and Nichols University. In-house professional development program.
FNI	Freese and Nichols, Inc.
FNI Associates	Employees who have been identified as future leaders of the company.

Glossary of Terms and Abbreviations

FNI Shareholders	Owners of FNI. Must be actively employed with FNI.
GAAP	Generally Accepted Accounting Principles.
Gap Analysis	Analysis that is completed related to indicators which are not meeting target (gap between current performance and target performance).
GIS	Geographic Information System. A computer system that captures, stores and analyzes data related to geographic location.
Goal Centered Performance Planning	Employees eligible for a special bonus driven by attainment of their goals.
Group	The staff of one or more disciplines managed as a single work group.
Group Manager	Managers responsible for technical and corporate Groups within each office.
Hedgehog Concept	The one thing that a company can do better than all others. From *Good to Great*, 2001, Jim Collins.
IDP	Individual Development Plan. A personal/career development plan for employees that are developed by each employee and their supervisor on an annual basis.
ISS	Integrated Sales System. Automation of the Miller-Heiman System for sales and marketing.
ITIL	The Information Technology Infrastructure Library is a set of concepts and policies for managing information technology infrastructure, development and operations.
Key Accounts (KA)	Clients who's past 3-year bookings approach or exceed a designated amount.
Emerging Key Accounts (EKA)	Existing clients with significant bookings over the last three years and the potential to become key accounts.
Potential Key Accounts (PKA)	Not current clients, but have documented future needs and potential bookings greater than a designated amount over the next 3 years.
Lead Team	Leads the organization and oversees daily operations. President/Chief Executive Officer, Chief Operating Officer, Chief Financial Officer/Chief Administrative Officer, Chief Marketing Officer, Four Division Managers, Human Resources Manager, Marketing Manager
LEED	Leadership in Energy and Environmental Design. An accreditation for buildings that are energy and environmentally efficient.
Likert Scale	A five-point rating scale commonly used in surveys, with 1 indicating the lowest rating and 5 the highest rating.
LLC	Limited Liability Company. A hybrid between a partnership and a corporation.
Miller-Heiman System	A sales process with core programs to manage key account relationships, sales opportunities, and sales calls.
Negative Variance	Labor and expenses that exceed the budget on a project.
Net Multiplier	Revenue minus project expenses divided by project salary.
Net Revenue	Revenue earned from FNI labor.
Ombudsman Program	A program that provides our Human Resources manager as an ombudsmen for employees. They can go to her with concerns and they will be addressed and the source kept in confidence.

Glossary of Terms and Abbreviations

Payroll Utilization	Billable salary divided by total salary.
Planning Team	Lead Team, plus other FNI staff with relevant expertise.
Industry Benchmark (IBM)	Industry benchmarking firm that provides civil engineering financial and productivity data annually.
Quality-Based Selection (QBS)	Architects and engineers are selected based on their qualifications, rather than the cost of the project. The design and specification documents prepared by them are then used in a bid process to select construction companies based on cost.
Revenue	Gross revenue represents the effort earned from FNI labor and the work of subconsultants. Net revenue represents the effort from FNI labor alone. With large contracts, revenue will occur over several years.
RFP	Request for Proposal. The most common venue for governmental entities to ask for competitive proposals. The RFP usually contains detail requirements for the project.
SBU	Service Business Unit. A way to segment project data by type of service. Examples are dams, utilities, architecture, water/wastewater treatment plants, etc.
Standard Specifications	Standards as to the types and content of design specifications.
Subconsultant	Another engineering, architectural, environmental science or survey firm that FNI contracts with to provide services.
Sustainable Design	Designs that provide for the needs of the present without detracting from the ability to fulfill the needs of the future.
TCEQ	Texas Commission on Enviornmental Quality. Oversees adherence to regulations related to air and water quality and safe management of waste. Most EPA regulations are implemented through TCEQ.
TEP Team	Technical Excellence Program Team. A team that focuses on processes and standards for a technical discipline.
TEP Leader Committee	A committee comprised of the Leaders of each of the TEP teams.
Top Box 5	A program that recognizes client satisfaction surveys receiving all 5s on the survey questions.
Top Box 5*i*	A program that recognizes internal client satisfaction.
TxDOT	Texas Department of Transportation
Utilization	Project salary divided by total salary. This is an indicator of the percent of time that project staff performs billable work.
WD/RA	Water District/River Authority market segment.
Won But Not Authorized	WBNA. A project that has been awarded to FNI, but we do not yet have a signed contract.

P.1a Organizational Environment

Long before a region adopts new water policies; or a city reinvents its downtown; or a water utility applies new treatment technology; engineers, architects, environmental scientists and planners conduct studies and develop approaches which make these programs possible.

Freese and Nichols, Inc. (FNI) was founded in 1894 in Fort Worth, Texas when John Hawley became the state's first consulting engineer in water and sewer works. During the first half of the 1900s, FNI became the premier consulting firm in Texas for the design of water resources, water and wastewater systems, and municipal infrastructure. Since then, FNI has grown from its roots as a Fort Worth engineering company to become a full service professional consulting firm serving water districts, municipal and county governments, the U.S. government, and higher education institutions.

P.1a (1) Our primary services include engineering, architecture, environmental science, planning and construction services. Engineering services include feasibility studies and design of public works, such as water reservoirs, water treatment plants, municipal roadways and storm sewer systems. Architectural services include building design and renovation. Environmental science services include environmental impact statements, natural resource management and contamination assessment. Planning services include municipal comprehensive land use planning, and water, wastewater and stormwater planning, and master campus planning for higher education. Construction services involve monitoring the construction project for the owner.

We often meet with our clients at their facilities to discuss current and future projects. While we routinely visit project sites, a majority of our work is conducted at our own offices, using engineering, CAD and 3-D software to generate the kinds of designs and plans shown in Figure P1.1-1. Perhaps as important as our technical services is the role we play as trusted advisors to our clients. In this capacity, we often are considered an extension of our clients' organizations, acting as advisors about issues ranging far beyond current projects. We may act as the local government's consulting engineer, reviewing all city and developer plans for compliance and making presentations to city councils, or we may act as coaches and mentors to our client's staff. For all of our clients, we look for ways to go beyond the clients' stated needs to add additional value for our clients and the communities they serve.

P.1a (2) FNI has a strong culture of caring for its employees, its clients and the communities it serves. The guiding statements of our culture are shown in Figure P1.1-2. These statements represent the essential beliefs by which we manage FNI. Our hedgehog concept represents our conviction that long-term relationships and outstanding service are critical to our sustained success. We build trusting relationships with our clients through our technical expertise and our high ethical standards. We attract and retain top talent by providing a caring environment with opportunities for technical and professional growth. As a result, we measure associations with our key clients in decades, often spanning generations on both sides of the relationship.

Figure P1.1-2 Mission, Vision, Values Statements
Hedgehog Concept
Be the very best at client service, resulting in long-term mutually beneficial relationships
Mission Statement
Innovative approaches . . . practical results . . . outstanding service
Vision Statement
Be the firm of choice for clients and employees
Guiding Principles

• We are ethical	• We are innovative
• We deliver quality	• We develop professionally
• We are responsive	• We respect others
• We add value	• We give back to our communities
• We improve continuously	

We have four core competencies that, taken together, set us apart from other consulting firms and help us develop the long-term relationships that are the key to our success.

- **Ethical conduct** is the cornerstone of our business. Our clients rely on our high standards of professionalism, knowing that we put their interests before our own.
- **Technical excellence** is how we deliver high quality, innovative solutions to our clients. Innovation may mean use of a new technology or simply a more cost-effective solution to client problems.
- **Understanding client needs** by asking questions and actively listening for opportunities lets us add value to current projects and the client's organization as a whole.
- **Trusted advisor relationships** are our ultimate goal. If we succeed in utilizing the first three competencies, we have the opportunity to become trusted advisors and nurture long-term relationships with our clients.

Figure P1.1-1 Examples of FNI Projects: Wastewater Treatment Membrane Design, Quad & Hillshade Map for a Water Reservoir, University Master Plan, Stormwater Improvement Demonstration
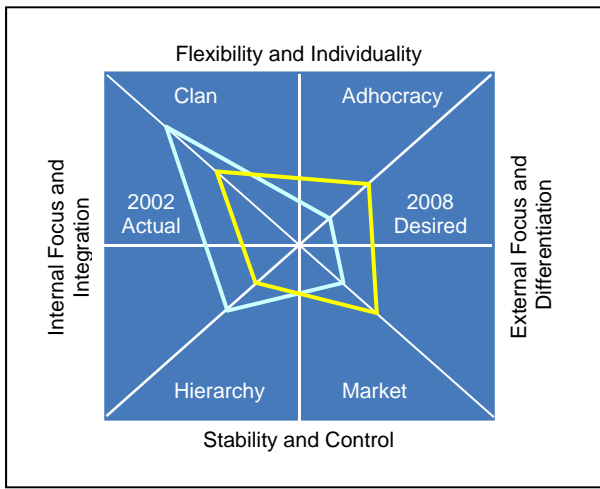
P1.1-3 The Competing Values Framework: Shift in FNI Culture from 2002 to 2008

In 2002, we analyzed our culture to ensure that our organizational behavior was consistent with our beliefs. We use an assessment methodology called "The Competing Values Framework" which defines four competing cultural quadrants: Clan, Hierarchy, Adhocracy, and Market. The results of the assessment showed that we had a very strong Clan culture, which was consistent with our emphasis on nurturing and developing our employees. Senior leaders and employees alike agreed that it was very important to move FNI more toward a Market culture, strengthening our accountability for providing high quality services to our clients. Since then, we have implemented several initiatives to achieve this shift, including TopBox5, staff goals related to client satisfaction and the addition of full-time Account Directors to focus on market needs and expectations. We conducted this assessment again in 2008 and found that we have made progress in moving towards a Market culture. We intend to continue this shift as well as move towards an Adhocracy culture to promote a stronger emphasis on innovation (Figure P1.1-3). The assessment methodology includes research about leadership and management skills needed for each of the four quadrants. This information has helped us identify desired skills during candidate interviews, employee performance evaluations, and employee and leadership training.

P.1a (3) Figure P1.1-4 shows the demographics of our 440 employees (counting individuals, rather than FTEs). The firm is composed of 31% female and 15% minority employees. These percentages are consistent with the composition of workers available in the marketplace. We have identified five key factors that engage and motivate our employees:

- Management's caring attitude towards employees
- Opportunities to work with quality co-workers
- Opportunities to work on challenging projects
- Opportunities to develop and grow professionally
- A balance of work and personal life

Health and safety requirements include construction site safety and ergonomic designs for office workers. Employees whose work may require them to visit hazardous sites complete training and certification for hazardous sites.

Figure P1.1-4 Employee Demographics		
Employee Categories	Senior Managers	9
	Managers/Supervisors	26
	Engineers/ Architects/ Env Scientists	284
	Technical Support Staff	41
	Corporate Support Staff	80
Highest Ed Levels	Doctorates	2
	Masters Degrees	106
	Bachelor Degrees	210
	Associate Degrees	23
Licenses and Certifications	Professional Engineers	135
	Registered Architects	7
	American Institute of Certified Planners	5
	Certified Public Accountants	2
	Professional Wetland Scientist	1
	Construction Document Technologists	3
	Certified Construction Contract Admin	3
	Professional Geoscientists	2
	LEED Accredited Professionals	17
	Certified Energy Manager	1
	Certified Floodplain Managers	15
	Certified Environmental Engineers	5
	Certified Arborist	2
	Licensed Landscape Irrigator	3
	Registered Landscape Architect	1

Key benefits for employees include employer-paid medical, vision and dental insurance; flexible spending accounts for health care and dependent care expenses; overtime for exempt employees; six days of personal leave a year; 401K plans with matching FNI contributions for the first 6% contributed based on company profit level; and a variety of recognition and bonus programs. Perhaps the most important benefits are that employees have the opportunity for personal and professional development and to provide input about the direction of the firm through various meetings, surveys and focus groups.

P.1a (4) FNI maintains offices in larger metropolitan areas of Texas to provide services to our clients who are located across the state. Our corporate headquarters is in Fort Worth with division offices in Ft. Worth, Austin, Dallas, and Houston. We have satellite offices in Pearland, San Antonio and Corpus Christi. Because sharing resources across sites is so critical to our success, we have invested heavily in technology solutions to support communications and collaboration among work groups. We maintain a LAN in each office and a WAN that connects all offices to support cross-location teams. We use custom software to support project communications among team members, the client and subconsultants, and to share real-time updates to technical files across locations. We have a web-based video conferencing system in all offices to facilitate meetings and training sessions. Senior leaders, Group Managers and project managers have PDA phones to support timely response to client requests.

We have web-based software for project management, accounting and payroll functions. Our employees have access to a variety of technical tools including MS Office products, AutoCAD, Microstation, 3D rendering, ArcGIS products, and software specific to the various engineering, architectural, and environmental science disciplines. Our technical staff has custom computer work stations designed to support the complex requirements of engineering and CAD software. We maintain a fleet of 36 vehicles for field employees to use on project sites and office employees to use for business travel.

P.1a (5) The regulatory requirement that most directly affects our organization is professional registration. Texas laws require a license to practice architecture and engineering. The licensing process is administered by the Board of Architecture, and Board of Professional Engineers, respectively. Our engineers and architects also hold a variety of certifications to attest to their expertise and experience in their chosen disciplines. We are a privately held firm and use GAAP for financial management and reporting. Other major regulatory requirements that impact our clients and therefore the projects that we work on are:

- Americans with Disability Act – requirements for all structures that require public accessibility.
- Small Business Administration – monitors our clients' usage of minority and women-owned businesses.
- Texas Commission on Environmental Quality (TCEQ) – monitors and regulates air and water quality and safe management of waste.
- Environmental Protection Agency – for the most part EPA regulatory authority is with TCEQ.
- OSHA – safety requirements for our employees.
- Corps of Engineers – Regulates all U.S. navigable waters (rivers, ports, etc.), levees and canals. Many of our projects are impacted by Corps regulations.

P.1 b Organizational Relationships

P.1.b (1) Our firm is owned by 34 shareholders, all of whom are active employees of the company. We fund this ownership by sharing profits with employees who are buying stock. This ensures a successful exit strategy for the current owners and continuity of the firm. The Board of Directors consists of nine voting members (FNI shareholders) with two outside, non-voting advisory directors. Management of the company is accomplished by the Lead Team led by the CEO who reports to the Board of Directors.

The board has five standing committees: Audit Committee, CEO Evaluation Committee, Compensation Committee, Nominating Committee and the Ownership Transition Committee. Other committees from board/shareholders are formed temporarily as needed to address key issues such as the selection of new advisory directors.

The Board is active in setting policy and in the strategic planning process. The CEO provides the Board a monthly update of the strategic plan status. The Lead Team manages company operations through the development and deployment of strategic goals and actions. Accountability is achieved through bi-monthly President's Reviews, which assess progress toward strategic goals and status of action plans. Improvements are deployed to address gaps in performance.

P.1b (2) The majority of our clients (93%) are public sector organizations. Our market segments, along with their percent of net revenues for 2009:

Municipalities:	48.2%
Water Districts/River Authorities	32.1%
Emerging Markets	19.7%

Municipalities and Water Districts/River Authorities are markets we have served for much of our 115 year history. Emerging markets are those we have been developing over the last few decades. These markets include Military/ Government, Higher Education, Private Sector and Energy.

All of our market segments have similar requirements however the priorities may change from one project to the next. Creativity and cost savings may be priorities for a longer-term project, while adherence to schedule and budget may be paramount for a shorter-term effort. The full range of customer requirements includes:

1. Adherence to schedule
2. Adherence to budget
3. Understanding client needs
4. Responsiveness to client calls and requests
5. Communication on project status and issues
6. Ability to adapt to changes throughout the project
7. Creative approaches to project
8. Design or study alternatives discussed
9. Cost savings ideas offered (alternative bidding, materials, delivery systems, etc.)

The procurement process for our public-sector clients is highly regulated. Public-sector clients must follow the Quality-Based Selection (QBS) process in the procurement of architectural and engineering services. QBS requires that the procurement of these services for publicly-funded projects be based on qualifications rather than cost. The request for proposal is fairly general, concentrating more on qualifications than on project specifications. All proposals are considered proprietary. Very little information is available about the proposals submitted or the reasons for a win or loss. Once a contract is awarded, the client negotiates the contract scope, fee and specifications with the selected firm. About 20% of our projects are obtained through the QBS process, with the remainder through a single-source process that requires no competition.

P.1b (3) Suppliers and Supply Chain Requirements
Subconsultants and software vendors are the key suppliers involved in the production and delivery of our services. Subconsultants are other consulting firms, surveyors, CAD technical services or laboratory services. We select subconsultants as we establish teams for the projects that we are pursuing. We maintain a database of "preferred providers" that we have developed based on feedback from clients and Project Managers, as well as accounting and marketing staff.

Our basic requirements for these subconsultants are that they provide quality services, are easy to work with, follow our contracting, accounting, proposal and technical standards, and that our clients like working with them. Our subconsultants add value by contributing to a "winning team" through a local presence, a prior relationship with the client or specialized

expertise that is not easily available. We communicate with our subconsultants at meetings to explain our contracting, accounting, and proposal needs, as well as meetings to discuss potential projects. Once a project is initiated, subconsultants are considered part of the project team: expectations are communicated at the project kick-off meeting, work is reviewed at appropriate milestones, and overall performance is rated by the Project Manager at project close-out.

Our primary software vendors are BST (accounting and project management), Autodesk, BENTLEY and ESRI (engineering) and Microsoft (office automation). Their products play a key role in production and delivery of our services by improving our efficiency, our ability to communicate with clients and each other, and our access to information and data about our operations.

Our primary requirements for software vendors are products that meet our process support and information management needs. We are a long-time customer of BST and have worked with them over many years to define the features and functions that best support our needs. We are on the advisory committee for Autodesk and have similar input. FNI has a Microsoft Enterprise Agreement which allows us early upgrades and input to vendor products.

P.2 Organizational Challenges

P.2a (1) Our competition comes from about 40 firms with offices at one or more of our locations. From this group of 40 companies, we have identified 11 firms that represent the majority of our competition. We have the fewest competitors for some of the more specialized municipal services, like water and wastewater treatment. Those competitors are usually larger national firms. We have more competitors for services like road and street design, environmental studies, water and wastewater utility pipelines, and architecture services.

We are consistently listed in the Engineering News Record's Top 500 Engineering Firms nationwide. Our ranking in 2009, based on gross revenues, is 139, up from 185 in 2008. We can determine market share for individual public-sector clients through open records requests, but it is not cost-effective to investigate the entire market. Many of our public sector clients intentionally share projects across several firms so that elected officials do not show favoritism. Overall, our estimated market share reflects our length of time in each market. We have a significant portion of the Water District/River Authority market, a proportional share of the Municipal market and smaller shares of our emerging markets: Higher Education, Private Sector, Military/Government and Energy.

P.2a (2) There are three principal factors that determine our success in the market place by improving our ability to win contracts and gain repeat business:

- Understanding and meeting client project and organizational needs.
- Long-term continuity with our clients through individual relationships that last year after year.
- An integrated organization that collaborates across locations and disciplines for marketing, service delivery and organizational support functions.

The key changes taking place in our competitive situation:

- National firms are continuing to pursue large Texas projects; establishing new offices or acquiring local DBE firms. Many of these competitors do not have integrated operations, so we find that their Texas offices often work at cross-purposes on proposals and project solutions.
- Local and national competitors, as well as clients, continue to lay off staff. The Texas labor market has a surplus of available talent.
- Governmental entities are continuing to face budget short-falls. While Texas has fared better than most states during the recession, the effects of 5% to 10% reductions in real estate values is straining city, county and state budgets. Operating budget reductions will impact some municipal services. Some services, such as water resources are funded by bonds, while others, such as water/wastewater planning and treatment are funded by enterprise fees.
- Our prior efforts to establish a presence in the Houston area through standard municipal services have not proved successful. We have shifted our strategy to growing this region through delivery of water resource planning and design services. These are areas in which we excel and lack significant competition the Houston area. Strategic hires in 2008 in Water Resources for the Southeast Division are beginning to produce results.

P.2a (3) Our main sources for industry comparative data are:

- Dietrich salary data compares salaries within our industry by position and geographic location.
- An industry benchmarking firm provides financial, productivity and competitive client satisfaction data.
- National Society of Professional Engineers survey of HR practices.
- The CEO Conference survey is based on data gathered twice a year from eleven privately-held firms of similar size and services to FNI. These firms are part of a benchmarking group and are not competitors of FNI.
- American Council of Engineering Companies Industry Trends Survey is based on data gathered biannually from more than 200 engineering and surveying firms across the U.S. and provides operational and financial data.

The primary challenge in obtaining comparative industry data is the lack of standards in operational definitions of data. For example, utilization might be reported with or without paid time off or exempt employee pay for straight overtime. Comparisons to data outside of our industry include:

- Milliman Consultants and Actuaries for comparison of our insurance benefits to other companies.
- Various "best place to work" awards from within and outside of our industry provide comparative information on performance and best practices.
- Vanguard for benchmarks of our 401K benefits.

P.2.b The most important business challenge FNI faces is the ability to thrive in all economic cycles. We must maintain tight control of expenses to survive the recession and at the same time prepare the company to meet new and expanding client needs in the future. Regardless of what cost cutting measures we must take now, we cannot lose sight of the importance of client relationships and quality service.

Our key Human Resource challenges are to recruit and retain a motivated and stable workforce. Even in the current economic environment, we have to compete for top technical talent in certain disciplines. Our strategic advantage is that FNI is a highly desirable place to work, so we have a competitive edge in recruiting the best candidates. However, as the recession ends, our challenge is to retain our talent as the competition replaces the many employees they have laid off over the last two years.

Our most significant operational challenges are fostering innovation, improving collaboration and ensuring appropriate staffing levels. Our projects are a combination of repetitive work and problems that require innovative solutions. The challenge of incorporating creativity into a rigorous civil engineering environment is one that we have worked on for several years. We ensure consistency of work by developing, improving and following our processes. We address innovation by having project teams consider creative solutions at key points in their projects. An Innovation Committee is currently developing more formal methods to incorporate innovation across the company.

Our projects require a significant amount of collaboration and work sharing across technical groups and locations. We must also collaborate between marketing, accounting and operational groups. We use a variety of technology to support communications and collaboration across all these groups. The Technical Excellence Program (TEP) teams provide an important venue for communications and collaboration among employees within a discipline. We continue to face the challenge of improving cooperation across all locations and all functions.

Appropriate staffing levels means that we have the right capacity and capability in place for our workload. Unlike many industries, civil engineers are not transferable between disciplines. They must be degreed, experienced and licensed in their chosen field of expertise. In a growing economy, this is not a problem. In today's economy, we must closely monitor staffing levels and workload to ensure sufficient utilization of our workforce.

Our key sustainability challenges and advantages for FNI are best summed up by our hedgehog concept "Be the very best at client service, resulting in long-term mutually beneficial relationships". The challenge for our firm is to create and maintain these relationships over the long term so that they continue to benefit all concerned. Our vision shows how we intend to meet this challenge by "Being the firm of choice for clients and employees." This vision drives our efforts to continuously improve our services, provide our employees opportunities for growth, and our owners a reasonable return on investment.

P.2.c We use a Continuous Improvement (CI) model to drive performance improvement. We started using continuous improvement in 1996 after experiencing two years of poor profits and have refined our CI approach several times since. Our CI model includes our CI Management System (See Figure 1.1-1) and a CI Participation Model. The Continuous Improvement Steering Committee (CISC) oversees and

coordinates CI activities across the organization. The CISC includes representatives from groups and locations across the company. The CI Participation Model (Figure P2.2-1) shows how employees participate in continuous improvement at FNI. The intent is for all improvement and innovation efforts to align with our strategies, goals and values. Opportunities for employees to participate in CI include:

- Strategic actions are assigned as part of the strategic plan deployment process (See Item 2.2).
- *CIdeas in Action* is our employee suggestion program that was a 2009 enhancement to our existing Bright Ideas program. The CISC selects areas from the strategic plan to focus employee suggestions on in the coming year. The CISC recommends CI teams to the Lead Team to implement approved suggestions.
- *Challenge the Process* is the venue for employees to submit improvement ideas to their respective technical or corporate groups. These groups, who are responsible for their own processes, incorporate approved improvements. These groups also update their processes to meet changing regulatory requirements, client needs and suggestions from the Employee Opinion Survey.
- Standing committees, responsible for more global processes such as project management, improve these processes based on strategic goals, suggestions from project PDCAs, client feedback, and employee surveys.
- Employees are encouraged to find innovative solutions for client projects. We are piloting a new innovation program to assign senior technical staff to coach project teams about innovation at key points of the project.

Employees receive training about CI during New Employee Orientation, brown bag luncheons and as part of the quarterly CI luncheons. Results of CI activities are shared through the FNI intranet, steering committee meetings, President's Reviews and the FNI employee newsletter blog.
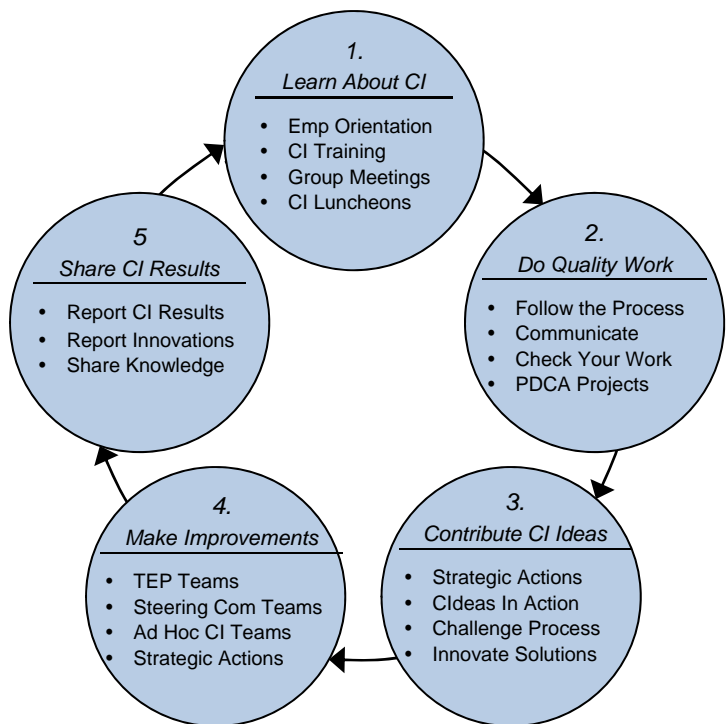

Figure P2.2-1 CI Participation Model

Category 1 Leadership

1.1 Senior Leadership

1.1a (1) The Freese and Nichols, Inc. (FNI) CI Management System (Figure 1.1-1) is our integrated approach to continuous improvement. It encompasses establishing mission and vision, strategic planning, deployment of goals and action plans, performance improvement, accountability and recognition of achievements. Our Lead Team is responsible for executing the CI Management system processes and overseeing daily operations. It includes:

- President/Chief Executive Officer (CEO)
- Chief Operating Officer (COO)
- Chief Financial Officer (CFO)/ Chief Administrative Officer (CAO)
- Chief Marketing Officer (CMO)
- Chief Information Officer (CIO)
- North Texas Water/Environmental Division Manager
- North Texas Infrastructure /Facilities Division Manager
- Southeast Texas Division Manager
- Central Texas Division Manager
- Human Resources Manager
- Marketing Manager

The concept of senior leadership at FNI includes a larger circle of executives than in most organizations. Three of the firm's former leaders, semi- retired, continue to actively participate in teaching and mentoring the next generation of employees and managers. These former leaders attend board meetings; teach ethics classes, conduct quality assurance reviews and host principal luncheons. Their participation brings a wealth of knowledge and experience to the next generation and helps the Lead Team communicate and reinforce the values and expectations of the firm.

Our hedgehog concept, mission, vision and guiding principles (See Organizational Profile) are the foundation statements that guide strategic planning, decision making and performance expectations at FNI. The current statements were developed in 2002 and revised in 2007 by a team of senior leaders and Board members. As part of this process, the CEO obtained input about the proposed statements through employee focus groups from all locations. The Board approved the final statements. In intervening years the Lead Team evaluates how well these key statements are communicated, understood and followed by our employees, our clients and our subcontractors. For example, last year the Lead Team found that the organization had lost focus on the guiding principle "we respect others", resulting in a strategic action for 2008.
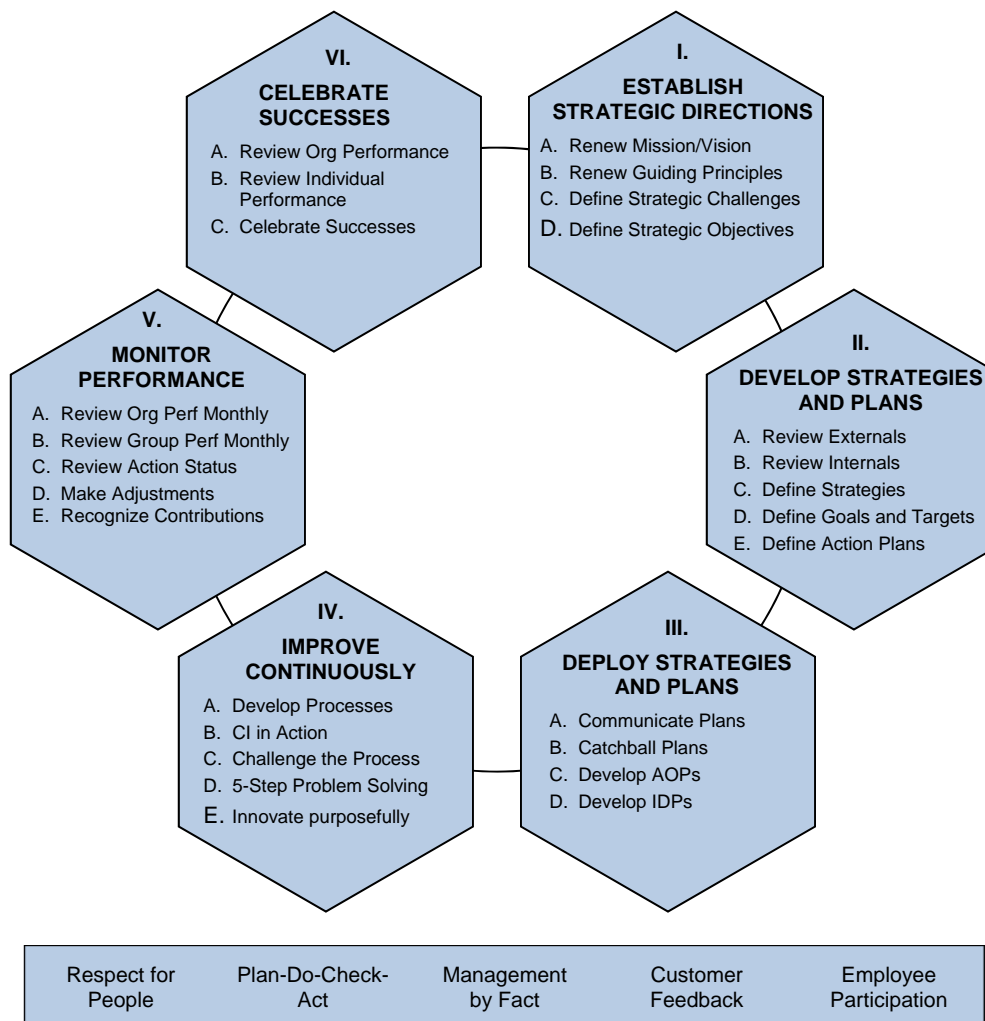
Senior leaders communicate our hedgehog concept, mission, vision, and guiding principles to employees through organizational meetings, interactions with employees, printed materials and role-model behavior. The meaning of these guiding statements, and their linkage to the firm's objectives and strategies, are discussed during the strategic planning retreat. The CEO travels to each location in January to present a summary of the overall strategic plan and again in July to present a status update. At each presentation, he cites examples of employees living our mission, vision and guiding principles. The CEO explains our guiding statements during new employee orientation. Segments on FNI mission, vision and guiding principles are included in the Freese and Nichols University (FNU) classes on ethics, project management and leadership skills. Division Managers and Group Managers reinforce the mission, vision and guiding principles during annual group retreats and monthly Group Meetings. Our guiding statements are displayed throughout our offices, on our web site and on our meeting agendas.

Figure 1.1-1 CI Management System (Based on "Six Disciplines for Excellence - Building Small Businesses that Learn, Lead, and Last" by Gary Harpst ©2004.

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Our senior leaders personally demonstrate a commitment to the organization's guiding principles in their decisions and behaviors. They address client claims honestly and fairly, always correcting our mistakes, regardless of cost. When we have employees whose actions do not reflect the values of the company, senior leaders participate in coaching and follow-up monitoring. Many senior leaders participate on standing committees, providing guidance and support in key technical areas. Many senior leaders conduct QA reviews, ensuring that our quality control standards are met. All senior leaders participate in our formal mentoring program.

We deploy our mission, vision and guiding principles to our client base through our Executive Client Visit process (see Item 3.2), in our presentations and materials, and through daily interactions. Clients tell us they recognize and appreciate a strong sense of values in our employees.

1.1a (2) Ethical behavior is the foundation of any professional services firm and one of the core competencies on which we base our success. The CEO and other senior leaders continuously promote a culture of ethical and legal behavior through formal training and their daily interactions:

- Senior leaders communicate expectations about ethical behavior during new employee orientation, leadership training and twice-yearly reviews of the strategic plan. Our first guiding principle is "We are ethical".
- Senior leaders coach employees about ethical issues as part of their every-day interactions. FNI promotes an open environment where employees are welcome to ask their direct manager or any senior leader about any issue.
- The Chairman Emeritus conducts classes in professional ethics for FNI employees. All licensed FNI employees attend the course annually. We promote our value system by providing this class free of charge to our clients and in some cases to our competitors.
- Senior leaders may participate in resolving client claims quickly and to the client's satisfaction.
- Senior leaders participate in coaching and monitoring any employee who commits an ethics violation.

1.1a (3) Sustainability at FNI means continued long-term relationships with our clients and our employees, successful ownership transition across generations, and the ability to continuously improve our systems and services. We promote long-term relationships with our clients through outstanding client service based on ethical conduct, technical excellence and understanding client needs. We sustain those relationships through "laddering", matching our staff to the client's at several levels to allow the future generations of both sides to develop relationships over many years. This means that long-term relationships with our employees are just as critical to our success. Our recruiting process, our caring culture, our focus on employee development, and challenging projects help us find and retain the best talent. The Board Ownership Transition Committee's 20-year plan ensures successful ownership transition from one generation to the next by projecting stock purchases by new owners and divestitures by retiring ones. We maintain cash reserves to ensure the availability of needed funds for retiring owners.

Our CI Management System supports performance improvement in all facets of our organization. The first three steps in this system (Figure 1.1-1), *Establish Strategic Directions, Develop Strategies and Plans* and *Deploy Strategies and Plans* outline our strategic planning process, which allows us to recognize and respond to market demands by addressing new market areas, new services and changes in how we deliver our services. For example, for 2009 we had strategic initiatives to implement the latest water treatment technologies and enhance our employee wellness program.

Strategic objectives are deployed throughout the firm through goals and actions, *Step 4: Improve Continuously*. Figure 1.1-2 shows our standing teams. Action plans are deployed to specific work groups, standing teams or CI teams. The Innovation Committee was initiated in 2009 to determine how best to incorporate innovation into all key work areas. The CI Participation Model (Figure P2.2-1) shows how employees participate in CI at FNI. The intent is for all improvement and innovation efforts to align with our strategies and goals. Our employee suggestion system, *CIdeas in Action,* asks employees to contribute ideas related to strategic focus areas for that year.

Standing Teams	Area of Responsibility
Ownership Transition Committee	Plans transition to next generation of shareholders
Audit Committee	Oversees external financial audits
Nominating Committee	Oversees election of Board members, advisory directors and officers
CI Steering Committee	Oversees CI initiatives
Innovation Committee	Promotes innovation
PM Steering Committee	Improves project management processes
Technical Excellence Program (TEP) Teams	Develops and improves technical processes, monitors technology/regulations, recommends new technologies and services
TEP Cross Teams	Initiates new services
TEP Leader Committee	Oversees TEP teams and TEP Cross teams
CAD Steering Committee	Develops and improves CAD standards and processes
GIS Steering Committee	Develops and improves GIS standards and processes
QA Reviewer Committee	Improves QA processes
Corporate Coordination Committee	Oversees improvements to corporate support functions
FNI Retirement Plan Committee	Monitors performance of 401K administration and investments by trustee

Figure 1.1-2. FNI Standing Teams

The next step in the CI Management System is *Monitor Performance*. The Lead Team reviews organizational performance monthly. Progress is reviewed at the bimonthly President's Review with Division and Group Managers to ensure accomplishment of goals and plans. While we maintain this focus on our strategic initiatives throughout the

year, we also respond to changes in market conditions. For example, in anticipation of the possible effects of the drastic downturn in the economy last year, the Lead Team decided to start reviewing utilization and backlog weekly to better monitor and improve utilization of our workforce.

We have long promoted innovation through our Technical Excellence Program. We emphasize innovation through recognition programs for professional and technical papers, presentations at conferences and our annual Innovation Award. The Innovation Committee is establishing innovation on a more systematic basis across the company.

We create an employee learning environment through the Freese and Nichols University (FNU), regular brown bag lunches, TEP teams, and attendance at professional association conferences. Both senior leaders and staff participate in teaching many of our FNU classes. We promote organizational learning by sharing improvements and innovations in a variety of venues, such as quarterly CI lunches, PM lunches, employee newsletter blog, annual innovation awards and President's Reviews. We have a strong technical coaching program to encourage our senior staff to develop junior staff members, conveying organizational knowledge to the next generation. We have formal leadership development programs for several levels of leaders within the organization. Senior leaders are involved in identifying potential leaders, participating in formal leadership training and mentoring the next generation of leaders.

1.1b (1) Freese and Nichols has an open culture. Employees have frequent interactions with senior leaders and shareholders in meetings, informal conversations, break rooms, hallways, classes, e-mails and telephone. Direct communication is encouraged and responses are straightforward. Key decisions, whether good news or bad, are delivered by our CEO or senior staff, and are usually followed by group meetings to address action plans where appropriate. When face-to-face meetings are not possible, the leaders use teleconferencing, video-conferencing or direct e-mail. When news affects a particular group, a senior staff member often will join the Group Manager to discuss the situation and address what actions will be taken.

Senior leaders have frank, two-way discussions with employees in a variety of venues:
- The CEO meets with employees at each location twice a year to review strategic plans, provide updates on performance, and gather employee input.
- Senior leaders teach key segments of employee orientation, project management and leadership classes.
- The CEO conducts a monthly roundtable discussion with employees to learn of their issues and concerns.
- Senior leaders coach and support standing and ad hoc teams in their improvement initiatives.

- Many shareholders in the firm host a semi-annual principal luncheon at one of the FNI locations to give employees the opportunity to discuss topics of interest.
- All senior leaders participate in our formal mentoring program, guiding and advising dozens of employees.
- Senior leaders meet with Group Managers during the annual planning retreat to review strategic plans and get feedback about deployment of action plans.

We have several programs to recognize high performers, including Top Box 5 and Top Box 5*i* recognition, Brag sessions at President's Reviews, Bonus programs, Star Bonuses, and employee appreciation events (See Item 5.1). Senior leaders participate in these programs to recognize high performers and focus on client service. The CEO, CMO, COO and CFO review every client survey response and send appreciation messages to employees for their excellent work.

1.1b (2) The Lead Team (LT) creates a focus on accomplishing our strategic objectives through deployment of annual goals and actions. Strategic actions define how we intend to change the business in the coming year. Goals are used to measure success, both in growing the business and in changing the business. Each action is assigned an action lead and a LT sponsor. The action lead is responsible for creating and executing the action plan. The LT sponsor is responsible for supporting the action lead and ensuring that the action is completed successfully. The action plans are deployed throughout the organization with time allocated for employees to work on their assigned tasks. (See Item 2.2)

Organizational-level performance is tracked through the balanced scorecard. The Lead Team reviews performance to goals monthly and the status of action plans quarterly. The Board reviews performance bimonthly. Either group may initiate corrective action to meet goals. For example, to address a recent spike in negative variance, the COO led a team of Division and Group Managers to assess the problem and implement corrective actions.

We create value for all of our stakeholders by translating our mission, vision and guiding principles into goals and actions. We emphasize this value creation by evaluating employee performance in achieving goals and demonstrating our guiding principles. We create value for the community by helping our clients be good stewards of their natural resources. We create value for our clients through high-quality technical solutions that meet their needs and by being trusted advisors. This in turn gives our employees the opportunity to develop their skills and advance in their careers. By creating value for the community, clients and employees we generate financial success for our shareholders.

Group-level performance is reviewed bimonthly by the President's Review Team (PRT), which consists of the CEO, CFO, COO and Division Managers. The meeting includes those Group Managers with below-par performance, along with Operations Analysts and Project Managers. Participants discuss problem areas and how to best take action, including assistance from the PRT. The PRT initiates corrective actions and monitors the results.

1.2 Governance and Societal Responsibility

1.2a (1) Freese and Nichols is a closely held S Corporation, with stock ownership by 34 employees of the company. The Board of Directors is comprised of nine of these shareholders, who serve on a rotating basis, plus two outside advisory directors. The Board establishes company policies, provides leadership in the strategic planning process, approves annual budgets, and represents shareholders in an oversight role.

New shareholders may be nominated annually. All shareholders must be active employees of FNI. Employees must meet published criteria to be nominated. The current shareholders follow an established process to evaluate and select new shareholders. FNI transfers company ownership through the profits of the company, which are distributed to shareholders and non-shareholders. The Board Ownership Transition Committee oversees long-term (20-year) planning of stock ownership to ensure that we have sufficient time to balance buying and selling of shares and manage the debt burden on the company.

Management Accountability - Accountability for Lead Team actions is achieved through Board review of performance every other month, including financial reports, performance of KFA/KFIs, balanced score card performance. These reports are provided by division and by technical discipline within those divisions. Division Managers are accountable for the performance of their respective divisions. The Board reviews major vendor contracts and lease agreements to ensure adherence to FNI policies. The Board also reviews the status of strategic action plans every other month through the CEO's report. Each strategic action plan is assigned a Lead Team sponsor who is responsible for ensuring that the action is completed successfully.

Financial Accountability - Financial reports are presented each month to the Lead Team, the Board and the shareholders. Fiscal accountability is ensured by the Board Audit Committee, which includes an outside director. The committee works with outside financial auditors each year and presents the results of the audit to the Board.

Transparency in Operations - Transparency in operations is accomplished through monthly reports to the Board as well as posting achievement of KFA/KFIs to goals in all offices. The President reviews the status of the balanced scorecard and action plans twice a year with employees at each location.

Protection of Stakeholder and Stockholder Interests – Our entire governance system is concerned with protecting the interests of our stakeholders (shareholders, employees, clients and the communities we serve). Our mission, vision and guiding principles set the tone for the types of projects we will accept. Our strong focus on ethics, the Go/No-Go process, and the risk management process ensure that we do not engage in projects that are potentially damaging to ourselves or to our communities. Our work directly impacts the quality of life and safety of our citizens. Our Technical Excellence Program teams and our QC/QA processes ensure that we produce the highest quality solutions for our clients and our communities.

1.2a (2) The effectiveness of the Board in fulfilling its roles and responsibilities is assessed through a survey completed by each Board member. The survey addresses board member preparation and knowledge and the effectiveness of the board in meeting its obligations. The Chairman and the CEO review the results and make recommendations to the Board for improvements. The CEO assigns responsibility for implementing approved recommendations. Improvements in 2009 included online access to all Board legal documents and monthly Board packets, and a formal orientation for new Board members. The next Board and subcommittee assessments will be conducted in 2010.

The CEO Evaluation Committee, made up of three shareholders, works with the CEO to set goals for the year, then evaluates CEO performance at the end of the year. The results of the evaluation are presented to the Board. In 2008, the committee improved this evaluation process by gathering input from about one-third of the shareholders about CEO performance. Other Lead Team members are evaluated annually by their direct manager (CEO, COO or CFO) using the Employee Performance Planning and Review System. Professional development for all Lead Team members is planned and implemented through the Individual Development Plan (IDP) process.

The Planning Team evaluates the effectiveness of the CI Management System as a whole as part of the strategic planning process. The Planning Team conducts an assessment of FNI internal capabilities and identifies improvements needed to better support its strategies (See Item 2.1). In 2008, the Planning Team determined that revisions to the sales and marketing structure would better support its strategies for being the "firm of choice for clients".

1.2b (1) Our primary impact on society is through the plans and designs we produce for public buildings and public works, such as dams, water treatment plants and city streets. Changes in these products come through changes in legislation, regulations or technology. We stay up to date about these changes through active memberships in professional and technical associations and state licensing boards, such as:

- American Society of Civil Engineers
- National Society of Professional Engineers
- American Academy of Environmental Engineers
- United States Society on Dams
- American Water Works Association
- Texas Society of Professional Engineers
- Consulting Engineering Council of Texas
- Water Environment Federation
- Texas Board of Professional Engineers
- Texas Board of Professional Architects
- Texas Commission on Environmental Quality
- Texas Municipal League
- Texas Water Conservation Association

Our participation on committees and as board members of these organizations provides us in-depth information about changes that impact our industry. Each TEP team is responsible for monitoring trends of both regulatory and technological changes in their discipline on the state and

national level. Each TEP team reports changes and recommended courses of action to the Planning Team. These recommendations include how to address any negative impact of our products on society. For example, the Stormwater Management TEP team is currently studying how to incorporate wetland mitigation into stormwater master planning, thus helping avoid the possibility of home builders damaging marshes and streams with rainwater runoff.

We anticipate and address public concerns about current projects through our public involvement services. Through public meetings, web sites and one-on-one discussions, we educate citizens about the impact of the project and gather their responses. We work with the client to accommodate the public whenever possible. For example, when a main thoroughfare in Corpus Christi was to be widened to six lanes, we quickly learned the negative public response to razing dozens of houses, churches and business buildings. After conducting traffic studies and projections, we were able to provide a solution that supported future traffic projections and only required minimal changes for a single building.

This involvement with citizens gives us a strong understanding of the issues facing our client base. Senior leaders also learn of public concerns through active leadership in many civic organizations, such as chambers of commerce, United Way, local school districts and hospitals, and workforce education coalitions.

We address the longer-term concerns of our clients through our Futures Committee. This committee considers changes in our business, market and technical climates over the next 5 to 20 years. The committee considers such long-range issues as future control of water resources and the impact of technology on our business.

We recommend environmentally sound solutions for all of our projects. A regulatory review is required for many projects to prove compliance to EPA or TCEQ regulations. Our Environmental Science Group's main function is to provide these compliance reviews. Other projects may require meeting LEED guidelines (architectural) or the use of conservation technology (water reuse). We measure the compliance of the projects we deliver to clients through claims related to legal or regulatory issues.

Even if the environment is not a priority with the client, we look for opportunities to conserve natural resources without increasing the cost to the client. For example, in a recent pipeline design project we were not requested to review the route of the pipeline. However, we were able to recommend changes to the route that avoided several environmental issues, saving the client $100,000 in construction costs and the environment from unnecessary encroachment.

Our main regulatory requirement is professional licensing for our engineering and architectural staff. We provide training for licensing exams and the continuing education required to maintain professional licenses. We provide recognition and rewards programs for newly licensed employees and pay the annual licensing fees.

We have several programs to address the impact of our own operations on society, including:
- Reconditioning excess cell phones for donation to police departments
- Donation of excess computers to public libraries or churches
- Paper recycling
- Providing Dallas DART and Ft. Worth "T" passes to employees to promote alternate transportation
- Providing coffee mugs to employees and paper cups for visitors to replace Styrofoam cups

Our ability to manage risk is measured by the percent of project contracts submitted for risk assessment review and project claims as a percent of net revenue. Our risk assessment process evaluates contracts for legal issues, scope and fee, availability of resources, financial risk and contract terms. We monitor these measures to identify improvements, such as changes to our Go/No Go rating system for proposals. We also measure risk through our risk experience ratings from our insurance company. We have one of the best ratings in our industry.

1.2b (2) Ultimately, ethics at FNI means that we put our client's best interest before our own. This philosophy is exhibited in many ways, from making sure clients receive the best value for every dollar spent to always admitting and paying for our mistakes. We promote and assure this philosophy by systematically communicating expectations, providing training and coaching, and monitoring performance.

Ethical Conduct Policy – We have a written Ethical Conduct Policy to guide employees in carrying out their day-to-day responsibilities. The policy, given to employees in the first day of employment, defines responsibilities on the corporate and employee level and addresses such issues as conflict of interest, confidentiality of information, gifts, political activities and disclosures of unethical conduct. It includes "tests for use" questions to help employees think through ethical issues they may encounter on the job. Employees are encouraged to ask senior leaders for advice in dealing with these or any other issues.

Ethics Training and Coaching – Ethics is discussed at length in the one-day new employee orientation class, project management training, leadership training and the annual ethics classes. Senior leaders participate in teaching these classes, relating past experiences and answering employee questions about ethics issues and how to handle them. Employees with questions related to ethics, or who exhibit questionable behavior, are coached and monitored by a senior leader as to the expectations of the company.

Employee Selection – We use behavioral interviewing techniques with questions related to ethics to ensure candidates have our desired level of ethics. If the candidate's values do not match our own, we will not hire them, regardless of the candidate's other qualifications. We have an employee incentive referral program that helps us hire excellent people with values that match our own.

Subcontractor Selection **–** We require that all subcontractors sign our Ethical Conduct Policy as part of their contract. The Project Manager evaluates subcontractors at the end of the project. The evaluations are maintained on the subcontractor database and used to identify preferred vendors. Those with poor performance, or unethical behavior, are avoided where possible for future work. Occasionally, clients will pre-select a subcontractor based on a prior relationship with the vendor.

Licensing and Copyright Policy – We have policies for software licensing, copyright and photo usage, and monitor for compliance. We emphasize professional licensing to support the legal requirement that all engineering or architecture work documents be sealed by a licensed engineer or architect.

Ethics Monitoring – We implemented a formal whistle blower policy in 2009 that defines the steps for reporting wrongful conduct and ensures confidentiality and protection from retaliation. To date, no reports have been made. Our project management system includes checks and balances to ensure ethical conduct. By having several employees involved with a client, we are able to discern issues that may not surface through a single point of contact. The project manager is responsible for dealing with day-to-day issues. The client representative is available to help resolve larger issues, including ethics. Clients are surveyed at key points of the project and encouraged to include comments. The survey results are reviewed by the Lead Team, the project manager, the client representative and the entire project team.

Measuring Ethical Conduct **–** Until 2006, we included a question about our ethical conduct on our client surveys. Because the question was so often given the highest rating, we replaced it with ones more focused on areas where our clients were seeking improvement. We continue to measure employee awareness of ethics at FNI with the question "Ethical conduct in decision-making is expected".

Response to Breach of Ethics – Our response is swift for any breach of ethics, with senior leaders assessing the situation and taking the appropriate actions. Employees are coached about unacceptable behavior and are terminated if the behavior continues.

1.2c (1) We address the well-being of our environmental systems on a daily basis as we incorporate environmentally sound solutions into our client's plans and designs. On a more strategic level, we assist in educating our clients and the public about issues relating to reusability and sustainability of natural resources. We take every opportunity to promote regional resource management with the goal of conserving and sustaining resources.

We look for new services and technologies that will help our clients conserve resources and save costs. Examples of these include water reuse, membrane technology for wastewater treatment and water master planning that incorporates wetland mitigation. Traditionally, builders must submit their own wetland mitigation plans. By incorporating wetland creation and mitigation in city plans, builders can avoid the costs of mitigation plans, cities will be able to issue building permits

very quickly, the Corps of Engineers will be assured of compliance to their regulations and citizens will have cleaner wetlands, lakes and streams.

1.2c Our key communities are those in which we live and work: the Dallas/Fort Worth Metroplex, San Antonio, Austin, Corpus Christi and the Houston Area. We believe that active involvement in these communities benefits our employees, our clients and the public at large. We encourage employee participation by supporting those charities to which employees are willing to give their personal time and efforts and that are consistent with our guiding principles. We provide a personal time system that allows employees to perform community service during the work day and charge their efforts to personal time. We also have a university liaison program for former students to give back to their universities and to assist in our recruiting efforts. We recognize and reward the employee with outstanding community service each year with the James Nichols Award.

Employees give not just their time, but also their expertise in helping their communities. A few examples include:

- A team of employees from the Houston and Pearland offices who spent their weekends to help identify stormwater inlets, helping to avoid flood problems.
- The group of Dallas engineers who donated their time to help the City of Lancaster after a serious flood, helping the city with FEMA paperwork and counseling more than 100 families on flood-related issues.
- Employees who donate their time to reading programs, Math Counts competitions, and science fairs.

Our senior leaders set a strong example of community service. Lead Team members serve on the boards of charitable organizations such as United Way, All Church Home for Children, Girl Scouts, the YMCA, March of Dimes and foundations for the arts. Senior managers participate in education-related programs for school districts and colleges.

FNI also reaches out to the community to help organizations benefit from using the Baldrige criteria. Since receiving the Texas Award for Performance Excellence (TAPE) in 2007, we have hosted several school districts in benchmarking sessions to learn about our leadership, strategic planning and human resource systems. In 2008 we hosted presentations in several locations for our governmental clients to hear presentations from Coral Springs, a 2008 MBNQA recipient. For two years, we have assisted, free of charge, a mid-sized municipality participate in the TAPE process.

We have an established budget for community service and corporate giving. We provide corporate incentives for United Way by matching part of each employee's donation. In 2008 and 2009, because there was such a strong community need, we matched employee donations dollar for dollar. Other community organizations we support include: Adopt-a-School, "CANStruction", Boy Scouts of America, Girl Scouts of America, United Way, Junior Achievement, Habitat for Humanity, Salvation Army Angel Tree, Meals on Wheels, Food Banks, Science Fairs, Grade School Math & Science Projects, Women's Support Groups, Blood Banks and YMCA.

Category 2 Strategic Planning

2.1 Strategy Development

2.1a. (1, 2) Figure 2.1-1 shows the Freese and Nichols, Inc. (FNI) strategic planning process. This is a year-long effort that involves the Board of Directors, the Strategic Planning Team, Group Managers, Account Directors and TEP Leaders in a catch-ball process to develop and deploy plans for the future.

Step 1: The Planning Team includes the Lead Team and other senior staff as needed. The team begins the planning process in January with a review of the past year's effort. We assess both the planning process (are we addressing the right factors) and the deployment process (are we seeing the desired results). We have made several improvements to both processes, including the addition of economic scenarios to the external scan and more in-depth assessments of internal capabilities and the addition of strategic action sheets to better communicate the purpose of the actions and the expected results.

Step 2: The Planning Team works with the Board of Directors and other senior leaders in February to review and revise the company's mission, vision and guiding principles as described in 1.1a.(1). The Board also identifies the strategic imperatives that the planning team must address, including the strategic challenges and advantages described in the Organizational Profile.

Step 3: The Futures Committee is a larger group of FNI staff and includes the Planning Team, the Board's outside directors and others with relevant expertise. An outside consultant works with FNI staff to prepare a report on key factors that will impact our success in the next few years:

- Economy – Trends in state and national interest rates, GDP, unemployment, the stock market.
- Consumers – Trends on state and national levels that will impact our clients: consumer confidence, consumer price index, housing, demographics.
- Technology – Trends in technology that will enhance FNI services, such as water reuse, as well as the firm's ability to deliver services, such as 3-D technology.

- Clients – Trends that directly impact our clients, such as the aging Texas infrastructure, city budgets and funding issues.
- Regulations – Trends in state and federal regulations that will impact services, such as environmental regulations or how the firm does business, such as design-build.
- Environment – Trends in environmental issues that impact our state and our clients, such as the on-going drought and high levels of pollution in large population centers across the state.

In addition, the members of the Futures Committee bring knowledge of client needs from their participation in professional associations, state agencies as well as client visits. The Futures Committee assesses the external environment reports to determine threats and opportunities to FNI clients and to our firm. The committee may also identify entirely new markets as described in 3.2 c (1).

The Committee completed its analysis in 2009 for two economic scenarios: the expected scenario where the recession ends in Texas in late 2010 and a worse case scenario where the recession lingers through the end of 2011. The Committee developed a matrix of opportunities for products and services for each scenario for input to the Market Scan.

Step 4: The Market Scan is conducted in May. The Account Directors and Account Managers gather information about client needs, market performance and technology trends as described in 3.2 c (2). The results of this scan include the Account Directors and Account Managers recommendations for new and enhanced services, along with an analysis of the technical capabilities, staffing needs and support requirements for those services. The Market Scan considers both economic scenarios so that the Planning Team can consider alternative strategies and contingency plans.

Step 5: The Planning Team meets during the summer to review and refine our long-term plans, including Key Focus Areas, strategic objectives and supporting strategies. The team addresses the key themes of markets, services, client value, growth, and organizational capabilities to assess our objectives and strategies.

Figure 2.1-1 Strategic Planning Process
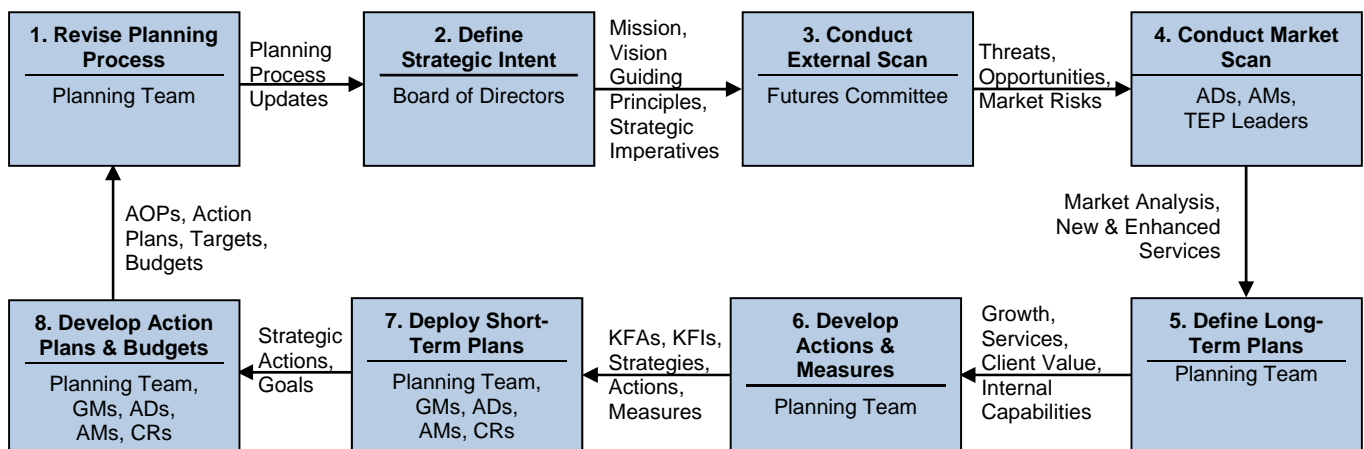
In addition to the Market Scan Report, the team reviews the following information. Once the team refines the supporting strategies for markets, services and growth, they assess any changes in the capabilities and core technical and professional competencies needed to support those strategies.

- Strategic challenges and advantages from the Board.
- Market Analysis – Performance of win-loss ratios, bookings growth, multipliers, customer satisfaction, sales and marketing processes to address the challenge of fostering long-term client relationships and appropriate staffing levels across the company.
- Financial Analysis – Revenue, profit, revenue factors to address the challenge of success in al economic cycles.
- Baldrige Assessments – Internal assessments from writing the application and from the feedback report.
- Process Assessment – Employee surveys and process measures of the effectiveness of service delivery, Business Technology (BT), accounting and HR to address the challenges of collaboration and innovation.
- CI Management System Assessment – Employee and Board survey results related to leadership functions.
- HR Support – Employee satisfaction ratings, turnover, job offer declines, training effectiveness to address the challenge of retaining our talent.
- Status of previous year's actions.

Step 6: The Planning Team reviews the three-year actions and determines any updates needed to achieve the supporting strategies and the measures to track achievement of those strategies. The team refines targets and goals based on past performance, competitive benchmarks and the desired focus for the coming year, with stretch goals for high-focus, critical strategies and incremental goals for other strategies. The resulting plans are reviewed by the Board to verify that plans address key challenges and that the firm is not taking undue risks. We minimize financial risks through a conservative approach to fiscal management, such as accumulation of cash reserves for acquisitions and claims. We minimize the risks of new services by engaging key clients in service development. Our short term planning horizon is one year and our long term horizon is 3 years. The short term horizon reflects our Annual

Operating Plans (AOP) and budgets. The longer-term horizon is based on our clients' capital improvement plan cycle of 3 to 5 years. We integrate the two planning horizons by establishing strategies and actions every three years and updating these each year to reflect changes in the external environment: client needs, technology, competition, and the economy. The Planning Team addresses sustainability by evaluating any barriers that growth, ownership or availability of talent represent to the continuity of our firm. Because we cannot readily project the behavior of our markets far into the future, we utilize the Futures Committee to consider threats and opportunities over the next 10 to 20 years. The committee keeps the Planning Team informed of very long-term issues that the firm must be prepared to deal with in the future.

Step 7: The proposed strategic plan is presented to Group Managers, Account Directors and shareholders at a Retreat in September. The attendees assess the plan and provide feedback about how well the strategies, actions and measures will help the company achieve success. The Planning Team uses the feedback from the Retreat to finalize the strategic plan. The CEO communicates the completed plan, along with the mission, vision and guiding principles at the beginning of the year to all employees (See item 1.1).

Step 8: Goals and strategic actions are deployed by the Lead Team to Group Managers and employees as described in 2.2 a (2). Blind spots in the strategic plan are identified through a review by the Board and the Retreat participants. The Planning Team ensures our ability to execute the strategic plan by addressing deployment and accountability:

- We prioritize the actions for each strategy to ensure we have the resources to work on the most critical issues.
- We identify responsibility for achievement of goals and actions as part of the strategic plan.
- We document each strategic action to explain the purpose of the action and the expected outcomes.
- The LT reviews performance to goals monthly and action plan progress quarterly to take any corrective actions.
- The President's Review assesses performance to goals of each Division to ensure accountability.

Objectives (KFAs)	Goals	Key Focus Indicators	2009 Target	2010 Target	2011 Target
a. Growth with Financial Stability	Exceed Industry Growth and Profit	Net Bookings	$80 Million	$90 Million	$100 Million
		Company Net Revenue Growth	+16.9%	+16%	+16%
		Company Profit	15.0%	15.5%	16.0%
		Revenue Factor	1.85	1.89	1.92
		• Utilization	57.1%	58.0%	59.0%
		• Labor Multiplier	3.24	3.25	3.26
b. Commitment to Clients	Enhance Top Box 5 Client Service	Client Satisfaction Rating: Overall	4.7	4.7	4.7
c. Commitment to Technical Excellence	Enhance and Develop Technical Excellence	TEP Satisfaction Survey: Overall Rating	4.4	4.5	4.6
d. Commitment to Employees	Retain Our Employer of Choice Status While Acquiring Top New Talent	Employee Opinion Survey Overall Rating	4.7	4.7	4.7

Figure 2.1-2 Strategic Objectives and Goals

2.1b (1) Our key strategic objectives (Key Focus Areas), goals and Key Focus Indicators (KFIs) for 2009 through 2011 are shown in Figure 2.1-2.

2.1b (2) We address our strategic challenges and advantages, as well as our core competencies, as part of Step 5 of the planning process [see 2.1a. (1, 2)]. We balance short-and longer-term challenges through a three year plan with short-term priorities set for the most critical issues facing our company in the coming year. This ensures that the changes we implement this year will support the objectives and strategies for the longer-term. Our objectives and goals (Figure 2.1-2) helps us to maintain a balance in meeting the needs of each of our key stakeholders: shareholders, clients and employees.

2.2 Strategy Deployment

2.2a (1) Figure 2.2-1 shows our short- and longer-term action plans. A primary focus in 2009 – 2011 is to take FNI to the next level of performance by achieving "Trusted Advisor" status with a majority of our Key Accounts through improved marketing and customer relationship management. Key changes in markets include a focus on growing new and existing accounts in central and southeast Texas. We continue to develop the affiliated construction company that we established in 2007 to position the firm for changes in design-build regulations.

2.2a (2) The participants at the September Retreat (Planning Team, Group Managers, Account Directors and shareholders) review the proposed strategic plans and provide feedback about the strategies, actions and the measures to track success. This promotes ownership of the plan by the people most responsible for implementing it.

The Planning Team uses feedback from the Retreat to finalize the strategic plan. The Lead Team communicates and deploys the goals and actions. Individual goals are deployed through the Performance Review System to appropriate staff across the organization. Some goals, such as client satisfaction or staff utilization are deployed to all technical staff. Others, such as net bookings are deployed only to Account Directors, Client Representatives and Group Managers.

Each action is documented through a Strategic Action Sheet and has a Lead Team Sponsor and Action Plan Lead. The Lead Team deploys the plans to the Action Leads as shown in Figure 2.2-1. The assigned team develops an action plan showing the tasks, assignments and due dates for the work.

Group goals and actions are deployed to each technical, marketing or support group. Each of these groups holds a group retreat in October to address how to best achieve their assigned goals and actions. Based on the results of these meetings, each Group Manager develops an Annual Operating Plan (AOP) and budget. The AOP defines:

- Goals for the group
- Growth plans (for marketing and technical groups)
- Strategic actions for the group
- Staffing needs and other support needs

Key changes resulting from action plans are sustained by institutionalizing the change and continuing to track indicators related to the change. For example, our Top Box 5 program for client satisfaction has become an important part of how we do business. We continue to track client satisfaction results and segment the data in a variety of ways to identify areas for improvement.

2.2a (3) We ensure that the resources are available to achieve our goals through the annual budgeting process. As part of the AOP, each group develops a budget to reflect their plans for the coming year. A budget template is pre-populated by the Accounting Group and contains operating and capital budgets, revenue and project expense projections, and staffing by job classification. Each Group Manager updates their budget to reflect the plans for achieving the goals for the coming year. Time to work on service delivery as well as strategic actions, attend training, and so on is included in the budget for each employee. Each Group Manager reviews the resulting budget with his or her Division Manager or Chief Administrative Officer to ensure that goals are met. The CFO compiles the firm's budget to verify that current obligations can be met.

2.2a (4) The Lead Team monitors events that may impact our business in their biweekly meetings. For example, the Lead Team now monitors leading indicators of the Texas economy that directly affect our clients and our own business. Indicators such as retail sales and the appraised value of housing impact the revenue of municipalities and their ability to move forward with many public works projects. If a response is needed, the Lead Team assigns a senior manager to either modify an existing strategic action, or develop and execute a plan to address the situation. The Lead Team also reviews action priorities at mid-year to determine if they should be changed to fit current business needs.

2.2a (5) Figure 2.2-1 shows the Human Resource (HR) plans to support our objectives and strategies. The HR staff develops a training plan to ensure that the workforce has the capabilities needed to achieve our objectives and action plans (See Item 5.2). For example, HR worked with the marketing staff to develop Client Representative training in support of the action "1.2 a. Implement new Account Management structure and reenergize the Integrated Sales System". The HR staff projects new hires, including strategic hires, for the coming year based on each Group Manager's Annual Operating Plan and budget. The budget includes the job classification and technical discipline of projected hires.

2.2a (6) & 2.2b Figure 2.2-2 shows our key performance measures for tracking the progress and effectiveness of our action plans. This figure shows the projected levels of performance and the level of management responsible for deploying the goals to the appropriate technical and support staff. Each technical and support job classification has the types of goals for that position pre-defined. The responsible manager deploys these goals and the level of expected achievement to his or her direct reports through the Individual Development Plan process described in 5.1a (3). This deployment process reinforces organizational alignment and ensures consistent deployment across the firm.

	Supporting Strategies	Actions	Priority	2009	2010	2011	Action Lead	Action Support	LT Sponsor
1. Growth with Financial Stability	1.1 Expand Services and Markets to Achieve Sustainable Growth	a. Develop and implement growth plans for selected SBUs, Houston, San Antonio and Corpus offices.	A	◆	◆	◆	DM	GM	DM
		b. Develop and implement plans to strengthen Water/Wastewater Treatment	A	◆	◆	◆	CEO	DM/AM/GM	CEO
		c. Develop and implement plans to ensure growth of Water Resources	A	◆	◆	◆	COO	DM/ MKTG	COO
		d. Determine our business strategy for alternative delivery systems	B	◆	◆	◆	CMO	MKTG/ CS Mgr	COO
	1.2 Strengthen Sales Capability to Drive Growth	a. Implement new Account Management structure and reenergize the Integrated Sales System	A	◆	◆		MKTG/ AD	CCM/CR AM	CMO
		a. Build up sales capability in Central/Southeast Divisions	B	◆	◆		CMO	DM/GM	CMO
	1.3 Utilize Continuous Improvement to Maintain Our Strong Financial Position as We Grow	a. Determine strategies to improve revenue factors and utilization; maintain profitability as we grow	A	◆	◆	◆	GM	DM/AC	COO
		a. Continue the pursuit of being a "Baldrige Class" company	B	◆	◆	◆	CAO	CISC	CAO
2. Commitment to Clients	2.1 Build Credibility as an Innovative Firm	a. Develop a Corporate Social Responsibility strategy	B	◆	◆	◆	TEP Sustain. GM	MKTG/ TL/ CR/ HR	CEO
		b. Enhance innovation across all groups	A	◆	◆	◆			COO
	2.2 Position FNI through Technical Involvement	a. Develop strategies to be recognized as technical experts	A	◆	◆	◆	TL/GM	MKTG	DM
		b. Align technical seminars with marketing plans to support growth goals	C		◆	◆	AM	MKTG/ AM/ TR Mgr/ TL	CMO
	2.3 Add Value to Our Client Relationships	a. Improve client communications and our ability to be flexible	A	◆	◆	◆	AM/CR	MKTG	DM/ CMO

CEO = President/CEO, COO = Chief Operating Officer, CFO= Chief Financial Officer, CAO = Chief Administrative Officer, CIO = Computer Information Officer, CMO = Chief Marketing Officer, DM = Division Manager, GM = Group Manager, Mkt Mgr = Marketing Manager, Rsk MGR = Risk Manager, LT = Lead Team, TL = Technical Leaders, MKTG = Marketing, Tr Mgr = Training Coordinator, ACCTG = Accounting, HR Mgr = HR Manager, CS Mgr = Construction Services Manager, HRC = HR Coordinator, AD = Account Director, AM = Account Manager, CR = Client Representative, CISC – CI Steering Committee, BT = Business Technology, PMSC = Project Manager Steering Committee, TEP = TEP Teams

Figure 2.2-1 2009 - 2011 Supporting Strategies and Actions

	Supporting Strategies	Actions	Priority	2009	2010	2011	Action Lead	Action Support	LT Sponsor
3. Commitment to Technical Excellence	3.1 Enhance Our Technical Capabilities	a. Develop Organizational BT plan to integrate technology into operations & improve productivity	A	◆	◆		CIO	CAO/BT	CIO
		b. Improve communications within project teams	A	◆	◆	◆	DM	GM/ PMSC	DM
		c. Utilize Claims and Change Order Data for project kick-off meetings and for process improvements	B	◆	◆		CS Mgr/ Rsk Mgr	TL	COO
		d. Improve QC Processes and Training	B	◆			PMSC	DM/GM	CFO
		e. Develop and implement an assessment and feedback process for subconsultants	C		◆		Rsk Mgr	CAO	CAO
	3.2 Drive Technical Excellence with TEP Teams	b. Continue to develop, implement and improve technical processes and CAD detail database through the TEP teams	B	◆	◆	◆	TL	TEP	COO
		c. Align TEP activities with our strategic plan	C		◆	◆	TL	TEP	COO
		d. Develop a plan to improve communications between groups and offices	C		◆	◆	GM	TEP	DM
4. Commitment to Employees	4.1 Acquire and Integrate the Best Talent	a. Refine our hiring process to acquire the best talent aligned with our preferred culture profile	A	◆	◆	◆	HRC	HR Mgr	HR Mgr
	4.2 Retain Employees with Focused Development and Career Planning	a. Focus on Employee Health, Well-being and Work-Life Balance	B	◆	◆	◆	HR Mgr	TR Mgr	HR Mgr
		b. Implement mentoring and coaching program	B	◆	◆		HR Mgr TR Mgr	CEO/ COO	HR Mgr
		c. Improve Group Manager preparation and follow-up of Individual Development Plans	B	◆			GM/DM	HR Mgr	CEO
	4.3 Align Personal/Org Dev with Growth Strategies	a. Analyze and Develop Plan to Shift FNI to Preferred Cultural Profile.	A	◆	◆		CEO	LT	CEO
	4.4 Develop Leaders for the Future	a. Formalize succession planning for senior leaders	B	◆	◆		CEO	COO	HR Mgr
		b. Improve Board of Director Processes	C	◆	◆		Board Chair	CEO/ CAO	CEO

Figure 2.2-1 (Continued) 2009 - 2011 Supporting Strategies and Actions

Objective (KFA)	Supporting Strategies	KFI & Strategic Measures	Deploy To	2009	2010	2011	Refer To
1. Growth with Financial Stability	1.1 Expand Services and Markets to Achieve Sustainable Growth	**KFI: Net Bookings** **Company Net Revenue Growth** Net Bookings from Selected SBUs and Divs	GM/AD/AM/CR DM DM/TL/GM	$80 mil +16.9% TBD	$90 mil +16.0% TBD	100 mil + 16.0% TBD	7.3-10 7.3-1 7.3-10
	1.2 Strengthen Sales Capability to Drive Growth	% Gold Sheets Updated Semi-annually % Blue Sheets Completed For "Must Wins" % Wins of "Must Win" Projects	AD/AM/CR AD/AM/GM DM	80% 55% 50%	85% 65% 55%	90% 75% 60%	7.5-17 7.5-18 7.5-18
	1.3 Utilize Continuous Improvement to Maintain our Strong Financial Position as We Grow	**KFI: Company Profit** **Revenue Factor** • **Utilization/Billable Hours** • **Labor Multiplier** Negative Variances as a % of Net Revenue	COO GM GM GM/PM GM	15.0% 1.85 57.1% 3.24 7.0%	15.5% 1.89 58.0% 3.25 6.5%	16.0% 1.92 59.0% 3.26 6.0%	7.3-5 7.5-3 7.5-1 7.5-2 7.5-12
2. Commitment to Clients	2.1 Build Credibility as an Innovative Firm	% of LEED Certified Employees Min. Average Training Hours per Employee # of Community Service Hours Client Satisfaction Rating: Innovation	GM GM DM GM	3% 24 6,500 4.7	5% 24 7,000 4.7	7% 24 7,500 4.7	7.4-12 7.4-9 7.6-9 7.1-5
	2.2 Position FNI through Technical Involvement	# of Technical Papers and Presentations # of Technical Seminars for Clients # of Technical Organization Positions	TL/GM AM TL/GM	40 3 70	45 4 70	50 5 70	7.4-12 7.2-7 7.4-12
	2.3 Add Value to Our Client Relationships	**KFI: Client Satisfaction Rating: Average** # of Executive Client Visits # of Clients Attending FNU Classes Client Satisfaction Rating: Communication	GM CAO/AD AD/TR Mgr GM	4.7 25 550 4.7	4.7 30 600 4.7	4.7 35 650 4.7	7.2-1 7.2-4 7.2-7 7.2-2
3. Commitment to Technical Excellence	3.1 Enhance Our Technical Capabilities	Claims as % of Net Revenues E & O Change Order % Employee Sat Rating: Project Communication % of Unplanned Computer System Downtime	COO GM GM CIO	1% .2% 4.0 .5%	1% .2% 4.1 .4%	1% .2% 4.2 .3%	7.1-2 7.1-3 7.4-2 7.5-21
	3.2 Drive Technical Excellence with TEP Teams	# of Processes Developed **KFI: TEP Satisfaction Survey: Overall Rating**	GM/TL TL	50 4.4	50 4.5	50 4.6	7.5-10 7.5-9
4. Commitment to Employees	4.1 Acquire and Integrate the Best Talent	% of Job Offers Accepted % of New Employees with 2 Yr Retention	GM/HR Mgr GM	80% 84%	80% 85%	80% 85%	7.4-3 7.4-8
	4.2 Retain Employees With Focused Development and Career Planning	**KFI: Employee Sat Survey Overall Rating** % Voluntary Turnover % of IDP's Completed on Time	GM GM GM	4.7 10% 60%	4.7 10% 70%	4.7 10% 80%	7.4-1 7.4-4 7.4-15
	4.3 Align Personal/Organizational Development with Strategies	% of Culture Shift Actions Completed	CEO	25%	50%	75%	7.4-25
	4.4 Develop Leaders for the Future	Board of Directors' Evaluation Rating	Chairman	4.4	4.5	4.6	7.6-3

Figure 2.2-2 2009 - 2011 Score Card

Category 3 Customer Focus

3.1 Customer Engagement

3.1a (1) We identify new product and service opportunities through the strategic planning process as described in 3.2 c(2). Enhancements to existing service lines, or the use of new technologies within a service line, typically are identified by the TEP teams. These teams continually monitor legislation, regulations, technology and service opportunities to identify and implement innovations and enhancements. The teams also serve as the communication vehicle for sharing internal innovations across locations and disciplines within FNI. The TEP Leaders Team monitors the activities of the TEP teams and reports to the Lead Team.

Both new and enhanced services are developed and implemented as part of client projects. This standard civil engineering practice is required to ensure that we have the proper test platform for the new service. It also allows us to share the cost of new service development with the client. Once we decide to develop a new or enhanced service, we work with the Sales group to look for clients with a long-term FNI relationship that are interested in the new or enhanced service. When we see the need for the new approach to solve a client problem, or a client requests the new technology, we recommend the enhancement as part of the project. Service pricing is dictated by the hourly rates of our engineers. We provide the client a best estimate and range of the fees for the project. The project team works with the client to identify the specific features of the new or enhanced service.

3.1a (2) Client support requirements are determined through both formal and informal client feedback to Project Managers (PM), Account Directors and senior leaders. We support our clients on the project level as part of the project management process. The key project support requirement is communications. The PM Steering Committee monitors client feedback, defines and improves communication mechanisms. We meet our client's communications requirements, "responsiveness to calls and requests" and "communication of project status" through on-site visits, email and One Page Reports to keep our clients informed. The PM is the lead person on the project and coordinates with the client. Larger clients usually have several projects in progress with FNI, each may have a different PM.

The PM works with the client during project start up to develop a project communications plan. The client selects its preferred methods of communications, which may be phone, e-mail and/or personal visits. The PM provides the client a One-Page status report, facilitates periodic status meetings and is available by phone at all times during the project. The PM keeps the client informed about three key elements of the project: design cost and schedule and construction costs. These elements are estimated at the beginning of the project and updated at 30, 60 and 90 percent completion points. Should the client request changes to the original requirements, the PM provides the impact on these elements to help the client make an informed decision. Should there be any problems or delays with the project, the PM informs the client immediately.

The FNI intranet provides secure project portals for larger projects for project team, client and sub-consultant communications. Clients also have easy access to general information that is helpful in their planning and proposal activities:

- Information about FNI products and services
- Regulatory updates
- Technical papers and presentations
- Helpful links to government sites

We ensure that project personnel know and meet client support requirements through new employee orientation, Project Manager and Client Representative training and coaching of Project Managers by senior staff. Senior leaders monitor deployment of support requirements through client satisfaction surveys and Executive Client Visits.

A larger support requirement for our clients is continuity of practice. The structures we plan and design last for many decades, often longer than the careers of our client's staff. We retain the knowledge, the experience and the technical documents of every one of these projects. Clients call us on a regular basis for information, advice and assistance with water mains installed in the 1920's, retaining walls installed in the 1960's or buildings constructed in the 1980's. Continuity of practice is a key component of client support.

3.1a (3) The TEP teams are responsible for improving how they identify and innovate product offerings. This year the TEP Leaders Team conducted an assessment of the TEP teams based on surveys of the teams and interviews with each TEP Leader. They have identified several areas for improvement, including better communications with the Sales group about new and enhanced services. Once the Innovation Committee completes their pilot projects, they will work with the TEP leaders to incorporate innovation development techniques across all disciplines. The PM Steering Committee is responsible for improvements to client support, and the project delivery portion of client relationship management. This team periodically reviews formal and informal input from clients, Project Managers and the Sales group to identify improvements and make recommendations to the Lead Team. The Lead Team sets priorities based on meeting client satisfaction goals and assigns actions to the appropriate group for implementation.

3.1b (1) Our culture is focused on meeting and exceeding clients' expectations through our hedgehog concept, mission and vision (Figure P1.1-2). We reinforce this client focus through a systematic approach to strategic focus, workforce management, work systems and training:

- *Strategic focus* - Strategic Planning focuses on initiatives to improve client satisfaction and retention. Performance goals for client satisfaction are deployed to all service delivery employees.
- *Workforce management* – The technical and sales groups are designed to support long-term relationships with clients. Client satisfaction ratings are reported to each project member, Client Rep, Account Manager and Account Director with Top Box 5 recognition for employees who receive this top rating.

- *Work systems* - The Miller-Heiman process provides a systematic process for managing client relationships. The Integrated Sales System (ISS) provides access to key information about clients and client relationships.
- *Training* - Key segments in employee orientation, Project Manager and Leadership training address ethics and client satisfaction. Client Representative training addresses developing and maintaining client relationships.

3.1b (2) We follow a propriety sales and marketing process, Miller-Heiman, to help us establish and strengthen client relationships. We automated this process in 2006 through the Integrated Sales System (ISS). The Miller-Heiman process and ISS together provide the discipline for FNI employees to manage client relationships and obtain an increasing share of the client's business. The ISS includes:

- The Gold Sheet to assess a client organization, identify future opportunities and determine the best strategies for establishing and strengthening long-term relationships.
- The Blue Sheet to help the CR and PM determine how to best win an upcoming client project.
- Action plans to execute the sales and marketing activities called for in the Gold and Blue Sheets.
- The Sales Funnel Report to track potential projects and monitor against goals for groups, markets and Account Directors.

We identify prospective clients through market research in targeted geographic areas. We look for clients in each of our markets that are large enough to afford our services and are a good fit for a full service firm. For example, cities with populations of 30,000 to 50,000 are a good fit for FNI as are Community College systems across Texas. We also look for prospects that can become long-term clients. From this research, we develop a list of Potential Key Accounts for the coming year.

We support the process of building client relationships by maintaining our reputation as a firm with a great deal of experience and expertise. Most of our markets, and many of the disciplines within those markets, are tight-knit communities. Our senior leaders and technical staff sit on state regulatory committees, chair state and national association committees and speak at association conferences for each industry in which we do business. We publish newsletters and host technical seminars to keep current and potential clients informed of developments in their field. This industry exposure helps us become a known entity to prospective clients and gain that first project.

Prospective clients are assigned a CR who initiates contact to learn more about the client's needs and expectations. Based on this information, we present those services with the most potential benefit to the client. We also provide the client newsletters, articles and industry presentations that might be of interest. Once we start working with a client, the CR continues the relationship by regularly calling on the client to look for additional ways to provide value. The CR, and the Project Managers working on various client projects, strengthen the relationship by applying our core competencies

of ethical conduct, technical excellence, understanding client needs and being a trusted advisor.

Ethical conduct - Our clients learn to rely on our high standards of professionalism. They see that we can expedite the permitting process because state regulators trust our reports, and that we consistently favor the client's interests over our own bottom line. We exceed client's expectations in how we resolve design issues that may surface during construction.

Understanding client needs – We learn about our client's needs and expectations through client meetings with the CR, interactions with Project Managers and Executive Client Visits with senior leaders. Our goal is to understand not just the current project, but also the bigger picture for each client. This understanding helps us better match new and existing services to client needs, and deliver better project solutions.

Technical excellence – Our clients expect sound, practical solutions to their engineering problems. We exceed those expectations through innovative solutions, using new technologies or simply a more cost-effective approach. We regularly look for ways to use green technologies to reduce the environmental impact of the projects we work on:

- Designed the first hybrid wastewater treatment plant in Texas to overcome client funding and space limitations.
- Designed a system to use gray (partially treated) wastewater to cool a power plant. The water is then fully treated and released back into the water supply.

Trusted advisor – Each year, CRs identify those accounts with which they want to develop, or maintain, trusted advisor relationships. These are Key Accounts or clients with the potential to become Key Accounts. By understanding client needs beyond the current project, we help these organizations succeed in a variety of ways:

- Public involvement services to help clients better communicate and coordinate with their constituents.
- Technical updates and seminars about pending legislation and regulatory changes.
- Freese and Nichols University courses for leadership as well as Professional Engineer Exam review classes.
- Free ethics training to help clients meet state training requirements for licensed engineers.
- Assistance with organizational initiatives such as strategic planning and process engineering.
- Opportunities for clients to network with their counterparts from other organizations.
- Joint conference presentations and award submittals on significant projects to provide public recognition for client initiatives.

3.1b (3) Account Directors are responsible for improving the sales portion of client relationship management. Account Directors periodically review input from clients, Client Reps and Project Managers to identify improvements and make recommendations to the Lead Team. The PM Steering Committee is responsible for improvements to the project delivery portion of client relationship management (See 3.1 a[3]). The Lead Team sets priorities based on meeting client

satisfaction goals and assigns actions to the appropriate group for implementation.

The Lead Team is responsible for managing our client-focused culture. As part of strategic planning the Lead Team reviews and revises our hedgehog concept, mission and vision statements to ensure a continued focus on clients. The Lead Team also works with the HR staff to assess our cultural profile and initiate actions to shift the organization from a clan-oriented culture to a more market-oriented one.

3.2 Voice of the Customer

3.2a (1) PMs receive actionable feedback from the client throughout the project through discussions of project status, potential scope changes, and possible design alternatives. The client completes a satisfaction survey about the project at the midpoint of large projects and the completion of all projects. The CR meets periodically with the client to ensure that the work is being completed to the client's satisfaction and to learn more about the client's needs. The results of these visits are documented through the Gold Sheet. We also follow up with Key Accounts through Executive Client Visits. We often have several concurrent projects with our Key Accounts. Many of these projects span two or more years. We have found that an annual visit gives us timely feedback about our services as a whole. Employees who have worked with the client in the last year receive an email summary of the visit.

3.2a (2) We gather feedback about products and services from former and potential customers through industry conferences and marketing visits. We attend conference presentations on critical issues and often have the opportunity for discussions with former and potential clients about their needs. The Sales Group has a Sales Development person dedicated full-time to calling on former and potential clients to learn their needs and expectations.

3.2a (3) As with all endeavors that involve design work, the sooner that problems are discovered, the easier and less expensive they are to resolve. With this understanding in mind, we have two difference venues for clients to communicate changes and concerns: 1) during the project and 2) after the project.

During the Project. Issues that arise during a project are handled immediately by the project manager (PM). Our goal is to identify and resolve client issues before they become problems. We achieve this by keeping our clients informed of project status and involved in all decision making. Many client issues are simply requests for changes to the original requirements and are handled through normal channels. If problems do arise, the PM is normally the first to learn of it. However, by having a CR, the client always has an alternative channel for voicing complaints. In this case, the CR brings the problem to the PM for resolution. The PM first discusses the problem with the project team to understand the issues and determine a solution. The PM then communicates with the client to acknowledge the problem and explain what the project team will do to ensure resolution. If necessary, the PM will ask the CR or GM to assist in resolving the problem.

After the Project. After the project is completed (or half-way through for large projects), clients may relate concerns and complaints through the satisfaction survey or to senior leaders during their Executive Client Visit. We follow a more formal process to track and resolve these complaints:

Learn of Client Complaint **-** Marketing issues a Client Issue Resolution form when a client satisfaction survey has a score of "3" or below, the client made negative comments, or answered "yes" to the question "Would you like us to contact you to further discuss our performance?" If this is an existing client, Marketing also initiates the process if ratings are below previous scores. If the client issue is communicated during an Executive Client Visit, the senior leader initiates the form and forwards it to Marketing.

Assign Complaint Resolution **-** Marketing records the client issue in the Client Issue database and sends a copy of the form to the COO for resolution. The COO assigns the appropriate manager to research the issue and work towards a resolution. This is usually a member of the Lead Team or a senior manager in the organization.

Resolve Client Complaint **-** The assigned manager works with the client to understand the issue and resolve it. Our policy is to correct the problem, no matter what it takes. The manager completes the Client Issue-Resolution form with the resolution and forwards it to Marketing.

Record Resolution - Marketing records the research and resolution in the database. Marketing creates Client Issue/Resolution reports and distributes them as follows:
- Outstanding Issues Report is sent monthly to the COO for follow-up.
- Resolution Report is sent monthly to the COO and Division Managers.
- Client Resolution Report and aggregate client satisfaction survey data is sent quarterly to the Lead Team.

Drive Continuous Improvement **-** The Lead Team reviews trends in client satisfaction and complaint data to identify improvement opportunities. A Lead Team member is charged with assigning an action plan to the appropriate group to implement the improvement.

After construction begins, FNI may no longer be involved with the project. If we are providing construction management services for the clients, we oversee the work, ensuring that the construction meets design requirements. If the client or the construction contractor desires a change in the design, they issue a change order. Most change orders are the result of changes in the client's desires rather than from problems with the design. Change orders are submitted to the Project Manager for processing. The Project Manager oversees changes to the project design, schedule and fees.

Occasionally problems do occur with the design. The problem may be resolved through a change order, or the client may issue a claim. Claims are formal demands for money to cover changes in the design and/or construction of the project. Usually we are aware of a pending issue and achieve a resolution with the client without a formal claim. We make every effort to satisfy the client first, then the cause of the

problem and responsibilities. Our insurance company provides legal assistance free of charge for these pre-claim situations. If the claim moves forward, we participate in mediation to determine a resolution. On average, we settle for 45% of the initial claim amount.

3.2b (1) We determine customer satisfaction and engagement through satisfaction surveys and Executive Client Visits. We developed these surveys based on industry practice and feedback from our clients. We found that while one client may stress cost and another is more interested in schedule, the clients across our markets have very common requirements. We conduct a formal client satisfaction survey at the mid-point of projects over $50,000, and at the completion for all projects. (Feedback from clients is that projects of less than $50,000 do not last long enough for multiple surveys.) The survey contains 13 questions about how well we met client requirements on the current project as well as client engagement questions. We use a 5.0 point Likert rating scale and invite the client to give us comments about how we can serve them better. We use the same survey process for all clients. We have about 800 active projects a year, so we receive client survey results on an on-going basis.

Marketing receives the survey results and reviews them for any follow-up issues as described in 3.2 a (3). The individual survey results are reviewed by the Lead Team, the Project Manager, Client Representative, Group Manager, Division Manager and the entire project team. The Lead Team reviews a quarterly report of aggregated scores to identify any positive or negative trends. Project teams who receive a Top Box 5 Rating from their clients are recognized at CI Lunches.

We also conduct annual Executive Client Visits with 20 to 25 Key Accounts. An FNI senior leader visits the client site and interviews a senior manager in the client's organization. The senior leader conducts a formal survey of 10 questions and also asks open-ended questions to obtain client feedback about our services. The senior leader sends the survey results to Sales for processing and writes a memo to the Lead Team and the Client Representative summarizing the results of the meeting.

Group Managers and Project Managers use the survey results to monitor performance for each project. The Lead Team uses aggregated results in strategic planning to identify areas for improvement. The survey results may be aggregated by account type, market, SBU, Group and Division. The Lead Team initiates actions during the year if trends show client dissatisfaction with any area of our services.

3.2b (2) This year, the industry benchmarking firm we use started conducting competitive client satisfaction surveys for our industry as part of a client service award. Forty-six engineering and architectural firms from across the country participated. We identified 40 clients from 35 firms to receive surveys and forty percent responded. The questions are closely aligned with those on our own survey, but do not address innovation, communication or design alternatives. We use the results with those of our own surveys to identify areas for improvement.

3.2b (3) The Lead Team determines customer dissatisfaction by analyzing client survey results, complaints, change orders, claims data and feedback from Executive Client Visits. For example, analysis of change order data helped us determine the need for additional expertise in subsurface utilities. We have since hired an engineer with this expertise and promoted his abilities to all technical groups that are impacted.

3.2c (1) FNI defines its current markets as: Municipalities, Water Districts/River Authorities (WD/RA) and Emerging Markets. Emerging markets include Military/ Government, Education, Energy and Private Sector. Fifteen years ago Municipalities and WD/RA were our primary markets. We have since made a concerted effort to expand into other markets to achieve our growth goals and to reduce the risk of dependency on a few markets. Potential markets are identified by the Futures Committee, and recommended to the Planning Team, based on market trends gathered from:
- State and national professional associations
- State agency committees and reports
- Local and state business associations
- CEO Conference participants
- TEP Teams
- Client Representatives

The Planning Team authorizes a cross-functional team for each potential market to develop a business plan. The business plan incorporates stage-gates for go/no-go decisions as the plan is developed. The teams make periodic presentations to the Futures Committee for authorization to move to the next stage, develop the market or stop the initiative. The business plan addresses:
- Compatibility of client needs and expectations with our philosophy of client service.
- Match of services needed with our technical expertise
- Amount of work available in our geographic areas
- Profitability of work
- Potential of cross-over sales for other types of services
- Availability of talent to serve the market

The clients within each market are classified according to the amount of revenue each year:
- Key Accounts – Clients who's past 3-year bookings approach or exceed a designated amount.
- Emerging Key Accounts – Existing clients with significant bookings over the last three years and the potential to become Key Accounts.
- Potential Key Accounts – Not current clients, but have documented future needs and potential bookings greater than a designated amount over the next 3 years.

The Marketing staff, Account Directors and Account Managers use several methods to gather information to determine these classifications: forecasts from the Consulting Engineers Council, economic data about our clients and demographic data about their constituents. Prospective clients, whether in existing or potential markets, are assessed based on the services the client needs, the client's budget for the types of projects we offer, and the client's compatibility with our philosophy of client service.

Clients of competitors are considered using the same process described above. In consulting engineering, we adhere to professional standards in that FNI will compete for the same client in open competition, but will not take steps to undermine a competitor-potential client relationship. In open competition for a client project, FNI performs an evaluation of our strengths and weaknesses compared to those of the competing firms. From the criteria identified, we fortify our proposals in areas that could be perceived as weaknesses when compared to competitors and highlight our strengths.

3.2c (2) We identify entirely new service offerings as part of our strategic planning process. Potential products and services are identified by the Futures Committee based on information gathered from the same sources listed in 3.2 c(1). Of particular importance is input from the TEP teams on trends in technologies and service opportunities. The Futures Committee develops a matrix of opportunities for products and services by market. Last year, for example, asset management and sources of funding were opportunities for all of our markets. This matrix becomes the basis for market scans conducted by the Planning Team.

Using this matrix as a guide, the Sales group develops a list of questions for clients about their needs and expectations for potential products and services. The questions are tailored where appropriate for each market. The Account Directors, Account Managers and Client Representatives gather information for their respective markets through:

- Client visits to gather information about their needs and expectations for potential products and services. Clients are also asked open-ended questions about their needs.
- Review of past performance of the market, looking at average project size, number of new clients in the last three years, client satisfaction results.
- Reports from the applicable TEP teams about technology trends, new or changed regulations, innovative service solutions and the status of FNI technical capabilities.

The Account Directors develop market scan reports that outline the results of the scans, including:

- Recommended new or enhanced FNI Services
- Changes in client needs and expectations, including the projected timeframe for new or enhanced services
- The target markets for the new or enhanced services
- Impact of new or changing regulations
- Innovations that might impact services
- FNI expertise needed to deliver services
- Competitive advantages/disadvantages
- Profitability for new or enhanced services

The market scan reports are presented during a Planning Team session that includes Account Directors and Account Managers. The outcome of the discussions are recommendations to the Planning Team for new or enhanced products and services, as well as a focus for existing services. The Planning Team decides which recommendations to include in the next year's strategic plan. Actions for these initiatives are assigned to a TEP team for a discipline-specific service or to a TEP Cross team for a multi-discipline service,

such as funding or sustainability. The team researches the features and costs/benefits of the service and recommends to the Lead Team how to develop the new service within FNI. If approved, the Lead Team initiates the appropriate actions to acquire or hire the expertise needed to deliver the service to clients. The TEP team or TEP Cross team then works with Sales and Client Reps to identify potential clients for the service.

3.2c (3) We use customer and market information to improve marketing and build a more customer-focused culture through a variety of approaches:

- The ISS Gold Sheet tracks key information about each client The results of each client visit are recorded in the Gold Sheet, providing a history of client interactions for future visits.
- We hold several client panel discussions each year so FNI staff can learn more about issues important to clients. This year, a panel addressed scope creep and how changes in project scope and cost should be handled. The resulting discussions were used to upgrade our CR and PM training.
- We segment and analyze win/loss data, Funnel Report data, and bookings to identify improvements in our sales and marketing processes and CR training.
- We analyze bookings across the value-chain to determine how well we leverage planning projects into design work.
- We use internal customer satisfaction surveys to determine improvements to the proposal process.
- We look at go/no-go percentages for competitive proposals to improve the sales process.
- We look at client attendance at FNI seminars and conference events to better target these activities to meet both client needs and sales objectives.

3.2c (4) The Account Directors and Division Managers are responsible for improving the use of client data. They work with client representatives to review available client data and determine improvements that would enhance our marketing efforts and client focus. Recent improvements include:

- Client bookings, revenue, and labor multiplier trend charts available on the intranet to provide real-time information about client status for marketing staff and client reps.
- A dictation system which transcribes employee notes following a client visit to capture the information for other FNI employees making visits to that client.
- Tracking total number of visits to each client to determine the impact of these visits on bookings and new accounts.

The Marketing Manager is responsible for improving client listening mechanisms and determination of client satisfaction. This manager works with the Top Box 5 Committee to review our client satisfaction surveys for improvements. The committee gathers input from clients and marketing and technical staff to determine how to make the survey more efficient and effective. Recommendations are made to the Lead Team for approval. Periodically, the Lead Team reviews our entire approach to client satisfaction measurement, assessing all of our survey and complaint mechanisms to determine the most effective approaches for gaining client feedback and using the information to drive improvement.

Category 4 Measurement, Analysis & Knowledge Management

4.1   Measurement, Analysis, and Improvement of Organizational Performance

4.1a (1) The data and information to track daily operations, Figure 4.1-1, has been established over many years as the information needed to operate and manage a professional consulting practice. The three types of data (client, staff and projects) are maintained in the BST and Integrated Sales System (ISS) databases. All of this data is accessed through the FNI intranet and is updated real-time as the information is available. Many of the data items, such as chargeable utilization, are automatically calculated. Other data items, such as FNU activities, are automatically populated from other FNI databases. The three sets of data are aligned with our key work systems (See Item 6.1). Client data supports the marketing functions of sales and client relationship management. Client and staff data are used in proposal development and contract negotiation. Project data supports all of the service delivery functions. All of the data is linked by client and by project and can be aggregated as needed to report performance by market, type of client, SBU, Group and Division.

Data to track overall organizational performance is shown in Figure 4.1-2. This data is selected by the Planning Team during strategic planning and is comprised of Key Focus Indicators (KFI), balanced scorecard measures and additional financial measures to monitor the financial health of the company. The data is aligned with our Key Focus Areas (KFA) and is aggregated by SBU, Group and Division to support organizational decision making. Figure 4.1-2 also shows how FNI uses the data in decision making. Group Managers and Division Managers monitor staff utilization, sales and project performance for their areas monthly to identify and address negative trends. The Lead Team reviews organizational data monthly to monitor performance to goals and take corrective action when needed. The data is aggregated at the Group, Division and firm levels to facilitate corrective actions. *Growth with Financial Stability* data is used to monitor sales (bookings), staff utilization and project performance (revenue, multiplier, negative variance). *Commitment to Clients* data is used to monitor client satisfaction and sales and marketing processes. *Commitment to Technical Excellence* data is used to monitor service delivery and support processes. *Commitment to Employees* data is used to monitor employee satisfaction, staff retention and HR practices.
The Planning Team reviews performance of markets and SBUs to determine profitability and growth of market

segments and lines of service as part of strategic planning. They review client satisfaction and various marketing indicators to determine improvements in client relationship management and sales. They review employee satisfaction, board of directors assessment, and various process measures to determine organizational capabilities and identify improvements for the next year.

4.1a (2) The Planning Team selects comparative data as part of the data gathering and analysis process during strategic planning. The Planning Team focuses on benchmarks for the critical outcome measures in our balanced scorecard to drive improvement and for key monthly measures for the Lead Team to manage the business. The Planning Team uses comparative data during strategic planning to set stretch goals or to ensure that goals are at least comparable with similar high-performing firms. The team must balance assignments to improve the business with the need to maintain or increase utilization. Stretch goals are assigned only to the most critical strategies or performance gaps. The Lead Team uses comparative data to benchmark financial and operational performance in their monthly reviews. They also use internal benchmarks to compare performance across Divisions, operational groups and support groups.

FNI selects sources for comparative data based on how similar the organizations are to our company, the types of data segmentation available and the amount of detail available. We use these primary sources of comparative data:

- Industry benchmarking firm.
- CEO Conference
- Dietrich Salary Surveys
- Vanguard
- National Society of Professional Engineers
- American Council of Engineering Companies
- Best Place to Work Surveys
- Internal FNI Benchmarks

FNI obtains information on best practices through technical conferences and symposiums, vendor user conferences, professional associations and the CEO Conference. The teams responsible for design and improvement of key processes benchmark with vendors, subconsultants and Baldrige recipients to learn about best practices in processes and technologies. We belong to the Regional BST and Ceridian user groups to benchmark how to more effectively use those systems.

Client Data	Staff Data
− Account Type (KA, EKA, PKA)	− Education
− Market	− Experience
− CR, AD, AM	− Papers & Presentations
− Client Contacts	− Licenses & Certifications
− CR Visit Notes	− Professional Societies
− Gold & Blue Sheets	− Technical Skills
− Proposals	− TEP Teams
− ISS Action Items	− CR Client Contacts
− Revenue, Bookings	− CR Visit Notes
− Projects, Multipliers	− Projects, Utilization
− FNU Activities	

Project Data
− Client Satisfaction Survey Results
− Project Start/Finish Dates
− Project Manager, Client Rep
− Sponsor Group, Working Group, SBU
− Services Provided
− Total Fees, Revenue to Date
− Project Plan
− Project Staff, Hours to Date
− Multiplier
− Percent Project Complete, Negative Variance

Figure 4.1-1 Operational Data

KFA	Types of Data	Data Aggregation	Data Reviewed By	Use of Data
Growth with Financial Stability	Economic indicators	Market	BD, LT	Monitor economic conditions for changes affecting clients and FNI
	Net bookings Projected bookings Net revenue growth Workload projections	CR, SBU, Group, Division, Firm	BD, LT, DM, GM, AD	Monitor performance to targets, achievement of plans, forecast workload for staff balancing
	Gold Sheet Updates Blue Sheets for "Must Wins" % Wins for "Must Wins"	Market, CR, Firm Firm Firm	LT, DM, AD GM	Monitor marketing process performance, take corrective action to meet bookings targets
	Revenue factor, utilization	Group, Division, Firm	BD, LT, DM, GM	Monitor staff utilization, assess current workload, correct causes of staff underutilization
	Net revenue, net revenue growth	Group, Division, Firm, SBU	BD, LT, DM, GM	Monitor performance to targets, corrective action to meet revenue targets
	Net profit, negative variances, labor multiplier	Group, Division, Firm	BD, LT, DM, GM	Monitor performance to targets, take corrective action on projects over budget
	Current ratio, cash flow projections Corporate expense ratio	Firm Firm	BD, LT	Assess financial health, take corrective action
	A/R collection days	Group, Division, Firm	BD, LT, DM, GM, CR	Take corrective action on A/R collections
Commitment to Clients	Client satisfaction, Executive Client Visit results Client FNU attendance	Group, Division, Firm, Market	BD, LT, DM, GM, AD, CR	Monitor performance to targets, take corrective action on client relationship management
	Technical papers Seminars for clients Technical association positions	Firm, TEP	BD, LT, TEP	Monitor performance to targets, take corrective action on marketing activities
	Minimum average employee training hours LEED Certifications	Group, Division, Firm	BD, LT, DM, GM	Monitor performance to targets, take corrective action on employee training and certification
	Community service hours	Firm	BD, LT	Monitor performance to targets, take corrective action on community service
Commitment to Technical Excellence	Client & employee satisfaction with communications	Group, Firm	BD, LT	Monitor performance to targets, take corrective action on project communications
	Claims as % of net revenue E&O change orders	Group, Firm, Market	BD, LT, DM, GM	Monitor performance to targets, address risk analysis
	Computer system down time Help Desk Issue Resolution	Firm	BD, LT	Monitor performance to targets, take corrective action on BT issues
	Technical processes developed Cost savings strategies TEP satisfaction rating	TEP, Firm	BD, LT, TEP	Monitor strategic action plans, TEP improvements
Commitment to Employees	Job offers accepted New employee 2 Yr retention	Firm	BD, LT, DM, GM	Monitor HR improvements to recruiting practices
	Voluntary turnover Employee opinion survey IDPs completed on time	Group, Firm	BD, LT, DM, GM	Monitor HR improvements to employee retention practices
	Cultural shift actions completed	Firm	BD, LT	Monitor cultural improvements
	Board of Directors evaluation	Firm	BD	Monitor Board improvements

BD = Board of Directors, LT = Lead Team, DM = Division Manager, GM = Group Manager, AD = Account Director, CR = Client Rep, TEP = TEP Leader

Figure 4.1-2 Data to Track Organizational Performance

4.1a (3) FNI improves its performance measurement systems annually to reflect changes in strategic measures and new requirements in data segmentation, analysis or reporting. Reports for each level of the organization are modified as appropriate. The President's Review packet contains a form for Division Managers to report problems or request improvements of any of the Corporate Support groups, including changes to measurement and reporting. Accounting also meets with each group of users annually for input on additions or deletions to the reporting packets. Recent improvements to our measurement system include:

- Started tracking data in 2007 related to errors and omissions and change orders to support risk management and improvements to project management.
- Revised all reporting to match the organization structure changes at the end of 2008. Several Groups were reconfigured and reassigned to different Divisions. Because all reports are based on project and group data, changes to those records automatically rolled up to the aggregate reports.
- Created new weekly reports for Groups Managers and Division Managers to better monitor and manage staff utilization. The report shows Group utilization trends and variance to budget of overhead labor (training, sales, etc.)
- Workload Projection Report which shows months of backlog, won but not authorized work and potential projects. The report is used by Group and Project Managers to monitor and manage future workloads.

4.1 b Figure 4.1-3 shows the reviews of organizational performance and capabilities conducted by senior leaders, Division Managers and Group Managers.

The Planning Team analyzes and reviews data at each step of the planning process. The Lead Team reviews utilization weekly and all other performance monthly. Division Managers and Group Managers review performance monthly. Examples of data analysis for these groups include:

- Trends in strategic measures on balanced scorecard
- Grid of utilization rates against multipliers for all groups to identify those below target profitability levels.
- Analysis of growth in revenue and profit levels to identify high-growth disciplines.
- Analysis of which disciplines are sold in each market to identify opportunities for expansion.
- Win-loss analysis and bookings projections by market to monitor the performance of the sales group.
- Bookings projections and workload projections by group and division to monitor appropriate staffing capacity and capabilities by discipline.
- Comparisons of staff utilization, negative variance, claims and profits across groups to determine how process improvements affect financial performance.
- Analysis of overtime to identify opportunities for work load balancing across locations and work groups.
- Cost and revenue implications of expansion of new or existing locations or services
- Analysis of client satisfaction survey results by firm, group and market, along with competitive survey to determine gaps in performance.
- Analysis of employee satisfaction questions and retention by employee tenure, division and group to identify improvements in management and HR practices.
- Analysis of growth in revenue by SBU in each market and division to assess success of growth strategies.

Reviews	Frequency	Participants	Information/Issues
Board of Director/ Shareholders Meeting Board Packet	Bimonthly Monthly	Board Members and all shareholders	Bookings, financial results, client and employee satisfaction, A/R collection days, claims, staff changes
President's Review Meeting President's Review Packet	Bimonthly Monthly	CEO, COO, CFO, Division Manager, selected Group and Project Managers	OA Monthly Report, Financial Overview, Sales Funnel Report, Bookings, Projected Bookings, Backlog, Negative Variance, Weekly Utilization, A/R Collection Days, Corporate Support Issues, Open Claims
Lead Team Meeting	Monthly	Lead Team	Corporate KFIs, financial performance
Lead Team Meeting	Quarterly	Lead Team	Trends in client satisfaction, strategic measures to goals, strategic plan action item status
Corporate Coordination Meeting	Bimonthly	CAO, Corporate Support Group Managers	Corporate support group expenses, actions from President's review, strategic plan action item status, support process improvements
Business Technology Meeting	Weekly	CAO, CIO	BT performance and issues Help Desk Statistics
Division Managers Meeting	Monthly	COO, Division Managers	Performance to KFI goals, client satisfaction, staff utilization, resource allocations, negative variance, marketing activities, potential projects
Sales Meeting	Monthly	Account Directors, Division Managers	Bookings, marketing activities, potential clients and projects, Gold Sheets

Figure 4.1-3 Organizational Performance Reviews

4.1 c The results of the Lead Team and President's Reviews are translated into priorities for improvement based on:

- Ethics – any issue concerning the behavior of FNI employees or subconsultants
- Client satisfaction – any issue concerning project deliverables or level of service
- Employee satisfaction – any issue concerning employee safety or well-being
- Financial performance – any issues impacting profit

Priorities may be for corrective action if performance goals are not met or for a new initiative, such as a recommendation for a new technology from a TEP team. Actions are deployed to the appropriate managers for execution, with follow-up by the COO for operational issues and the CAO for Corporate Support issues. Information about any new initiatives are communicated to Group Managers and Project Managers through email and discussed at the next meetings with these managers. Actions that impact subconsultants are related by the Project Manager. Actions that impact other vendors are related by the appropriate group.

4.2 Management of Information, Knowledge and Information Technology

4.2a (1) We ensure information and data accuracy by a variety of methods, including data entry edits, automatically calculated data elements, financial controls and audits. Our CAD standards, base drawings (modular drawings), and standard specifications help ensure the accuracy and integrity of our drawings and specifications.

We ensure integrity and reliability of information and data through quick start systems, data verification and the security features listed below. We ensure the timeliness of information and data through point of generation data entry for timesheets and expense reports and real-time updates to most databases. Employees can access and change a limited amount of their own employee HR data. Security and confidentiality of information and data are ensured through several security features:

- Data encryption of selected files
- Access control lists and passwords
- Secure wireless access
- Firewalls, anti-virus software
- Controlled remote access with required virus protection

4.2a (2) FNI makes needed information and data available through an integrated system of technology designed to serve marketing, service delivery and corporate support functions. All employees have computers with online access to these systems through the Local Area Network (LAN) at each office and the Wide Area Network (WAN) for the company. Employees may access the system remotely with Group Manager approval. Employees working in multiple locations have laptops. Web, audio, and video conferencing, as well as chat and desktop sharing, to support collaboration across all locations. As shown in Figure 4.1-1, client, project and staff information is available online and linked together for rapid access to the needed information. Staff can quickly navigate from a client to information about one of the client's projects to information about the individuals who worked on that project. Additional information is available online through:

- FN ManagerPro to allow project communications among clients, project staff and subconsultants.
- Client web sites that we author and host to share selected project information with client constituents.
- TEP home pages with process and technical information.
- Project Management site with PM processes and forms.
- Corporate support home pages with employee access to online support functions.
- Division and Group Manager Portals which provide access to all of the projects in that Division or group.
- Client Rep or Project Manager Portals which provide access to all of the projects for that PM or Client Rep.
- Marketing home page with access to the ISS.
- Phone access to a dictation system which transcribes employees notes following a client visit to Gold Sheets updates.
- Electronic and printed newsletters and white papers for clients about changing regulations, technology and funding issues.
- Electronic newsletters for employees about organizational events, quality initiatives and employee news.
- Third-party HR payroll intranet system which allows access to basic HR information.
- Microsoft Outlook corporate folders allow emailed correspondence to be archived as part of project history.

4.2a (3) We accomplish the collection and transfer of workforce knowledge through a variety of methods:

- QA/QC reviews provide a forum for sharing knowledge and best practices with Project Managers.
- The TEP teams meet six to eight times a year to improve their processes and review trends in methodologies, technologies and regulations related to their discipline.
- Forums to share knowledge about FNI processes and improvements, including Project Manager lunches, FNU Brown bag luncheons, CI luncheons.
- Subject matter experts from FNI teach selected segments of FNU courses.
- Senior staff coach junior staff. In particular, young employees are assigned a variety of projects to ensure that they are exposed to the full spectrum of work available in their chosen technical area and to learn FNI practices.

We share best practices through:

- CI luncheons.
- Cross-technical teams to work on service-related processes such as sustainability or client funding.
- Cross-functional teams to work on FNI internal processes, such as the new e-Resource portal for resource allocation and management
- The Innovation award process that provides an opportunity for the TEP teams to share best practices.
- Several standing teams of employees from across the company that work together to solve problems and share best practices (see Figure 1.1-2).

We transfer relevant knowledge from and to clients and subconsultants through:

- Project kickoff meetings
- Project status meetings
- FNU courses offered to clients and suppliers
- FNI client newsletters
- Client panels at FNI to discuss topics related to client satisfaction
- Technical seminars and papers shared with clients and suppliers
- Subconsultant workshops

Knowledge related to strategic planning is assembled and transferred by:

- TEP teams provide a report as input to the market scan about changes in service line technology, regulations and client needs.
- Account Directors and Account Managers provide a market scan including analysis of client needs and expectations from TEP reports, client visit notes and market research.
- HR provides input about employee satisfaction and engagement and the status of employee support functions.
- Accounting provides financial analysis of prior years' project performance for groups, SBUs and markets.
- Marketing provides analysis of bookings by SBU, group and market.
- Risk Management provides an analysis of claims data.

4.2b (1) Most of our computer systems are custom built to meet the complex requirements for engineering, architectural and environmental science work stations. We ensure hardware reliability by having long-term relationships with preferred vendors. We test each system before installation. We also stock spare parts and spare systems to ensure availability of hardware for employees. We refresh these systems regularly.

We ensure software reliability by testing upgrades before implementation through a parallel or pilot test. We are able to conduct full software tests on a parallel system before software is released using our backup servers. We may test new versions of software with one office or group before releasing it to the rest of the company. Most of the software we purchase is from major vendors. We are a beta tester for BST, our project management/accounting software.

Physical security is maintained through card key access to the computer servers. We maintain system security through data encryption, access control lists, passwords, secure wireless access, firewalls, anti-virus software, and controlled remote access with virus protection.

We address the user-friendliness of software by comparing vendor products for features and functions, participating in vendor enhancement surveys, and conducting beta tests. We provide training materials and online user reference material as well as outside training for more complex software.

4.2b (2) We have a formal disaster recovery plan in the event an emergency disrupts hardware, software or data access. Our main server is in the Fort Worth office. All data and software are backed up daily and stored off-site weekly for each office. In the event that the Fort Worth office is destroyed, we will be able to have all systems available within three days. If necessary, employees can access our systems from remote sites. Our payroll provider maintains the host server for that data. This vendor provides data and software backup and hardware redundancy in case of an emergency.

4.2b (3) The Business Technology group is in the second year of a three year plan to reengineer the entire BT function to better support current and future FNI needs. The group is revising all of the BT development, operations and support processes to be compliant with the Information Technology Infrastructure Library standard. Following this international standard will improve the effeciveness, transparency and accountability of BT services. The group also plans to migrate the web platform to Microsoft SharePoint. In 2010, this will improve online collaboration between work groups, support development of dedicated portals and provide an integrated environment for sharing organizational information and knowledge.

The CIO updates the Business Technology plans each year to support the organization's strategies and actions. BT also meets with each Group Manager during the annual budgeting process to determine the number of new employees, as well as software, hardware and video conferencing requirements. During the year, requests for new or enhanced BT services come from two sources. Senior leaders may request new services through the Corporate Coordination Issues sheet in the President's Review Packet. Any employee may submit a request for a system enhancement through the intranet Business Technology portal. All requests are prioritized by the Business Technology group and submitted to the Lead Team for approval. Approved requests are combined into batches for implementation. Recent improvements have included:

- Streamlined computer purchasing process, reducing delivery time from two months to 15 business days.
- New computer standards and computer refresh process
- Network monitoring and event response process
- New request processes - technology purchases and technology equipment checkout
- Implemented new process for the BT Service Desk, including metrics to monitor performance.
- Implemented new process to identify, prioritize and implement BT improvement projects.

Information about current and future technological changes comes from:

- The Business Technology staff working with our vendors to learn of new products, new releases and best practices.
- The CIO meeting with his counterparts at the CEO Conference and Forrester Research to learn of new technologies.
- Client requests that we use certain hardware or software for compatibility with their systems.
- TEP Team ideas for new technology to be used in project management and service delivery.

Category 5 Workforce Focus

5.1 Workforce Engagement

5.1a (1) We determine the key factors that impact employee satisfaction and engagement through surveys and facilitated discussions about survey results at Group meetings. Our internal employee opinion survey (EOS) asks "Why do you like working here?" and "What can we do better?". Periodically, we include "what's most important to you" questions on the survey and regularly participate in external surveys to validate our findings (5.1 c[1]).

EOS results are segmented by group and tenure to gain actionable information. Each Group Manager conducts meetings to address the issues highlighted by their group's survey. The HR Manager correlates the feedback from the Group meetings with the survey results to determine the factors that most impact employee satisfaction and engagement. The factors have consistently been the same across groups and tenures, but the importance of each factor may vary somewhat. The HR Manager assesses this process annually as part of determining employee satisfaction.

5.1a (2) Our senior leaders create a culture that promotes high performance work and engages the workforce by clearly communicating performance expectations, providing challenging work, and promoting effective communications. Performance expectations are communicated through our guiding principles, strategic goals and action plans. Challenging work comes from long-term client relationships, our strategies for growth, and new technologies and services. Growth provides opportunities for our employees to move up Career Ladders as more senior positions become available. The adoption of new technologies and services challenges our staff to acquire and practice new knowledge and skills. We promote effective communications at all levels of the organization through our open door policies and senior leader discussions with employees. Communications for daily work is supported through a variety of technologies that allow project members in different locations to communicate and collaborate on project work. Project and Group meetings provide the opportunity to discuss problems and issues.

We promote sharing of skills, knowledge and diverse ideas through our project management structure, employee training and standing teams. Our project management structure allows employees to work in groups with people of different technical expertise and levels of experience. The various standing teams, such as TEP teams, encourage employees to share ideas and best practices. Our new Innovation Program will encourage both innovation and diverse thinking. The Innovation Committee leading this initiative represents a cross-section of age and experience from the FNI staff.

5.1a (3) We support high performance work and workforce engagement through an integrated system of performance goals, professional development, feedback to employees, and compensation/recognition. Managers use the Employee Planning and Performance Review System to establish goals, determine career paths and training needs, and assess performance for each employee.

Corporate Goals - The manager and employee work together at the beginning of the employee's annual review cycle to set the employee's performance goals. Corporate goals are deployed as appropriate from the company's KFIs, balanced scorecard and strategic action plans (see Item 2.2). For example, a Client Representative may have a goal for net bookings, while a TEP Leader may have a goal for the number of technical papers submitted.

Career Planning - The manager and employee discuss the employee's short term (one year) and longer term (3-5year) career objectives. They review the applicable FNI Career Ladder which shows the career steps for various career paths - see 5.1 b(4). Employees may take a career assessment to help determine the employee's interests in various areas. Once the employee selects a career path, the manager assesses the employee's potential to move to the next level of the Career Ladder.

Professional Development - Based on the career track assessments and discussions, the manager and employee establish goals for individual development and complete the employee's Individual Development Plan (IDP). The IDP defines the training and experience the employee needs to move up the Career Ladder. As with corporate goals, the appropriate training and experience choices are shown for the target job classification and discipline. The plan includes training through FNU and outside sources, recommended projects and activities, and assignment of a technical coach. A company-wide mentoring program is offered. Participation in the program is optional, but encouraged.

Feedback about Performance - Employees receive informal feedback about their performance during the year from their Group Manager and Project Manager. Many managers provide quarterly or mid-year reviews in addition to the required annual review. The employee and manager each complete an assessment of the employee's performance, which includes attainment of individual performance goals as well as evaluation against FNI competencies: customer focus, leadership skills, technical skills, teamwork, continuous improvement and communications. These competencies are based on our desired cultural profile (P1.1-3). The manager and employee discuss the assessments and the cycle begins again with setting goals and developing an IDP for next year.

Compensation/Recognition - Salary increases are performance-based. The HR department maintains a formal salary administration program to ensure equity across our company and within our industry. Salaries are reviewed annually. We reinforce a strong client and business focus through annual recognition and monetary rewards:
- Team FNI Bonuses and profit sharing contributions made to the employees' 401K annually.
- Bonus program available for all employees based on performance.
- Star bonuses for extraordinary performance.
- Top Box 5 and 5 *i* programs to recognize employees for receiving top ratings from an external or internal client.
- Recognition and rewards for receiving professional licenses.

- Marvin C. Nichols Award for publishing papers or making presentations at conferences.
- James R. Nichols Award for Service in the Community.
- Robert L. Nichols Professional Service Award for outstanding service to professional organizations.
- Lee B. Freese Excellence in Mentoring Award for outstanding efforts in mentoring FNI employees.
- Spot bonuses with a note from the CEO.
- Service awards presented at monthly Group meetings and the annual dinner
- Innovator of the Year Award for outstanding innovation in corporate support, project delivery or client solutions.

5.1b (1) Training to support organizational goals and action plans is defined by the Training Manager as part of strategic planning and is included in the HR Annual Operating Plan. Course offerings are based on strategic actions and input from Group Managers as a result of the IDPs they develop with their employees. Freese and Nichols University (FNU) courses cover a variety of topics to meet the needs of the organization and its employees:

- Employee Orientation - The one-day course is scheduled quarterly. The course is taught by FNU staff, the CEO, CFO and the Chairman Emeritus. It addresses the history and culture of FNI, our CI model and strategic plan.
- Professional Ethics – This course addresses professional ethics, how to develop a personal code of conduct, and recognizing and resolving ethical situations.
- Management and Leadership skills - Courses include leadership, project management, time management, team building, communications, coaching skills, and PM certification for potential project managers.
- Sales and Marketing – Courses include client relationship management, presentation skills, and strategic selling.
- Safety - Employees whose work may require them to routinely visit hazardous sites attend an initial 40-hour hazardous material course with annual 8-hour refreshers. Safety training is provided for all employees that visit construction sites.
- Personal and Professional Development – Courses include personal accountability, Microsoft office applications, interpersonal relationships, and technical writing.
- License Reviews – Courses prepare Engineers-In-Training for professional engineer license examinations.

We have two levels of leadership development: project managers and future leaders. The Leadership Development Program is for employees with the potential to become Group Managers, and eventually senior leaders. The Project Management Leadership Development Program is for project managers whose professional development could be enhanced with leadership skills training. Participants for both programs are selected by senior leaders based on performance evaluations and recommendations by their managers. Participants attend training classes over eight months with homework assignments to develop their leadership skills. Many of the sessions are taught by FNI senior management. Participants are given new assignments or increased responsibilities following successful completion of the class.

We recently implemented a formal mentoring program that matches senior staff with younger employees to provide advice on career planning and development, understanding the FNI culture and values, and development of relationships. Thirty of our employees requested their preferred mentors and the HR Manager selected matches from the list of mentors based on common interests, needs and availability. Both mentors and mentees received training on how to successfully participate in the relationship.

We also offer courses to clients as part of our strategy to provide value beyond the current project. Clients regularly attend our professional ethics and professional engineer examination review courses. In 2008, we developed classes for sustainability principles and in 2009, offered additional classes in funding options for water resource infrastructures, dam safety and alternative project delivery options.

We incorporate organizational knowledge and experience into training courses by having our senior leaders and technical experts serve as instructors. Many of the technical classes provided by FNU are developed and taught by our more experienced engineers, architects and scientists. We deliver education and training through several venues to accommodate the schedules and workloads of our employees. Employees also receive training at conferences, community colleges, universities and seminars. FNU venues include:

- FNU instructor-led classroom courses
- Brown bag sessions
- Video- based courses
- Vendor presentations and client panels at FNI
- TEP Teams, PM Lunches, CI Lunches, CAD User Group

5.1b (2) Employees work with their Group Managers to identify training needs for the coming year as part of their IDPs. Employees also provide input about training needs through a training survey and course evaluations. The Training Manager summarizes the training requirements from these various sources and meets with the Group Managers to better understand their needs for staff skills and knowledge. The Training Manager then uses this information, along with the training required to support strategic actions, to develop the necessary programs.

Coaching and mentoring have always been an important part of our culture. Based on feedback from younger staff, we implemented a more formal technical coaching program in 2008 to transfer knowledge from senior staff and to reinforce skills on the job. Senior staff selected to be technical coaches attend a three-part coaching course. Coaches are listed by their technical specialty on each TEP intranet site and are available to any one who needs their help. Younger staff is assigned a technical coach as part of their IDP plan. They may also ask for a career development mentor. We transfer knowledge from retiring employees through coaching and mentoring. Many of our senior leaders continue to work well past retirement age. Acting in Emeritus roles, they continue to be a part of the firm and serve as career mentors to the next generation of leaders. Senior technical staff teach technical classes and serve as coaches to younger staff, transferring skills and knowledge over many years.

If a project manager must leave in the middle of a project, we follow a formal handoff process to ensure that service to the client is not disrupted. The Group Manager assigns a new Project Manager. The departing and new project managers work together to complete a Handoff Checklist to address documentation, communication venues, schedules and status updates. The Client Rep meets with the new Project Manager and the client to complete the hand-off. If an employee is reassigned, or leaves the company, the Project Manager or Group Manager oversees the handoff to other staff.

5.1b (3) We evaluate the effectiveness of FNU training through course evaluations, the Employee Opinion Survey (EOS), Corporate Services Survey and evaluation of employee performance. Course surveys are conducted at the end of each class and as a follow-up to determine subject matter retention. Course materials are revised based on this feedback. The EOS addresses the effectiveness of training and job experience opportunities in professional growth. We look at the Employee Performance Review scores given by managers for areas we teach, and often improve classes or design new ones to meet performance gaps across the company. We use this information to identify improvements across all course offerings to content and delivery methods.

5.1b (4) FNI manages employee career progression through Individual Development Plans (IDP), the Career Ladder, and training and career mentoring. The Career Ladder demonstrates possible steps for technical, marketing, administrative and management career paths. The manager and employee work together to identify the individual's career interests and potential on the Career Ladder. Younger employees are assigned to a full range of projects during their first two years to help them better understand their career choices. Employees who have recently received their professional license are encouraged to take a career assessment to help in their career decisions. Employees are encouraged to seek a career mentor who can advise the employee about career options and implications.

Once an employee has identified a career path, or at least the next step on a path, in a technical, administrative or marketing discipline, the manager assists in developing the employee's IDP. Each step in the Career Ladder has a series of job classifications that defines the required training, experience and certifications that the employee must attain. Employees who express an interest in a management career path, and are highly rated by their managers, are given the opportunity to attend Leadership training and may serve as an assistant to their Group Manager.

5.1c (1) We determine employee well-being, satisfaction and motivation through our internal annual employee opinion survey and external employee surveys. The internal survey consists of 47 questions and addresses Organizational Culture, Communications, Continuous Improvement, Professional and Technical Development, Sales & Marketing, Salaries & Benefits, Technology, and the Quality of Our Products and Services. The survey is available online for the convenience of all employees and can be completed from home. The same survey is used for all employees. On average, about 90% of employees complete the survey.

The survey results are segmented by group and tenure. The aggregated results for each technical or corporate group, along with the company-wide results, are reviewed with the group employees in a meeting facilitated by the Group Manager. Each group discusses issues related to their lowest scoring items, as well as the results from the question "What can we do better?" The resulting action plans are included in the groups AOP plans. The HR staff correlates the results of the EOS to those of the latest external survey. For 2009, we had the results of the "50 Best Small & Medium Companies to Work for in America" survey. Our results were compared to the average of 98 civil engineering firms. We analyze the results of both surveys to identify areas for improvement across the organization. We use the results of training surveys, exit interviews, employee retention, and job offers declined to validate survey findings and identify further improvements. The HR Manager recommends improvements to the Strategic Planning team. Priority is given to issues with the greatest impact on strategic initiatives and goals.

We evaluate and improve our approaches to determining workforce satisfaction annually prior to strategic planning. The HR manager gathers input from Group Managers and the Lead Team and then recommends changes to the Lead Team. Evaluation includes:
- What are the key areas of employee engagement or performance that we need to learn more about?
- How can we best get actionable information - through surveys, focus groups, CI teams or other sources?
- What could additional data analysis tell us?
- What changes do we need to make to the EOS methodology or questions?
- Does the cost/benefit ratio justify an external survey to get comparative data for this year?
- Are our employees getting survey fatigue?

5.1c (2) The HR staff identifies employee-related data that correlates with business results as part of strategic planning to help identify improvements and monitor results. Priority is given to improvements related to our strategic goals, with actions assigned to the appropriate groups. Examples include:
- Completion of Professional Engineer Exam preparation course to the number of attendees who pass the examination within one year.
- Completion of Individual Development Plans to achievement of individual and organizational goals.
- Successful completion of Client Rep training to bookings.

5.2 Workforce Environment
5.2a (1) The Planning Team assesses organizational capabilities as part of strategic planning. This internal assessment addresses new and changing workforce capabilities to improve organizational performance and to meet changing business needs. The team uses a variety of inputs to this assessment, including employee and customer satisfaction results, requirements for new or expanded services, and employee performance data. Initiatives are deployed through action plans to develop, hire, acquire or outsource the needed capabilities. These initiatives may include changes to our organizational structure to better deploy and manage the new capabilities. Examples include:

- Acquisition of a small, seven-person firm to gain senior municipal planning capabilities
- Hiring of our first CIO to move our BT infrastructure and capabilities to a higher level
- Reorganization of the marketing function to better focus on Key Account and Emerging Key Account development

Group Managers assess workforce capacity during the deployment phase of strategic planning. Each technical and support group develops an Annual Operating Plan and Budget that includes projected workload volumes and staffing requirements for the next year. The number of potential new hires is defined by job classification and projected start date. Technical groups determine staffing requirements based on projected workload (bookings) and historical staffing ratios for a given type of work. The support groups base staffing on the projected volume of their workload and industry standards of staffing ratios. These workload projections, and the number of staff to support them, are updated monthly.

5.2a (2) Employee hires are requested by the hiring manager and approved by a Division Manager or Corporate Manager. Human Resources recruits possible candidates by posting the position internally and on the FNI web site. Employees are offered a bonus for referrals that lead to hiring. Additional postings vary by the position and may include universities, professional organizations and job web sites. FNI also recruits through employment agencies, career fairs, on-campus recruiting, scholarship programs, internships and co-op programs. The HR representative submits a list of possible candidates to the hiring manager.

The hiring manager chooses the most qualified candidates to interview. An interview typically includes an overview of the company and benefits by Human Resources, followed by a behavioral-based interview by the hiring manager and an interview team. The behavioral interview questions are targeted to the level of job position. For example, questions for managers focus on coaching, risk management, integrity, setting priorities, while questions for engineers focus on communications, customer focus and teamwork. The questions are based on the competencies of our desired cultural profile (P1.1-3). The hiring manager solicits input from the interview team before making a hiring decision. Human Resources conducts reference checks, background checks and works with the hiring manager to determine what salary to offer based on our salary administration program.

If the candidate declines the offer, Human Resources sends the candidate an electronic survey to gain insight into their overall interviewing experience and the factors used in making their decision. The results of the survey are reviewed by the hiring manager with consolidated results reviewed quarterly by the Lead Team to identify improvements. If the candidate accepts the offer, Human Resources notifies the appropriate groups to make arrangements for the new employee. The hiring manager assigns a "buddy" to help the new employee become acquainted with our company, culture and processes. The onboarding process includes:
- Human Resources discusses company policies & benefits.
- The hiring department takes the new employee to lunch.

- Business Technology familiarizes the employee with our hardware, LAN/WAN and Intranet systems.
- An Operations Analyst meets with technical new hires to explain accounting processes.
- A fast-track training process to help bring new Project Managers on board quickly.

These are just the first steps in making our employees valued members of our company. Our employee retention rate of 87.1% shows that the FNI caring culture, our employee benefits and our emphasis on employee development all contribute to long-term employee relationships. FNI recruits at universities with higher women and minority populations and supports Society of Women Engineers chapters. The Human Resources staff completes an annual affirmative action plan which analyzes the availability of our required skills in the hiring community. FNI compares recent hires and existing staff to that availability and targets any gaps for the next year. In most instances, the FNI workforce diversity is greater than that of the hiring community. Our commitment to diversity extends to the subconsulting opportunities we extend to small, woman, minority-owned and historically under-utilized businesses and the mentor-protégé relationships we have with these firms.

5.2a (3) Our organizational structure is designed to leverage our core competencies as well as address our strategic challenges. To create and maintain long-term client relationships, we must fully utilize our competencies of understanding client needs and being a trusted advisor. This requires ready access to our clients across the state. Thus we have four Divisions with offices in six major Texas cities with small satellite offices in many other Texas locations.

Each Division consists of groups of technical disciplines, such as Stormwater or Water Resources. Grouping the staff of technical disciplines together allows us to leverage our technical expertise into larger, more complex projects. This motivates employees, and gives us the capacity for growth. The Dallas and Ft. Worth offices have recently been reorganized into service areas rather than geographic areas. All of the technical staff in a given discipline are in the same division, regardless of their location in North Texas. This has allowed us to work more efficiently across these offices, share work, increase productivity and grow in targeted areas.

Each technical group is led by a Group Manager who reports to the Division Manager. Over time, we have determined that the optimum technical group size is 10 to 20 employees. This size provides sufficient resources to support a significant amount of work, yet is small enough for the Group Manager to give personal attention to each employee.

The Group Manager is responsible for resource allocation, workload management, project performance, and staff development within his or her group. The Group Managers assign a Project Manager and technical staff to each project, tracking assignments on resource management software. If additional resources are needed, the Group Manager can inquire into available resources across the company, then contact his or her counterpart in another location for assistance. This gives FNI the agility to dynamically allocate

resources to meet changing project workloads. Workload sharing is accomplished through a variety of technologies that allow project members in different locations to collaborate on work. Growth goals and strategic actions for technical groups are addressed by the staff for that discipline from all locations. The ability to collaborate across offices on sales and marketing, project delivery, and strategic initiatives has proven to be a strategic advantage for FNI.

Corporate support is organized into groups with each support area managed by a Group Manager. Most support staff is located at the Ft. Worth corporate office to reduce corporate overhead. Larger offices have support staff from accounting, marketing and Business Technology to coordinate with the corporate office and provide needed local support.

5.2a (4) We prepare the workforce for changing capability and capacity needs through training and continual communications. We provide training to help our employees perform multiple functions within their chosen disciplines. Our senior leaders stay in communication with employees about the health of the company and the impact of the economy through the employee newsletter blog, emails and meetings. The CEO sends eletters to all employees periodically discussing the status of the economy and the steps that senior leaders are taking to plan for the future.

FNI manages workforce levels through strategic market selection and continual monitoring of projected workload. Part of our longer-term strategy is to develop new markets that will utilize our existing capabilities, thus allowing reallocation of staff to a different market if one market declines. Group Managers monitor staff utilization weekly and take action to ensure that each group is meeting its billable hour goals. Corrective actions might include reductions in corporate overhead activities, work sharing across locations or assistance with sales and marketing efforts. The Lead Team monitors bookings, backlog, utilization and a 12-month workload projection each month to determine any impact on staffing levels. Corrective actions might include revising planned new hires, reallocating staff between locations or reductions in overhead activities.

FNI takes every measure to avoid layoffs. When revenues dropped sharply after 9/11, all shareholders took a salary cut and the firm implemented a "share the pain" program of reduced work hours. This program allowed us to limit layoffs to a few people and rebound quickly as the economy recovered. We considered outsourcing for peak demand to avoid hiring and layoffs in 2009 and 2010. However, bookings have been so strong, we have not initiated that plan.

5.2b (1) We address employee health through our wellness program, which is available to all employees. The program includes biometric screening, a Health Risk Assessment (HRA) and brown bag programs targeted to the main issues identified by the HRA. In 2009, we provided monetary incentives for employees to complete an HRA and receive follow on coaching as determined by the assessment. We have the overall results of the HRA and have established goals to reduce the "at risk" population by 2% over the next year. The HR staff is currently benchmarking with three local

companies known for their wellness programs to identify improvements. We address safety and a secure work environment for all employees through:
- Policies prohibiting smoking, weapons, drug/alcohol abuse in the workplace
- Building security systems
- Hazardous materials and construction site safety training for employees who work in the field
- Ergonomic keyboard trays, chairs and cubicle design

5.2b (2) FNI provides employees a wide range of benefits as shown in Figure 5.2-1. Benefits are based on feedback from the EOS, employee focus groups and benchmarking through the SHRM national conference, Best Place to Work firms and the NSPE HR Roundtable. A standing employee benefits team periodically reviews and recommends changes to the Lead Team. Benefits are prioritized based on cost/benefit analysis and impact on employee satisfaction. All benefits are available to every employee in the company and we have a high rate of participation. We tailor benefits to the diverse needs of our employees through a flexible spending account for medical insurance, flexible work hours to accommodate family needs, and the option for exempt employees to be paid overtime or comp the hours to personal time.

- 401k plan with FNI matching up to 100% of first 6% contributed based on company profit
- Paid overtime for exempt employees
- Eligible for salary increases annually
- 7 paid holidays, 6 days of personal leave
- Cabins in New Mexico free for employee vacations
- Family social events
- Paid vacation based on years of service
- Family Medical Leave, Bereavement leave, Jury Duty leave
- Military leave to include one additional week of pay
- Employees can donate personal leave or vacation to another employee in need
- When approved, work from home
- Transition by returning part-time after maternity
- Flexible work hours
- Short-term and long-term disability
- Medical insurance for employee and dependents
- Flexible spending account for medical insurance and dependent care
- Vision and dental insurance
- 24-hour access to health, financial and legal advice
- Life insurance, Accidental Death and Dismemberment
- Formal career development
- FNU training classes and tuition reimbursement
- Recognition and reward programs
- Professional association dues reimbursement
- 529 College savings payroll deduction
- Employee appreciation events

Figure 5.2-1 Employee Benefits

Category 6 Process Management

6.1 Work Systems

6.1a (1) Figure 6.1-1 shows our work systems for sales and marketing, service delivery and administrative functions. Changes in work system design are initiated by the Planning Team as the result of external and internal assessments. The external scan conducted by the Futures Committee and the market scan conducted by the sales group highlight client needs for new products and services, and occasionally new ways of conducting business. The Planning Team decides which of these opportunities FNI will address over the next three years and initiates a strategic action. The action team recommends any changes to FNI work systems. Action teams addressing new services use the following criteria to determine whether to use external resources:

- The volume of work does not justify our developing the capabilities needed. For example, we outsource reviews of designs with public access for ADA compliance.
- The potential profit margins for the service are not high enough to justify developing internal capabilities, as in survey work which we outsource.
- We have the capabilities, but outsource to fill peak needs, which we do for a number of engineering disciplines.
- We have the capabilities, but outsource to meet client demands to include subconsultants with knowledge of the client's local area or to meet DBE requirements.
- The Texas state legislature is gradually introducing design/build delivery for public works, which allows a single firm to perform both design and construction for the project. Rather than develop, or purchase, internal capabilities for construction, we established an affiliated company in 2007 to give us the capability to participate in this new approach as it becomes available for a broader range of projects.

The Planning Team also conducts an internal assessment of FNI capabilities, including results of client surveys, employee surveys, internal customer surveys, as well as the performance of planning, service delivery, support and marketing functions. This assessment may result in changes to the organization's work systems to improve the efficiency and effectiveness of key functions, to leverage our core competencies or to address strategic challenges. Action teams addressing changes in internal functions uses the following criteria to determine outsourcing:

- We are legally required to use outside resources.
- The function does not capitalize on our core competencies.
- Outsourcing reduces either financial or market risk.

6.1a (2) Our core competencies are ethical conduct, technical excellence, understanding client needs and being a trusted advisor. These competencies contribute to our marketing and service delivery capabilities by increasing the value we can provide to our clients, thereby giving us a competitive advantage in the markets we serve.

Our key work processes are designed to leverage these competencies so that we can best meet our clients' needs and expectations. Our marketing and service delivery processes are designed to help us understand client needs and become trusted advisors. Sales processes focus on engaging clients and learning their needs. Proposal development is designed to meet and exceed the requirements of the client for a specific project. Service delivery is designed to translate client needs into high quality, innovative solutions. Customer support, which is integrated into the service delivery process, reinforces understanding client needs through the built-in interactions between the Project Manager and the client. Service delivery processes incorporate checklists, methodologies, standards and tools to help us achieve technical excellence. Our TEP teams continually improve their processes to ensure that we maintain that high standard.

6.1b (1) Our key work and support processes are shown in Figure 6.1-1. Our work and support processes, taken together, give us the ability to achieve our hedgehog concept, mission, vision and strategic goals. The service delivery processes help us provide high-quality engineering solutions for projects for our clients and the communities they serve. The marketing processes help us establish and manage the long-term client relationships which support our sustained success. The support processes help us manage our resources to ensure that we have the financial strength to support growth and innovation, and to keep our talent.

6.1b (2) We use a variety of listening posts as shown in Figure 6.1-2 to determine requirements for key work and support processes. The team assigned to design or improve a process translates this information into requirements for process performance and results: cycle time, productivity, process deliverables, quality and information accessibility. Figure 6.1-3 shows requirements for our key processes.
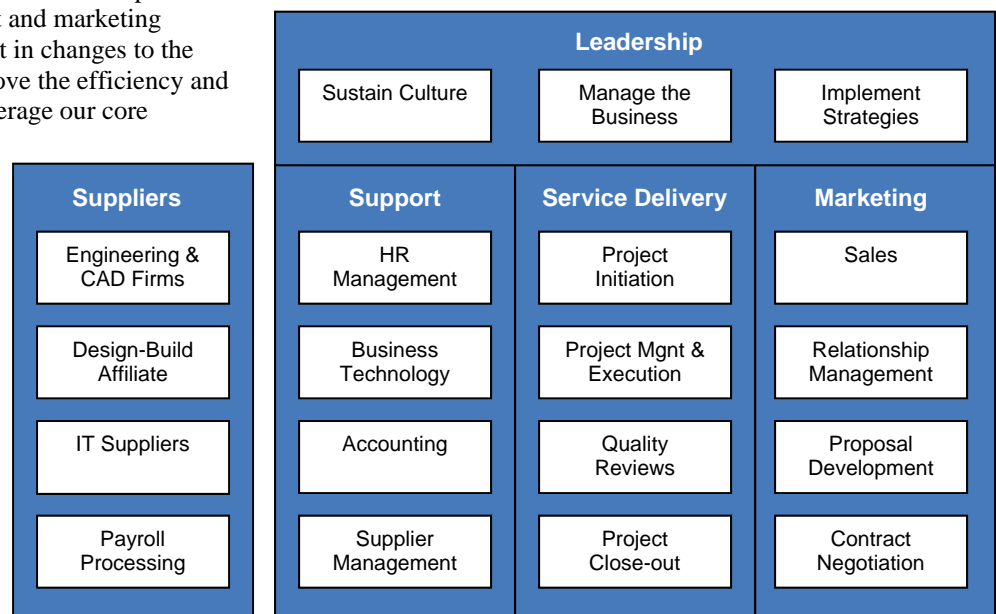
Figure 6.1-1 FNI Work Systems

Sources	Service Delivery Client Requirements
Client satisfaction surveys, Executive Client Visits, CR meetings with clients	New or changing client requirements
State and federal agency regulations	Public works engineering regulations
State and federal agency committees and reports	New or changed legislation or regulations
Professional society committee and conference reports	New or changed legislation or regulations, new technology requirements
Manufacturers of public works technology, user group meetings with key software suppliers	New technology capabilities
Strategic Action Sheets	Strategic directions from Planning Team
Sources	**Support & Marketing Requirements**
Results from Corporate Services Surveys	New or changing internal client requirements for support
Employee Opinion Survey	New or changing needs for HR and BT support
Input from various points of strategic planning process	New or changing requirements for BT, HR, marketing or accounting
Monthly President's Reviews: Corporate Coordination Issues	New or changing needs for BT, marketing, HR or accounting support

Figure 6.1-2 Sources of Process Requirements

6.1 c We have a formal Disaster Recovery Plan to help employees respond to disasters and minimize the impact on our employees and our company:

- Annual training for emergency response floor captains
- Drills on building evacuation procedures
- Fort Worth office has a custom-designed 911 response system which notifies key personnel via pages, cell phone and email anytime someone dials 911
- "Emergency Situations" quick reference sheets for all employees with procedures for responding to a variety of emergency situations
- On-line emergency contact sheet for emergency services, facility managers, and key service providers
- CPR trained employees listed in the FNI phone book

6.2 Work Processes

6.2 a New processes are designed, or existing processes improved, by the process owner. The PM Steering Committee is responsible for the project management process, which defines the PM tasks to manage work assignments, schedules and budgets for each project and provides day-to-day resolution of client issues.

Each TEP team is responsible for the procedures related to its technical discipline. These are the tasks that are executed by individual engineers to create the project deliverables: studies, plans and designs. Each TEP team consists of representatives from each location.

New services or technologies are developed as part of a client project and usually do not involve completely new procedures. The client may have requested a new methodology or technology, or we may have recommended one. The project team will include senior staff from the appropriate TEP teams and may include BT staff, suppliers, and others with a stake in the process. The exception to this approach is when FNI decides to obtain an entirely new process through the acquisition of another firm, as with comprehensive municipal planning. In that case the new process is documented by the TEP team using the documentation standards explained below.

The project team reviews the requirements for a new or enhanced service (regulatory requirements, client requirements or new technology) at project initiation to determine the scope of the changes. The team also looks for opportunities to innovate by using technology to reduce project cost or cycle time or exceeding client requirements by providing better value for the same cost. If a new technology is involved, the team may conduct a preliminary study by consulting with organizations already using the technology as well as vendors and industry experts to determine features, costs/benefits and risks. After the study, if the client approves the new technology, the project proceeds. If the new technology does not prove viable, the project is completed with existing, proven approaches.

The TEP teams create tools, checklists and references to reduce project time and improve the quality of project work. Because each project is different, the engineering procedures are designed and documented as discrete tasks to be assembled as needed. Each TEP team has its own intranet site with standard documentation categories:

- Methodologies – Design standards (templates) to be used for commonly required design tasks. Copies of state and local design manuals stating the governmental requirements for the public structures to be designed.
- Tools – Instructions for using software tools such as GIS or spread sheet calculations to determine specifications of various components of the design.
- References - Citations of state and federal publications with regulations and legislation related to this discipline, lists of changes to the regulations and legislation.
- QC Checklists – Procedure checklists that are used by the engineers in their design work and by senior staff in conducting QC reviews.
- Coaches List – List of senior staff that are experts in various aspects of this discipline and are available to advise about project work. The list is also used to assign coaches to junior staff as part of their IDPs.
- Suggested Training – Technical seminars and conferences for each grade of engineer for this discipline. These lists are used in developing training plans for technical staff IDPs.

Each marketing, HR, accounting and BT group is responsible for designing its own processes. The teams consist of the process owners, and may include internal clients, BT staff, suppliers, and others with a stake in the process. Marketing and administrative processes are documented with flow charts, check lists and forms. In-process measures are established if appropriate. New or revised marketing or administrative processes are driven by the need for reduced cycle time, increased effectiveness, improved ease of use, or cost reductions. Many of these issues are resolved through the use of technology: either by providing online access to information and data or by automating process work.

Whenever possible, the team provides its clients online access to forms, charts, reports, and "How to Guides". Many of these features can be implemented through existing software, such as BST, while other features may require additional software. New software for use in these processes may be identified through vendors, trade shows, professional organizations, publications and product websites. The BT staff guides the team in selecting new software products.

The Business Technology group in year two of a three year plan to revise all of its processes to be compliant with the Information Technology Infrastructure Library standard. Following this standard will improve the effectiveness, transparency and accountability of BT services.

6.2b (1) Regardless of the discipline involved, all client projects are executed through the project management processes. Figure 6.1-4 shows how projects are managed to meet performance requirements, as well as how we use input from clients and subcontractors throughout the project. The project plan (contract, schedule, budget, QC plan and communications plan) make up the controlling documents for managing the project. The QC and QA processes provide the check-points for ensuring that project requirements are being met. Figure 6.1-3 shows the performance measures we use to manage key work and support processes. These indicators are reviewed regularly by Project and Group Managers for potential project issues.

While we follow the approaches outlined in 6.2 b(2) to ensure high quality, we must test new design services and/or technologies in the field to ensure that they meet design requirements. FNI may hire a senior engineer or a consultant with expertise in the new technology to assist the project team. This person advises the design team and conducts initial QC reviews. Once the design is completed, FNI remains involved in the construction phase through construction management services. Construction Services staff, as well as the Project Manager visit the site routinely to answer questions and monitor construction of the project. FNI makes revisions to the design documents as needed throughout construction.

Marketing and administrative teams validate their processes through parallel and/or pilot tests to ensure that design requirements are met. They revise the process based on the results of the test before implementation organization-wide.

6.2b (2) Many of our projects create designs for public works, such as dams, roadways or campus master plans, for which we have a responsibility for the highest quality. We minimize project time and costs, and the costs of defects or rework, through several mechanisms:
- Methodologies, tools and references for each technical discipline to ensure consistency in executing tasks.
- Processes and tools for marketing and support functions.
- Go/No-Go analysis for each project proposal to identify and reduce any risks to a successful project.
- Multi-level reviews of proposed contracts to mitigate potential risks and liabilities.
- At the start of each design project, the team reviews claims data from similar projects for lessons learned.
- Constructability reviews at key point of design projects to ensure that designs are feasible, have adequate details for construction, and that any potential conflicts that might occur during construction are resolved.
- Senior technical staff reviews of project deliverables during the design work and as part of the QC process.
- Senior leader QA reviews at 10% and 90% points of each project and at 50% point of larger projects, to assure that PM functions and QC reviews are conducted properly.
- Periodic updates of standard design details and specifications, including updates from lessons learned.

6.2 c The teams who design the marketing, service delivery and administrative processes also are responsible for improving and innovating those processes. TEP teams identify which procedures to review each year. The PM Steering Committee reviews a key portion of the PM process each year, and the overall process every few years. Improvements are identified through the sources for new process requirements (Figure 6.1-2) as well as from:
- President's Reviews
- Group Manager reviews
- Project Close-Out reviews
- TEP team, marketing and support team improvements
- CI in Action suggestions for improvements
- PM, CAD, GIS, CI Steering Committee improvements
- QA Reviewer Committee improvements
- Corporate Coordination Committee improvements

The process teams follow the plan-do-check-act methodology for improving their processes. The team analyzes relevant information and data to understand the improvement opportunity. The teams may bring in staff from other FNI groups or look outside the company for possible solutions from suppliers, subconsultants or benchmarking sources. The teams determine how to best incorporate improvements into the existing process through streamlining job steps, forms redesign, automation of manual functions and improved communications across groups and locations. The teams communicate the process improvements and are responsible for implementing the changes. The teams monitor compliance with the revised process through internal process measures and/or observation. Process improvements and lessons learned are shared across groups and locations through the President's Reviews, CI Lunches, Project Manager lunches, TEP teams, TEP Leader Luncheons and User Groups.

System	Process	Requirements	Process Measures	Results
Sales & Marketing	Sales	Bookings Growth	Bookings Growth	7.3-10, 11
	Client Relationship Management	Understand Client Needs Add Value To Client	Client Sat: Understand Needs % Of Gold Sheets Updated	7.2-2 7.5-17
	Proposal Development	Winning Proposals Innovation	Win/Loss Ratio % Wins Of "Must Win" Projects Blue Sheets For "Must Wins" Net Bookings Client Sat: Creative Approaches	7.2-8,9 7.5-18 7.5-18 7.3-10, 11 7.1-5
	Contract Negotiation	Contract Evaluated For Risk Contract Signed	Contract Risk Reviews Negative Variances	7.5-14 7.5-12
Service Delivery	Project Initiation	Responsiveness And Communications	Percent QA Reviews Passed Client Sat - Communications	7.5-6 7.2-2
		Cost Ideas Offered	Client Sat: Cost Savings Client Sat: Design Ideas Offered	7.1-5 7.1-5
	Project Management & Execution	Innovation	FNI Innovation Awards Client Sat: Creative Approaches	7.4-14 7.1-5
		Resource Utilization	Staff Utilization Overhead Rate	7.5-1 7.3-8
		Completed On-Time	PM Monthly Report: On Schedule Client Sat: On Schedule	7.1-1 7.2-2
		Completed On-Budget	Client Sat: On Budget	7.2-2
		Payment On-Time	Average AR Collection Days	7.5-11
		Project Profitability	Labor Multiplier Negative Variance Profitability	7.5-2 7.5-12 7.3-5
	Quality Reviews	Scope Fulfilled	Percent QA Review Passed Negative Variance	7.5-6 7.5-12
		High Quality Constructible	Percent QA Reviews Passed Claims as % Net Revenue Constructability Reviews Client Satisfaction	7.5-6 7.1-2 7.5-8 7.2-1
Support	Accounting	Responsive To Requests	Corporate Services Survey	7.5-22
		Availability Of Cash	Average AR Collection Days	7.5-11
		Compliance With GAAP	Clean External Audit	7.6a (2)
	HR	Hires Match Requirements	% New Hires Retained	7.4-8
		Competitive Benefits	Employee Sat Survey	7.4-2
		Professional Development	Avg Training Hours Per Emp Outside Development Activities	7.4-9 7.4-12
	Business Technology	Responsive to Requests	Corporate Services Survey	7.5-22
		Availability of the System	Computer Network Uptime %	7.5-21
		Adequacy of BT Support	IT Requests Completed	7.5-20

Figure 6.1-3 Key Work and Support Process Requirements and Measures

Process	How We Meet Key Process Requirements	How We Use Client/Partner Input
Sales	Account Directors and Account Managers lead development of marketing plans for clients, SBUs and markets to meet bookings goals.	Client input about needs and expectations is gathered from strategic planning and feedback from visits with clients.
Client Relationship Management	Client Representatives and Account Managers follow the Gold Sheet process to learn about and understand key issues and requirements of current and potential clients. The process includes actions by the account team and others to build and maintain client relationships.	Client input is a primary driver of relationship building and management. Gold Sheet meetings include ADs, CRs, PMs and other FNI staff with client interfaces to provide input on building relationships from several points of view.
Proposal Development	The PM, AD and CR complete a Go/No Go analysis of the project to assess the possibility of FNI obtaining the project and successfully completing it. If a Go, the PM works with the marketing proposal team to develop a proposal that will address client requirements. They also consider opportunities for innovation to better meet client needs.	Client input is a written RFP or RFQ, feedback from client visits and Blue Sheet analysis about key issues for this client. Subconsultants provide input related to their expertise for the proposals, and in some cases, their understanding of the client's issues.
Contract Negotiation	Project team estimates budget and schedule using multiple estimating algorithms. Proposed contracts are reviewed by Risk Management, accounting, and senior technical staff for adherence to FNI requirements. No revenue is recognized until the contract is approved by FNI and signed by the client.	The PM, with assistance from the CR, and Risk Management, works closely with the client to determine specifications, deliverables and terms. A similar contract is created with subconsultants.
Project Initiation	The PM creates detailed assignments, schedule, budget, QC plan and communications plan based on the contract specifications. These plans become the controlling documents for the project. The PM holds an internal kick-off meeting with the project team, including subconsultants and construction services staff if appropriate. The project team also considers opportunities for innovation both in project delivery and final product.	Following the internal kick-off meeting, the PM holds a kick-off meeting with the client and reviews project requirements and expectations, and client preferences for communications.
Project Execution	The PM coordinates with his or her team throughout the life of the project. The project team records their hours each week. The PM reviews the effort completed and work remaining as compared to the hours charged and makes adjustments as needed. Monthly, the PM compares effort completed to project revenue; work remaining to budget remaining. Variances indicate the project is over or under budget. The PM completes a monthly PM Report showing whether the project is over or under budget and schedule and any correction actions. This information is included in the Division Manager reports for the President's Review. The Group Manager meets regularly (weekly or bi-weekly) with all of their PMs to review resource allocation, upcoming projects, and marketing efforts and ensure that they have the resources they need.	The PM and the CR communicate with the client throughout the project. Direct client input is typically related to the project deliverables – the plan, study or design being produced. Client requests for changes in the end product that require changes in project scope and fee are processed through a change order request that includes a contract modification. Changes in project schedule may cause changes in the QC or QA schedules. Client satisfaction surveys are conducted at the mid-point and at project completion. The PMs and GMs use the survey results to determine any changes needed in managing the project or interfacing with the client. Special Executive Client Visits can be initiated by the Project Manager if additional feedback from the client is desired.
Project Quality Reviews	QC is a technical review performed by senior staff with the relevant expertise that are not part of the project team. The reviews are conducted throughout the project. Errors or inconsistencies are noted and corrected. QA reviews verify that QC reviews and key PM tasks are conducted properly. If a QC review was not completed, no credit is given for the QA. QA reviews are conducted at the 10% and 90% points of the project and also at 50% on larger projects. Constructability reviews are performed prior to delivering plans to clients.	Most clients are not directly involved in QC or QA Reviews. However, some clients have their own technical staff and want to participate in these reviews. Subconsultant work is subject to QC reviews just like all other project work. In some cases a subconsultant with specialized knowledge, such as ADA compliance, may conduct part of the QC review.

Figure 6.1-4 Management of Project Delivery to Meet Key Requirement

Category 7 Results

Our primary benchmarking resources for customer, financial and process results are the CEO Conference, the American Council of Engineering Companies and an industry benchmark firm. The industry benchmark firm (IBF) provides benchmarks for financial and process results for the civil engineering industry as Top Overall, which is the 75th quartile for all firms and Top Mid Size, which is the the 75th quartile for the firms with a comparable number of employees.

7.1 Product Outcomes
7.1 a. Service Performance

Figure 7.1-1 shows the percent of projects on schedule by Division, measured by completion of deliverables at each stage of the project. We use this as an indicator of on-time delivery and target to have 80% of our projects on schedule. Our results have been very close to this target over the past 5 years with all four divisions on target in 2010. Our projects are complex and schedule delays caused by our clients or regulatory agencies are common. We manage the client's expectations with the One-page Status Report, which addresses project schedule, explanations of delays, and actions to get back on schedule.

Figure 7.1-2 shows claims as a percent of net revenue. Claims are related to costs incurred by FNI due to alleged errors or omissions in our work and are a direct indicator of the quality of our work. Claims include the actual claim amount paid to the client, legal fees and employee time spent to resolve the claim. The claims process we have in place has been successful in keeping claims below our target of 1.0% of net revenue and below the CEO conference performance. The increase in claims in 2006 and 2008 is due to the settlement of several claims that were identified in prior years. Claims in 2009 were .3% of net revenue, well below the estimated CEO Conference benchmark of 1.6%. According to our insurance provider, over the last five years, FNI has had an average claims frequency of 1.08 claims per $10 million in net revenue, while the industry average is 2.80. Over the same period, FNI has had an average claim severity of $111,219, compared to the industry average of $368,000. Figure 7.1-3 shows the errors and omission change orders as a percent of the total construction costs. E&O data lags the design phase of the project by one or more years, since total constructions costs are needed to calculate this indicator. The reduction in E&O claims in 2009 is the result of several changes to the project management process over the past three years, such as inclusion of construction management staff in project start-up meetings and more consistent constructability reviews of design projects (See Figure 7.5-8).

Figure 7.1-4 compares pipeline construction costs for water transmission pipelines. By using the WAVE method (Water Transmission Approach to Value Engineering) for designing pipelines, Freese and Nichols is able to help our clients save significant construction costs. In fact, for a 60 inch diameter pipeline, we save our clients more than twice our design fee in construction costs when compared to the construction cost of pipelines designed by our competitors. The WAVE approach is a systematic design process that optimizes the use of materials route selection, constructability, life cycle costs and schedules

7.1-1 Projects on Schedule
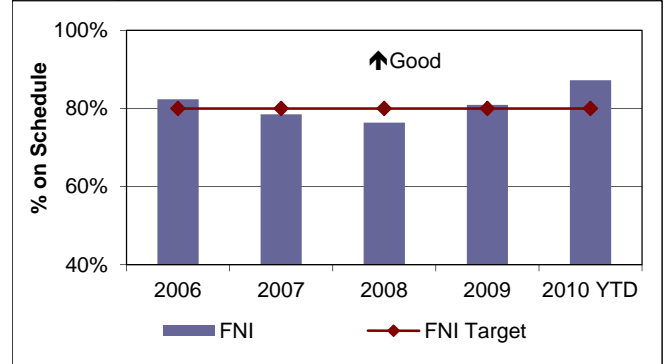
7.1-2 Claims as Percent of Net Revenue
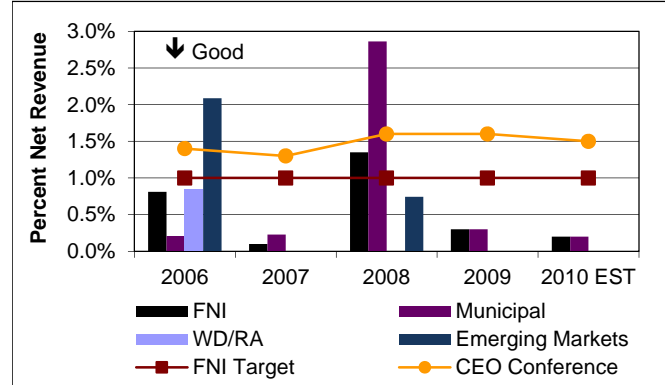
7.1-3 Error & Omission Change Orders
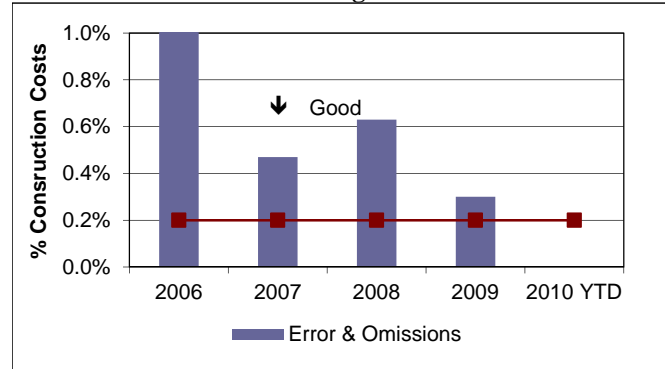
7.1-4 Comparison of Pipeline Costs
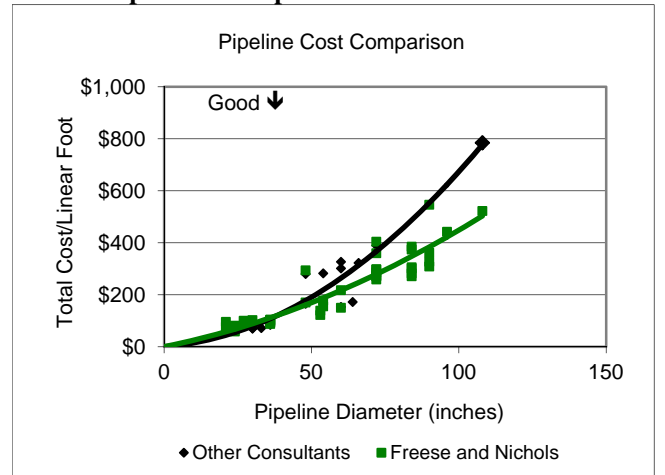
on each individual project. The chart shows sample comparisons based on bid fees by several FNI competitors in Texas.

7.1-5 Client Satisfaction with Innovation
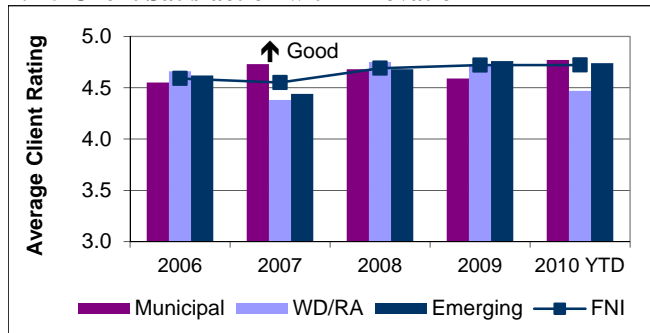
Figure 7.1-6 FNI Awards for Innovation and Excellence

Award	Organization	Project
Engineering Excellence Gold Award	Texas Council of Engineering Companies	Self-cleaning, trench-type wetwell
Engineering Excellence Honor Award	Texas Council of Engineering Companies	Saddle dam and road embankment repair
Best of Public Projects	Texas Construction Magazine	Eagle Mountain Connection
Engineering Excellence Honor Award	American Council of Engineering Companies	Lake Brazos Labyrinth Weir
Transportation Project of the Year	Texas Public Works Association	City of Pearland, Bailey Road Extension
Environmental Project of the Year	Texas Public Works Association	Lake Brazos Labyrinth Weir
Eminent Conceptor, Gold Medal for Eng. Excell.	Texas Council of Engineering Companies	Hydrologic & Hydraulic Guidelines for Dams in Texas
Gold Medal for Eng. Excellence	Texas Council of Engineering Companies	Wastewater Treatment Plant Improvements, The Colony
Gold Medal for Eng Excellence	Texas Council of Engineering Companies	Eagle Mountain Connection, Tarrant Regional Water District
Award of Merit in the Built Category	American Institute of Architects Fort Worth	Fort Worth Water Gardens

Figures 7.1-5 shows client satisfaction scores for FNI innovation, which is a composite score from Creative Approaches, Cost Savings Suggestions and Design Alternatives. The decline in the WD/RA rating is due to the cost savings score. In the current economic environment, cost savings have become more critical for many of these clients. We are focusing on cost savings in our 2010 strategic actions. While we have always strived to deliver innovative solutions to our clients, we have not been consistent across all markets and all disciplines. In 2006, the Lead Team established an internal Innovation Award to promote innovation in client projects (see 7.4-14). Figure 7.1-6 shows several of the external awards we have since received for our innovative solutions to clients' problems.

7.2-1 Client Satisfaction Survey Results
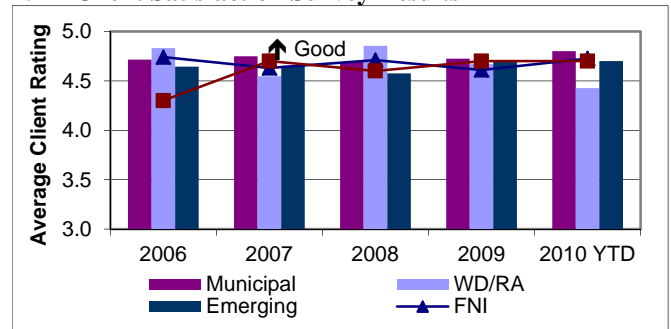
7.2-2 Client Satisfaction Survey Question Results

Survey Question	2006	2007	2008	2009	2010
Creative Approaches	4.58	4.58	4.69	4.73	4.70
Cost Savings	4.50	4.50	4.62	4.56	4.69
On Schedule	4.65	4.53	4.58	4.64	4.59
Design Alter.	4.68	4.58	4.74	4.69	4.75
Client's Needs	4.83	4.74	4.78	4.80	4.75
Communication	4.87	4.66	4.70	4.75	4.62
On Budget	4.76	4.64	4.76	4.79	4.80
Flexibility	4.81	4.68	4.75	4.77	4.82
Responsiveness	4.93	4.75	4.78	4.77	4.77

Wanting to further promote innovation, the Lead Team initiated an Innovation Program in 2009 to improve the effectiveness of these efforts. The Innovation Team, consisting of staff from different locations, tenures and disciplines, is charged with determining how to best incorporate a more systematic approach to innovation into our projects and CI efforts. This team will select pilot projects in 2010 and report the results to the Lead Team along with recommendations for full implementation.

7.2 Customer-Focused Outcomes
7.2a (1) Customer Satisfaction and Dissatisfaction
Figure 7.2-1 shows overall client satisfaction ratings for the company. This is the average of the responses to the 9 questions on the client survey for projects. We ask clients to complete the survey at the mid-point for projects over $50,000 and the end of all projects. Each survey returned is reviewed by the Marketing Manager, Client Rep, Project Manager, Group Manager and members of Lead Team. Aggregated ratings are assessed quarterly by the Lead Team as part of the Strategic Plan review. Lower scoring categories are addressed with an action plan. Our ratings increased in municipal and emerging markets, but fell in Water District /River Authority.

Figure 7.2-2 shows the average responses to the individual client satisfaction survey questions. This data has helped us improve our value creation, as well as, support processes. Teams working on the two lowest scoring categories for 2010 include a CI team on Project Communication and the PM Steering Committee on schedule improvements. Figure 7.2-3 shows client participation rates for these project-level surveys, and the percent of TopBox5 ratings our staff have earned. Our survey return rate for 2010 is down, but it normally increases in the last quarter.

7.2-3 Client Satisfaction Survey Participation
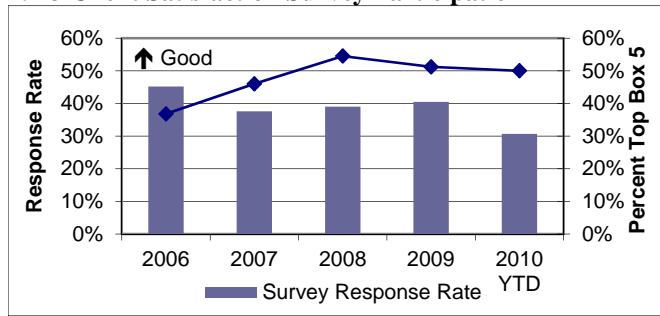
7.2-4 Executive Client Visit Survey Results

7.2-5 Competitive Client Satisfaction Survey Results
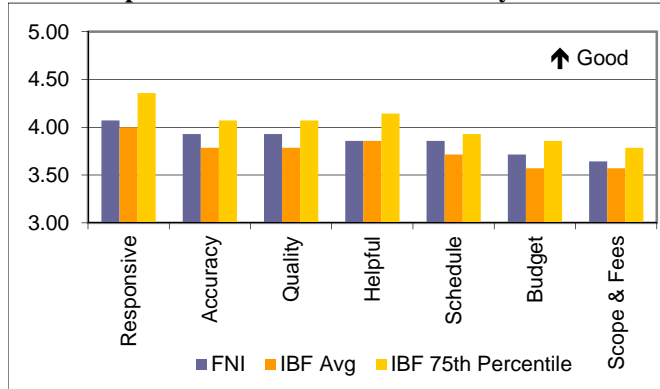
7.2-6 Client Retention
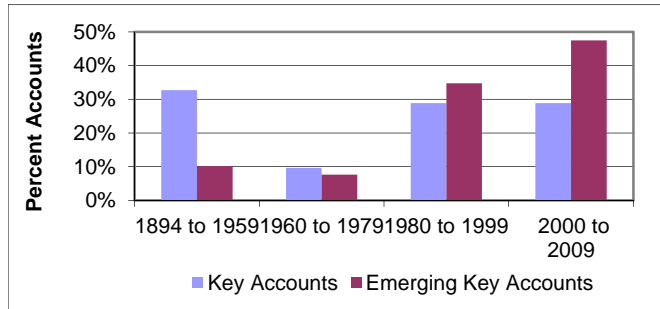
7.2-7 Client Participation in FNI Seminars & Events
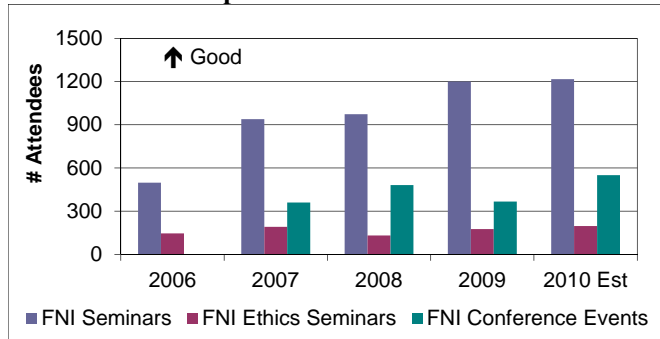
Figure 7.2-4 shows overall client satisfaction ratings from the surveys completed during Executive Client Visits (ECV). FNI senior managers conduct these visits with senior executives of Key Accounts. These are typically not the same individuals who complete project-level surveys. Senior Leaders visited 21 clients in 2009, slightly ahead of 2008, but below our goal of 25 visits. Our ECV ratings over the past five years have been inconsistent and are one reason that we decided to participate in an industry competitive survey in 2009 (the first year it was offered). Figure 7.2-5 shows the results of that survey. Respondents were asked to rate FNI as compared to its competitors. The results show that our client's perception of FNI is higher than the industry average, but lower than the 75th percentile for the participating companies. This survey has emphasized the importance of accurate client listening posts. As a result the Lead Team has authorized a complete review and revision of all of our client satisfaction and dissatisfaction tracking mechanisms. The Lead Team tasked the PM Steering Committee with reviewing the Project Management process to look for improvements identified by this survey. Their current focus is on schedule.

7.2 (2) Customer Relationship Building and Engagement

One of our primary indicators of client engagement is the longevity of our client relationships. Figure 7.2-6 shows the retention of our long-term clients. We have worked with 42% of our Key Accounts for more than 30 years, and 71% for more than 10 years. Each client is counted only once. We determine client retention based on having done business with that account over the years as RFPs are issued. Many of our clients do not issue an RFP every year due to large multi-year projects, or because they have limited capital improvement budgets. For many other clients we will have multiple projects running concurrently. The Key Account designation is assigned to clients with designated levels of bookings over a 3-year period. Emerging Key Accounts are those accounts with the potential to become Key Accounts. The increasing number of EKAs in the past 10 years (52%) shows the results of our efforts to develop new clients in both new market sectors and geographic regions.

Client participation in FNI-sponsored events is another one of our indicators of client engagement. Figure 7.2-7 shows client attendance at our technical and professional development seminars and industry conference events. In 2005, 228 client employees attended our classes, including 149 people attending ethics seminars. Seminar attendance has grown consistently and is estimated to maintain the 2009 level in 2010. Because of increasing client interest, we implemented a new process in 2009 for selection of client technical seminar topics to better align these offerings with market needs and our business objectives. We met our goal of three new seminars in 2009. Attendance at ethics seminars has remained steady as a few of our larger clients started their own internal seminars based on our model, and smaller clients began sending their employees to our sessions. Conference events provide our clients the opportunity to network with their peers, and provide us the opportunity to foster client relationships. Attendance declined in 2009 as the recession forced clients to cut their budgets for travel and conferences.

7.2-8 Win-Loss Analysis by Market
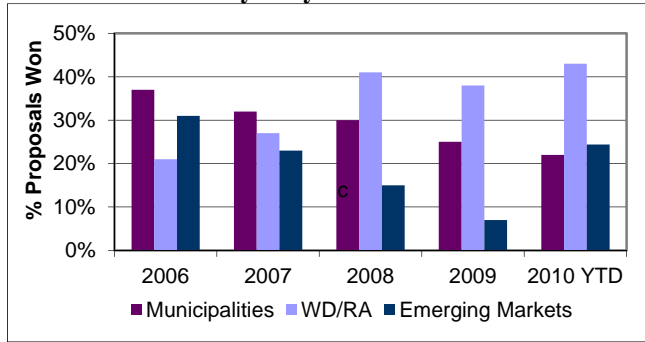
7.2-9 Win-Loss Analysis by Account Type
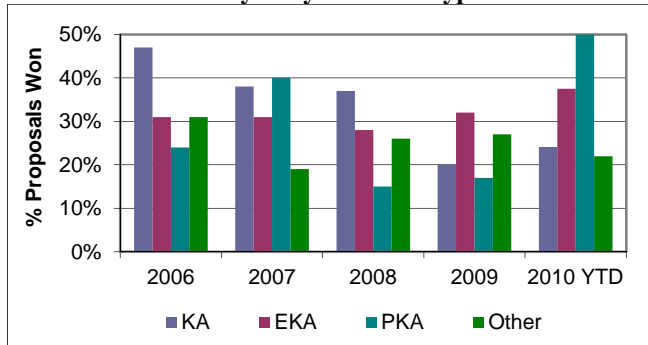
7.2-10 Client Visits
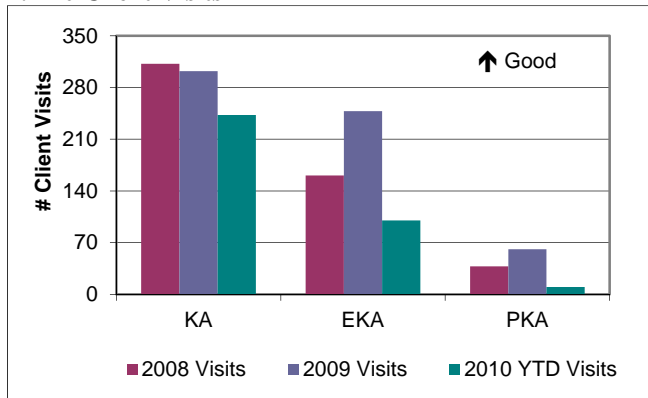
7.2-11 Number of Accounts by Status
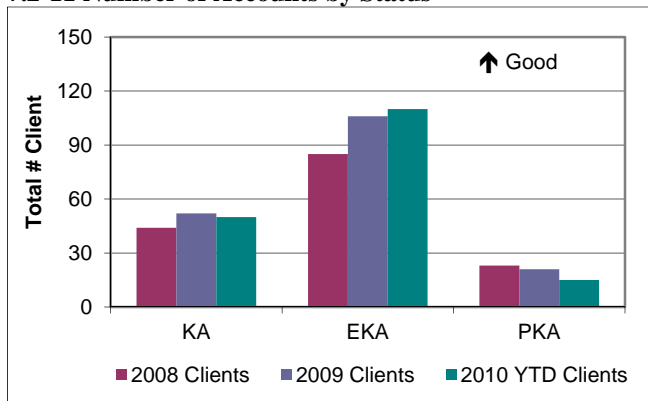
Figures 7.2-8 and 7.2-9 show the results for all proposals submitted as a result of a client request for a competitive proposal. Typically, 10 to 30 firms submit proposals in competitive situations. Our industry benchmark from the ACEC study is 32.95% wins on competitive projects. This compares favorably with the 43% rate for the WD/RA market in 2010, but exceeds the 22% win rate for Municipal market and the 22% win rate for Key Accounts. Municipalities, which make up a large percent of our Key Accounts, are facing increasing pressure to spread a decreasing number of projects across several vendors, reducing the win rate for these competitive bids. However, we continue to receive a high percentage of sole source work from these Key Accounts.

The volume of visits to our clients is a leading indicator of client engagement. These are visits by any FNI employee who documented their visit through our automated recording system, including Executive Client Visits. The FNI employee's notes from the meeting are transcribed into the client's Gold Sheet for access by others associated with this account. We concentrate our resources on Key Accounts, while cultivating Emerging Key Accounts (EKA) for additional business. Figure 7.2-10 shows the increased EKA visits in 2009, which reflect our successful efforts to move EKAs up to Key Account status and to develop additional EKAs. Figure 7.2-11 shows we developed eight new Key Accounts and 21 Emerging Key Accounts. The number of PKAs remains fairly constant as we have focused on developing KA and EKA clients (Figure 7.2-12).

7.3 Financial and Market Outcomes
7.3a (1) Financial Performance

Figure 7.3-1 shows the growth in FNI's gross and net revenue for the past five years. Net revenue is project revenue, less revenue from subconsultant work, so reflects our portion of value creation for each project. FNI balances the desire for growth with the need for profitability to fund that growth. We do not strive to be a top performing firm in growth alone and prefer to avoid the risks of the high and low growth cycles inherent in our industry. By concentrating on the fundamentals, we were able to outperform the best firms of our size and in the industry as a whole in 2009. While our growth in 2010 has slowed with municipal budget shortfalls, our growth remains better than a mid-year industry estimate of 2% growth. Chart scales and data segmentation have been removed from most financial and marketplace performance charts to maintain confidentiality.

Figure 7.3-2 shows the growth in net revenue segmented by eight of our major service business units (SBUs) or disciplines. As part of the 2007 strategic planning process we identified these SBUs as high profit, high potential markets for FNI, and thus markets that we wanted to grow. We have seen significant growth resulting from our growth strategies in Transportation, Water Transmission, Stormwater and Water/Wastewater Planning. Expansion of Water Resources into the Southeast Division has resulted in growth in 2009 in dams and water resource planning.

Figure 7.3-3 shows an example of the types of analysis we perform to support strategic planning. Our firm has always provided planning services for selected disciplines. In 2006, based on client feedback, we initiated strategic actions to offer planning services across many more disciplines, including municipal master planning, campus master planning, transportation planning and stormwater planning. Our goal was first to meet our client's needs for more systematic planning approaches and second, to leverage this type of work into more design contracts. We initiated a TEP Cross team to help establish planning across multiple disciplines, acquired a small municipal master planning firm and implemented software to support these planning services. Figure 7.3-3 shows the results from long-established utilities planning and from more recently established transportation planning.

Figure 7.3-4 shows the high performance indicator developed by the CEO Conference to show growth in both revenue and profitability. The indicator is calculated as percent change in net revenue plus percent net profit. We find that the topic of growth versus profits is one in which the CEO Conference companies vary widely in their approaches. Some of these companies are willing to sacrifice profits to gain rapid growth, while others, such as FNI, have a more conservative philosophy. We strive to generate the profit levels that will allow us to invest in the future by opening new markets, developing new clients and increasing our staff, while still providing an attractive return on investment to our shareholders. We exceeded our goal for this indicator in 2009. In 2010, our growth is below target but ahead of the CEO Conference.

Net profit is net income, before incentive/bonus payments and income taxes, as a percent of total revenue (Figure 7.3-5). Profits in 2004, 2005 and 2006 were on par with the top performing firms of our size due to a heavy workload and a focus on profitability. In 2007, we continued to achieve our profit goal but slightly underperformed the best in class. Our profits were impacted in 2008 by a heavy investment in professional development (leadership and PM certification) and marketing through client conferences which resulted in lower staff utilization. A focus on utilization in 2009 turned this around so that we exceeded our goal as well as top performing firms in our industry.

Figure 7.3-6 shows the growth in our share price as compared to the S&P 500. In 2009, the price grew 9.5%. The price per share has grown by 41% in five years. The share price is regulated through a buy-sell agreement approved by the shareholders. The annual share price is managed by the Ownership Transition Committee, CEO and CFO to allow for ownership transition while providing a reasonable return on investment. Our profitability has also afforded annual dividends to shareholders ranging. The S&P 500 increased 23% in 2009, recovering a portion of the 39% decline in 2008.

7.3-1 Growth in Revenue for FNI
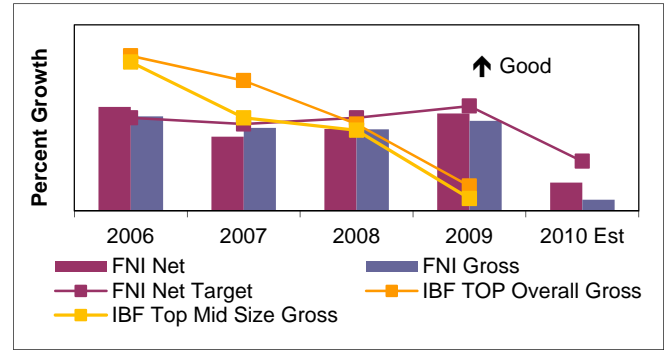
7.3-2 Growth in Net Revenue by SBU
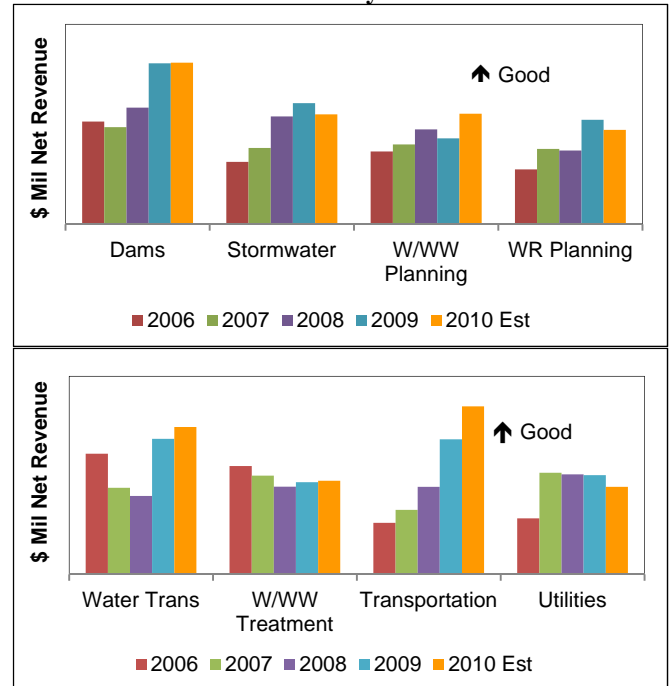
7.3-3 Revenue from Selling Across Client's Value Chain
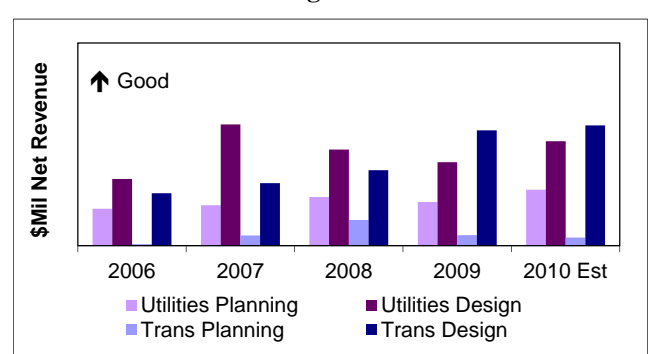
7.3-4 High Performance Indicator
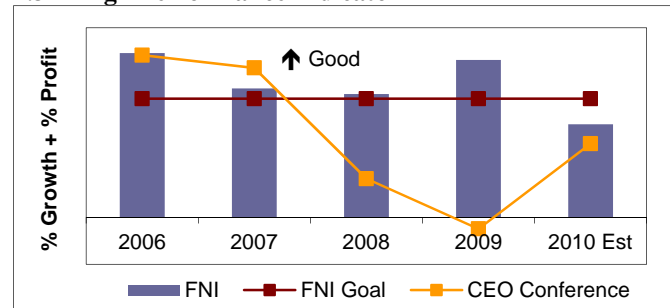
Figure 7.3-7 shows our corporate expense and our debt to equity ratios. The corporate expense ratio is total corporate overhead labor and expenses divided by total revenues. It is a measure we track to ensure that we keep corporate overhead in line as we continue to grow. We have been successful in keeping corporate overhead below at or below target over the past five years. Debt to equity ratio is total debt divided by total stockholder equity. Our debt to equity ratio increased in 2007 due to signing a capital lease for printers to be provided and maintained company-wide, allowing us to provide the latest equipment for our employees. Historically our only other debt has been notes payable to divesting stockholders. The estimated industry benchmark is 8%, far in excess of the FNI ratio for 2009.

Figure 7.3-8 shows our overhead rate, which is total overhead divided by total project salary, exclusive of bonuses. Total overhead includes non-billable employee salaries, employee benefits, rent, insurance, marketing costs, materials and supplies. For 2009, our overhead rate was well below the goal of for that year, but above the industry benchmark. The FNI overhead rate is high in comparison to the industry benchmarks due to investment of staff time on strategic initiatives, CI activities, and professional development. We pay overtime, while many engineering firms do not, and we provide a higher level of employee benefits. The decrease in 2009 is reflective of an increase in staff utilization (Figure 7.5-1).

Figure 7.3-9 shows the current ratio for FNI. This is a measure of current assets to current liabilities and reflects the conservative manner in which FNI manages its finances. The numbers reflect a significant spend down of cash to reduce the tax liability of being a cash-basis taxpaying S Corporation. We report a six month cash flow projection in the monthly Board packet, but do not use it to manage finances because our operations have funded all of our expenses for many decades.

7.3 a(2) Marketplace Performance
Bookings are an indicator of future workload and revenue. Figure 7.3-10 shows that bookings grew by 8% in 2009 and are projected to increase by 11% in 2010. This growth is, in part, the result of our strategic actions to build sales capacity in Central and SE Texas and grow these locations.

Figure 7.3-11 shows projected bookings for 2010 and 2011. Booked business, plus "Won but not authorized" indicate current projects won. Strategic Sales Objectives (SSOs) from the Sales Funnel Report indicate potential sales in the future. The report is segmented by company, market, technical discipline and Account Director. It is reviewed monthly by Group Managers, the Sales Group, the Lead Team and the Board to monitor future bookings, identify gaps in performance and take needed action. Bookings are estimated to increase in 2010 in a continued depressed market, with the largest growth in North Texas.

7.3-5 Net Profit
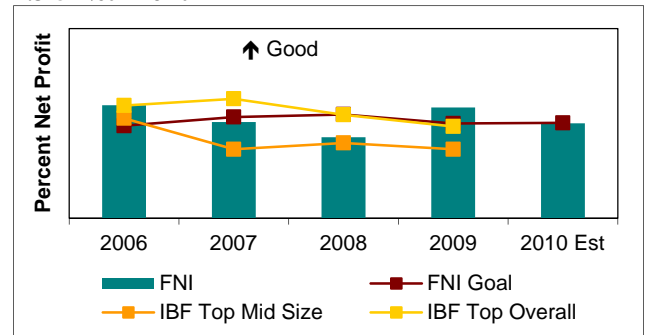
7.3-6 Growth in Share Price
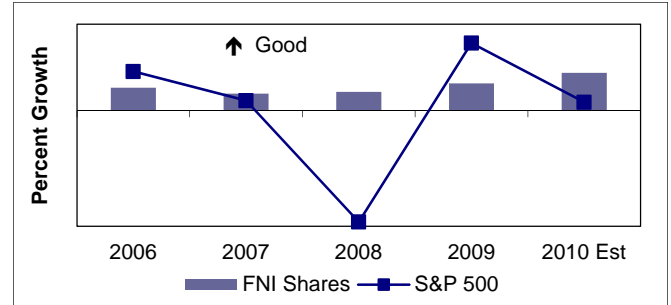
7.3-7 Ratios
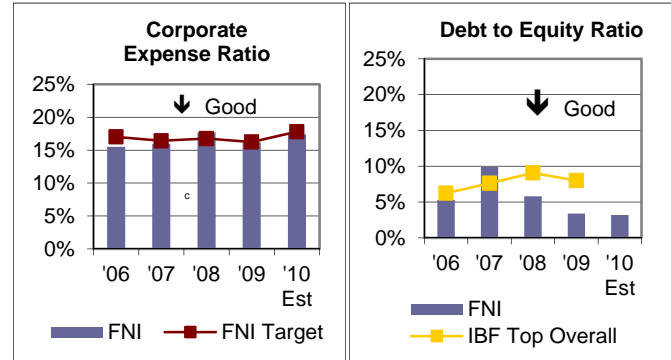
7.3-8 Staff Overhead Rate
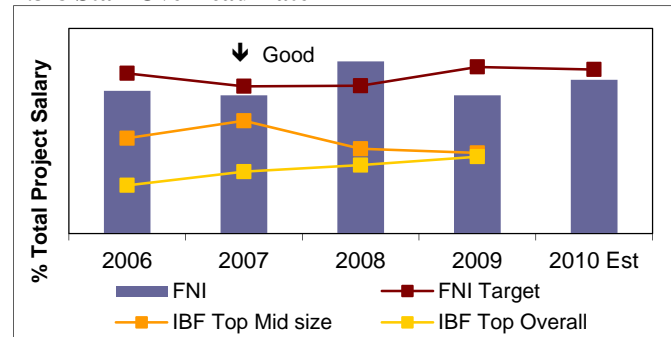
7.3-9 Current Ratio
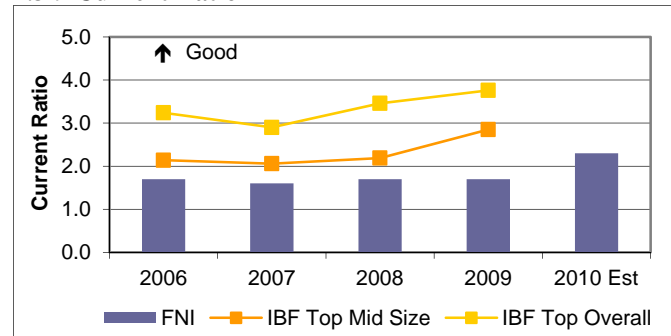
7.3-10 Net Bookings
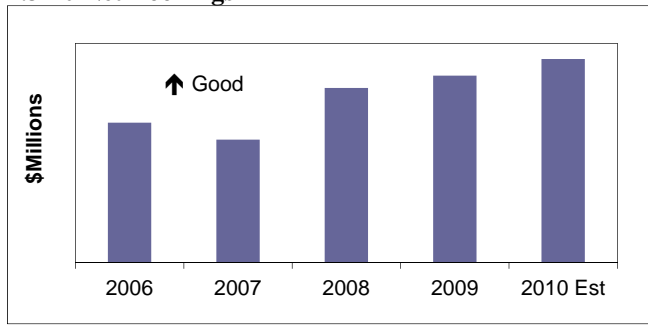
7.3-11 Projected Bookings for 2010
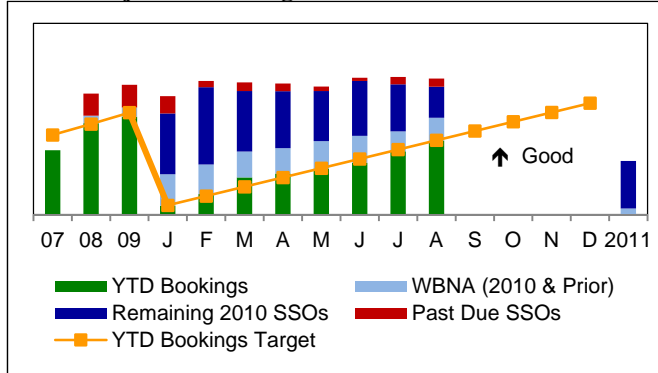
7.4 Workforce-Focused Outcomes

7.4 a (1) Workforce Engagement and Satisfaction

Figure 7.4-1 shows our overall employee satisfaction ratings, which employees give to the question "Overall, I am satisfied with FNI as my employer". The rating for 2010 was 4.67 with a target of 4.7. Satisfaction with the organization as a whole and each tenure group increased in 2010. Participation is consistently 90% or above for this survey with 90% of employees participating in 2010. Results of the CE News Best Firms to Work For (CEN) survey verify our internal ratings. On the question of "Is your firm one of the best places to work in your industry?", 94.5% of FNI employees responded yes, compared to the industry average of 94%. Figure 7.4-2 shows segmentation of responses for our internal survey based on tenure. The CEN survey results are not segmented or categorized in the same manner as our survey. We do use the results of individual CEN questions as benchmarks for specific HR processes. FNI grew significantly since 2007, resulting in the largest group of new employees in our history.

We made a number of improvements in 2009 and 2010 to better integrate new employees into our organization and address other issues that our surveys brought to light:

- Implemented formal mentoring program
- Revised sales and marketing structure
- Implemented Client Rep training
- IDP/Goal Setting training for managers
- Wellness Initiative
- CI Team on Project Communication
- CI Team on Employee Recognition
- Implemented New Employee 3-Year Integration Plan
- Implemented eResource Project Management tool
- Intranet redevelopment team formed
- Internet redeveloped

7.4-1 Employee Satisfaction Ratings
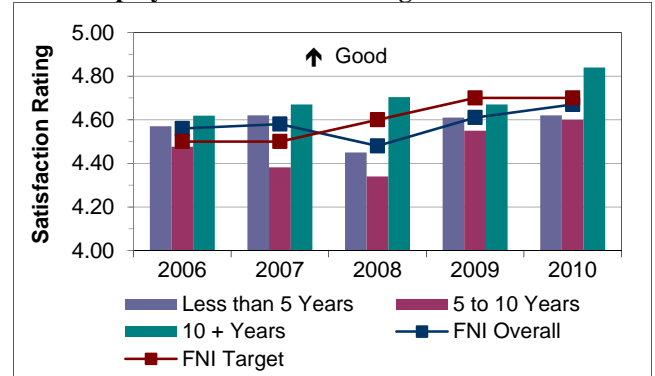
7.4-3 Job Offers Accepted
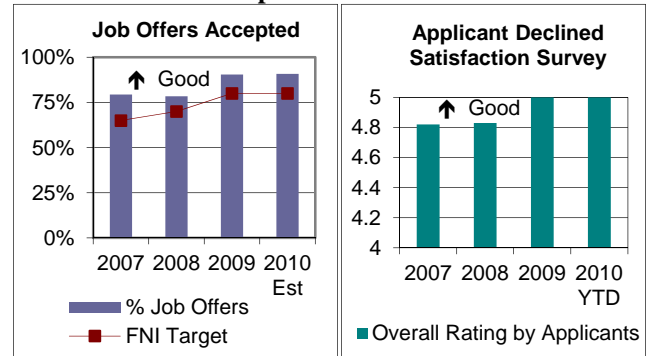
Figure 7.4-3 shows the percent of job offers accepted and the survey results from applicants who declined. Our percent job offers accepted continued to improve in 2010 as a result of fewer jobs available in Texas and our improved visibility from winning several best places to work awards. The survey results for the applicant's overall satisfaction with the interview experience remained at 5.0 in 2010. The most common reasons for declining were location, type of work, office environment and compatibility with hiring manager.

Figure 7.4-2 Employee Satisfaction Rating by Topic

Survey Section	FNI < 5 Yrs			FNI 5 to 10 Yrs			FNI > 10 yrs		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Organizational Culture	4.18	4.35	4.39	4.17	4.24	4.32	4.44	4.45	4.53
Communication	4.16	4.23	4.21	4.09	4.14	4.12	4.28	4.27	4.30
Continuous Improvement	4.35	4.49	4.36	4.40	4.44	4.37	4.55	4.60	4.57
Prof / Technical Develop	4.13	4.29	4.38	4.07	4.14	4.27	4.19	4.38	4.51
Sales and Marketing	3.97	4.13	4.13	3.90	4.10	3.99	4.21	4.23	4.33
Salaries and Benefits	3.97	4.11	4.13	3.85	4.05	4.10	4.23	4.26	4.40
Technology	4.11	4.23	4.33	4.00	4.13	4.26	4.13	4.45	4.51
Quality of Services	4.13	4.26	4.31	3.95	4.14	4.20	4.24	4.27	4.38

7.4-4 Employee Retention

Figure 7.4-4 shows employee retention and turnover for FNI. FNI retention for 2010 was 96.1%, exceeding the FNI target of 85% and the industry benchmark for all firms. We have exceeded our retention target of 85% since 2000 and have matched top quartile performance for our size firms in the last 4 years. Voluntary turnover in 2010 is estimated to be 1.70%, well under our goal of 10%. We make every effort to retain our employees with professional development, career opportunities and a variety of teams that empower employees to improve their processes.

7.4-5 Reasons for Voluntary Terminations

Reason	2006	2007	2008	2009	2010
New Job (competitor)	29%	21%	8%	29%	23%
New Job (non-comp)	25%	47%	38%	21%	23%
None Given/ Other	8%	12%	22%	7%	8%
Personal Interests	17%	3%	14%	7%	8%
Relocation		18%	16%	7%	15%
Retirement	17%	0%	3%	22%	15%
Returned to School	4%	0%	0%	7%	8%

Figure 7.4-5 shows the reasons for voluntary terminations. Our involuntary terminations have averaged about 3% a year over the last six years, were 3.0% in 2009 and projected to be 2.20% in 2010. This compares favorably to the estimated CEO Conference average of 9%. Employees who left to work for a competitor explained that they were being offered a level of responsibility or opportunity that we did not have to offer them at that time. We are addressing this opportunity to improve retention through a variety of programs, such as PM Certification, IDPs, Career Ladders and coaching.

Figure 7.4-6 shows that we continue to recruit a large percent of new hires through our employee referral system (38% in 2010). The CEN results shows a 95.7% positive response to the question "Would you refer a friend to work at FNI?" compared to the industry average of 94.0%. The next highest percentage of recruits comes from our college recruiting programs. This program allows FNI to create relationships with universities and hire talented graduates. Figure 7.4-7 shows the number of new graduates from various universities in Texas and New Mexico. Our new Internet site, launched in the Spring of 2010, has a strong focus on career opportunities at FNI.

Figure 7.4-6 Sources of New Hires
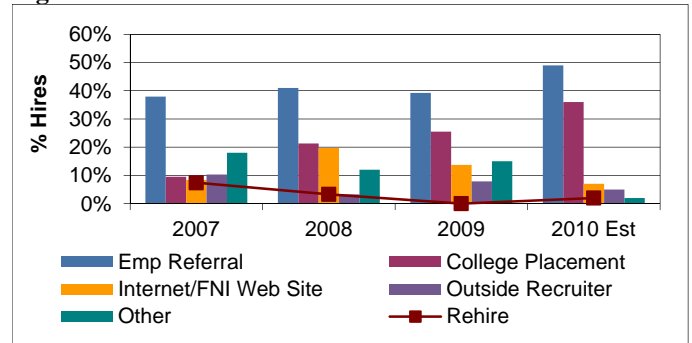
Figure 7.4-7 Entry Level Hires from College Recruiting
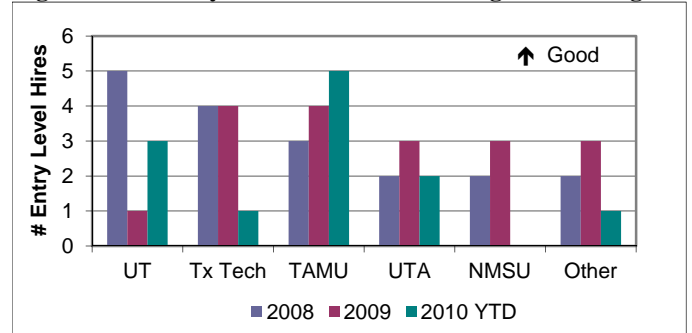
Figure 7.4-8 New Employee Orientation and Retention
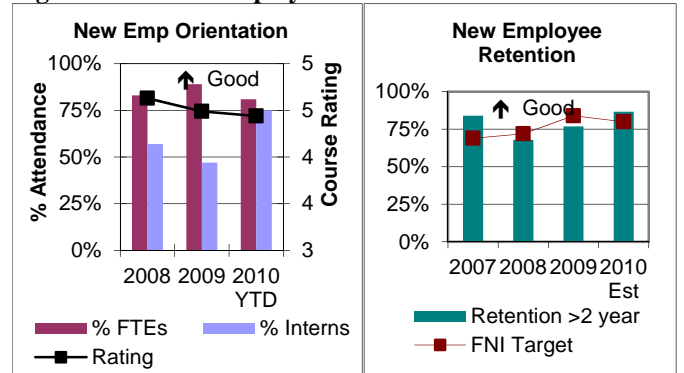
Figure 7.4-8 shows the results of new employee orientation, and new employee retention for the first two years. New employee retention increased from 77% in 2009 to 86.70% estimated for 2010, exceeding our goal of 84%. Last year, 89% of new employees attended orientation within 6 months of employment. Many interns are here only two months, not long enough to attend the quarterly orientation. On the CEN question "Are new employees made to feel welcome and valued?", 97% of FNI employees responded yes, compared to 92% for the industry average. New employee retention will continue to be a key issue. Improvements to our hiring process in 2010 include a three year integration plan to better help new employees assimilate into our culture and work environment.

Figure 7.4-9 shows training costs as a percent of net revenue, validating our strong commitment to employee development when benchmarked against others in our industry. We budgeted training at 24 hours per employee for 2009 and 2010 to provide for staff development while still improving utilization in this depressed economy. As a result, 2009 training costs as a percent of revenue was 2%, down from 2008, but greater than the estimated CEO Conference benchmark of 1.4%. On average, we achieved 21 hours of training per employee in 2009 and are projecting an average of 29 hours in 2010.

7.4 a (2) Workforce and Leader Development
7.4-9 Workforce Training
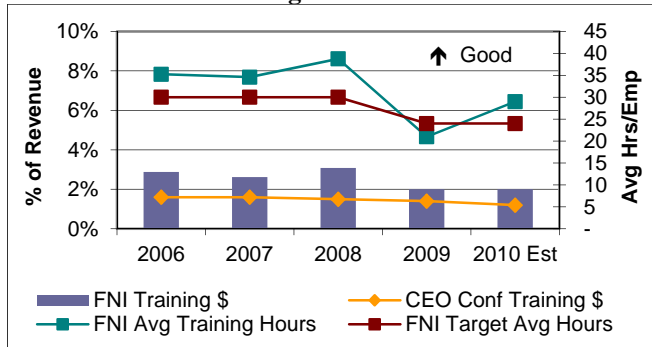
7.4-10 Professional Engineer Exam
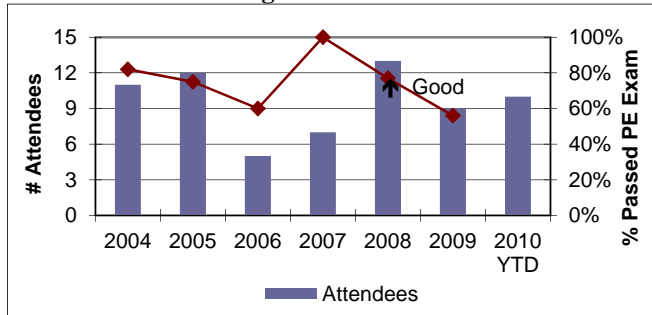
7.4-11 Training Evaluation - Overall
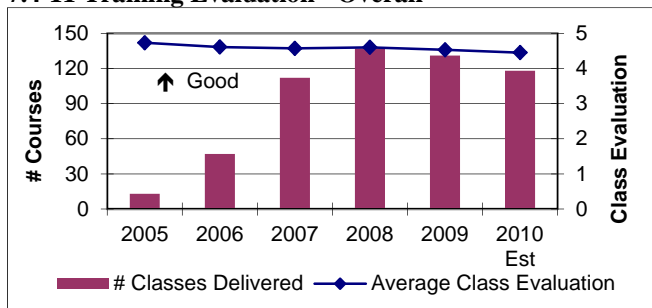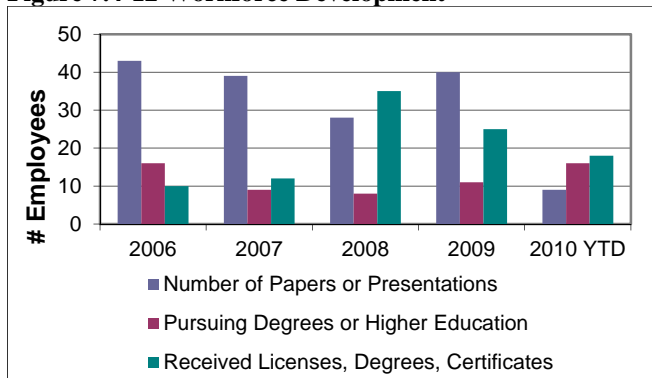

Figure 7.4-12 Workforce Development

Figure 7.4-13 Training Attendance & Evaluations

	2008 Att.	2008 Eval.	2009 Att.	2009 Eval.	2010 Att.	2010 Eval.
Client Rep Training			77	4.7		
Leadership Training	17	4.6	15	4.6		
PM Training	21	4.6			33	4.5
Ethics Training	197	4.8	161	4.6	227	4.7
Coaching Course			48	4.4		

Figure 7.4-10 shows the number of attendees for the Professional Engineer preparation course and the percent who passed the exam within one year. Engineers in Training are hired from college with a degree in one of several engineering fields. They must serve a three year apprenticeship and pass an 8-hour professional exam to become licensed engineers. To date in 2010, 56% of the attendees from the 2009 class have passed their PE exams.

Figure 7.4-11 shows student evaluations of FNU courses. Our target is an average score of 4.5 or above. Students are also asked for comments on the benefits of the course and suggestions for improvements. Instructors and curriculum designers use these comments to improve the courses and their delivery. We have been revising courses, curriculum, and delivery methods to raise the scores in all areas and are seeing improved results. To better evaluate course effectiveness, we are piloting a new evaluation form that focuses more on how well attendees learn course content.

Figure 7.4-12 shows the number of employees who pursue professional development opportunities outside of work. Papers and presentations given at technical and professional conferences are part of an on-going effort to support employee development and increase our presence at industry conferences. We achieved the 2009 goal of 40 papers or presentations. Our current annualized number for 2010 is 9 which will increase when we have a "call for papers" later this year.. An awards program with outside judges provides internal recognition to the writers and presenters. Employees are also encouraged to pursue degrees, licenses, and certifications. In 2008, the Professional Licensing/ Certification recognition program was expanded to three-tier recognition. LEED accreditation is an important focus for FNI as we strive to become a more sustainable firm. With 3.8% of our employees LEED certified, we exceeded our 2009 goal of 3%. We also had 70 employees serving on boards, and 62 serving on committees, of technical associations, exceeding our 2009 goal of 70 employees.

Figure 7.4-13 shows attendance and evaluations for leadership development, ethics training and client rep training. (Evaluations are based on a 5 point scale). Client Rep training addresses how to develop and strengthen client relationships. The Coaching course addresses technical coaching methods and techniques. Each year we determine the "targeted training" courses we feel are needed for the next year. For example, PM Certification and Leadership courses are scheduled when a sufficient number of employees are selected for the training.

Figure 7-4.14 shows the recent internal innovation awards. Each TEP Team is encouraged to submit projects for consideration. Cash awards are given for first, second and third place. Submitted projects are utilized for recognition and award opportunities in partnership with our clients. (See Figure 7.1-6). Figure 7.4-15 shows the percent of Individual Development Plans completed on time over the last three years. We continue to focus on quality IDPs and goals, as well as on-time performance. IDPs are due at the end of the month in which the performance review is performed. Goal Centered Performance Group IDP/Goals are due January 31.

7-4.14 TEP Innovation Awards

2009	Adaptive Signal Control for the City of Tyler
	Buchanan Gate Dewatering System for LCRA
	Central City Stormwater Management Program for the City of Fort Worth
	Wastewater Process Development for TRA
2008	Freitag Creek Crossing, City of Bee Cave
	Raw Water Supply Operation Study, NTMWD
	Self Cleaning Trench Type Wetwell Design for RAS Pump Station 13B
2007	Aerial Pipe Support
	Environ. Sci. - Remediation of Athletic Fields
	System Operation Permit Application

Figure 7.4-15 Percent IDPs Completed On-Time
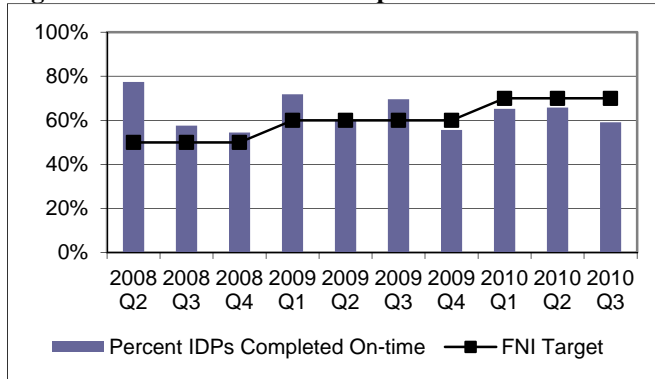
These employees are eligible for bonuses above Team FN Bonuses if they achieve their goals and a certain level of performance ratings. The review process for this group begins in December and must be completed by January. We continue to raise our on-time goal as we focus in this area.

7.4(3) Workforce Capability & Capacity

Figure 7.4-16 shows the diversity of our workforce compared to our goals. Incumbency refers to the number of women and minorities in the FNI workforce. Our goals were determined by accepted availability analysis developed by the Department of Labor for Affirmative Action Plans. They include the number of women and minorities with the requisite skills in our recruiting area, plus those available for promotion within FNI. We have met or exceeded our diversity goals for the last three years. If we have an area of underutilization in any job group identified in our Affirmative Action Plan, we focus on closing the gap during the next year's recruitment and selection process.

Figure 7-4.16 2009 Diversity
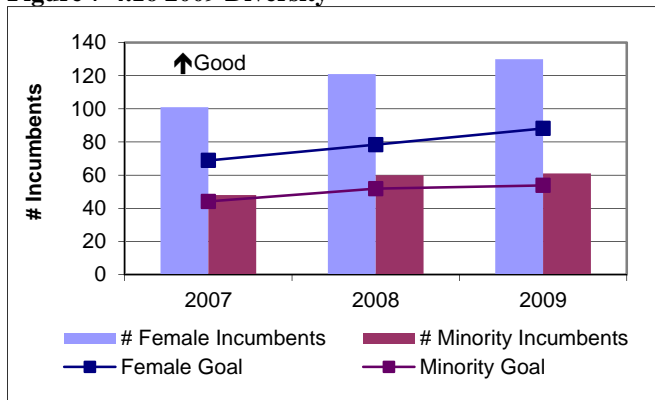
7-4.17 Staffing Ratios (FTEs)
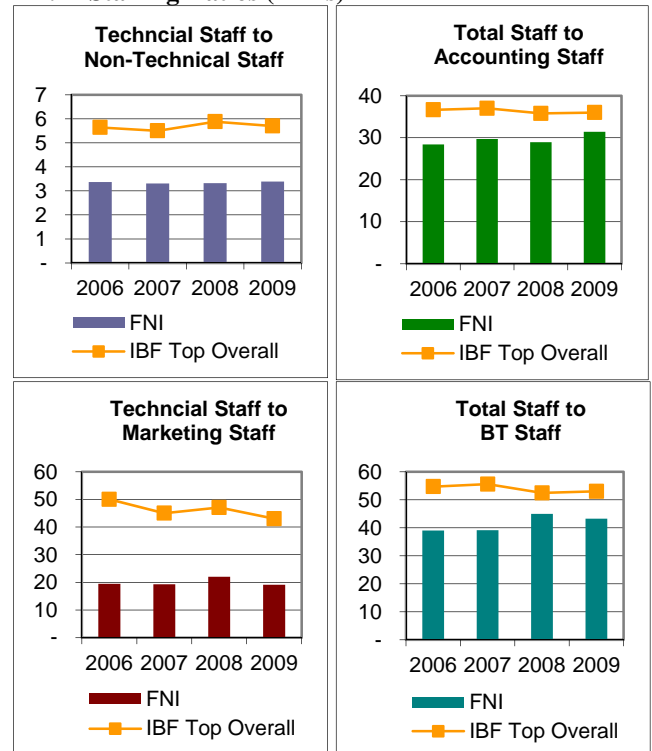
Figure 7.4-17 shows our staffing ratios as compared to the industry benchmark average. We extend the philosophy of exceptional client service to both our external and internal clients. Our higher levels of marketing and accounting support allow our technical staff to concentrate on what they do best. Our higher levels of BT support are needed to provide the complex computer systems used in a full-service engineering firm. This philosophy of high level of corporate support is validated by our profits, which exceed industry benchmarks.

7.4-18 Twelve-Month Workload Projections
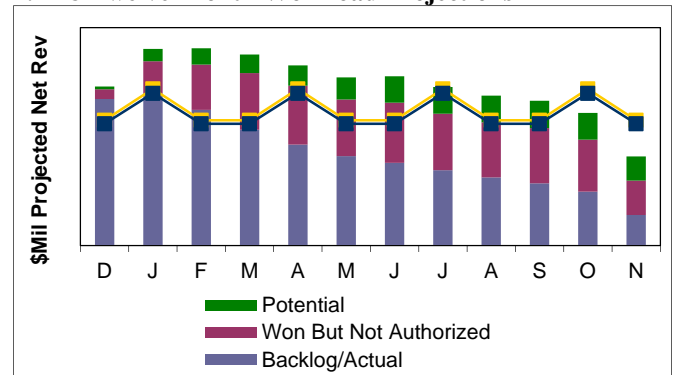
Figure 7.4-18 shows the Workload Projection Report, which shows four-month rolling averages for December 2009 through November 2010. Backlog/actual is contracted work, Won but Not Authorized is work we have been awarded but not yet have a signed contract. Potential work is based on the Sales Funnel and is confirmed by the Group Manager and CR. Monthly baseline revenue shows the required revenue for our budgeted staffing levels, adjusted baseline is for the actual staffing levels. We maintain, on average, 1 month more of projected workload than full service firms in the 2009 ACEC study. Group Managers utilize these reports in their weekly workload meetings to discuss resource requirements and assignments.

7.4 (4) Workforce Climate
7.4-19 Workers Compensation
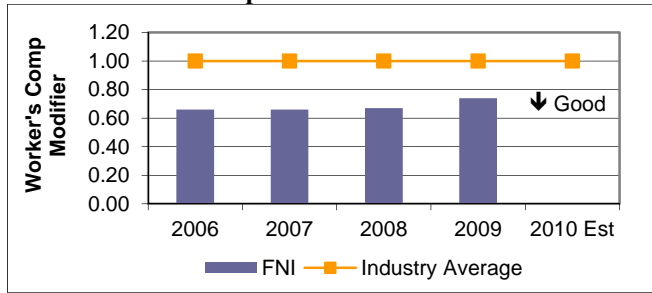
Workers compensation modifier is an indicator of employee safety. Figure 7.4-19 shows that our modifier for 2005 through 2008 was below .74 and well below the industry average of 1.0. It increased to .76 for 2009, still below the industry benchmark. The modifier is a five year rolling average. Dropping 2004, which had a very low modifier, caused the 2009 modifier to increase slightly. We are able to keep this indicator low through construction site safety information, hazardous materials training and ergonomically designed facilities and furniture.

7.4-20 Percent of Profits Distributed to Non-Shareholders
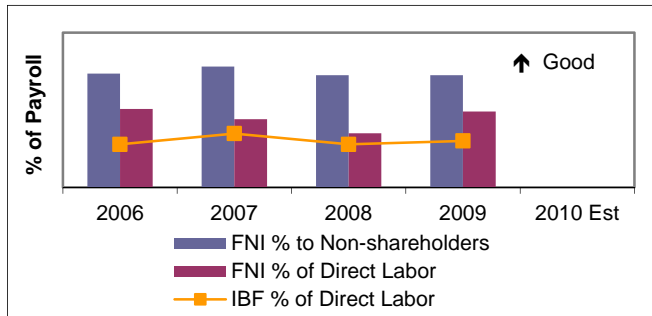
Figure 7.4-20 shows the percent of profits given to non-shareholders. These allocations are in recognition of the performance and contributions of the staff to the success of the company. The distribution is calculated as a % of direct labor in order to compare to the industry average. We have maintained a commitment of 15% to 20% of direct labor, while the industry benchmark is estimated at 12%.

7.4-21 401K Matching Funds
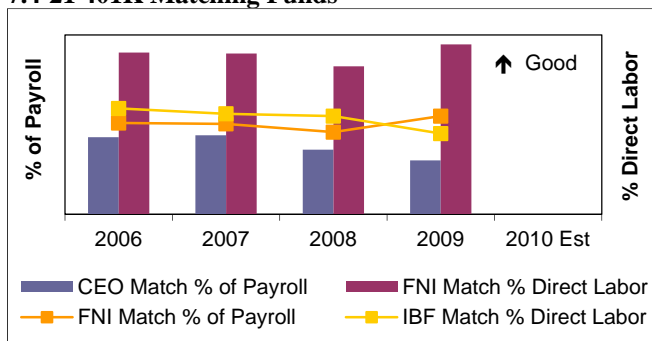
Figure 7.4-21 shows the percent of payroll and of direct labor we spend on 401(k) matching funds, at a much greater scale than our competition. Our biweekly match of payroll is up to 3.5% of salary, and can increase at the end of the year based on company profit, all the way up to 6% of salary. We have reached our maximum potential match in 4 of the last 5 years. In 2009 we matched 5.5% of payroll compared to the estimated CEO benchmark of 3% and 9.5% of direct labor compared to the estimated industry benchmark of 4.5%.

7.4-22 Retirement Plan Participation
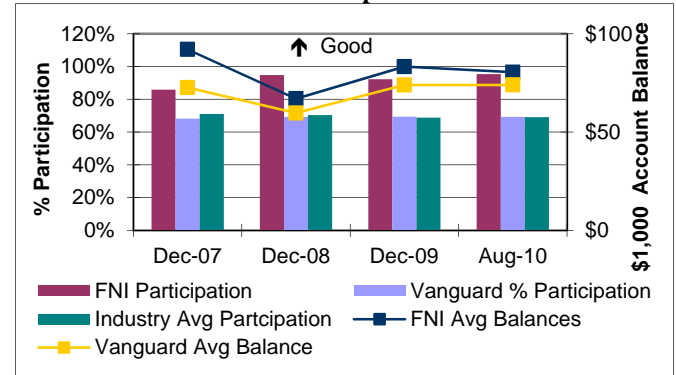
7.4-23 Benefits Participation in 2010
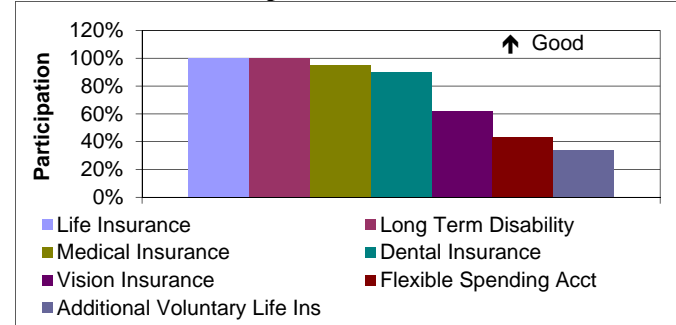
Figure 7.4-22 shows a comparison of the percent of our employees contributing to their retirement plan as compared to other Vanguard clients. Our increased participation is due to the generous match shown in Figure 7.4-21, as well as the implementation of auto enrollment in January 2008. We also have a strong education program that has contributed to our employees saving more on average than other Vanguard participants, as shown with the increased average balance. Figure 7.4-23 shows employee participation in our insurance programs. The CEN survey shows that our employees rated these insurance programs an average of 4.35, slightly less than the industry average of 4.55. We encourage participation in the Flexible Spending Accounts each year at open enrollment. We also carefully communicate their benefits along with an interactive worksheet to help employees determine the amount they might defer and if these accounts are right for them.

Figure 7.4-24 shows the results of our cultural profile assessments. In 2002, the Lead Team determined we needed to become more market and adhocracy oriented to achieve our mission and vision and compete successfully in the marketplace. A market orientation emphasizes customer satisfaction and competitiveness. Adhocracy promotes innovation and anticipating customer needs. The profile assessment shows the average profile of the service industry, which the Lead Team uses as a reference point, not as a benchmark. The Lead Team completed a cultural assessment in 2002, 2004, 2008 and 2010 to track progress toward the desired profile. Figure 7.4-25shows the actions sponsored by the Lead Team over the last five years to shift our culture, and the percent complete of each initiative. The top three responses to the CEN question "Which phrases best describe your firm's culture?" were Client Focused (82%), Family Atmosphere (62%) and Focused on Integrity (59%). New actions are being developed as a result of the 2010 survey.
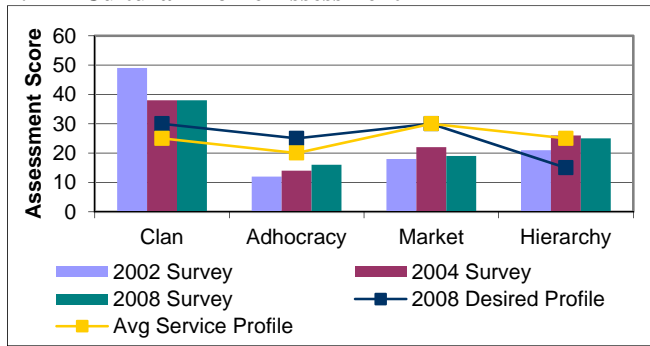
7.4-24 Cultural Profile Assessment

Legend:
- 2002 Survey
- 2004 Survey
- 2008 Survey
- 2008 Desired Profile
- Avg Service Profile

Figure 7.4-25 Actions to Shift FNI Culture

Adhocracy	Enhance CI Program	CAO	100%
	Incorporate CI in Training	CAO	100%
	Implement Coaching Program	HR Manager	100%
	Start Innovation Team	COO, CAO	100%
	Add "Innovation" to Interviewing Questions	HR	100%
Market	Implement New Marketing Structure w/ Account Dirs.	CEO, CMO	100%
	Improve CR Training	CMO	100%
	Improve Blue/Gold Sheet Process	Account Directors	60%
	Add Market-focused Interview Questions	HR	100%
	Develop Business Plan Process for New Markets	CAO, COO	75%

Figure 7.4-26 FNI Recognition

2007	*WEAT Exemplary Employer Award* Water Environment Association of Texas - recognized for support of engineers in water environment
2007	*Women's Transportation Seminar Employer of the Year* Dallas Chapter of the Women's Transportation - for supporting women in transportation engineering
2007	Dallas Business Journal *Best Place to Work* in the Dallas/Fort Worth Area
2007	*Best Place to Learn* Texas Society of Professional Engineers and Dallas/Ft. Worth American Society for Training & Development
2009	*State Private Practice Professional Development Award* and *National Private Practice Professional Development Award* The Society of Professional Engineers for outstanding training practices.
2009	"50 Best Small and Mid-Size Places to Work" in America. Sponsored by SHRM and Best Places to Work ® Institute, Inc. 7th in the Top 25 Best Med-size Companies to Work.
2009	CE News *Best Firms to Work For* 7th in the Top 40 Best Civil Engineering Firms to Work For, 4th in the Top 10 Mid-sized Firms, 2nd in the Top Environmental Services (ES), 1st in the Best Training Program in ES.

Figure 7.4-26 shows the recognition that FNI has received as a great place to work. Each of the best place to work award involves a written application and a third-party employee survey. We receive the results of the FNI survey along with aggregated comparative data from all other applicants. FNI follows a five-year plan for that defines which best place to work awards to apply for. We balance the cost and effort of applying for an award with the value of the feedback to ensure we receive sufficient information to drive improvement.

7.5 Process Effectiveness Outcomes

7.5-1 Utilization

Legend:
- FNI
- FNI Target
- IBF Top Mid Size
- IBF Top Overall
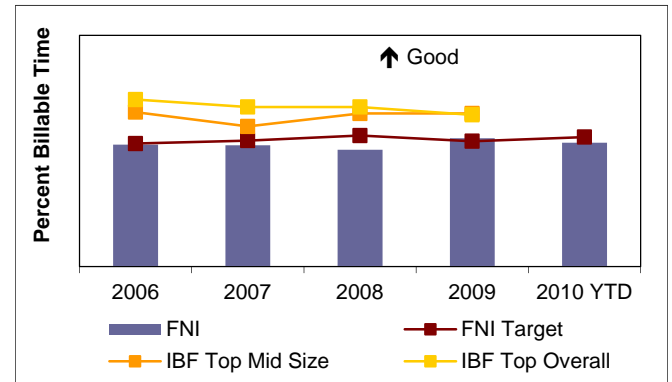
7.5a (1) Operational Performance of Work Systems
Unless stated otherwise, all of our operational data is segmented and reported by Group, by Division and by company to support management and improvement activities at each level of the organization. Only company-level data is shown here to maintain confidentiality.

Staff utilization is an indicator of the percent of time that staff performs billable work (Figure 7.5-1). It is calculated as project salary divided by total salary. Competing for billable time is paid time-off, professional development, marketing, TEP team efforts, CI activities, and time invested in pursuing strategic initiatives. We intentionally set staff utilization goals below industry benchmarks to allow time for staff development, continuous improvement activities and investment in new markets and services. However, we had consistently not met the target we established even though profitability had remained strong. In 2008, utilization dropped to a 5 year low. A stronger focus on utilization became critical as we entered economically uncertain times. We created weekly utilization and monthly backlog reports, revised guidelines for several of our categories of non-billable time, and emphasized the importance of utilization to all employees. Our efforts resulted in a 2.5% increase in utilization in 2009.

Figure 7.5-2 shows FNI's actual labor multiplier, which is net revenue divided by direct project salary. This measure shows the margins on labor for a project and is an indicator of project profit. FNI's labor multiplier has been at or very close to that of mid-size top performing firms in the last five years. Our improvements are the result of contracting for more equitable fees and a focus on reducing negative variances.

7.5-2 Labor Multiplier
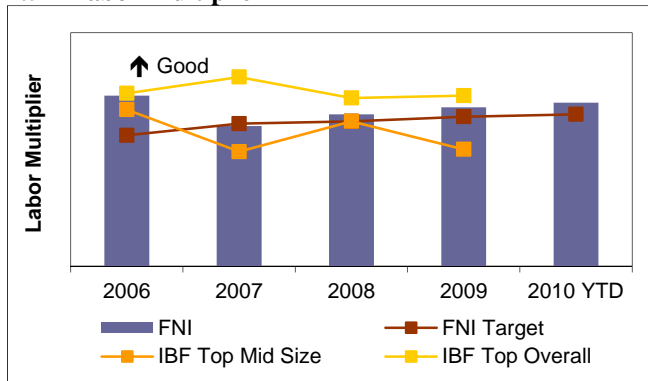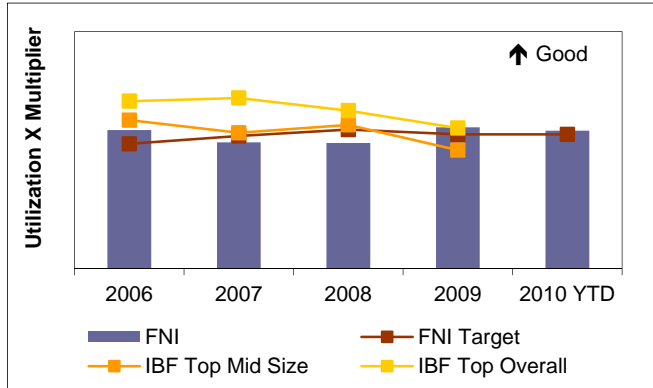

7.5-3 Revenue Factor

Figure 7.5-3 shows the revenue factor for FNI, which is staff utilization times labor multiplier. We added revenue factor as a Key Focus Indicator in 2004 to acknowledge that some types of work naturally have higher utilization and lower multipliers, while other types have lower utilization and higher multipliers. The revenue factor for 2009 exceeded the industry Mid-Size benchmark and matched the industry Top benchmark. We estimated being close to this top benchmark in 2010.

7.5-4 Backlog
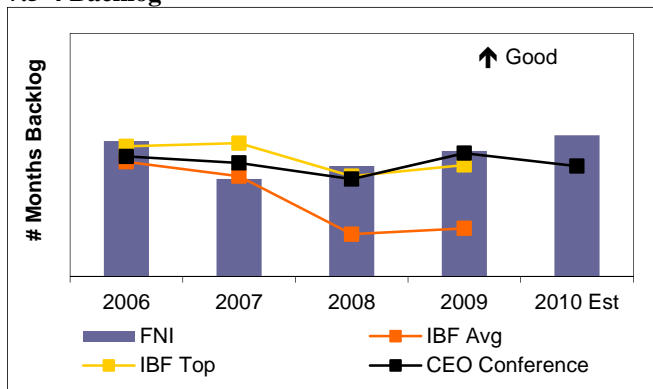
Figure 7.5-4 shows our year-end backlog, which is the revenue remaining to be earned on signed contracts, expressed in months of revenue. We have been able to maintain a backlog over the last 5 years that has consistently matched that of the best performing firms, with backlog in excess of eleven months' revenue for the last 5 years. This was especially important to FNI as we entered 2010 with great economic uncertainty. Backlog varies from workload projections because backlog can span more than one year.

The variation in backlog is one of the reasons we review backlog by Division and by Group each month as a leading indicator of potential workload issues (See Figure 7.4-18).

7.5-5 FNI Net Revenue Per Employee
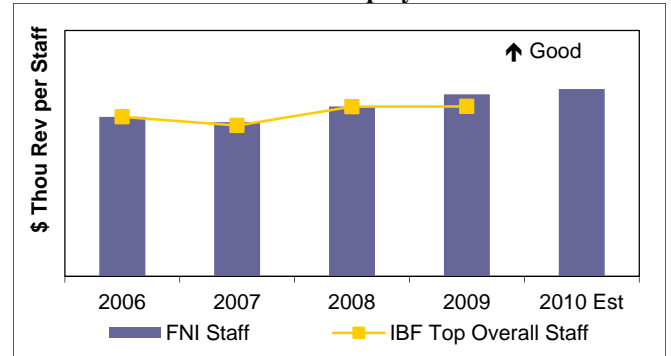
Figure 7.5-5 shows net revenue per total staff, calculated as total net revenue divided by the total number of staff. It also shows the net revenue per technical staff, or those staff that charge more than 50% of their time to projects. Both are indicators of the firm's revenue producing capability. Both metrics have increased as a result of our focus on technical processes (Figure 7.5-10) and Business Technology production improvements, which include hiring a CADD manager, assessing production software capabilities, providing training, and creating drawing templates and standards. In 2009, we exceeded the industry Top benchmark for total staff.

7.5a (2) Operational Performance of Work Processes
## 7.5-6 QA Reviews Passed
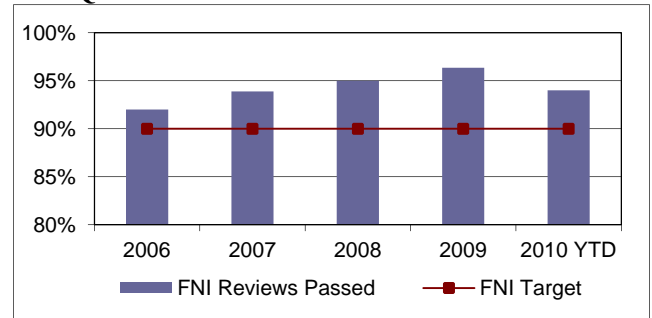
Figure 7.5-6 shows the % of Quality Assurance reviews that pass each year. QA reviews are performed to ensure that the Quality Control (QC) Reviews were completed on our projects and as a check that our project management processes are being followed. QA reviews are performed at the initial, midpoint and final milestones of projects. The percent of QA reviews passed has increased because of improvements made to the QA forms and review process. These improvements were developed by the PM Steering committee as a result of the decline in the number of reviews passed in 2005 and 2006. As Figure 7.5-7 shows, the primary reason for failed reviews is lack of a signed contract (professional services agreement) before beginning project work. Many of our governmental clients require council or commissioner approval for contracts of a certain size. For trusted clients with a lengthy contracting process, we may begin the project without a signed contract to accommodate the scheduling needs of the client. We mitigate this workaround by not recognizing revenue from the project until the contract is signed.

7.5-7 Reasons QA Reviews Not Passed
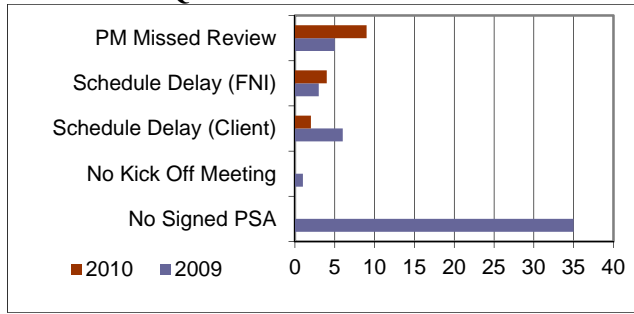
7.5-8 Constructability Reviews
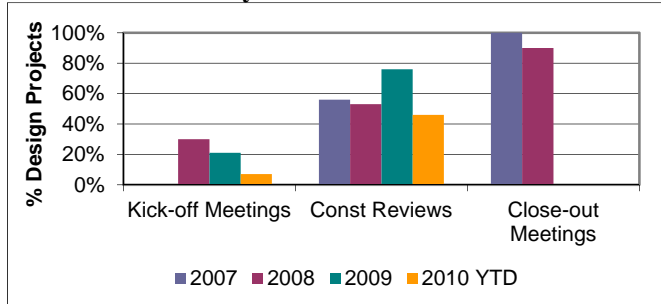
The involvement of Construction Services (CS) staff in design projects of more than $75,000 is to highlight and resolve any problems that might arise from design decisions long before the project goes to construction bid (Figure 7.5-8). CS staff attends kick-off meetings to share information gathered from errors and omissions of past projects, conduct constructability reviews to identify any design problems as the project work is completed, and attend project close-out meetings to gather lessons learned. Errors and omissions are tracked on a CS database (See Figure 7.1-3). This focus on CS involvement is having a positive impact on claims.

7.5-9 TEP Satisfaction Survey Results
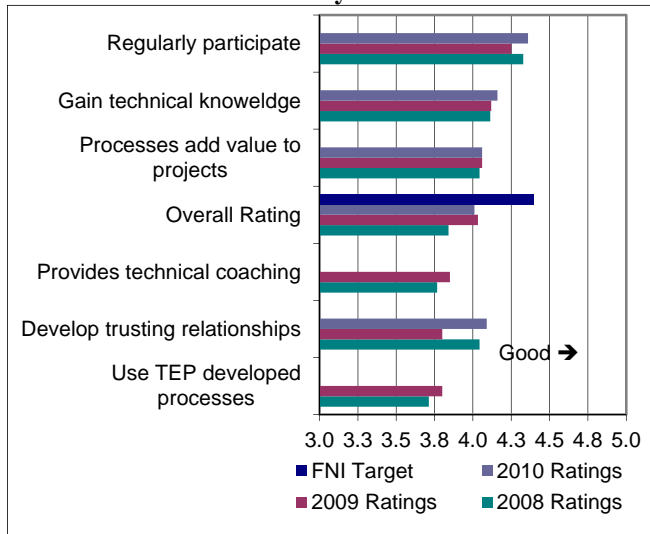
Figure 7.5-9 shows the results of the TEP survey completed by each TEP team member. Team results are shared with the respective teams, aggregated results for all teams, with the TEP Leader Committee. (The TEP Leader Committee includes TEP team leaders and members of the Lead Team.)

The TEP teams were established in 2005 to provide a venue for technical development across locations. The teams have since evolved into the primary vehicle for market intelligence related to services and technologies, new and enhanced services, improvements to technical processes, and knowledge sharing across the organization. Because the TEP satisfaction ratings are below target, the TEP Leader Committee recently completed an evaluation of the TEP team concept based on the TEP surveys and interviews with each TEP team lead. They identified several areas for improvement, including training and succession planning for TEP team leaders, integration and distribution of lessons learned, and how technical processes will be documented and stored on the intranet for improved ease of retrieval.
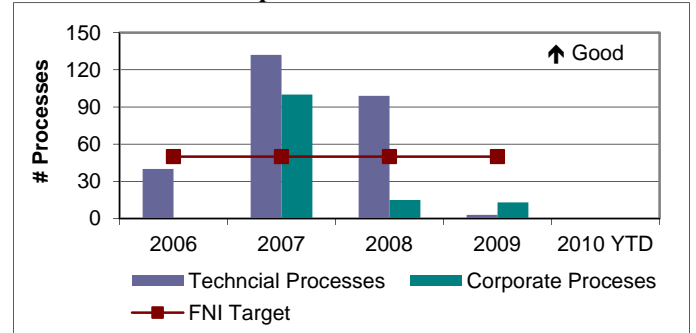
7.5-10 Process Development

Figure 7.5-10 shows the number of processes that have been developed in our technical and corporate groups over the last four years. Our corporate groups began developing processes in early 2000's. The focus on technical processes began with the establishment of the TEP teams. TEP teams develop processes, checklists, standard specs, and standard drawing details to provide consistency in our project execution and quality reviews. We now have almost all processes documented and are continuing with cycles of improvement across all teams.
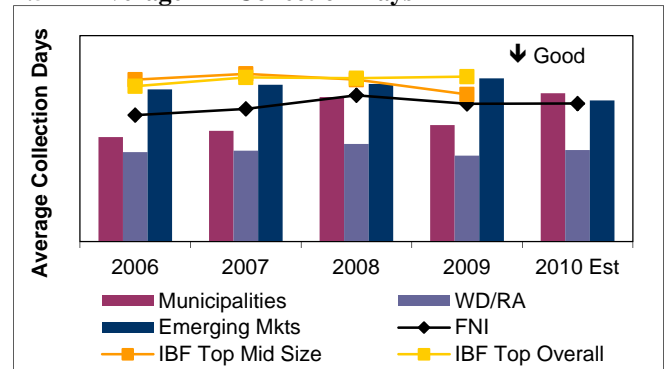
7.5-11 Average AR Collection Days

Figure 7.5-11 shows average collection days for accounts receivable. This is our indicator of accounts receivable aging. We have maintained average collection days between 43 and 50 days since 2005. In 2009, after an increase in this indicator, we reviewed collection data by market and client to identify the 10 clients with the largest increases. We worked with the client reps for those clients to improve collections. As a result, our average collection days in 2009 exceeded the industry benchmark.

A CI team is developing a Subconsultant Evaluation process for implementation in the Spring of 2010. The evaluation addresses subconsultant performance relative to project schedule, budget and scope, understanding of FNI needs, responsiveness to FNI, and adaptability to project changes. The survey will be completed by the Project Manager at the end of any project that used subconsultants. The results will be aggregated and used to identify preferred subconsultants and improvement opportunities for those subconsultants.

7.5-12 Negative Variance
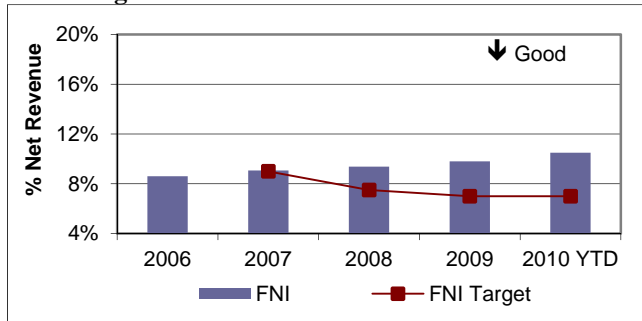
7.5-13 Causes for Negative Variance

Cause	2007	2008	2009	2010
Pending Contract	0.7%	6.3%	8.4%	22.8%
Insufficient Fee	7.9%	9.1%	16.0%	13.3%
No Data	45.5%	22.4%	12.1%	0.2%
Project Comm.	4.6%	2.4%	1.5%	1.4%
Project Management	8.8%	13.2%	10.5%	19.4%
Re-work	4.6%	6.2%	6.2%	5.1%
Scope Definition	23.9%	36.1%	32.2%	30.2%
Staffing	3.9%	3.1%	5.4%	6.4%
Unprofitable Clients	0.0%	1.2%	7.8%	1.2%

Projects in which labor plus expenses exceed the budget have a negative variance. Figure 7.5-12 shows negative variances as a percent of net revenue. We reduced negative variances from 12.4% in 2003 to 8.6% in 2006 by segmenting the data and forming CI teams for the disciplines with the greatest negative variances. Each team identified the root causes and implemented corrective actions. We also implemented a database to track causes for negative variance. In 2007, our negative variances began creeping up and increased to 9.8% by 2009. Figure 7.5-13 shows the causes identified for negative variances over the last four years. The COO and Division Managers review this data by division and by discipline to identify areas for improvement. Recent improvements include changes to contracts to require contingencies, PM training for dealing with client changes in project scope, and methods to address unprofitable clients.

Figure 7.5-14 shows the percent of project contracts that were reviewed to mitigate risk. This process was developed several years ago to minimize both the financial and market risks involved with contracts. The review addresses both client and subconsultant contracts for each project. The review includes guidelines for who must review and approve contracts based on the type and size of the contract. Reviewers include our risk manager, the project accountant, the Group Manager responsible for the project, and a

member of senior management if the contract is greater than $250,000. The process has resulted in improvements to the contract language for better protection against claims, and better fee and scope development for reduction in negative variances. In 2009, analysis revealed that master contracts, which define terms and conditions were being reviewed, but the follow up task orders that define scope and fees were not. We modified the process and have seen improvement in the percent contracts reviewed.
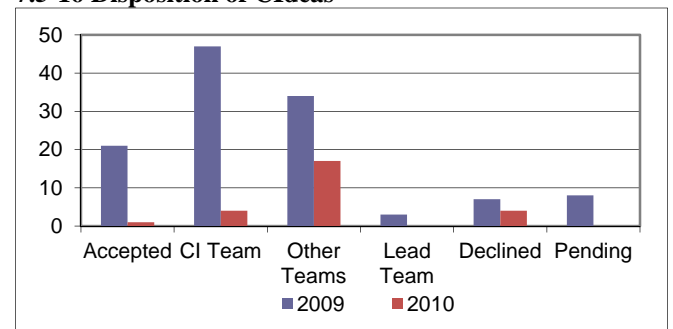
7.5-14 Contract Risk Reviews

**7.5-15 CIdeas Submitted in 2009**
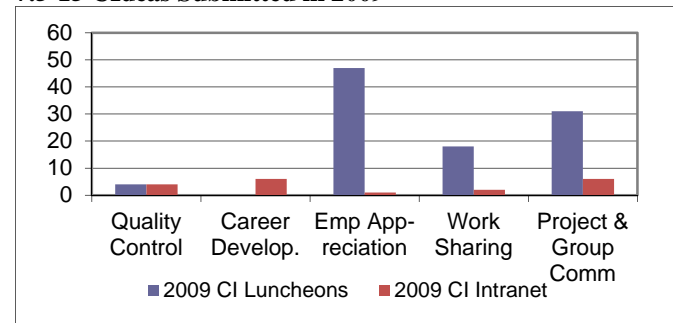
7.5-16 Disposition of CIdeas

Figures 7.5-15 shows the issues addressed by the 119 CIdeas submitted by FNI employees in 2009. The CI Steering Committee (CISC) selects focus areas for CIdeas that support our strategic plans and impact a majority of employees. For 2009 they were: quality and efficiency, employee appreciation, work sharing, and project/group communications. Employees have opportunities to submit ideas at CI luncheons and through the intranet. The CI luncheon has proved to be was a far better venue because employees have more time to think about the focus areas. The CISC will pilot additional venues, such as Group meetings, in 2010. Figure 7.5-16 shows the disposition of CIdeas in 2009 and YTD in 2010. Twenty-two ideas have been accepted and implemented. Fifty-one of the ideas were related to employee appreciation, which a CI team is addressing. Another 51 ideas have been referred to the appropriate team or group for review and action.

7.5-17 Gold Sheets Updated

7.5-18 Must Win Projects

7.5-20 Completion of BT Requests

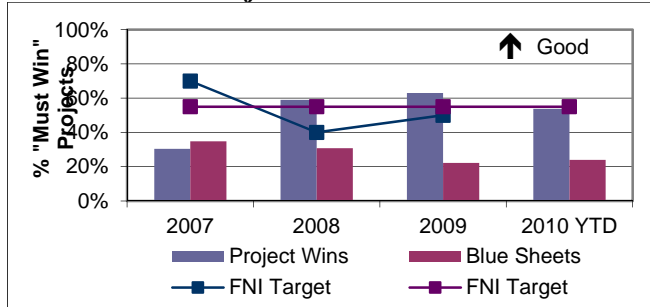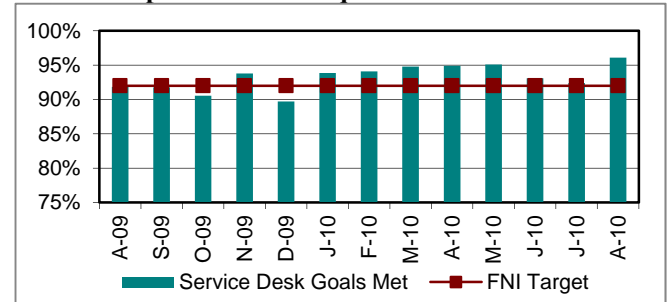

7.5-21 Computer Network Uptime
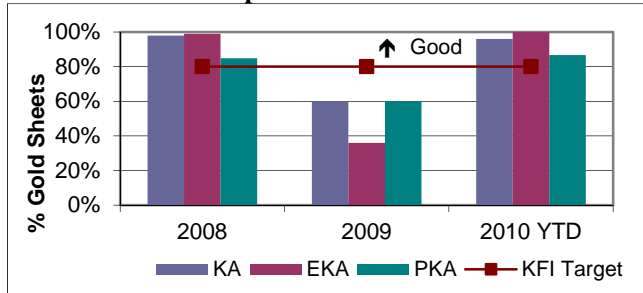
Figure 7.5-17 shows the percentage of Gold Sheets updated in the Integrated Sales System (ISS) for Key Accounts, Emerging Key Accounts and Potential Key Accounts. The sheets are updated as the result of a sales meeting with the account's Client Rep, Account Manager and Account Director. The Gold Sheet helps the Account Team define the strategic players within the client's organization, the client's trends and opportunities and our strengths and vulnerabilities relative to the client's needs. The reduction of Gold Sheet and Blue Sheet updates in 2009 reflects a shift in our sales strategy to concentrate on "must win" projects. Opportunities designated as "Must-Wins" are high-priority projects that have large potential bookings and/or importance to our relationship with the client, and are given special emphasis when allocating sales and marketing resources. Blue Sheets are developed for specific sales opportunities (Figure 7.5-18). As a Blue Sheet is developed for a "must win" opportunity, sales and technical staff hold frequent proposal strategy meetings and make assignments for information-gathering and proposal preparation. We achieved a significantly higher win rates for these critical projects in 2008 and sustained that level in 2009.

Figure 7.5-19 Operational Communications Survey

Effectiveness of Communications	Rating
Between client reps and technical groups	2.7
Between technical groups	3.2
Between offices about non-project matters	3.5
Between standing committees	3.0
Between corporate support and other groups	4.0
Between marketing/sales and other groups	3.1

Figure 7.5-19 shows the results of a communications survey to determine the effectiveness of operational communications. The survey results, along with three focus groups, highlighted the need for improved communications within and across project teams, across offices, and with sales and marketing. The CI Steering Committee recommended improvements to the Lead Team which initiated a CI team on project communication in 2010.
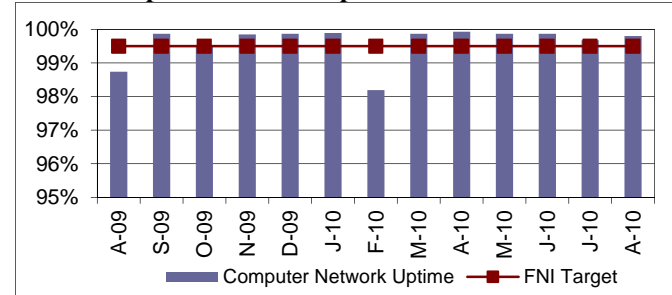
Figures 7.5-20 and 7.5-21 show Business Technology (BT) performance for 2009 and 2010. Completion of BT issues represents the percent of service desk requests that are completed within the required time frame. For critical issues, the maximum time frame to resolution is 4 business hours; high priority issues, 8 hours; normal issues, 16 hours and low priority issues, 80 hours. The priority level is set by the system based on the number of people affected and the urgency of the issue. The chart shows a weighted average for all four types of requests. The goal, that 92% of all issues are closed within the required time frame, was met for the first eight months of 2010. Computer network up time shows the average time that the computer network is available to all users. This includes planned down time. The goal is .5% unplanned down time because the network is so critical to our daily operations. We met or exceeded that goal for all but one month in 2010.

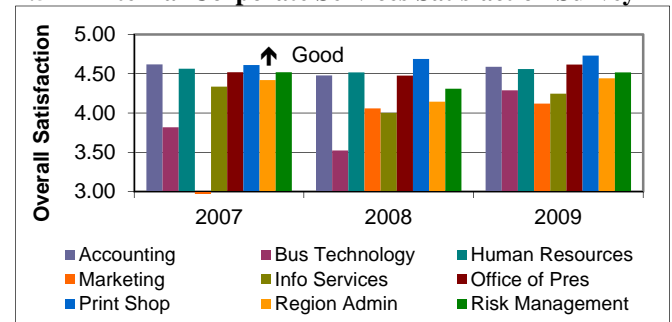**7.5-22 Internal Corporate Services Satisfaction Survey**

Figure 7-5.22 shows the results of our annual corporate services satisfaction survey. The survey asks FNI employees to rate each corporate service with respect to responsiveness, ease of working with, positive attitudes, skilled and experienced employees, keeping employees up to date and availability. The chart shows the overall satisfaction rating, which has improved over the last year for every corporate service group. Business Technology has shown marked improvement in customer satisfaction as a result of changes in their policies and processes to support operational and corporate groups.

7.6 Leadership Outcomes

7.6a (1) Figure 7.6-1 shows the accomplishments of FNI's 2009 key strategies and action plans. We received the Texas Award for Performance Excellence in 2007 and are participating in the Baldrige process to continue our improvement journey. Many of the key actions for 2009 are multiyear and carry over into 2010. Over the last three years, the Futures Committee has initiated a number of actions to help FNI prepare for longer-term issues:

- A sustainability TEP Cross team to develop a cohesive set of policies and practices for our green design efforts.
- A team to study alternative growth strategies as FNI reaches market saturation in Texas over the next decade.
- Development of the energy market for our services that are compatible with client needs in this arena.
- A team to address financial stability in all economic cycles.

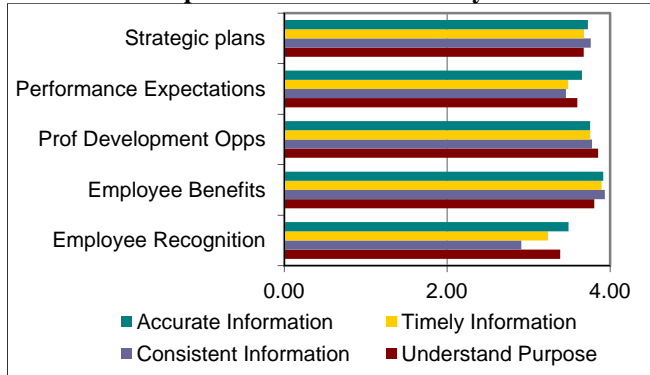### 7.6-2 Leadership Communications Survey Results

Figure 7.6-2 shows results of a 2009 survey about the effectiveness of internal communications from senior leaders (ratings scale was 1 to 4). The lowest ratings were for employee recognition, which was consistent with the large number of CIdeas submitted by employees to improve employee appreciation. The CI Steering Committee initiated a CI team in 2010 to review and improve our employee appreciation system.

7.6-3 Board of Directors Evaluation

Topic	2008
Effectiveness of Board Processes	4.00
Effectiveness of Board Leadership	4.58
Understanding of Board Policies & Responsibilities	4.18
Knowledge of FNI Strategies, Plans and Finances	4.25
Effectiveness of Board Members	4.19

7.6a (2) Figure 7.6-3 shows the results of a self-assessment completed by the FNI Board of Directors in 2008. The survey, which consists of 17 questions about board processes, leadership and board member effectiveness, was completed by both internal and outside Board members. The chairman led an initiative to address the lower scores by developing an online resource guide for Board members, a Board charter and new board member orientation. The survey will be repeated in the fall of 2011 to assess the impact of these improvements.

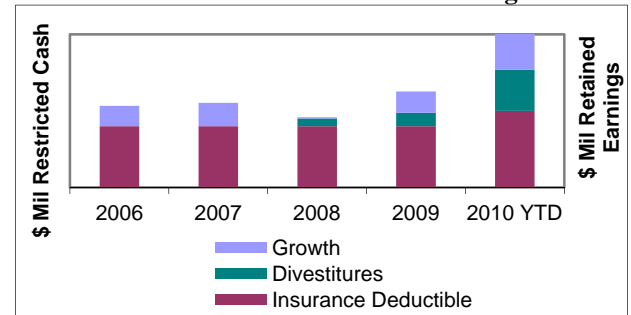### 7.6-4 Restricted Cash and Retained Earnings

Figure 7.6-4 shows the increase in retained earnings over the past 5 years. The increase each year is the result of investment to build cash reserves, invest in new offices and to keep the firm up to date with technology. The largest of these reserves are to cover two of our current deductibles on professional liability insurance. By setting this cash aside, we increase our deductible substantially, thereby reducing premiums. In 2005, we began to invest in a growth fund to help finance acquisitions. The most recent addition to our reserves is a fund for shareholder divestiture payments.

Figure 7.6-1 Results of 2010 Strategies and Actions

Key Focus Indicators	Reported	2010 Accomplishments
Net Bookings Net Revenue Growth Profit, Revenue Factor Utilization, Multiplier	7.3-11 7.3-1 7.3-5, 7.5-3 7.5-1, 7.5-2	Implemented growth plans for Houston, San Antonio and Corpus markets: hired key Construction Services and Water Resources staff to help grow these markets. Developing levee work. Utilization focus deployed to all groups. Weekly utilization graphs implemented. Improvements to negative variance database – linked to monthly PM Reports.
Client Satisfaction Overall Rating	7.2-1	Sustainability TEP Cross Team completed internal/external sustainability plans for 2010/2011. Innovation team developed and piloted innovation approaches for one project. Funding for water resources, dam safety and alternative project delivery seminars for clients. Completed Client Representative training and Account Director training. PM Steering Committee completed assessments about project communications. CI Steering Committee completed assessment of internal communications.
TEP Satisfaction Overall Rating	7.5-9	TEP Team evaluation completed and improvements for 2010 identified. BT service desk processes and measures fully implemented. Plan for QC system reviewed by managers for 2010 implementation. TEP teams completed updates to specifications and CAD details Subconsultant evaluation process and database developed for 2010 implementation.
Employee Opinion Survey Overall Rating	7.4-1	Wellness initiative implemented. Implemented hiring process for senior talent. Revised behavioral interview questions to better match desired culture change. Coaching program implemented with coaches identified and trained. Implemented New Mexico recruiting program.

The Board of Directors Audit Committee reports that PriceWaterhouseCoopers (PWC) audits have always resulted in clean audit opinions with no management recommendation letters. In 2009 the committee reviewed a number of compliance issues and recommended improvements which the board has implemented, such as a formal whistle blower policy.
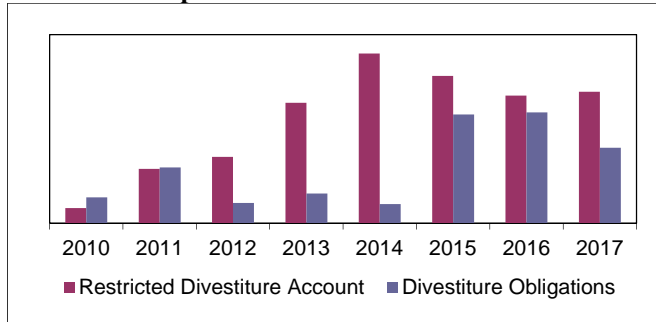
7.6-5 Ownership Transition Model

Figure 7.6-5 shows an example of the model used by the Ownership Transition Committee to ensure successful ownership transition by projecting stock purchases by new owners and divestitures by retiring ones. All owners provide estimated retirement dates to determine divestiture obligations. We estimate stock purchases by new owners and projected stock prices for each year (we have limits to the amount of stock each owner may purchase). These purchases, plus cash reserves, fund the divestiture account. We use very conservative projections for the amount of revenue growth and profit that will be available for cash reserves each year. The scenario shown above tells us that we will have sufficient reserves past 2017 to divest these retiring owners.
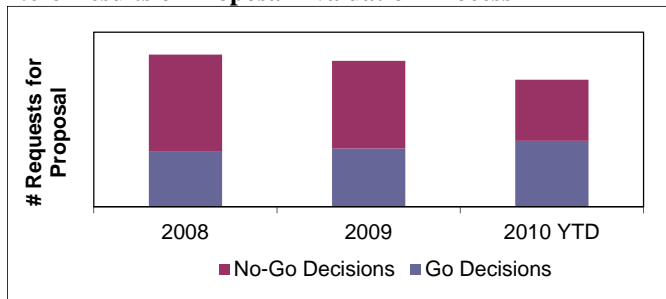
7.6-6 Results of Proposal Evaluation Process

Figure 7.6-6 shows the number of Requests for Proposal that were approved (GO) to proceed with a response or rejected (No-Go). The Client Rep or Group Manager answers four key questions: is a competitor already wired to win; are the client's fee structure and contract terms unacceptable; is there is any conflict of interest; are the resources to prepare the proposal unavailable. A "yes" to any question results in a "No-Go". The remainder of the assessment awards points to the project based on the potential to win the contract and having the resources to successfully complete the work.

7.6a (3) Figure 7.6-7 shows claims in the last 5 years related to regulatory compliance. FNI now has all designs with public access reviewed by a licensed American with Disabilities (ADA) consultant to minimize future claims. These issues are also logged in our E&O change order database so that the information is reviewed at project kick-off meetings for similar type projects.

7.6-7 Claims Related to Regulatory Compliance

Agency	Issue	Resolution	Claim
ADA 2005	Incorrectly designed drop off area.	FNI paid for revisions	$5,600
TCEQ 2005	Previously unidentified chlorinated solvents at site	FNI paid for cleanup	$65,000
ADA 2006	TDLR & ADA Issues	FNI paid to rectify issues	$20,000

7.6-8 Employee Survey Response to Ethics Question
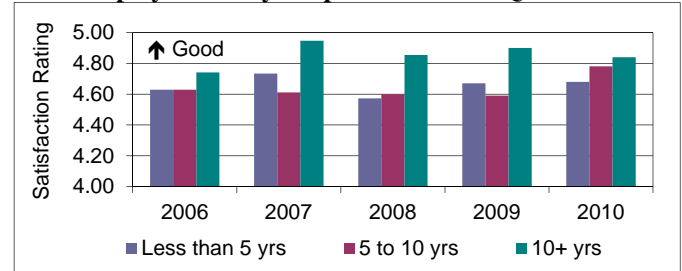
7.6a (4) In 2007, FNI received two awards for its commitment to ethical business practices: The *Greater Tarrant Business Ethics Award*, sponsored by the Society of Financial Service Professionals and the *American Business Ethics Award,* sponsored by the Foundation for Financial Service Professionals. Both awards recognized FNI for its commitment to the highest standards of business behavior in everyday operations, management philosophies and responses to challenges. In the last ten years, FNI has terminated employment for one employee because of ethics violations, and no subconsultants. Figure 7.6-8 shows the results of the internal employee survey statement "Ethical conduct in decision making is expected".

7.6a (5) Figure 7.6-9 shows the hours and funds donated to the community by FNI employees and senior leaders. In 2009, employees reported more than 6,200 hours with the Lead Team donating 583 of those hours. We served 171 different organizations and exceeded our target of 6,500 hours. FNI and employees together donated more than $333,000 in 2009 to charities and community organizations. Each year, FNI matches the contributions of non-owner employees for United Way (UW). The chart shows employee contributions (owners plus employees) and the matching company contributions. In 2009 because there was such a strong community need, we matched employee donations dollar for dollar. In 2009, we were listed as one of the *25 Most Philanthropic Companies* in the Dallas Fort Worth Metroplex by the Dallas Business Journal.

Figure 7.6-9 Contributions to the Community