

“Top 10 Mistakes Contractors Make by Growing Too Quickly,” Construction Executive

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Leading into the COVID-19 crisis, the economy was booming—and it will again when we emerge from the pandemic. Although construction companies lead the charge during boom economies, failure to plan for growth can have disastrous consequences. Here are the top 10 mistakes contracting firms make by growing without

deliberate planning.

Disorganized Accounting

Develop a system to contemporaneously document changes in jobsite conditions and the corresponding increase in costs to ensure the ability to recover on claims later. Do not let the frenetic pace of growth prevent careful attention to contract compliance, obtaining written change orders where required, and avoiding an inadvertent waiver of rights when submitting pay applications and releases. Perfect lien rights and look ahead timely to submittals and long lead time orders. Automate payment processes and keep cyber security measures current. Be sure not to overlook the routine.

Ensure Proper Staffing

Do not dilute quality by taking on work that cannot properly be supervised. Have a plan for correcting non-compliant work on jobs with robust schedules. Plan for overtime by including it in project budgets and preparing employees for the day when overtime and bonuses will no longer be as robust. Prepare for a soft landing when the wave of volume ends. Do not forego long-range planning; avoid acting purely with a reactive mindset. Do not expand geographically merely because the work is available if the business is not properly staffed for it. Pay attention to and address employee burnout. Make sure to manage equipment rentals and other time-based costs. Most important

of all, know when to turn away work.

Insurance

Make sure coverage limits grow with work volume. Ensure job risks in a growing company are actually insured. Improve new hire screening to manage workers compensation costs. Review insurance policies to ensure they do not exclude coverage for new types of projects. Make sure to sign contracts before mobilizing—or the contractor could risk lose coverage. Get certified policies to show customers in time for the first payment, or face the possibility of a delay in getting paid. Get professional liability coverage if participating in design-assist or other design-related activities.

Hiring and Firing

Vet subcontractors with whom new hires have relationships before using them. Don't compromise due diligence in hiring. Ensure new hires share the company's core values. Review job descriptions to ensure they're focused and actually reflect what the business needs the employee to do. Keep the employee manual updated to stay consistent with growth and changes in the law. Consider probationary periods for new hire evaluation. Conduct regular in-person employee reviews. Don't hire employees before they're needed. Finally, have an established disciplinary process that is actually enforced.

Effect on Bonding

Growth could affect cash flow in ways that could cause sureties to remove bond approvals from the hands of local underwriters and require evaluation by more conservative risk avoiders, slowing the process of bond issuance and risking reduced bondability. Antiquated accounts receivable may be treated as secondary assets no longer available for cash flow. Reliance on bank credit will aggravate the situation. Rapid growth may reduce the predictability of projections for revenue, profit and costs, delaying the process of bond issuance. Growth must therefore be managed and cash flow monitored to facilitate bonding.

Slow to Grow Technology

Use technology to gain a competitive advantage, stay nimble and become more efficient. The investment in updated software and hardware, and staff training, means working faster and more profitably. Software innovations offer analytics; benchmarking with reports management can help contractors keep up with growth without relying on anecdotal information. Technology can help mitigate risk, track claims and costs, organize projects, set reminders for essential tasks, and capture updates. It can also speed the procurement of bonds and insurance by generating accurate and quick reports. Competitors can antiquated technology against companies as their sales pitch in competitive procurements. Do not be treated as a dinosaur in an expanding market.

Rushed Project Mobilization

Make time to thoroughly review contracts on new projects—even as the volume of projects, and hence the number of contracts to review, increases. Failure to read or understand contracts is not a defense to a breach of contract claim if the company didn't understand what it was getting itself into.

Letting Daily Crises Interfere With Long-Range Planning

Be proactive, not just reactive. Do not consistently assume overly optimistic positions. Have a plan for long-range growth, planning and development and don't get distracted with day-to-day crises instead.

Not Mitigating Liabilities

Construction is a litigious business. Attorneys can save contractors more time and money at the beginning of the project than fixing problems at the end. Plan for asset protection and litigation avoidance, rather than spending money defending the company in court after the fact.

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