10 Reasons Companies Get into Trouble in Good Times

By Greg Ferguson

With the exception of a few isolated areas, the economy is strong, and the construction industry is doing well. According to Robert Morris Associates, industry growth is projected to continue at a healthy pace for the construction industry through the end of the year.

It would seem that in a healthy industry, most firms would be performing well. According to the surety industry, however, more than 51,000 construction firms went out of business between 1991 and 1995. Why do comparries find themselves in trouble in good times? The following are 10 common pitfalls that snare even good contractors.

Cash Flow

Cash flow is probably the biggest stumbling block in contracting, since taking on additional work requires additional working capital. Many firms get a profitable backlog yet run out of money and can't finish their jobs. This problem can be significantly worsened by extended accounts receivable.

Doing the Wrong Kind of Work

Some contractors get caught in the "I can do anything" trap. For example, they take on jobs where they have little or no experience, including type of work or location of work They also may continue to perform unprofitable types of work for reasons ranging from "nobody else can do it" to "we do it so our competition cant."

Project Execution

Some jobs are just "bad jobs." While there is an infinite number of reasons a job can be bad, the difficulty arises when a company gets two or three or four bad jobs in a year. The quickest way to make more money is to stop losing it in the first place. That means having the ability to say "no" to a potential nightmare job.

Estimating the Market

Many contractors know what bids will

win the jobs. The problem is that some contractors do not take their own costs and profit requirements into account when bidding. This can result in the "we'll bid it at cost and make it up in the buyout" mentality Furthermore, the "we'll bid it at cost because we need the cash flow" approach can tie up capital and labor resources.

Hiring

When contractors get busy, they rarely have time to devote to a thorough process. The situation is exacerbated by the tendency to not hire until a job is won—then the contractor must find someone immediately. Not anticipating personnel needs or waiting until the last minute results in poor hiring decisions and a staff full of the wrong people.

Lack of Training

As a firm grows, it will need more people. Many firms are frustrated by promoting good workers to other positions, only to find that the workers don't perform as well as they did in their old jobs. Some managers write it off to the "Peter Principle," which says that people tend to be promoted until they reach their level of incompetence. In reality, the workers may not have been trained appropriately for their new positions.

Organizational Structure

A classic example of an ineffective organizational structure is the president who started in the field, worked his way up the organizational ladder and eventually started his own company As his company grew, he hired people to do all the functions he had done himself when the company was smaller. After many years of hard work, he finds himself at the head of a large organization, yet he is still involved operationally on all jobs. Everyone, including the foremen, reports to him. The company then slowly grinds to a halt because the president is immersed in too much detail.

Inability to Delegate

Micromanagement sends the message to employees that upper management or the president does not trust employees to do their jobs properly. The result is that the employees wait for the president to make all the important and unimportant decisions. The lesson here: As a company grows, the leader or leaders must release authority and responsibility to those who are doing the tasks. This issue is one of the toughest that leaders face when dealing with growth, and it can happen in a a $5 million firm or a $500 million firm.

Wrong Compensation System

People should be rewarded for desired outcomes, but sometimes there are unintended results. For example, compensating an estimator based on the number of jobs won is dangerous. His or her incentive is focused on volume and not on profitability; therefore, the estimator is motivated to underprice work

Productivity

A wise man once said, “Inefficiency spread over a larger volume does not necessarily create profit.” Some contractors believe that larger volumes will solve their problems. Typically, however, the opposite is true. If there are inefficiencies at smaller volumes, there will be much greater inefficiencies at larger volumes.

These are some of the most common problems facing firms that are growing significantly. If your firm is in a growth mode but profits are not rising as they should, your company may be suffering from one or more of these challenges. But, like any other issue, recognizing the problem is the first step.

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About the Author
Greg Ferguson is a consultant with FMI’s Corporate Planning & Evaluations Group. He works with contractors to identify and sharpen the skills their organizations need to compete and excel in today’s marketplace. FMI, management consultants to the construction industry, has offices in Raleigh, N.C., Denver, and Tampa, Fla.