



On Your

TOES

or on Your

HEELS 

Even in this challenging
economy, there are
successful construction
companies that share a
common trait:

A forward-leaning
corporate culture.

Find out how you can
help your company
achieve a more
proactive, innovative,
and motivated stance.



BY THOMAS W. EMISON

Last November, my wife and I served as timers for the first meet of the 2011-2012 USA Swimming Grand Prix Series held at the University of Minnesota's Aquatic Center. With less than a year to prepare for the London 2012 Olympic Games, America's elite competitive swimmers were all there.

My role as a timer was simple: Hit "start" at the sound of the buzzer and "stop" and when my swimmer touched the finishing pad; then, write down the time displayed on the hand-held timing device. About an hour into the meet, none other than Michael Phelps walked onto the deck and stopped right in front of us to swim the Men's 200-meter Butterfly. It was during the *start* of Phelps' 200-meter Butterfly that I thought about construction companies and you, the financial executive.

"This is the Men's 200-meter Butterfly. Swimmers, step up," the meet referee commanded. All eight swimmers stepped up – seven of the fastest and best-trained competitive swimmers in the U.S., plus the one they were all about to chase. The crowd grew quiet. "Take your mark!" They all crouched down, grabbed the starting blocks with their hands, and all but one leaned *back*.

Phelps was the only one who leaned *forward* – almost on his toes. As the buzzer sounded, he shot out like a missile and torpedoed under for 15 meters, accelerating ahead of his competition. He surfaced explosively and was far ahead of the rest. He won the event by more than a second.¹ But, it was his start that was jaw-dropping: On his toes.

Posture Check

Think about that image as you consider the posture of your company in this economy. Is your company on its toes, or its heels? Is the intense competition making your company stronger, or is it in retreat? Are your top leaders setting the right tone, demonstrating the right behaviors, and driving innovation? Or, are they dazed and confused, reacting slowly – or negatively? And, as the financial manager, what are you doing (or not doing) to help your company succeed?

Today's successful contractors are on their toes and leaning forward despite the economy. These companies operate in *different* geographic regions. They deliver projects of *different* sizes in *different* industry sectors. They utilize *different* project delivery methods. So, what is the common factor that enables these companies to excel and grow in tough economic times?

I wish I could tell you something concrete – like if your company is engaged in a “warm” market (such as health care, technology, multi-family housing, energy, or industrial), then it will succeed. Or, I would like to declare that diversifying into foreign markets or performing more tenant improvement and renovation work is the answer.

But, it isn't that clear because it's not a tangible answer. It's their leaders' *corporate culture* – tone from the top and

forward-leaning desire to innovate – that propels these companies to not only survive in this economy, but to also thrive. I believe that a CFM should play a pivotal role in creating this corporate culture, tone from the top, and forward-leaning desire. See below for some tips from Wade A. Sandy.

In the March/April 2010 issue, I authored “Strategic Planning in a Down Economy – *Yes, Now!*” in which I challenged CFMs to be more involved in business strategy. I wrote that,

TIPS for the CFM's Role

By Wade A. Sandy

Now more than ever, you must bring increased value to your company.

Here are some traits and habits of CFMs that we have observed in top-performing companies. Think about what you are going to do differently than before to help your company get on its toes.

- Reassess the quality of information you deliver to your company's management team. Is it relevant, meaningful, and timely? Is it useful in decision making? Does your company's management team know what market sectors, projects, and people are producing results?
- Take advantage of your unique opportunity to influence others on your company's management team. Challenge them to develop new relationships and explore new opportunities for your company in order to obtain more negotiated work than your competitors – even in this economy, which can increase profits and value.
- Challenge your team to be innovative and creative. Lead the company by your team's example.
- Develop financial and production performance goals for the company and keep them front and center. Develop creative, effective methods to communicate this information. For example, many of our firm's strategies, results, and happenings are communicated on our appropriately titled “Rest Stop,” which is posted bi-weekly in our company restrooms. Believe us, it gets read!
- Utilize *CFMA's Construction Industry Annual Financial Survey* to its full potential. This tool can be used from the boardroom all the way out to the jobsite to help make better decisions as a team.
- Don't hoard financial performance information. Your primary duties as a financial executive may be clear. But, your secondary duty is to gradually raise the financial acumen of those around you.
- Develop your peer network and share best practices. Top-performing CFMs and controllers are connected, and they utilize these connections to generate and drive positive changes within their companies.
- Challenge yourself. Reassess your skill sets. Become a Certified Construction Industry Financial Professional (CCIFP). Take leadership courses. Get active in your local CFMA chapter.
- Take care of *you*. Work out regularly and eat healthy to help increase your energy and improve your performance.

WADE A. SANDY, CPA is a Partner at Eide Bailly, LLP's Construction Industry Services Team in Fargo, ND.

He has more than 20 years of experience in public accounting and specializes in providing audit, tax, and consulting services to the construction industry.

Wade has been a member of CFMA for more than 10 years and belongs to the Twin Cities Chapter. He has also presented at many state and regional construction conferences on a variety of industry topics.

Wade earned a BS in Accounting from the University of North Dakota, and is a member of such industry organizations as AICPA and the North Dakota CPA Society.

Phone: 701-239-8579

E-Mail: wsandy@eidebailly.com

Website: www.eidebailly.com

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“Successful contractors know that to win in this climate, they must outwit, outflank, and outperform the competition at every stage of the work...”

I also described the “Strategic CFO” and offered five reasons why you should be leading the strategic planning process in your construction company, five key strategic planning questions, and four key strategic areas of performance in a down economy.

What I didn’t cover then, and what we’ll cover now, is how important your *corporate culture* is in this process and the specific activities you can lead to influence it in order to get your company on its toes.

Similar Contractors Are Not Similar at All

Let’s examine two fictional construction companies, both GCs in the same region that are about the same size and perform similar work: TRLB Contractors (acronym for Traditional, Reactive, and Low Bid) and PIM Construction Resources (acronym for Proactive, Innovative, and Motivated).²

TRLB CONTRACTORS

TRLB Contractors has been hit hard by the slow economy. It has held revenues steady from 2009-2012 by continuing to drop prices (but not costs) to win work.

Gross margins have slipped, but this GC makes it up on change orders; contract legalities and loopholes; and by exploiting its A/E contacts, customers, and subcontractors. Local work has been frustratingly slow to materialize, so TRLB has begun to chase new work in other regions with new subcontractors and new risks. TRLB has been sitting on retained earnings.

And, it has recently lost some employees: the Building Information Modeling (BIM) team that never really got BIM rolling, two Leadership in Energy and Environmental Design (LEED) Accredited Professionals (APs),³ some young PMs who were exploring Lean Construction,⁴ and a business developer who was trying to win Public-Private Partnerships (PPPs).

The TRLB Board of Directors is not terribly concerned; the way they see it, revenue matters most, and gross margins are thin for everyone – not just TRLB. Some TRLB projects are headed toward litigation, and there have been some subcontractor failures. TRLB believes this is a hard-nosed business in which price is all that matters.

PIM CONSTRUCTION RESOURCES

In 2009, PIM launched an internal business process change program to drive costs from its construction processes. PIM now bids aggressively and still maintains its project margins. Top-line revenue is down 35% from 2009 levels – on purpose.

PIM’s management would rather have well-understood work at healthy margins than chase projects with unknown partners in different parts of the country. PIM is not pursuing work out of its primary target markets. Instead, it has implemented three strategies.

First, since PIM believes construction is still a relationship business, it has heavily invested in internal leadership training and has let go of under-performing employees, subcontractors, and clients.

Second, PIM has adopted a company-wide Lean Construction initiative to continue to eliminate waste from its processes. What started as an austerity program has become a competitive advantage.

Third, PIM has added new marketing, sales, and pre-construction talent, including in-house design, engineering, and M/E/P specialists. PIM believes it is important to add value as early in the pre-construction process as possible, which has helped it win PPPs. PIM’s Board of Directors is not concerned about lower revenues.

The key is that gross margins have been maintained, strategic market position is improving, and future leaders are engaged. Not to mention, PIM doesn’t have any projects in litigation. PIM’s top leaders admire such creative and competitive companies as The Walt Disney Company and NIKE, Inc.

Even though TRLB and PIM are about the same size and work in the same region, they are not similar at all. TRLB is losing its top talent, chasing distant revenue rainbows, exposing the company to new risks, and losing money on projects.

The real problem is its corporate posture – TRLB is on its heels. Uninspired top leaders have used the slow economy and increased competition as excuses to drop prices and hope for the best.

Low bidding is not always a losing proposition, but it can be if the cost structure doesn’t support it and if the consequences

SIX RECOMMENDATIONS for Staying, or Getting, on Your Corporate Toes

1 Decide as a management team the role you wish to play in the emerging construction scene – the so-called New Normal.⁵

Examine the six differentiation models described in this article and select the one you can reasonably capitalize (with both financial and human assets).

2 Regardless of the models, demand a corporate culture of focus, positive leadership, and process innovation.

3 You already know your primary role as a CFM. Now, appreciate your *secondary* role for what it is: An opportunity to educate, inform, and shape the direction of your company by providing financial information, insight, and system development.

4 Communicate financial performance information openly and often. There may be hesitation to share all of the details with everyone in your company, but share what seems reasonable. You can hardly ask construction employees in a slow economy to improve company financial performance if the financial performance results are kept private.

5 Be ready to make tough decisions on people in your company. When an entire industry is forced to innovate, change is inevitable. Your company can either adapt well to change, or it can fight it and lose market relevance.

Some of your key people may not make the leap to your new, *required* direction. Build your people around your company's strategy; not your company around its people.

6 Focus on the balance sheet. Even the most optimistic economic forecasts point to an extended recovery, at best. Consider the possibility of taking an equity position in PPPs. If you have the means, now may be a time to fuel the projects that drive your business model.

At a minimum, become familiar with how private investors (e.g., private equity groups, investment funds, insurance companies, etc.) view construction work, especially infrastructure projects.

are lost talent, lost market cache, lost profits, and exposure to new corporate risks. I am also not saying that PIM's strategy is universally successful, but it can be if the cost structure supports it, top talent is retained, market cache is gained, healthy gross margins are produced, income on operations is maintained, and the company isn't exposed to undue corporate risks.

Trends & Observations

The past two years of my more than 20-year career in the construction industry have been extremely unique. Top executive teams are struggling with innovation like never before.

I've also noticed that regardless of strategy, geographic footprint, project delivery methods, and industry focus, there is a common denominator among successful companies: The ability to get up and stay on their toes, with a unified corporate culture and market differentiation strategy. Let's take a look at some very specific corporate cultures and differentiation strategies.

SIX UNIQUE CONSTRUCTION COMPANY DIFFERENTIATION MODELS – ALL ON THEIR TOES

Unlike traditional differences among construction companies based on *what* they do (e.g., general, mechanical, electrical, structural, etc.), the following distinctions are based on *how* and *why* they do it.

These types of companies wrestle with the same economic challenges we all face, but they respond on their toes with entirely different strategies. Does your company fit any of these descriptions?

Technology Thought Leaders

Technology Thought Leaders are technology *driven*, not just technology oriented. They outsmart their competitors with quick adoption of emerging technologies; they got the jump on facsimile transmission more than 25 years ago, e-mail more than 20 years ago, and BIM more than 10 years ago.

They view the entire built marketplace as an ecosystem full of opportunities to create new shared systems and processes and to utilize emerging

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technologies in every stage. In pre-construction and estimating, Technology Thought Leaders are in their third generation BIM strategy.

Senior pre-construction executives and PMs are encouraged to experiment with new technologies in the field and office; some teach and others publish. They can apply original ideas across different market segments, building types, and project delivery methods.

Niche Relationship Managers

Niche Relationship Managers zig while the rest of the market zags. They focus on one major industry sector, building type, or project delivery method. For example, a Niche Relationship Manager may only deliver health care projects, which provides a keen sense of what is happening in the health care industry, how to win work by selling benefits (not features), and how to become visible in that industry sector. These managers are the experts.

In the face of construction industry commoditization, they continue to win work at healthy gross margins. They don't want to meet clients' expectations; they want to *change* them. They frequently team up with a network of other firms or associates to provide a full range of services for a given project.

Local Leaders

Local Leaders aim for a leadership role in their geographic areas. They establish and build deep networks in the communities in which they operate professionally, socially, and politically. Local Leaders seek the premier local project work, regardless of industry segment, project type, project delivery method, or size.

They tend to perform more service work than their peers. Their employees are expected to become well connected locally and are involved in virtually every community organization, viewing these as opportunities to make a difference in their hometown. They excel at preempting out-of-town competitors. They tend to do more self-performance than their peers. Their top leaders know their local, county, state, and federal legislators (and their local business leaders) on a first-name basis.

Consultant Brokers

Consultant brokers usually have their roots in real estate ownership or property management. They focus on managing large, complex projects, including PPPs, Integrated

Project Delivery, and other supply chain innovations in the built marketplace.

Skilled at joint ventures, partnering, and alliances, Consultant Brokers do not view this "broker" title negatively. They have the financial, legal, and negotiating prowess to control their own volume and deliver projects with great speed, coordination, and risk management.

Because they know their role is overall project leadership, they push risk downstream to others. Self-performance does not interest Consultant Brokers. Their loyalty is to their clients, not contractors. Many are international in scope.

Bare-Knuckle Fighters

Bare-Knuckle Fighters are operation-driven. With a strong history of field leadership and a management team that came up through the field, they define themselves as contractors and are continually on the lookout for more self-performance. They do not perform a lot of service work, unless it leads to an opportunity to do more construction work. They are comfortable serving any customer, so long as they get the opportunity to build the project themselves.

In this economy, they bid aggressively and make up the potential losses on change orders through aggressively managing subcontractors and suppliers. Lean construction is very interesting to some Bare-Knuckle Fighters. Many were performing hard-money projects before the economy slowed, so they have adjusted to the current times quite well.

Bare-Knuckle Fighters plan to weather the economic storm with razor-sharp estimating, solid project management, and great attention to detail.

Green Builders

Green Builders have been focused on sustainability for many years. Now that "green" is mainstream, professionals in these companies are poised to not only build green, but to do so at lower initial and operating costs to the owners. LEED APs dominate decision-making in these firms.

In this economy, Green Builders deliver projects on time, on target, on budget, and show that "green" does not mean more expensive. Green Builders have a well-established culture of efficiency that resonates in this economy, especially in targeted (and relatively healthy) construction markets (such as education, health care, corporate campuses, etc.). Some Green Builders have successfully delivered alternative energy projects (e.g., wind farm projects).

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Hybrid Models

Even though hybrid models exist, they usually fail. It is hard enough to be on your toes with one of these models; attempting two or more (in the same organization) is extremely difficult. Hybrids tend to have weak, fragmented, and even divisive internal corporate cultures.

I challenge you to explore the previous six differentiation models with your company's leadership team to find out which best describes your construction company today and which is the one that can get your company on its toes (see Six Recommendations on page 20).

Conclusion

As a three-time U.S. Masters Swimming champion, I can attest that getting to the victory platform requires sacrifice, focus, and a forward-leaning desire to innovate. In each case, it was my *attitude* that made the difference. I was mentally on my toes for many months before the big day arrived.

Your company's culture, tone from the top, and forward-leaning desire to innovate will be the recipe for its victories, too. But, it is easy to get caught in the trap of just dropping

prices, chasing revenues, and hoping for the best. These "on your heels" reactions to tough times are not sustainable.

As a CFM, you are in a unique position to influence your top leaders, and the corporate culture, to get on your toes. You have access to the financial information that enables you to know when, how, and where your company makes money.

Since you are not directly involved in pre-construction, project delivery, or field management, you have an unbiased point of view and can serve as a balanced voice of reason within your company. ■

Endnotes:

1. www.gophersports.com.
2. These fictional examples do not represent actual construction companies.
3. www.usgbc.org.
4. www.leanconstruction.org.
5. Davis, Ian, "The New Normal," *The McKinsey Quarterly*, March 2009.

THOMAS W. EMISON is a Director of Construction Consulting at Eide Bailly, LLP in Minneapolis, MN. He has more than 21 years' experience working with construction companies in the areas of strategic business planning, marketing, and operations improvement.

A member of CFMA's Twin Cities Chapter, Tom serves as its strategic business planning advisor. He is a long-time author for *CFMA Building Profits* and presents at CFMA's Annual Conference & Exhibition and for CFMA chapters across the U.S. Tom is also an active member of AGC's Minnesota Chapter.

Phone: 612-253-6510
E-Mail: temison@eidebailly.com
Website: www.eidebailly.com

