



AFTER THE STORM

Leaders are spending more and more time working on day-to-day tactical areas of the business. Forgetting about the people in the organization is a tactical error that has long-term ramifications

BY GREGG M. SCHOPPMAN

The time of unbridled expectations of prosperity has passed. Everyone in the country looks to the news channels to provide some glimmer of recovery. What was once an industry characterized by gaudy backlogs and personnel shortages is now comprised of leaner and hungrier organizations.

Companies now struggle with the challenge of maintaining a positive message for their people while faced with the negativity of a bottomless sea of despair. What will drive the industry forward? Will it ever return to the levels of the last decade? What great paradigm is the “next big thing”? History tells us that for every economic downturn, there has been a subsequent righting of the ship. While there is no mystic able to read the tea leaves or tarot cards, it is still necessary for business leaders to begin to prepare for the future. No one can deny the importance of dealing with present-day issues. However, myopic and reactive management is not enough for long-term organization continuity. Strategizing for the future begins now.

ILLUSTRATION BY: ISABELLE CARDINAL



Take Stock and Evaluate

Businesses need to have an unvarnished evaluation in much the same way people need an annual physical. On the surface, the organization may appear to be performing acceptably, but through a deeper investigation, one may find systemic issues that left unchecked could lead to complications. More importantly, organizations need to examine the way they operate and decide if this is truly the model that makes sense for the future.

Most organizations anticipated, carefully situated their business and braced themselves for the downturn. Lesser talent was culled, and the organization's efforts were refocused in the short term to generate cash flow. With this new organizational face, the effectiveness of the changes to structure, process and procedure need evaluation. Put another way, is everything working the way it was expected to work and is this the right way to move forward? Some of the areas that require evaluation include:

- **CUSTOMERS:** Are we truly valued by our customers or are we just a number?
- **MARKETS:** Is this market a long-term solution or short-term prospect?
- **EXECUTION:** Are we best of class or operating with some level of inefficiency?
- **PEOPLE:** Are we developing our people or have we reverted to a model of complacency?
- **FINANCE:** Are we in a strong cash position or simply making it month to month?
- **STRATEGY:** Do we have a mechanism that looks at the business five to 10 years out, or are we only dealing with day-to-day tactical issues?
- **SUCCESSION:** Do we have depth in the organization at all levels, or are we one step away from liquidating the business in the event of an unforeseen loss of a key individual?

Great leaders regularly reflect on these areas without bias or prejudice. Feedback

on all facets of the business is imperative for improvement. High-performing organizations routinely take an introspective approach to their business that enables them to continue to be truly high performers.

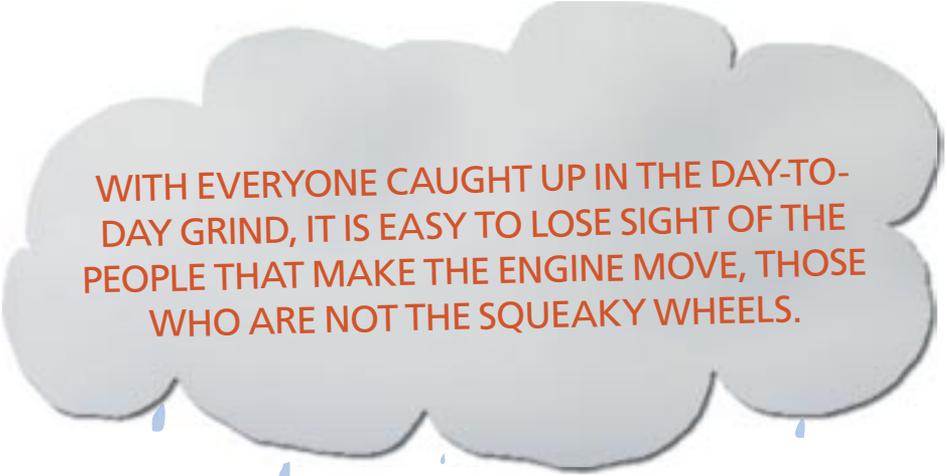
Don't Panic!

Science fiction lovers will recall the exploits of Arthur Dent in Douglas Adams' *The Hitchhiker's Guide to the Galaxy*. As the earth is destroyed and his entire reality is shaken to its core, Arthur receives a copy of the Guide. On the back of the electronic tome is the inscription, "Don't panic." Examining the behavior of some contractors would give one the impression that the shortage of projects demands drastic action. These firms then grasp at any semblance of a project to "keep people busy and keep the iron moving." It is important to avoid confusing business ignorance for aggressive business-development tactics. Ignorance might be defined as removing all margins or removing

Unsuccessful bids should garner a serious investigation and autopsy in much the same fashion a firm would analyze a project at its completion. Questions to reflect upon might include:

- What alternative crew compositions could we have used?
- Is there a different piece of equipment we could have used?
- Could we have supervised or managed the project with different resources?
- Is there something we are self-performing that we could have subcontracted or vice versa?
- Did we not receive pricing from a trade contractor our competition is using?

Notice there is little to no discussion about the profit margin in the reflection above. So much is made of the actual margin assigned that firms rarely investigate the true cost on the project. Squabbling about pennies is a fruitless exercise when productivity rates and efficiencies make up the lion share



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major cost centers in an effort to land the job, while being aggressive involves seriously examining cost centers and applying tactical reductions with careful consideration by all stakeholders. To complicate this further, contractors are employing the aforementioned tactics in new uncharted markets.

The first step is to understand the true costs of the work. There will always be plenty of firms that will make bad decisions on bid day. However, there are firms that are simply better or more efficient than others are.

of the dollars on a project. Investigate and take actionable steps to level the playing field. Making excuses and lamenting about the one that got away is no substitute for action.

You're Right-Sized – Now What?

The organization is leaner and streamlined. It is now comprised of high performers. Senior leaders have made a commitment to this team. The question now is "How should they be developed?" It is easy to forsake training and development when times are tough. However, ignoring the people in an organi-

zation not only fails to perpetuate growth of an important asset but also may demotivate talent in an already bleak environment.

The industry is blanketed with educational events ranging from green buildings to conflict resolution, all incredibly important. However, development is much more comprehensive than educational events. Development means spending time with your people. With everyone caught up in the day-to-day grind, it is easy to lose sight of the people that make the engine move, those who are not the squeaky wheels. Develop an annual plan that is less about a “performance evaluation” and more about an action plan for the future.

The other challenge is keeping personnel motivated in a difficult environment. Leaders need to continue to invigorate and challenge their teams to stretch. Some ideas include:

- **ORGANIZATIONAL CONNECTIONS :** Often, the senior leader in the firm is the

liaison between professional, civic and philanthropic organizations. Spread the responsibilities across the managers in the firm and empower them to create relationships and connections.

- **TRAINING:** Utilize internal resources to become subject matter experts. For example, general contracting firms can assign trades to internal champions. It becomes their task to become educated and in turn educate the masses. Spending the time and investment on training one person via “train-the-trainer” training enables the organizations to develop other employees internally.
- **KEEP IT FUN:** Find a way to use inexpensive or free diversions to occupy your team’s time. For instance, fantasy sports leagues are excellent for building camaraderie as well as providing some distraction

to the inundation of negativism. Channeling the competitive spirit in one’s own virtual football team provides some water cooler chatter that has a significantly more upbeat tone.

The goal is not to ignore the financial pressures of today but to use the tools available to create an air of optimism for the future. Leaders are spending more and more time working on day-to-day tactical areas of the business. Forgetting about the people in the organization is a tactical error that has long-term ramifications.

You Learned Cash Is King – Don’t Forget It!

A dangerous cycle was unleashed as cash collections became more constrained. Collection figures hovered precipitously close to the edge of becoming bad debts. Unfortunately, payroll, materials invoices and utility expenses still require attention. The organi-

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zation begins to take on ill-advised projects with questionable customers in an effort to generate cash flow. Many organizations are finally moving through the collection nightmare with one lesson learned. Cash is king! As trite as the phrase may be, these three words should become the mantra of any business organization, in good times or bad.

Many contractors accept mediocre payment terms and lack proactive measures to ensure that customers are at least held to some reasonable standard. There are some simple lessons to apply to the business in both good times and bad:

- **FORECAST:** Managers should be required to forecast accurately the cash flow based on the billings of their project. More importantly, the difference between forecasts and actuals can be used to expose production anomalies or customer challenges.
- **CROSS FUNCTIONALITY:** Organizations that involve managers in the collections process are more successful than those that simply leave the function to accounting and finance.
- **PROCESS:** Billings and collection departments should have a strict process that begins with evaluation of creditworthiness of customers and projects, and then deals with how pay applications are processed and, more importantly, the steps of following up.
- **COMMUNICATION:** Establish a process that designates someone to communicate with the customer early in the process. This not only makes the connection, but also flushes out an errant invoice early rather than on the day payment is supposed to be remitted.

Contractors may have been lulled to sleep by years of prosperity. Customers and general contractors may be less quick to release payment in these turbulent times. Avoiding self-inflicted wounds, such as errors on invoices and the proverbial lost invoice, will at least keep an organization's days sales outstanding at a lower level and more cash in the coffers than its peers.

Fine-Tuning the Execution

With backlogs small and margins even smaller, flawless execution is imperative. While the planning aspects of execution set the tone for a successful project, creating a sound understanding of the organization's direct costs should become a priority for management.

With project awards at low levels and bidder lists at historic highs, management should conduct a routine inspection of their processes as part of an annual evaluation of the business. Equipped with a strong "tool-box" of written processes and procedures, managers can re-evaluate production rates and other direct costs. Many organizations do not capture production information during the project or at the project's conclusion but competitiveness begins with an understanding of the company's true costs. Consider the following tactics to improve execution:

- **ESTIMATING WITH OPERATIONS:** With added bench strength, best-of-class firms are involving project managers and superintendents in the estimating process to provide constructability review.
- **TRADE CONTRACTOR FEEDBACK:** If project costs are primarily trade-contractor-related, review their specific unit costs and develop a historical unit cost database. Trending individual activities such as mechanical (dollars/ton), drywall (dollars/linear feet of wall type) and concrete (dollars/cubic yards of foundation) helps pre-construction groups through conceptual estimating.
- **POST-JOB REVIEW AUDITS:** Identify four to five specific cost areas at the beginning of the project during a pre-job planning meeting. During the project, management tracks daily production and provides a summary for estimating to adjust for future projects.

With a refocused effort on processes and procedures, management can examine the composition of its costs. More importantly, managers can develop and refine the correct margin-enhancing behaviors now to ensure the organization is situated appropriately for



the future. Lastly, getting project management and field supervision to use job-cost feedback correctly reinforces the efficiency message regardless of the economic state of the industry.

Finding the Next Big Thing – Make the Investment

Awaken the crystal balls! Start researching and make an investment to explore new markets. Being pioneers in a sector, niche or market allows firms to command higher margins. These pioneering roles help companies avoid commodity classification. One must exploit a marketplace as long as possible before saturation occurs. As one contractor finds a profitable niche, the competition will not be far behind. Consider the green movement. As contractors become accredited LEED professionals, they should be asking themselves, "Is this what will separate us from our competition, or will this simply get us to the dance?"

Investigating new markets and niches is hard work. Becoming a sales-centric organization is a characteristic that will define successful businesses in the future. Being a reactionary order taker requires little skill and tends to yield low percentages when the competition is proactively seeking the same work in the market. Organizations must continually reflect on the short term business development cycle and the long term.

Act Now for Tomorrow

Dealing with prosperity is much easier and more fun than coping with an economic collapse. Contractors now make life-altering decisions daily, all with the aim of survival.



Making payroll is often elevated high on the to-do list, while finding the “next big thing” is relegated to the bottom of the list. Despite all this, leaders must still lead and be forward-thinking.

An analogy come to mind when examining the efforts of construction firms in today’s tumultuous environment; that of two tennis champions volleying, unable to break the other’s serve. As one player becomes tired and weak, serves are returned with only survival in mind. The stronger player attacks, pounding the ball backhanded to the weaker player who moves around the court in exhaustion. Once again, the weaker player simply attempts to protect his or her position and strikes the ball with a protectionist mind-set. Finally, the aggressive player pounces and slices the ball to a spot on the court where the opponent cannot return. The lesson is twofold. The stronger player wore down the competition by a relentless attack, finishing the opponent with a shot that did not require energy but simply played on his or her off balance and exhaustion. Secondly, the weaker player was always one step behind the competition in that he or she was focused on returning and defending, rather than positioning for the future. Yes, making payroll is important. Estimating is important. Managing projects is important. But focusing on day-to-day tactical details is the equivalent of having an efficient engine room with no one in the wheelhouse of the ship as it hits an iceberg.

Game, set, match. ■

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