

## Basics of Construction Industry Success

### **What You Do Matters as much as What You Don't Do** ([Back to Table of Contents](#))

The construction industry has changed dramatically over the years and continues to become more sophisticated and to employ new technologies at an astonishing rate. Construction has also moved closer to becoming a commodity, which is the primary reason profit margins are low compared with historic norms. Lower margins increase risk allowing less room for errors. Profit enhancement in the future will depend primarily from productivity improvements and efficiency.

Management decisions alone determine success or failure in the construction business, however, many construction professionals believe they lose money or fail because of other reasons; Labor problems, weather conditions, inflation, interest rates, cost of equipment, tightening or shrinking of the market, or simple bad luck. None of these are primary causes of contractor failure. They contribute to financial distress once a poor management decision is made, but are not the basic causes of failures. Failure is not a result of factors or conditions over which management has no control.

Surviving, even thriving, in the industry does not imply management can drop their guard. Growth or simply ongoing operations involve change and change has risks associated with it that can make or break an organization. Therefore past success is not an indicator of future success. When a company expands in size, takes on larger projects, or goes after projects of different kinds or in different territories, it requires good management decisions to reduce the risks inherent in such change. An enterprise may be doing fairly well, or even very well, however the stress to an organization of growth or change can cause weak components to become fatal components. Change itself has to be managed to minimize risk.

One problem is that construction professionals don't talk to each other or share information freely enough to create and share a body of knowledge on how to manage a construction business. They meet, converse, socialize, make jokes, and tell stories about each other but don't share how they run their businesses. They don't talk about mistakes that cost profits, missed deadlines, or much else about business strategies because there is a code among construction professionals. An unspoken code but virtually everyone knows it or learns it soon enough: Learn the essence of the industry, acquire the essential information not taught in classes and secure knowledge of the business on your own through personal experience. Once gained that information, it's yours. You've paid for it. You've earned it. It's your personal property. Let others earn it and learn it the same way. Because of this attitude, the industry re-invents the wheel every day.

There is some logic for this behavior. Construction is a very horizontal industry. If you include those people involved in ancillary jobs or in the manufacturing and transporting of building materials, there are more people involved in producing the built environment in this country than in any other industry. It's a huge industry with over a million individual businesses. The turnover rate as companies go out of business and start-ups replace them is phenomenal. Construction is, maybe the most highly competitive and high-risk industry in the United States. Consequently, if a construction professional can survive a mistake, correct it, and learn from it, they know

something their competitors might not know. This information gives them a competitive edge they do seem inclined to give away.

There are reasons for the code, but unfortunately it has some very negative spin-offs. Without cross-fertilization, sharing of essential information, and the collection of a body of knowledge available to the industry as a whole, there is a significant time lag between improvements and modernization within the industry and when that information becomes widely known. Better ways to operate and organize construction enterprises and improve management and production are usually closely guarded secrets for those who develop or discover them. We need methods to control the risks which allow construction professionals to take informed risks, and to allow managers to learn from the mistakes of others. Unfortunately major business strategy mistakes in the construction industry are often fatal to the enterprise, and until now, no one has collected sufficient data to provide the hard facts.

To put this in perspective, consider other industries that compare to construction in terms of their contribution to the gross national product---the automobile, steel, oil, and aircraft industries. All of them have extensive training programs to educate their personnel from entry to top-management levels; training programs that are ongoing and under continual review and revision. These industries have also developed a system of checks and balances on their decisions and strategies; they have boards of directors to ensure accountability and monitor managerial decisions and techniques. In contrast most construction professionals have learned how to run a construction enterprise by watching, by doing various jobs, and by working with someone who has been successful in the past. There is a lot of truth in the old construction story that all you need to start a construction enterprise is a pickup truck, a box of tools, a cast-iron stomach, a forgiving wife, and a bad temper. Many have started with less.

There are only a few ways to run a construction enterprise successfully but there seems to be as many ways as there are companies and each business develops its own style. In reality there are only a few ways to structure, operate, and manage a construction business successfully and to control business risks. Some believe that sheer energy, drive, ambition, know-how, and guts will get them through this high-risk industry and it will for a while. However, there comes a time when that energy and drive have to be organized, given direction, planned, and held to objectives. Without appropriate structure, proper organization, and risk recognition success is elusive.

Put simplistically, a construction enterprise has only three primary functions: getting the work, doing the work, and accounting for the work--marketing, operation, and administration. These three functions are separate and distinct but equal in importance and to be dealt with effectively they should be analyzed separately with time and energies budgeted to manage each function appropriately. It is imperative that one person have direct personal responsibility for each of these three functions. This can mean three different people or two or one. It is not unusual for a small enterprise to have one person handling the getting and accounting for the work while another handles operations. Neither is it unusual for one person to handle all three functions, however the functions remain distinct. The personal responsibility must be clearly recognized. Some may consider one more important or significant, but neglecting any of these functions is courting failure. They are equally essential to success.

Individuals who accept responsibility for one or more of the three primary functional areas of management are key to the organization whether or not they own a piece of the company. It is critical to success that the individual must believe they are ultimately accountable for the success of their functional area and accept responsibility personally, not as a functionary or an executive, but as a “principal” in the organization—with ownership or not.