Robinson's Customer Newsletter

September 2017

Top Five Reasons for Contractor Failure

By Todd Bryant

Being a construction contractor means facing a lot of risks and difficulties. From the ongoing labor shortage to the language of contracts and the terms of insurance, the hurdles contractors need to jump through can be many.

If that were not enough, there is also the possibility of subcontractor default or the challenge of working on highly complex projects. All of those things may lead to the end or the failure of a construction project. But there are also reasons for construction failure which are unique to contractors themselves - poor leadership or management, loss of project control and discipline and more. And when a project fails, much more fails alongside it. Project defaults often lead to disputes or claims against contractors' surety bonds which are lengthy, costly and risky.

While external factors can disrupt the progress of a project, contractors still have control of how to manage internal disruptions. Here are the five most common reasons contractors fail and what they can do about it.

TOP REASONS FOR CONTRACTOR FAILURE

On average around 26 percent of construction projects default at one point or another. There are various possible reasons for such default. The five most common reasons for contractors default and failure are:

- poor project management;
- poor leadership;
- poor performance;
- poor accounting; and
- poor planning.

1. POOR PROJECT MANAGEMENT

One of the most common causes for contractor default is that of poor project management. Poor project management is often the result of a lack of skilled staff in middle and upper management. This can then lead to inadequate supervision and lack of understanding of company policies and procedures.

Ongoing litigation against the contractor or pending surety bond claims on contracts are also a sign of poor management. These are typically also an indication that a contractor may not be able to perform the work on current projects adequately.

2. POOR LEADERSHIP

While poor leadership may sound like poor management, failure due to leadership is often for the opposite reasons. Poor leadership is characterized by overconfidence on the side of contractors, hyper-optimism and a weak ability to discern threats and challenges as they arise for the company. Poor leadership can often lead to rapid over-expansion due to making snap decisions without being mindful of the long run. Poor leadership can also occur for simpler reasons, such as a lack of a transition plan when a company's owners or CEO change. A lack of a transition plan tends to create chaos and uncertainty which often end up disrupting projects and sometimes lead to failure.

3. POOR PERFORMANCE

Poor performance is a result of a loss of discipline, often due to excessive bureaucratization as a company grows. It may also occur due to expanding into new fields that are outside of the company's core competencies. In the latter case, companies are often faced with a shortage of experienced and trained workers who know what is required of them or struggle to get everyone on board fast enough.

4. POOR ACCOUNTING

There are many reasons a company's finances may experience challenges and ultimately drag the company down. This includes a lack of cash flow and an inability to predict cash flow. Fading profits, credit lines that are not renewed, operating losses, low bids on contracts - all of these issues may slowly add up to produce the perfect storm.

Companies that have trouble with their capitalization may lack proper cost and project-management systems and procedures that help maintain good oversight over the company's finances and make decisions based on those figures.

5. POOR PLANNING

Many of the above issues can be traced back to poor planning. Poor planning includes the lack of a good business plan that covers all financial, marketing, development and operations aspects of the company.

Poor planning can also include the lack of contingency plans to identify and mitigate any project risks that may arise in the course of executing a contract. Lack of such plans can lead to an inability to handle unforeseen project developments or changes, including external as well as internal circumstances.

WHAT CONTRACTORS CAN DO TO AVOID FAILURE

Of course, none of the above issues is unavoidable. By investing in proper systems that help plan and forecast finances, or by securing proper training for employees across the whole company, a great deal of the above failures can be avoided.

Precisely and closely managed projects are another key trait of successful contractors. This must also include warning mechanisms that spot problems early on, which also means the right managers are on the job.

Finally, succession and continuity planning, as well as contingency plans, are a type of backbone for the organization in times of shifts or unexpected situations. But if worse comes to worst, and a contractor still ends up having difficulties, there are always ways to avoid these claims. The most important part of dealing with default, failure or a bond claim is to work closely with one's surety. Surety bond companies typically have plenty of professionals on board that can assist in avoiding those situations.

In times of need, sureties can provide contractors with advice on how to plan their operations or manage their finances. They can also supply them with the know-how or support in executing particularly difficult aspects of a project that are otherwise at risk of failure. Communicating closely with one's surety as difficulties arise, and taking their advice, is one of the best ways to avoid defaulting on a contract.

Robinson Builders Mart PO Box 346, Newton, NC 28658 828-464-7700 Fax 828-465-6011

Robinson Builders Mart of Newton, NC | PO Box 345 | Newton | NC | 28658