مدیریت کسب‌وکار در صنعت ساخت
(Construction Business Management)

ماژول ۱: سازمان‌دهی کسب‌وکار

بخش اول: ساختارسازی

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What we will learn?

- What has changed in the construction industry over the last four decades?
- The basic of construction business success
- The construction company life cycle
- Company organization
- Business planning

What Has Changed in the Construction Industry over the Last Four Decades?

Construction Firms Have to Win Three Times to Win Profitable Work

- The **traditional challenge** of contracting is not a small one.
  1. First, contractors have to gain **experience**, pass a rigorous **licensing** requirement, and **start** their business.
  2. Second, they have to **prequalify** with clients against the population of **competitors**.
  3. Third, contractors must outdistance the **short list of their competitors**.

Construction Firms Have to Win Three Times to Win Profitable Work

- In other words, they **must win** the job.
- This demands that the contractor be able to **prove real value** to the client.
- From the start of the business to **acquiring profitable work** is a long journey.

Construction Firms Have to Win Three Times to Win Profitable Work

- Additional challenges that have arisen in recent years include the following:
  1. "Faster"-track schedules.
  2. Restrictions/red tape.
  3. Technology/computers.
  4. Competition.
  5. Work ethic.
  6. Design/build.
  7. Material availability.
  8. Environmental concerns.
  9. Political interference.
  10. Declining perception of construction as a career.
  11. Greater sophistication of the client.
  12. Contracting is more about business than craft.
  13. Lawyers are increasingly litigious and there are more of them.
  14. Designers are under the same cost and time pressures as contractors.
  15. Retention is released late.

The Basic of Construction Business Success

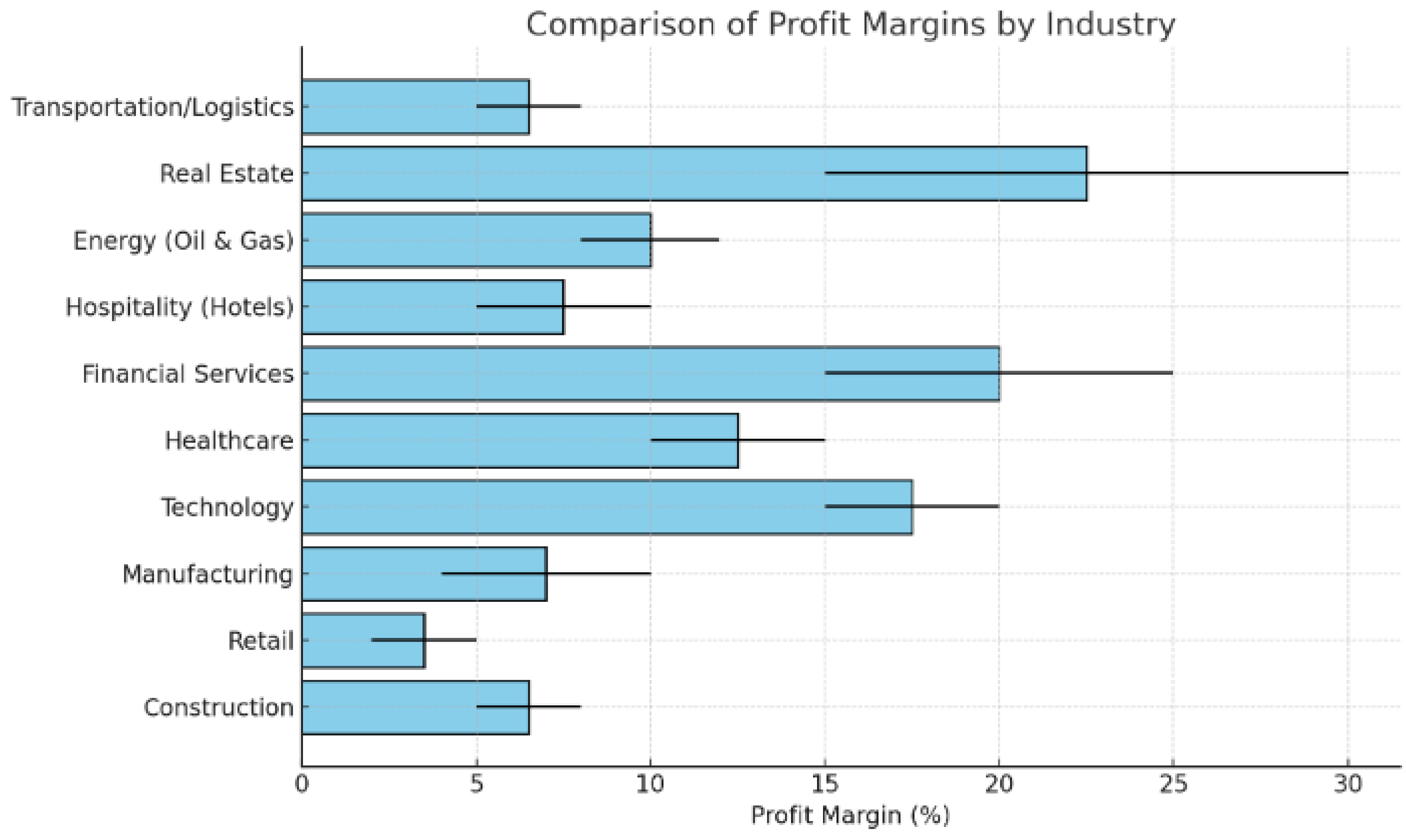
Introduction

- Lower margins increase risks,

  allowing less room for error.

Why important in construction industry?

Introduction



Here is the plot comparing the profit margins across different industries, with ranges indicated by the error bars.

How to enhance profit?

ACEMI

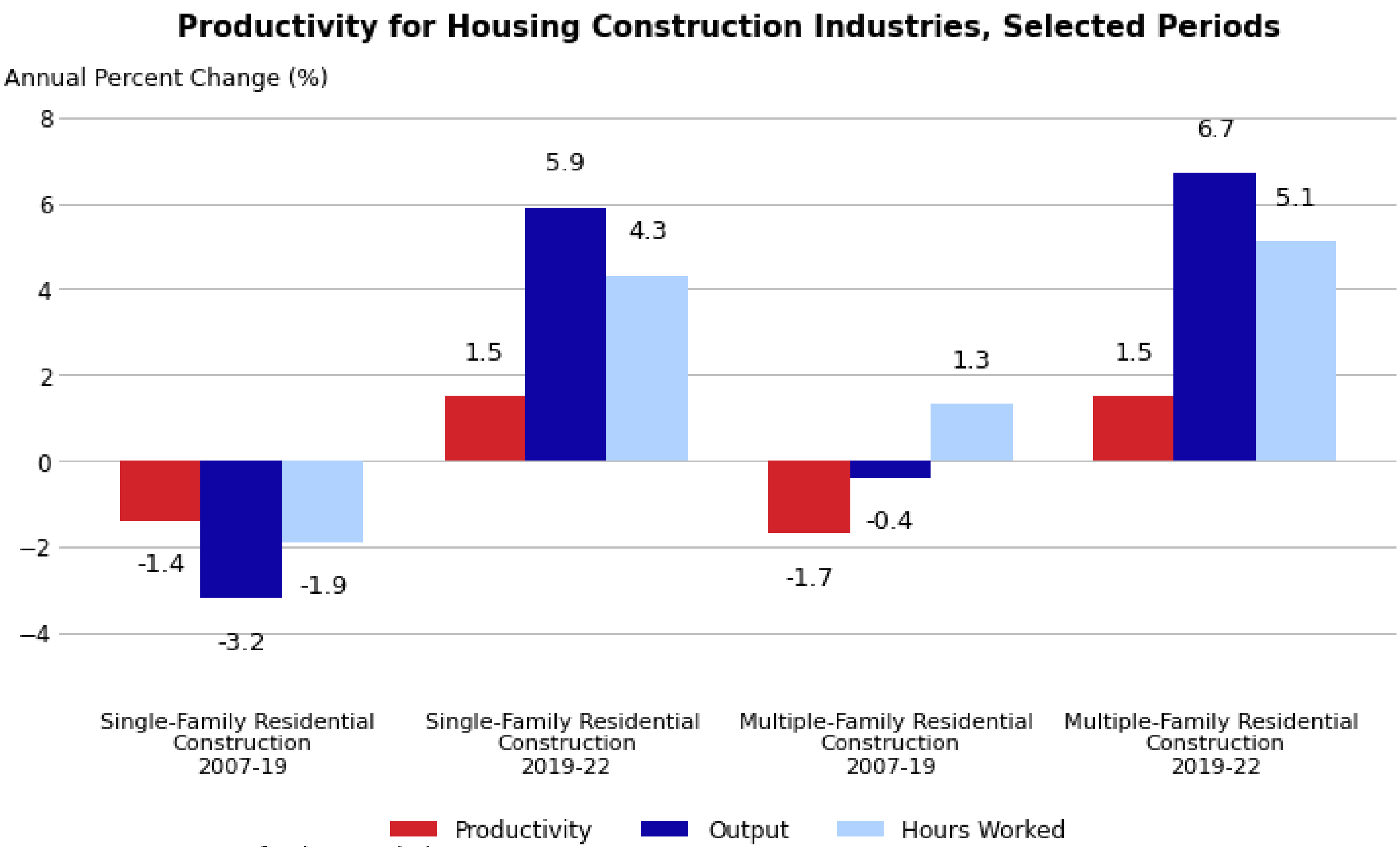
The basic of construction business success

- **Profit enhancement** in the future will depend primarily on
  - **Productivity** improvements and efficiency,
  - **Integration** in design and construction

Why this matters in construction industry?

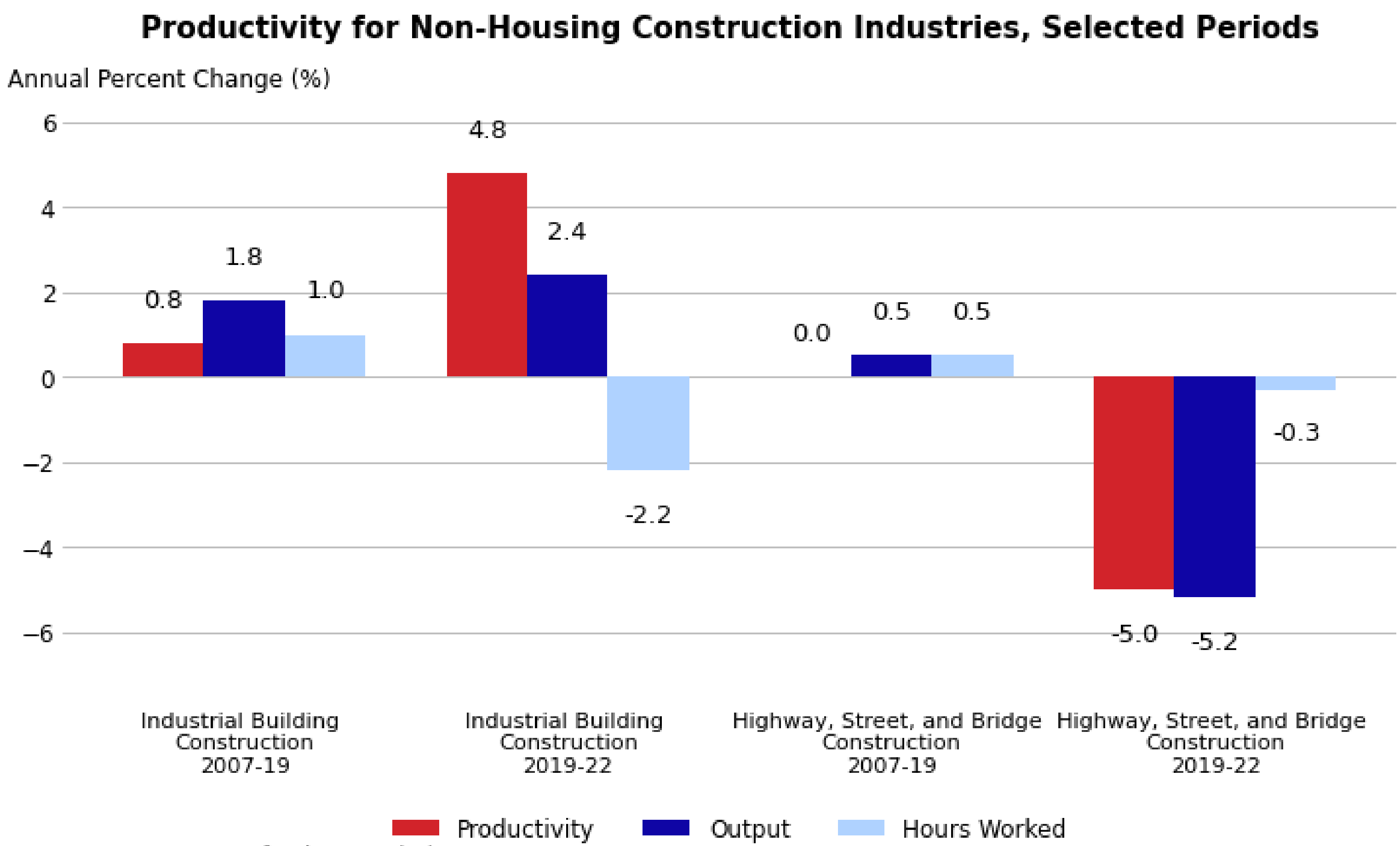
The basic of construction business success

❑Construction productivity - USA



Source: U.S. Bureau of Labor Statistics

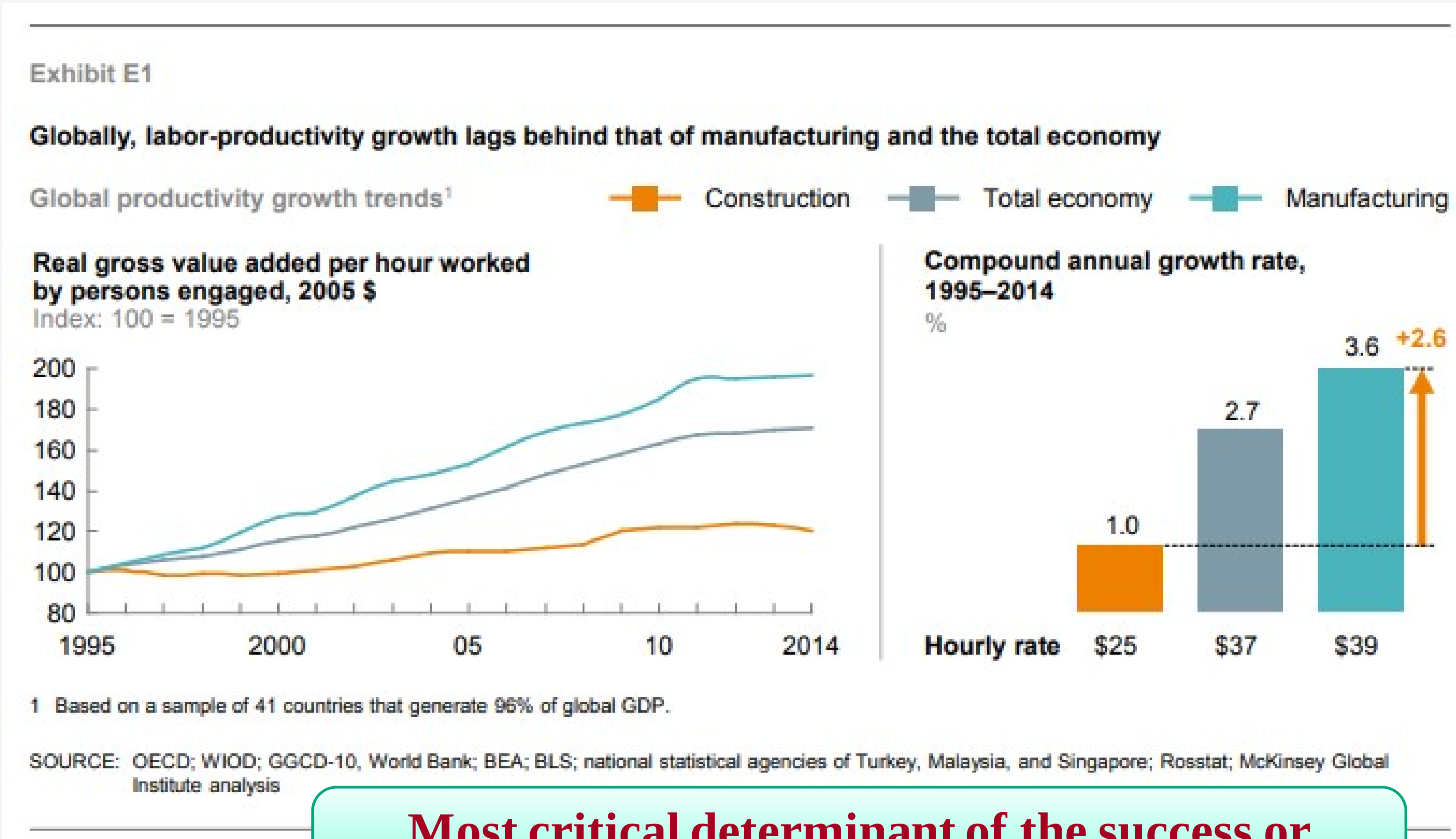
❑Construction productivity - USA



Source: U.S. Bureau of Labor Statistics

The basic of construction business success

❑Construction productivity - USA



Most critical determinant of the success or failure of a construction business?

SOURCE: McKinsey Global Institute analysis

The basic of construction business success

❑Management decisions

are arguably the **most critical determinant** of the success or failure of a construction business.

What are the primary reasons for contractor failure?

The basic of construction business success

❑**Many construction professionals** believe their company **loses money or fails** because of other reasons such as

- ❖Labor problems,
- ❖Weather conditions,
- ❖Inflation,
- ❖Interest rates,
- ❖Cost of equipment,
- ❖Tightening or shrinking of the market, or
- ❖Simply bad luck.

Is it true?

The basic of construction business success

- **None of** these alone are **primary causes** of contractor failure.

- They **significantly contribute** to financial distress once a poor management decision is made,

but are **not the basic causes** of failure.

So is it because of the factors that are out of our control?

The basic of construction business success

- Failure is **often not** a result of factors or conditions over which management has **no control**.

Is it only when we are in trouble?

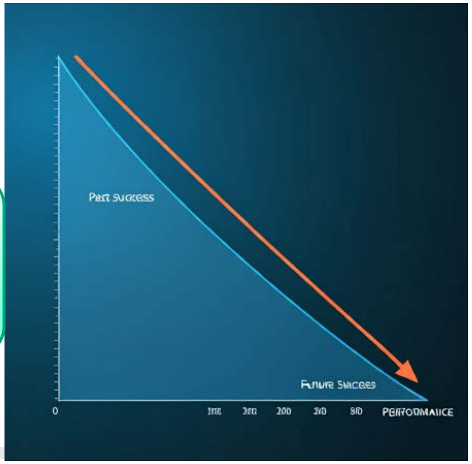
Environment	Administrative systems and procedures (Response)	Strategic long term planning (Response)
Internal: Event under management control	**CELL I** — Weighted (%) Occurrence **BUDGETARY ISSUES** Insufficient profits .... 26.71 Heavy operating expenses .... 17.80 Insufficient capital .... 8.29 Burdensome institutional debt.. 5.93 Receivable difficulties .... 1.46 **HUMAN/ORGANIZATIONAL CAPITAL ISSUES** Lack of business knowledge ..... 3.89 Lack of managerial experience.. 0.91 Fraud .... 0.85 Lack of line experience .... 0.68 Lack of commitment .... 0.62 Poor working habits .... 0.59 TOTAL: 67.73	**CELL II** — Weighted (%) Occurrence **ISSUES OF ADAPTATION TO MARKET CONDITIONS** Inadequate sales .... 2.20 Not competitive .... 0.29 Overexpansion .... 0.15 TOTAL: 2.64
External: events not under management control	**CELL III** — Weighted (%) Occurrence **BUSINESS ISSUES** Business conflicts .... 2.43 Family problems .... 1.16 TOTAL: 3.59	**CELL IV** — Weighted (%) Occurrence **MACROECONOMIC ISSUES** Industry weakness .... 22.73 Poor growth prospect .... 0.28 High interest rates .... 0.06 **NATURAL FACTORS** Disaster .... 2.94 TOTAL: 26.01

The basic of construction business success

- **Growth** or simply **ongoing operations** involve <u>change</u>, which has **risks** associated with it.
  - Therefore, **past success** is not an indicator of **future success**.

The events and decisions that precede the failure of a construction company generally take place ***one year to three years*** ***before the first financial statement*** *that shows a break-even year or a loss.*

Is change or growth always a good strategy when you are doing well in your operation?



Introduction

- An enterprise may be doing **fairly well**, or even very well; however, the organizational stress of **growth or change** can cause weak components to **become fatal**.

***Change** itself must be **managed** to **control risk**.*

What are 3 primary functions of construction enterprise?

Three primary functions of construction enterprise

- In other words, the key functions are

  (1) Estimating and sales,

  (2) Construction operations, and

  (3) Administration including finance and accounting.

These three functions are separate and distinct but equal in importance.

The five primary elements of construction business failure

- One of the most **interesting phenomena** is the fact that

  the **events** and **decisions** that cause or contribute to a construction business **failure**

  take place during the company’s profitable years.

So, let’s see five primary elements of construction business failure!

The five primary elements of construction business failure

1 Significant increase in project size

2 Unfamiliarity with a new geographic area

3 Moving into a new type of construction

4 Changes in key personnel

5 Lack of managerial maturity

Will see them in later sections

Critical thinking and discussion questions

1. Explain why the rate of growth of a construction company impacts risk.

2. Explain why a construction enterprise should be market-driven, and not volume-driven?

The Construction Company Life Cycle

The construction company life cycle

- Construction companies go through **stages as they grow** from startup to maturity.
- An extensive study of closely held construction firms reveals that there are **five distinct stages of growth**:
  1. Startup,
  2. Survival,
  3. Success,
  4. Growth, and
  5. Maturity.

Figure 15.1 The five stages of growth.

- It is critical to understand **what stage a firm is in** because the elements needed for success in one stage can spell disaster in another.

The construction company life cycle

- A construction company generally **remains in the startup stage** for five to ten years and then

  moves into the survival stage or ceases to exist, as many startups do.
- The **business failure rate** during startup is extreme, with most studies stating that from **50% to 70% of startups fail**.
- If a startup survives,

  it moves to the **survival stage**, which in the best case can be **passed through in a few years,**

  while on the other extreme an **underperforming construction** company may **remain** in the **survival stage** **indefinitely**.

The construction company life cycle

- The **failure rate in survival** is high

  but **less than in startup**.

- The **key to moving** on to the **success stage** is a significant reduction of debt.
  - Therefore, it is **not possible** to move from survival (where cash is scarce) directly to the **growth stage**.
    - ✓ The reason is that **growth** requires **funding**, and

      cash is earned and accumulated in the success stage,

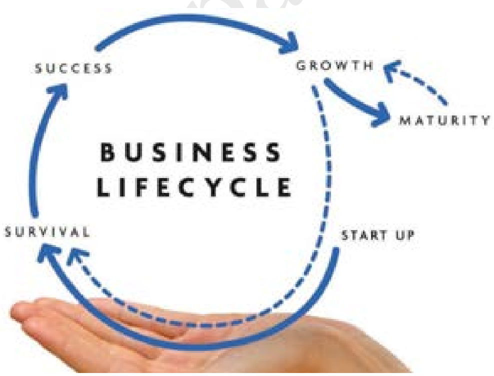
      which precedes the growth stage.

The construction company life cycle

- The success stage can be a launching pad for growth, or an organization can choose to remain in the **success stage** **indefinitely**.
  - **On** **rare** **occasions** a company can **pass** from its **success** stage to the **maturity** stage without entering the growth stage.
  - If a company **remains** in **success** for **many years**, it may **slowly grow** to a size where it has sophisticated systems and planning and becomes well-established in its marketplace that it **enters** the **maturity stage**.
    - ✓ It **may not** **go through the** growth stage if the company **never grows** at a rate **greater than** **15% per year** **(plus inflation)** and **does not increase debt** during its **moderate growth rate**.
- A construction company **seldom** **reaches** the **maturity stage** before the **second** generation, and it usually takes **even longer** than that.

The construction company life cycle

- It should be understood that a company **cannot choose** or **decide what stage** it is **currently in**.
  - The stages are defined, and a company **fits into one** because of the **company's current circumstances** and **conditions.**
    - ✓ A firm **claiming** to be in a stage does **not make it** so.
      - This is particularly **significant** when a firm in **growth** or **mature stages** has **financial problems** that move the firm **back to the survival stage** and it does not realize it or **refuses to acknowledge it**.



Stages of growth

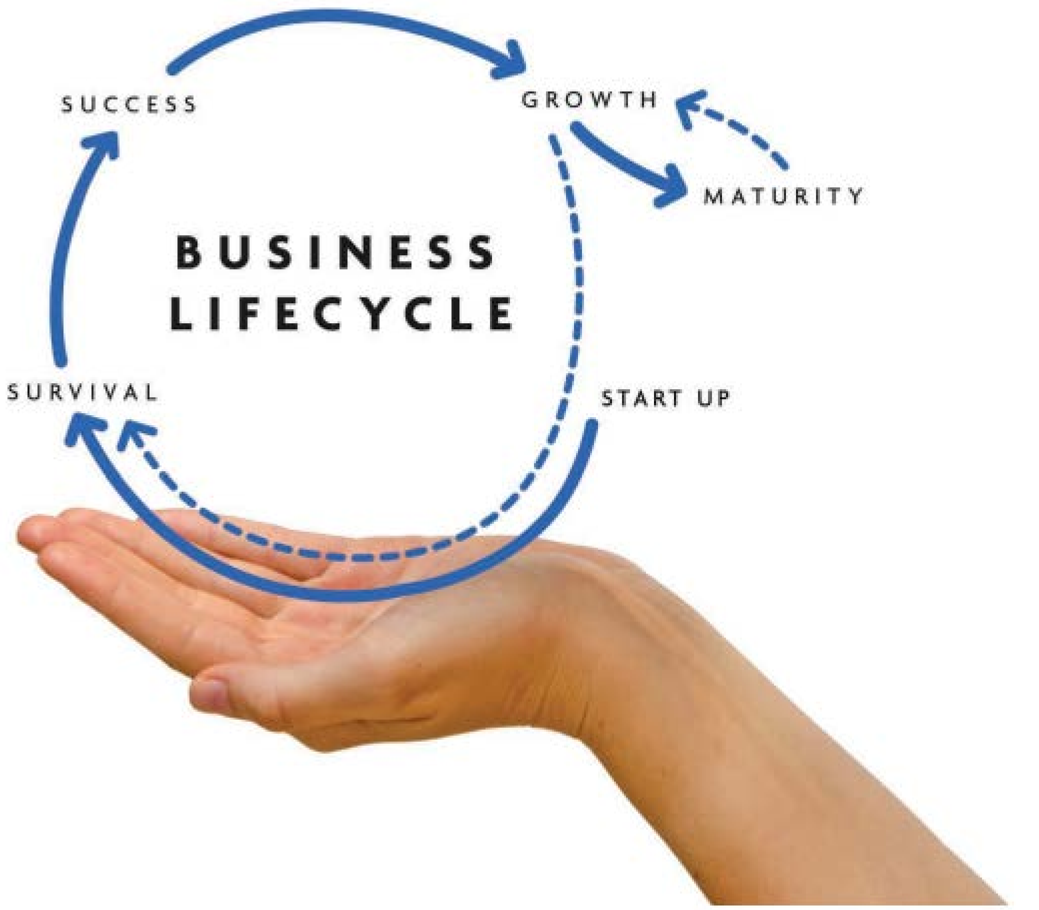


Figure 15.1 The five stages of growth.

Stages of growth – Startup

- A **startup construction** company is generally run by a contractor/entrepreneur **who does everything:**

  bids the work, sells the work, supervises employees, and provides working capital.

- The startup **lacks** any **assurance** that it will **survive the next fiscal year**.
  - This is **not to say** that it is in **trouble** or that it is **not making a profit**.
  - It simply has **no track record** yet.
  - It has **not proven its capability** to get and produce work at a **profit** on a **consistent** enough basis to satisfy its customers, **potential credit grantors**, or itself.

A company may stay in the **startup stage** for **ten years or more**, though some firms **progress more quickly**.

Stages of growth – Survival

- In the **survival stage**, the company is **stable**, and the **founder** and **credit grantors** believe that the enterprise is more or less permanent.
- The company has discovered its **preferred type of work** or found a **business niche**.
- It is still a **one-person show (or perhaps just a couple of key individuals)**, but the **primary concern** is **no longer** to get from one month to the next, because it has grown to a sufficient **size** to **generate enough revenue** to solidify the organization.
- The **contractor can borrow money** because the company is **relatively stable**, but usually **learns quickly that growth consumes cash** and that **more borrowing is necessary to grow.**
- There is **little** organizational structure or control processes.
- **Managers** follow the **very specific instructions** of the **founder**.

Stages of growth – Success

- A company in the **success stage** generates **positive cash flow** from its operations.
- If the company owes money, **debt is being reduced** or it may **even be debt-free.**
- The company is **growing modestly** (under **15% sale increases year-to-year**) or its **volume fluctuates**, but it is **able** to **finance** this modest growth **internally**.
- The company is **large enough** to **maintain** its **position** in the marketplace and **earn at least average profit margins** compared to its peers.
- The risk of **failure** is **minimal**, and the **personal assets** of the owner are **no longer the sole basis** of **credit**.
- Managers have responsibilities and are functioning at a **high level.**
- The **founder is still in charge** but may have some time to pursue personal goals if he or she chooses.
- There may be a **tendency** to overspend, particularly on benefits and bonuses.
- The **greatest risk** the company faces is maintaining enough cash to deal with tough times if those were to occur.

Stages of growth – Success

- If the company has **continuous growth** at a pace of 15% or less,

  the **contractor** usually **remains active** in strategies and organizational issues, and is **committed** to the established demands on their time and energy.
- **Owner time** and **energy demands** vary from organization to organization but are usually **less than** during startup or survival stages.
- **Employees** may have difficulty advancing during this stage because the organization has **leveled off** and is **stable**.
- At this stage, **profits are made** by maintaining business-as-usual and managing risk and causing cash, revenue, and equity to grow.

Stages of growth – Growth

- A company in the **growth stage** is increasing its **annual sales by 15% or more** (on top of inflation).
- Depending on the rate of growth there is a **risk of becoming unprofitable**, at which point the firm would **return to the** survival stage (*regardless of whether that backward move is acknowledged by management*).
- The **major issue** in growth is financing that growth or expansion.
- **Debt** is almost always **increasing**

  because growth consumes cash,

  working capital is strained, and

  retainages increase.
- **Working capital** can improve if **growth stops** at a plateau.
- **Cash flow** is often a problem in the growth stage.

Stages of growth – Growth

- This can be **discouraging** for the **entrepreneur** that has spent time in the success stage where **cash was plentiful.**
- There will be an **increase in debt to equity ratio** that can impact **bonding** and **banking relationships.**
- The ability to **delegate authority** becomes critical, because in this stage there are **more people to manage**.
- This is a **difficult transition** for many entrepreneurs, particularly those w**ho have not had to delegate in the past** or have difficulty in delegating at all.

Stages of growth – Growth

- The **“growth stage contractor”** must begin to **decentralize**.
- **Existing** systems and procedures become **strained**;

  replacement systems often become **overloaded** before they are operational.
- **Long-range planning** is critical and must include the **participation of key managers**,

  but **time** for planning is usually in **short** supply.
- The company is **still dominated by the owner(s)**,

  but other key people have an important role in management, operations, and hopefully decision-making.
- The **growth stage is a difficult one**.
  - **Demands** on owner time and energy are **high**.

Stages of growth – Maturity

- A **construction company** seldom reaches the **maturity stage** during the **first generation** of leadership**.**
  - It is **usually** the **second generation** or even later.
- The **mature company** has competent, self-reliant management and is large enough to **dominate a market**.
- **Debt is modest**, and the company's course is charted through **formal strategic planning.**
- The **management structure** is clearly defined and most likely **decentralized** and **departmentalized.**
- **Separate** profit centers, departments, divisions, or operational units provide necessary **opportunity** and **training** ground for **future managers** of the company.

Stages of growth – Maturity

- **If** a company in the **mature** stage begins to grow at a rate **greater than 15%**,
  it shifts **back** to the growth stage.
- If that **growth** creates **losses** or **substantial debt**,
  the company **may reenter** survival stage,
  regardless of its size and reputation, and
  regardless of whether management recognizes it or not.
- **Mature companies** are not always the most profitable contractors in their market.
- **Companies managed** for long periods of time **under effective systems** and **controls**
  do not need, and often may not have**,**
  very strong leadership, or **may lose** determination and enthusiasm.
  - However, that is not always the case.

Key considerations in various stages of growth

- As a construction company matures, there are **various considerations** that **management needs to account** for to lead the company through its current stage and **keep it profitable.**
- These include market factors and business resources, as discussed next.

Key considerations in various stages of growth

- **Depending on the life cycle stage** the company is in, the **market factors that competitors face** can affect each company **differently**.
- A favorable construction market may **encourage growth**;

  however, **growth over 15% per year** can shift a company from one stage to another.

  - If **management doesn't sense the shift**, it may be making incorrect assumptions to inform its management actions and decision-making.

Key considerations in various stages of growth

- For instance, a **successful company** in **rapid growth** may be forced to **increase debt** to **finance** the expansion, and

  as a result the firm will **shift** from the success stage to the survival stage**.**

- If management does **not realize** that the **shift** has happened,

  it could be **disastrous** because a company in the survival stage **must be managed differently**

  than a company in the success or growth stage.

Key considerations in various stages of growth

- **Organizations shifting** from one stage to another **without**
  1. A <u>change in resource allocation</u> and
  2. A recognition of the necessary <u>shifts in management practices</u>

  often run into **difficulty**.
- Even **modest** or **partial shifts** form one stage to another **create challenges** if the **change** is **not recognized** and **managed** accordingly,

  because an **organization** in **transition** may be in <u>two stages at once</u>,

  adding a **layer of complexity** to managing the business.

Key considerations in various stages of growth

- This may explain **some industry confusion**, such as **why some contractors** need to **work long hours** each day to keep their business operating

    while others play golf and **their business** goes along **on its own**; and

    why some organizations **manage without** any formal systems or strategic planning

    while others rely heavily on planning and systems for their success.

Key considerations in various stages of growth

- For example, **long-range planning** is essential to a company in its mature stage, but can be viewed as a **distraction** for a startup where the contractor is **living day-to-day** and needs **all their time** to operate the business as **opposed** to **plan for the future.**

Key considerations in various stages of growth

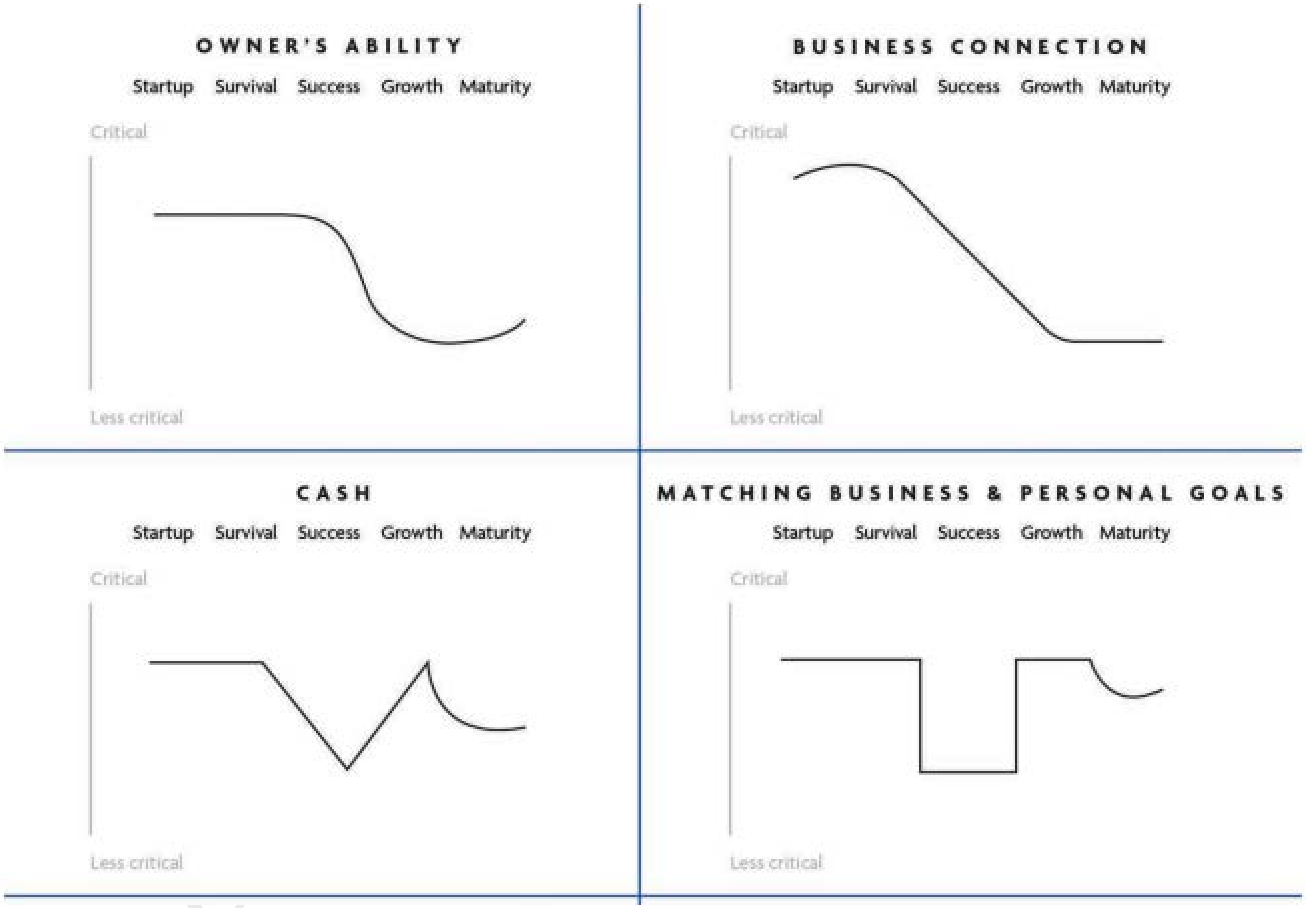
- **Primary business resources** for management to consider are:
  - Owner’s ability
  - Business connections
  - Cash flow
  - Matching business and personal goals
  - Quality of and diversity of employees
  - Owner’s capacity to delegate
  - Strategic planning
  - Systems and controls

Key considerations in various stages of growth

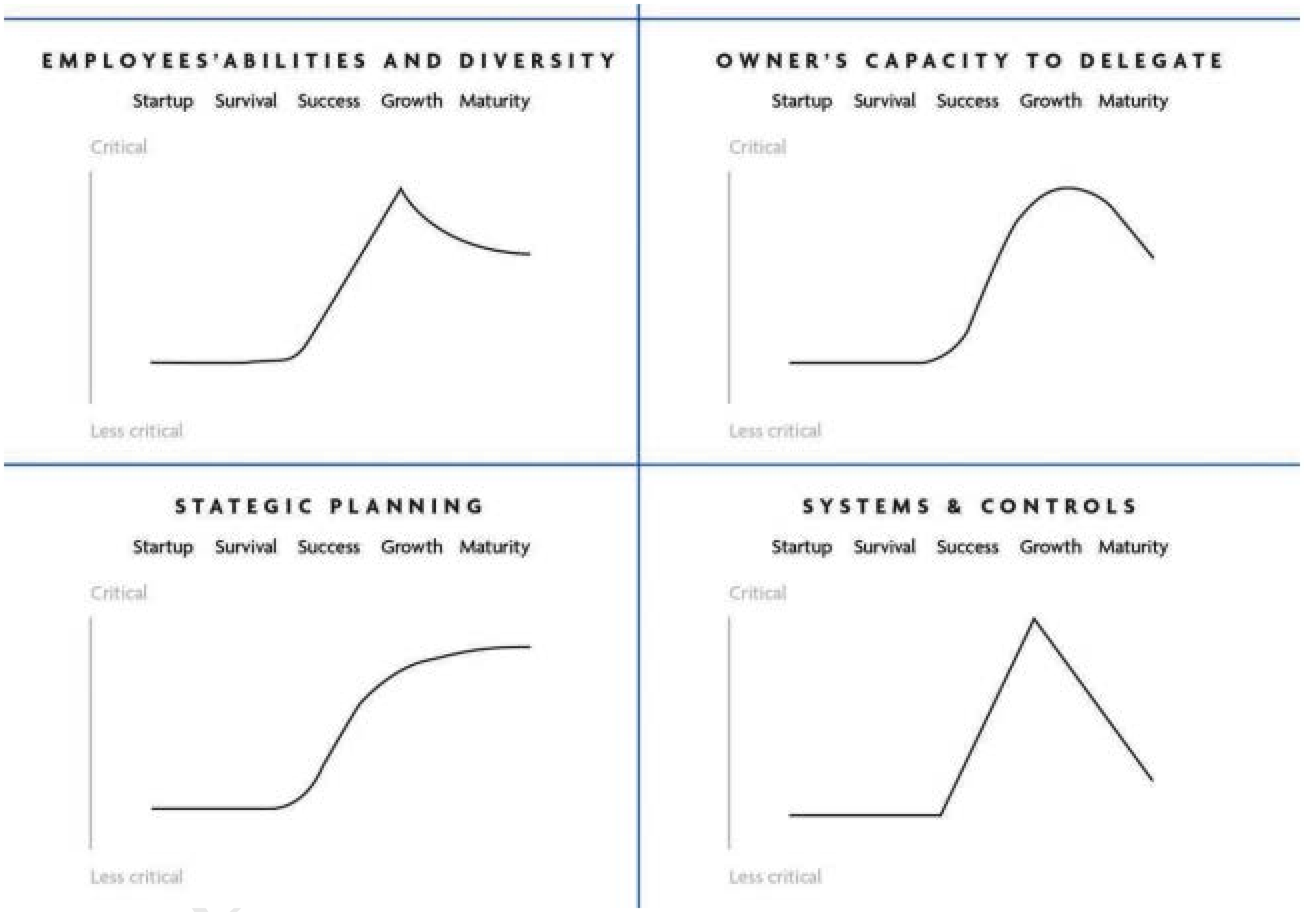
- Next is a **discussion** of each of the business resources that a construction company must have in order to be successful,

  including an illustration **depicting the importance of each** during different stages, as shown in Figure.

Key considerations in various stages of growth

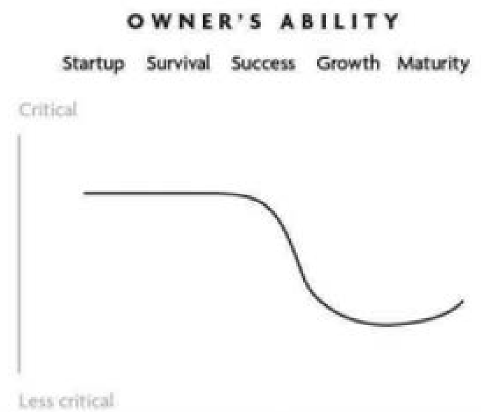


Key considerations in various stages of growth



Owner’s ability

- In the **early stages** of a business, the **owner’s ability** to do whatever the company **specializes** in may be the **only resource** the company has.
  - If the **owner’s ability** is **sufficient**, the contractor can **sustain** a **startup company**.
  - It becomes **less important** in the **later stages** where **qualified** managers and skilled staff are necessary for survival

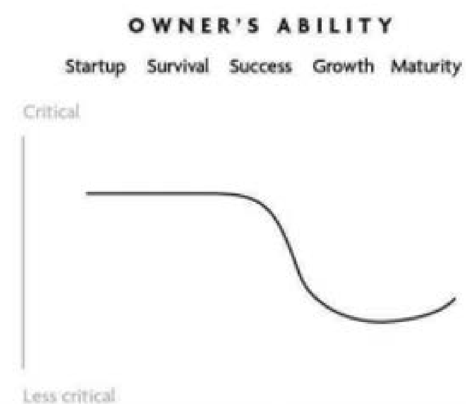


Owner’s ability

- A **mature** construction company can **exist** for **generations** **absent** a **strong owner’s ability**,

    because qualified executives, appropriate systems, and adequate controls manage the business.

    - However, **if a company shifts** from the mature stage to growth or survival, the **owner’s ability** and **leadership**, which may **not have been called** upon for some time, become **critical to success**, again.



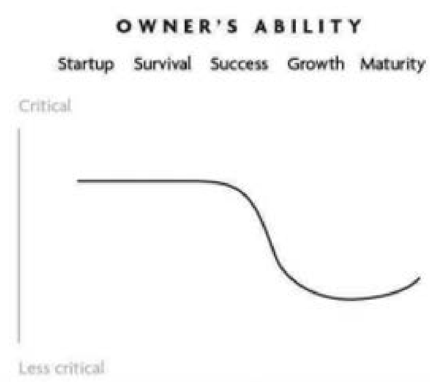
Owner's ability

- As shown in the **top left corner** of Figure, the **owner's ability** is **critical** during both startup and survival.
  - Having **one** or **more owners** makes **little difference**;

    what matters instead is that the **founder(s) have a reasonable** and **aligned vision** of the product or service they intend to "sell,"

    is/are **capable** of running a business, and

    is/are **driven enough** to stick with the hard work and long hours it takes to **launch a new business**.



- **Profitability** in early stages is **rare**,

  so patience and perseverance are tested, **potentially for years**.

Owner’s ability

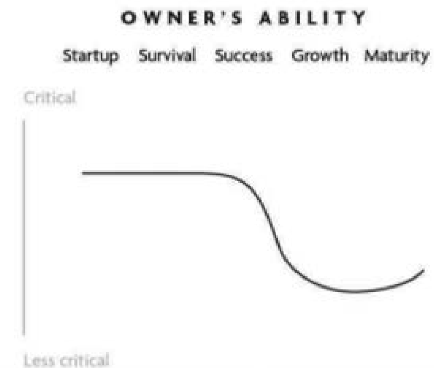
- The construction business **failure rate** at <u>startup</u> is **worse than 50%**, which is comparable to **most new business startups**.
- The **owner’s ability** to do whatever it takes to succeed is **most critical** in the <u>early stages</u> of the company’s life cycle.
  - And for obvious reasons that **continues** through the **difficult stage** of <u>survival</u>,

until

1. Stability,
2. Profitability, and
3. Positive cash flow

are achieved and

the **firm enters** the <u>success stage</u>.



Owner's ability

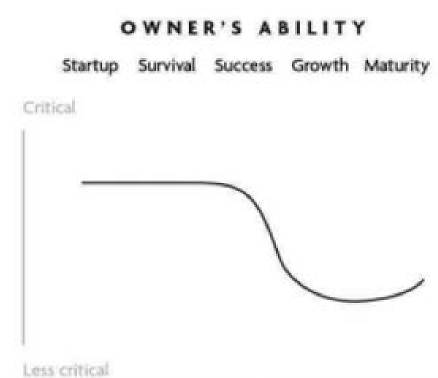
- In the success stage, the **owner's ability** **matters** but is less critical,

  because in order to have arrived to the success stage,

  the firm has **some qualified employees** who assist to some degree with the management of the operations.

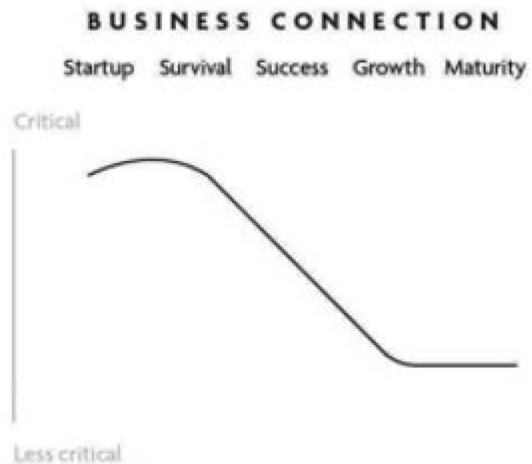
- If that **assistance** reaches a **high degree**,

  the **owner's ability** becomes **less critical** because **qualified** employees' abilities combined with **systems** and **procedures** that may have been introduced are **carrying** **some** or **most** of the **load** at this stage and beyond.



Business connections

- **All companies need business connections**, sometimes referred to as business resources, such as
  - a customer base,
  - relationships with subcontractors and suppliers, and
  - a **strong reputation** in the **marketplace**.
    - However, the **importance** of such **connections** changes as the company **develops** and **matures.**

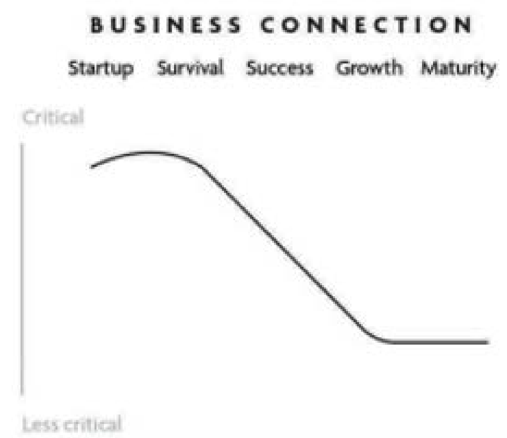


Business connections

- **Loss of even one** customer can be **devastating** to the startup or even the survival stage company with limited business connections.
  - This is in **contrast** to a company that has reached the **success stage, growth stage, or mature stage**, and

    is **better able** to **withstand** such losses, as

    it has **multiple business connections** and by definition is established and **has some reputation** in the marketplace.

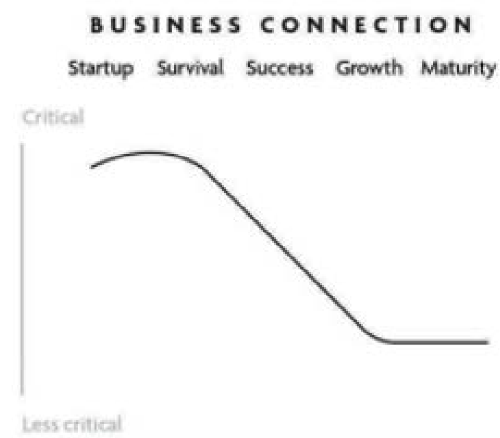


Business connections

- **Business connections** at a startup construction firm may be **few** or **nonexistent**, so **making positive connections** with subcontractors, suppliers, and customers is **critical** because without them the business will **not continue**.
- Due to their **size** and **short time** in the **market**, startup construction firms **initially offer limited business** to subcontractors and suppliers.
  - Therefore, they may need to **put additional effort** to **get** the attention and interest of those subcontractors and suppliers to do business with their new firm, and **hopefully** to **extend credit** in some circumstances.

Business connections

- **Some potential customers** may **avoid** doing business with a startup, and the **new firm** is **obviously unknown** to most of the customers that can use their product or service, so those **connections** are **clearly critical.**
- A **banking relationship** is critical because financial support is usually **required** at startup.
  - Moreover, if the work is required to be bonded, **surety connections** are in that same category.



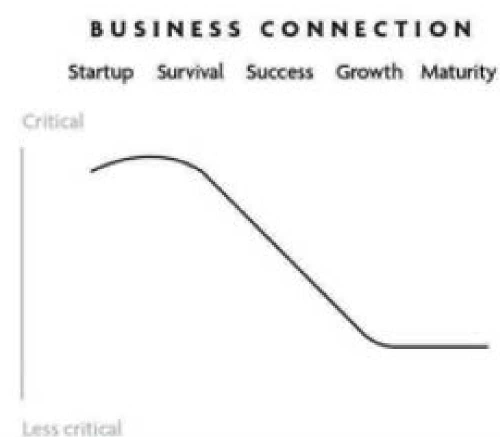
Business connections

- Basically, a **new firm** is **entering** an existing business community that they **need to function in**,

  but the business community probably does **not need** the **new firm** as much as the **new firm needs them**.

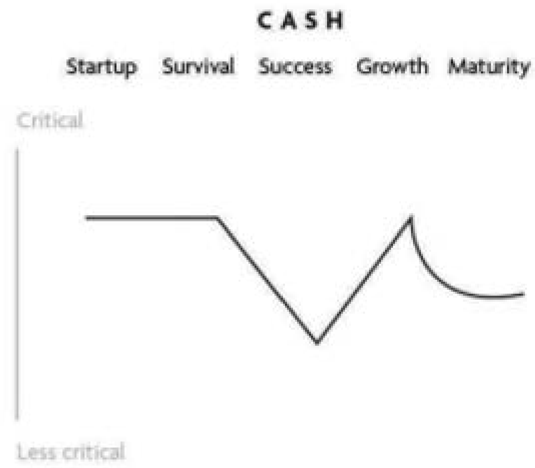
  - **As** the company matures,

    it **becomes a member** of the construction business community and these **connections develop** and therefore become **less of a risk**.



Cash flow

- Startups often **cannot** get **enough** cash and credit.
- In survival, the challenge is to **generate** or **borrow enough cash** to
  - break-even and cover
    - the **cost** of replacement of equipment, and
      - to eventually **earn enough** to **finance growth** to a size that provides an **economic return** on assets and effort.
- In the success stage, **enough cash** is **earned** to reduce or eliminate debt,
  - **but overspending** is sometimes a **problem**.

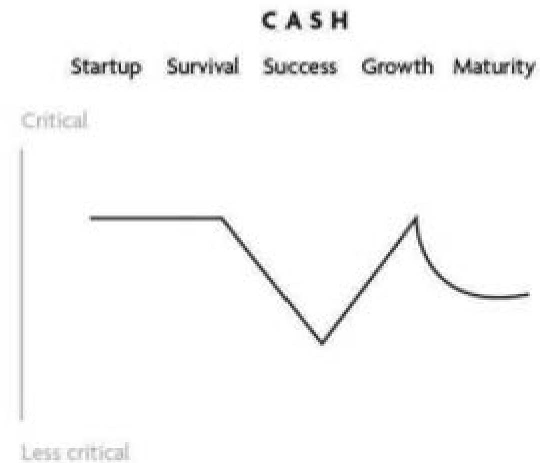


Cash flow

- In the growth stage, **cash is short again** and there is a tendency to **over-borrow.**

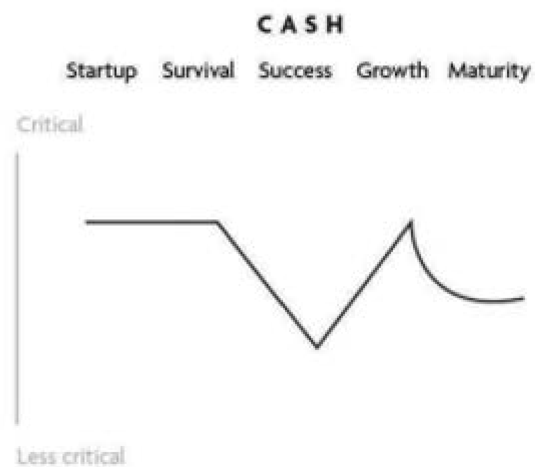
- In the mature company, **cash flow meets all business needs** and there may be some **modest debt** in the capital structure.

- **Managing cash flow** is easier if there is an understanding and **anticipation** of the **different demands** in the various stages of growth of the construction company.



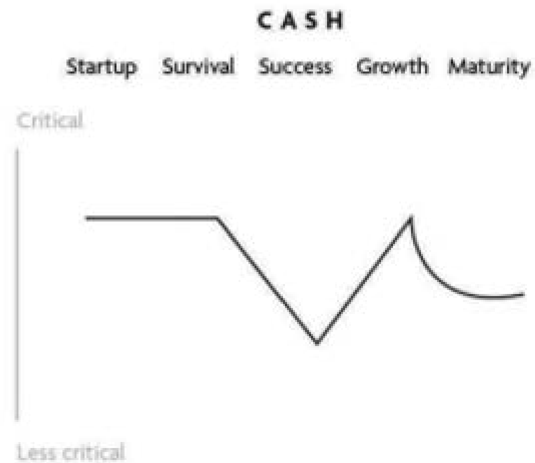
Cash flow

- As shown in Figure, the **need for cash** on the chart starts high on the critical scale, as **most** startup construction companies need **more cash** th**an originally planned**, and this criticality **continues** into the survival stage.
- A startup makes it through **survival** when cash flow **begins** to **improve**, and **if** the **improvement continues**, the firm enters the success stage.



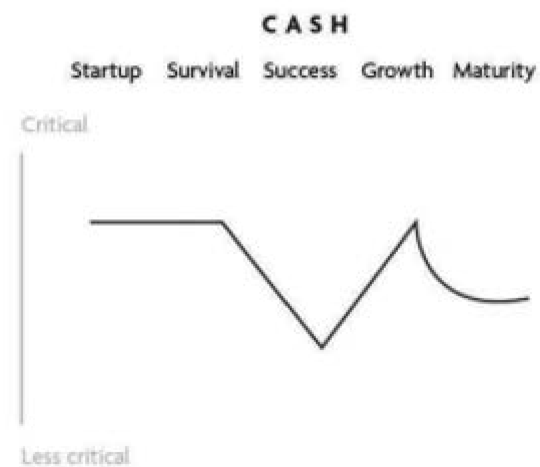
Cash flow

- Once the organization **gets** to **profitability**,
  - **negative cash flow** actually persists
    - **because** work is put in place **before it can be invoiced**, and customers do **not pay** instantly.
- Startup business **owners** should know that even with **initial success**
  - they should **plan** on generally having **negative cash flow**
    - for a **minimum of two years**, with the average **being closer to three years**.



Cash flow

- In our **experience**, for a **new** construction business to recover all costs from startup forward, and achieving **break-even**, typically takes **two** to **four years**.
  - Those that do **not break-even** in **four** to **five** years usually stop trying

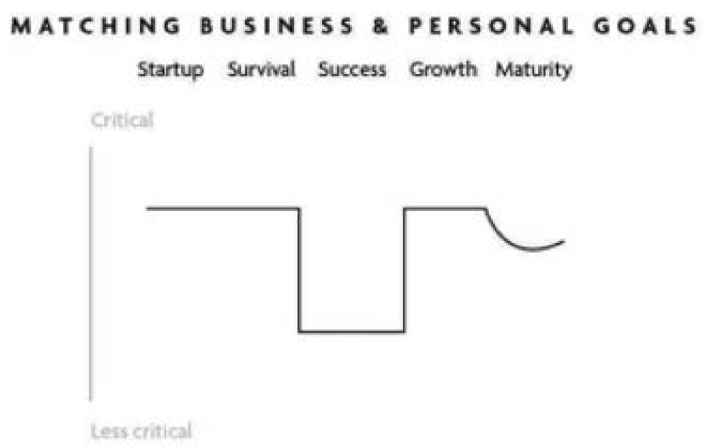


Matching business and personal goals

- As harsh as it sounds, the startup contractor usually has to put **personal goals aside** except for the desire to succeed in business.
  - When a **contractor** is **unwilling** to do that, or

    when their personal and business goals are **out of alignment**,

    there is **reduced focus on the business** and **reduced potential for success**, particularly in the startup, survival, and growth stages.



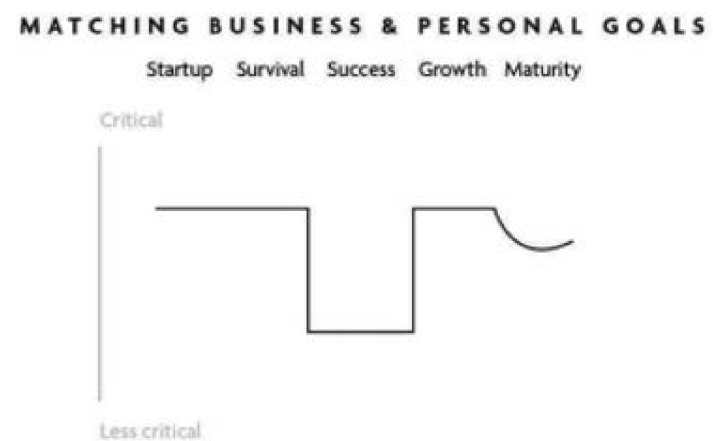
Matching business and personal goals

- **Figure shows** that **matching** a contractor’s business and personal goals is **critical** at the startup stage and **remains** critical through the survival stage.
- If **sacrificing personal goals becomes too much** for the business owner, and he or she **decides it is not worth** it,

  at any time during **startup** or **survival**, they either

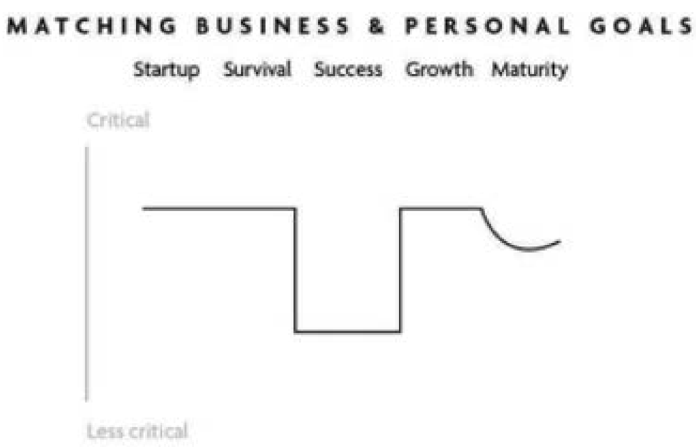
  quit or **withdraw energy** from the effort, and

  the **company typically fails**.



Matching business and personal goals

- When the **company** enters the success stage, the **matching** of goals is **less critical**.
- The **time demand** on the business owner is reduced, making the **matching of business** and **personal goals** relatively less important to the company's success.
- The reason is the **company is stable with positive cash flow** and **moving out of debt**, so there is some time available for personal interests.
  - **Not every** entrepreneur **takes** the **time**, but either way it typically **won't impact** the **company** as **much.**



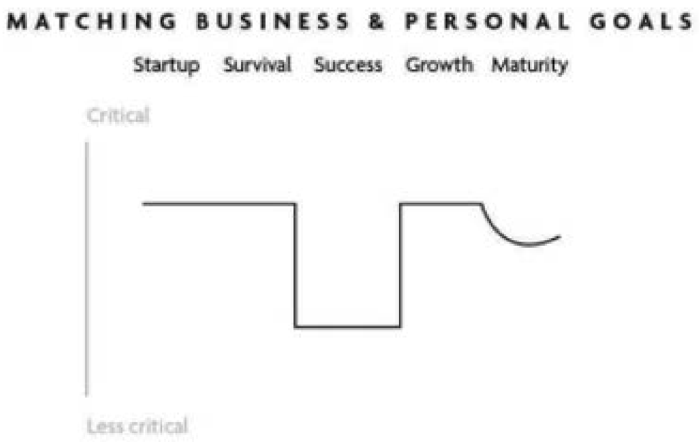
Matching business and personal goals

- In the success stage there is **some freedom**,

  but **not if** the company **begins** to grow at a rate in **excess of 15%,** as this may signify a **shift** into growth mode**.**

- **Note** that **matching** business and personal goals immediately returns to **highly critical**

  if the firm enters the growth stage because of the **need for leadership** attention during growth.



Matching business and personal goals

- In the mature company, **matching** owner business and personal goals is generally **less critical**,

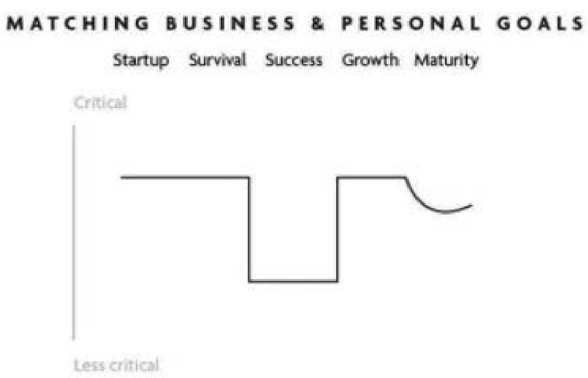
  but again if a **decision** is made to **expand**,

  the company **principals** must be prepared to **set personal goals aside** because of the time demands of the **growth stage**.

- If a firm spends a **long time** in the mature stage,

  the organization sometimes **relaxes too much**, and

  the **curve turns up again** which **signifies leadership attention** is required to **renew the firm's energy**

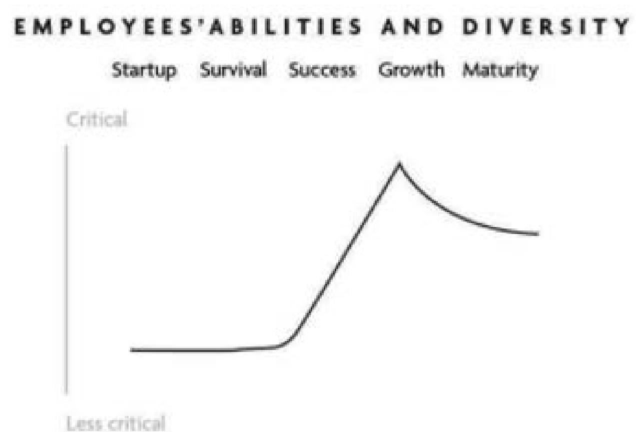


Caliber and diversity of employees

- From startup through success, contractors typically **run everything themselves**, and that may be the **best approach** to **succeed** during the **early stages** of the firm's life cycle.
- The **owners** are **overworked** and have **no free time**, but that rarely changes during the early stages because their company's **success** depends in **large part** on themselves.
- **After getting used to** doing business this way,

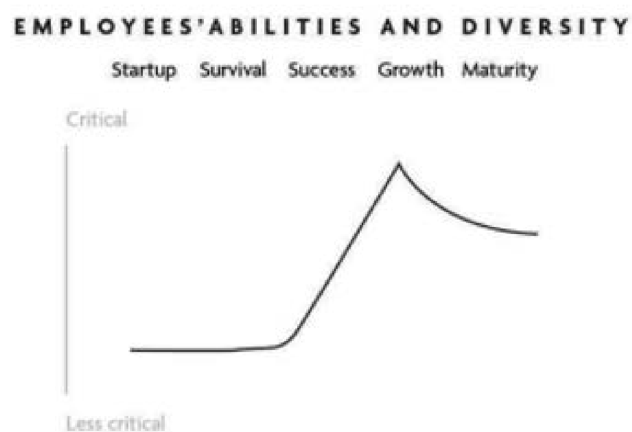
  the business owner may have **difficulty** moving on to the **growth stage**, which demands the ability and willingness to

  1. **Attract qualified** people and
  2. **Delegate authority** to them.



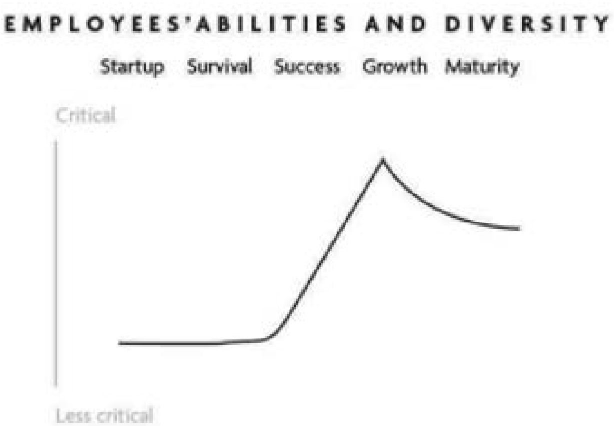
Caliber and diversity of employees

- In the growth stage, the **caliber** and **diversity** of employees become the most **important resource** for continued expansion and success.
- In the maturity stage, the **abilities of the staff** remain critical and **even more** important than the **abilities of the owners** themselves.



Caliber and diversity of employees

- As shown in Figure, the **abilities** of **employees** are **less critical** at startup and through survival, **compared** to during growth and maturity stages.
- The reason is that **success** in these startup and survival stages is very much **dependent** on the business **owner** who has the vision and the responsibility to execute it.
- It is certainly an **excellent** asset to have high-caliber employees, but at this stage they **generally have less influence** on the ultimate success of the firm, **compared** to their influence during the growth and maturity stages.



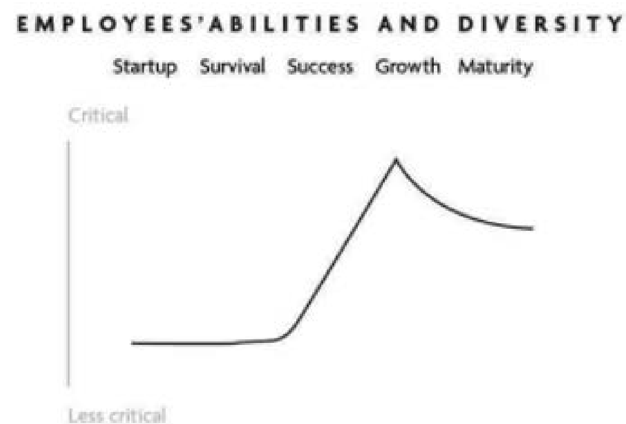
Caliber and diversity of employees

- Once in the success stage,

  if the business **owner decides not to grow** the company,

  they can **continue running** the business themselves and the **need for high-caliber employees increases slightly** as the firm becomes **moderately larger**.

- If the construction firm becomes **departmentalized**, the importance of **high-caliber** employees **becomes critical**.



Caliber and diversity of employees

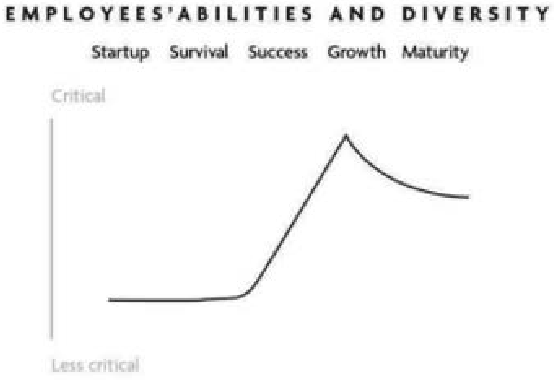
- If the firm enters the growth stage, success becomes **almost totally dependent** on the **abilities of employees**.
- Note that this category **drops off** some in maturity

  because mature firms have **fixed systems** and **procedures**

  that **force** standardization,

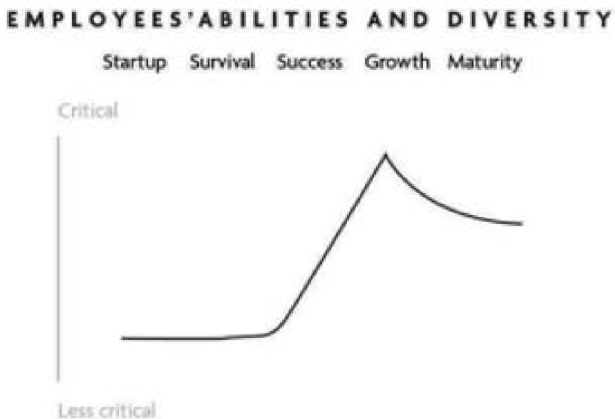
  which **reduces** the impact of individuals to some extent, as long as they **follow** the **established processes and systems**.

  - However, both in the growth and maturity stages, the **abilities of the staff** are even **more critical** than the abilities of the owners.



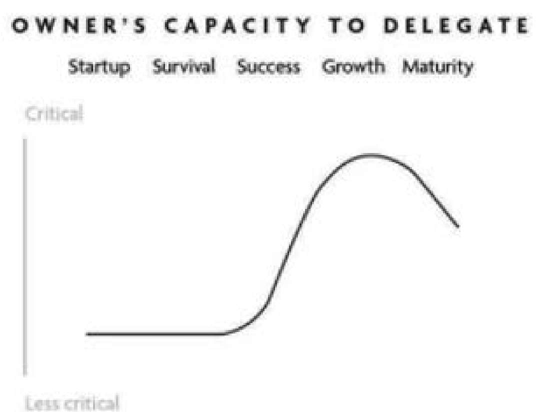
Caliber and diversity of employees

- As discussed earlier, a mature construction company in **financial difficulty** **reenters** the **survival stage.**
  - In the survival stage, having a **strong independent leader** is critical.
  - A **strong leader** is **not necessarily** required in a mature company and there may not be one at the helm, but **if a leader** does **not step forward** in the event of **financial difficulty**, the **mature company may reenter** the survival stage and have difficulty managing through it.



Owner's capacity to delegate

- During the startup and survival stages, **contractors** rely on **themselves** for success and **delegate little** authority to others.
  - There **may** be **quality people** in the organization during these stages, **but** the **prosperity** of the organization lies with the **owner** in most cases.
    - ✓ This **becomes problematic** when the owner is **not willing** to **adapt** when their company enters the growth stage.
      - The **owner's inability** or **unwillingness** to delegate authority to others is a **common cause** of **business failure** during the growth stage.

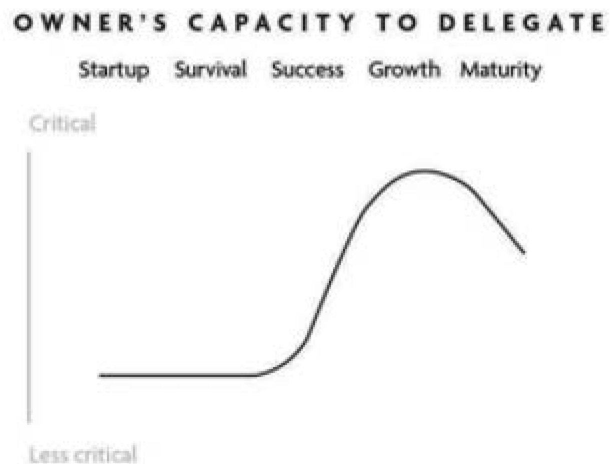


Owner’s capacity to delegate

- This **discussion** does **not imply** that contractors in the early stages of their company’s life cycle do **not delegate**.
  - It **simply means** that delegation is **not as critical** during these stages, as shown in Figure.
- Notice that in the maturity stage the **criticality decreases** somewhat because,

  as with **quality** of **employees**, mature firms have **processes** and **systems** that force **standardization**,

  which **reduces the impact** as long as employees follow the **established processes** and **systems.**



Strategic planning

- **Strategic planning** becomes **more** and **more critical** as the construction company **progresses** through its life cycle stages, as shown in Figure.
- In the startup and survival stages,

  the **entrepreneur is typically running** the company and

  doing everything by himself/herself with **limited resources**.

Strategic planning

- A detailed strategic plan could be viewed as **restrictive**,

  as the **organization evolves** based on where the market, customers, or other circumstances dictate.

  - In these **early stages**, there is **limited control** over how, and in what direction, young construction enterprises will advance.
    - ✓ So, one could argue that **planning is of less value** than in later stages.

Strategic planning

- **Strategic planning** becomes **more important** for a contractor when his or her firm is in the success stage.
- **Business planning** is critical if prosperity and stability are to be **maintained over time** and as the organization becomes **less reliant** on the owner's ability.
- Planning is also essential in the growth stage to supervise the **increasing number of people** who will manage the expansion.
  - **Finding time** to plan is usually an issue, but it is **needed to maintain** the firm's **prosperity**

Strategic planning

- The mature company relies heavily on **long-range strategic planning** for its success and stability.
  - **Management** and **owners** have the time to **devote** to **planning**, and it is usually a formal process.

Strategic planning

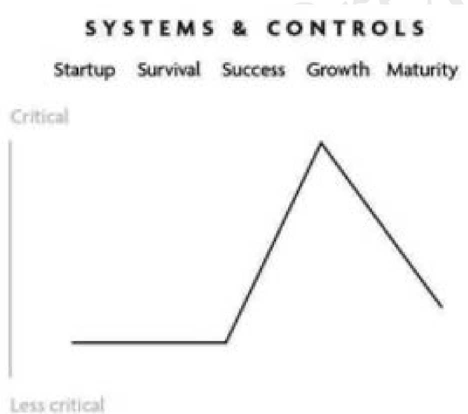
- A **mature** company pushed back into survival for any reason will have **less use** for its **long-range strategic plan** because,

  by definition, a company in **survival** has **limited assurance** of a future.

  - At that point, it could be **erroneous to stick** to the long-range plan because it may **not contain** the ingredients for survival management.

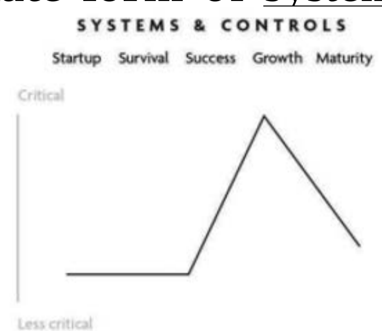
Systems and controls

- Systems and controls are **how strategic plans** are **implemented**.
  - They ensure that what is agreed-upon in the long-range business plan is **actually executed.**
  - They are, therefore, of **less importance** in the early stages of development such as startup and survival, because **all control** typically resides with the **business owner.**
    - ✓ But they are **increasingly significant** as a construction company progresses through the later stages of success and growth.
      - o Systems and controls can become **burdensome**, however, if a company finds itself **back in survival** where **fast-moving decisions** must be made and **implemented** by a leader with limited consultation with others and without regard for existing processes.



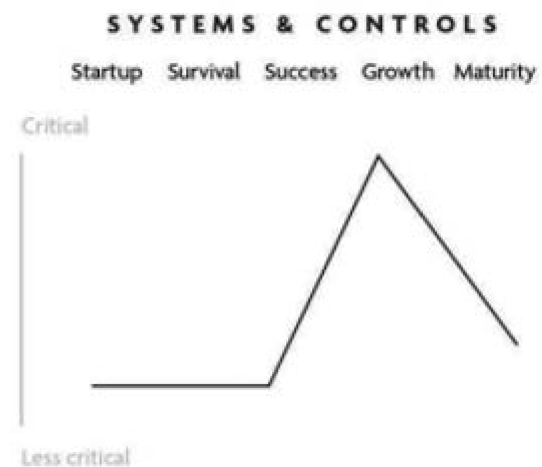
Systems and controls

- **Systems** <u>help manage</u> the company and its employees.
  - There are **few employees** in the <u>early stages</u>, and they typically **receive instructions** directly from the **owner**.
  - In the <u>growth stage</u>, systems and controls begin to become **more critical** as the construction firm begins to **departmentalize and expand**.
  - Systems and controls are **absolutely critical** until <u>strategic planning is initiated</u>, at which point they **become less critical** because <u>strategic business planning</u> **places** systems and controls into a **logical** and **mandatory order to be executed**.
    - ✓ **Strategic planning** might be described as the **ultimate form** of <u>systems and controls.</u>



Systems and controls

- Showing systems and controls in Figure as becoming **less critical** in a mature construction company does **not mean** **they are eliminated**,
    - but instead means that they are **formalized** to the extent that they are amalgamated into the **strategic plan**
        - which **formulates** the **mandatory guidelines** for the whole organization to function under.



Reverse progression

- Companies can go **back into** stages they have already passed through.
- When a mature construction company experiences growth greater than 15%, and debt increases for a year or more, it **reenters the growth** phase.
- A growth-stage company often **returns to the success** stage after expanding for a time.
- If a success, growth, or mature-stage company encounters **financial difficulty** where **equity** is plummeting rather than growing, or **debt spirals out of control**, it reenters survival stage.
  - Whether management **recognizes the shift or not**, the shift is still real.

The dangers of distraction – Too much of a good thing

- This **final concept** is only prevalent in the **“success” stage**.
- **Everyone reacts differently** to success, and **self-made prosperity** can have unexpected side effects.

The dangers of distraction – Too much of a good thing

- **Entrepreneurs** get totally **immersed in building their business**, and it becomes the **central focus of their life**.
  - If **success is achieved**, some have **difficulty** if they find themselves with **less to do**,

    particularly if it is the first time in their life that they have had **excess disposable income.**
    - ✓ Some have become **distracted from their businesses** with disastrous results.
      - **Numerous** construction businesses have **failed after** the founder/contractor became **diverted from the business**, or **lost interest** in the business.

The dangers of distraction – Too much of a good thing

- **Common diversions** include golf, sailing, gambling, politics, affairs, or whatever outside interests the entrepreneur may have.
  - In one instance, a contractor became so caught up in a **trade association** he **spent as much as half** of his time at meetings, retreats, and other organization activities with almost a **cult-like attraction to the group**.
  - Another contractor, after achieving success, became involved in **politics** and was **elected mayor** of the small town he lived in, which took up an **inordinate potion of his time.**

The dangers of distraction – Too much of a good thing

- The **typical subjects** were self-made, hard-driving, type A personalities who spent **most of their early careers** building their construction businesses at the **cost of** personal, family, and social activities.
  - Many had **little in the way of financial advantages** early in life.
    - ✓ The **distraction** away from the business as the center of their life **started as** they accumulated considerable disposable income for the first time, with **limited time to enjoy** it.
      - These contractors were **typically in their 40s or older**

The dangers of distraction – Too much of a good thing

- **Hard driving** at work can lead to **hard playing** at activities that can become **addictive**.
  - Most did **not notice the obsession**, or they **were sure** that it was **not affecting** their business.
    - ✓ **Self-made success** seems to **convince people** that they **can do anything well**, including managing their business and **whatever else they would like** to do.

The dangers of distraction – Too much of a good thing

- When the **distraction increases** and becomes **noticeable to others**, it is **seldom perceived** by the **contractor** who generally **rejects the advice** of subordinates and others concerning it.
  - In the book, Managing the Profitable Construction Business (Schleifer et al., 2014), this is a **common element** of construction business **failure** under the heading of **"lack of managerial maturity."**

The dangers of distraction – Too much of a good thing

- **Prevention** of this phenomenon is **difficult** because
  - **Convincing** strong-willed entrepreneurs that they are at risk from this is **extremely difficult**, and
    - **intervention** once the distraction occurs is usually **aggressively resisted.**
- Many small and midsize contractors have little accountability to anyone, so the institution of a **Board of Advisors or Board of Directors** is an excellent prevention **against diminishing interest** of the founder or leader.
  - ❖ As described elsewhere in this course, an **independent board** is in a position to **observe changes sooner**, and
    - if **trusted** and **relied** upon, may be in a position to **impact the outcome.**

Exercises

Exercises

- Explain why a company cannot choose or decide what stage it is in.
- Explain how a company can ship a stage in reverse progression.
- What is your opinion of the section on dangers of distraction?

Company Organization

Introduction

- The selection of a form of business organization and of an appropriate organizational structure are **basic** management functions of construction company leaders.

- The most appropriate organizational structure is the one that best fits
  1. The business culture,
  2. The operating practices, and
  3. The business plan

  created by the company leaders.

  A company's size, scope of services, and geographic market area also will influence the type of structure selected.

Introduction

- The organizational structure will
  1. Determine how employees do their work and
  2. Establish relationships among organizational elements.

- In this section, we will examine the alternative forms of business organization and the types of organizational structures that may be selected for a company.

- Then we will discuss the development of an organization chart and operating procedures for a construction firm.

Alternative forms of business organization

- **Important factors** to consider in selecting a form of business organization are
  1. The amount of **capital** needed to establish the company.
  2. The **nature** and **magnitude** of **potential liabilities** to be faced by the company.
  3. The **number** of **owners** anticipated.
  4. The **extent** of the **owners' participation** in the management of the company.
  5. The **tax consequences** of the various forms of business organization.

Alternative forms of business organization

Type of Business Organization	Ownership
Proprietorship	Single Owner
Partnership	Two or More Owners
General Partnership	
Limited Partnership	
Corporation	Multiple Owners
Conventional	
Type S	
Limited Liability Company	Two or More Owners
Joint Venture	Alliance of Two or More Firms

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