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Monitoring Your Construction Company's Vital Signs

By Scott Yandle & Mike Trammell

For construction companies, the only certainty seems to be uncertainty. After three quarters of decline, the March 2024 CONFINDEX rose to 109 – its highest mark in two years, followed by a slight dip to 106 in June 2024.

Alternatively, the AIA/Deltek Architectural Billings Index (ABI) for April 2024 showed a bounce back trend, decreasing from 49.5 in February to 43.6 in March and then back up to 48.3 in April but remaining below the benchmark of 50, indicating an overall decline in firm billings.

With such uncertainty, continuously monitoring the overall health and function of a construction company is prudent. Businesses must navigate *external factors* such as economic conditions, market fluctuations, and competition by implementing robust *internal strategies* including addressing financial health, systemic efficiency, organizational structure, and workforce resilience.



Adopting continuous improvement begins with a focus on the vitals of your organization: operational excellence as evidenced by key performance indicators (KPIs) that are specific, measurable, achievable, relevant, and time-bound (SMART); amplifying your workforce; and backlog and project performance best practices.

OPERATIONAL EXCELLENCE & KPIs

A company's value is constantly evaluated and measured by the marketplace; to remain viable and relevant, your company must differentiate itself from its competitors. Thus, it is crucial to understand how your company is being measured against industry peers and apply those insights to your company's improvement plan through KPIs.

KPIs are essential for tracking progress against specific goals. In relation to the industry, KPIs are measurable points that should reflect how a construction company is performing and progressing toward reaching its goals.

Common construction industry KPIs include operational and financial metrics:

- Operational: change order processing and profitability, rework costs, project schedule updates, and labor productivity
- Financial: accounts receivable days outstanding, working capital, and cash flow – overall and by job

KPIs are similar to metrics, though metrics typically pertain to a process or team and are standard across industry best practices.

Some consistent best practices, but especially important during times of uncertainty, may include:

- Preconstruction/estimating: win percentage, percent bid spread, and dollars win/dollars bid percent
- Operations: gross profit dollars per field hour, gross profit dollars per equipment hour, actual gross profit percent/bid gross profit percent (fade/gain), gross profit dollars per month (actual and forecast over time), and gross profit percent per month (actual and forecast over time)

SMART Goals

Construction companies can refine improvement plans by ensuring their KPIs include SMART principles (i.e., specific, measurable, achievable, relevant, and time-bound).

When looking at the bigger picture, the health and longevity of a construction company comes down to its operational excellence. KPIs help determine the company's progress toward specific goals, but to maintain a clean bill of health and remain competitive in the industry, contractors should ensure their KPIs are SMART in relation to each strategic objective and goal in their improvement plans.

AMPLIFYING YOUR WORKFORCE

Your employees are the lifeblood of your organization and the foundation of its operational excellence. In addition to refining your operations, enriching your employee experience and maintaining an invested, satisfied workforce is essential for continuous improvement.

Surveys & KPIs

A variety of tools exist to reduce turnover and increase employee retention. Primarily, surveying is a tried-and-true method for gaining real-time feedback from both customers and employees.

Net promoter score (NPS) is a market research metric that uses customer or employee surveys regarding experiences and recommendation willingness to "score" customer or employee loyalty and satisfaction. The scoring formula considers "promoters" and "detractors" in the overall calculation, making it useful in understanding customer or employee sentiment and lending itself to strategy development.

Companies that track and maintain a higher NPS generally have employees who are fully engaged, report high employee satisfaction, and garner positive customer feedback.

For example, surveying employees after completing a construction project can help identify who on the project team was engaged in accomplishing the end goal.

Consistent feedback from high-achieving workers creates a culture of trust and can help the organization implement KPIs (such as NPS) to reinforce that culture. It is critical for construction companies to review these KPIs and data points in a timely, meaningful manner.

Operations leaders should also have KPIs in place to track performance. High performance and positive feedback metrics can be connected to monetary incentives for employees. Some KPIs that may measure a contractor's progress toward such goals may include:

- Employee engagement scores
- Employee turnover metrics
- Employee referral trends for new hires

Possible ways to execute this include spot bonuses (for senior PMs, superintendents, and field staff) and deferred compensation (for operation managers and above).

Recruitment Strategies

Another element to amplifying your workforce is a varied, robust recruitment strategy, which can comprise an organization's environment, human resource (HR) metrics, and benefit structures.

When it comes to an organization's environment, it is imperative to provide a safe, supportive workplace with opportunities for advancement and mentorship. Creating points of connection for employees in the digital age – where workers vary in being remote, hybrid, and fully onsite – can help maintain engagement.

Fashioning a company's internal promotion matrix around various recruitment KPIs can be equally advantageous. Tracking referrals, visibility at hiring events and job fairs, and rewarding participation in recruitment efforts creates a cycle that incentivizes employees to play an active role in attracting talent for your organization, as they can help you find individuals who align with company goals and values.

From an HR perspective, strong benefit structures are a practical method (and

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KPI) for attracting talent. For example, 2-3-year long-term incentive plans can show earning potential for new hires. These plans – which consist of safety, recruiting, and project performance – can weather market fluctuations, whereas profit sharing can be affected if a company or industry experiences a difficult year.

Lastly, organization leaders should continually revisit their recruitment, retention, and overall compensation strategies. Documenting these strategies on a recurring schedule (usually quarterly or annually) permits an executive committee to evaluate progress and ongoing employee engagement.

BACKLOG & PROJECT PERFORMANCE BEST PRACTICES

Competing forces usually play into a contractor's appropriate level of backlog. Organizations want to drive profits and take on as many projects as possible, but sustaining that influx of business can lead to burn-out and delays. Fortunately, backlog levels (especially those in the construction industry) can be intentionally targeted and worked into operational excellence plans, metrics, and therefore KPIs.

In general, a company should focus on KPIs that indicate how much work and capacity it has and then be able to connect these two areas. Typical KPIs for backlogs on the *capacity* side of the equation include quality issues, callbacks, and post-project warranty issues; on the *profitability* side of the equation, KPIs include employee utilization, financial capacity, and equipment utilization.

A central best practice (and key to avoiding unhealthy levels of backlog) is to create a working relationship foundation that sets your business up for success. This entails selecting and working with customers with whom you have established a rapport or previous business relationship and are familiar with their practices and reputation.

Once you have identified these customers, be sure to align scopes, contract functions, and workforce skill sets. Whether it be a material industrial or design-build contractor, targeting areas of expertise throughout your project can help produce optimal outcomes for all stakeholders.

The same theory applies to contract delivery models. Your team must ensure that the customer goals align with the contract delivery model and that your team excels at delivering on those project goals.

In addition, having good risk management practices (and often, the right contract lawyers) to protect your business is beneficial two-fold. They will make your organization more efficient and effective, since their role is to be able to identify risks before they happen (e.g., contract clauses and price increases during COVID-19).

Understanding scope, knowing costs, and executing contract terms are equally important. A company with an accurate cost-to-complete estimation can identify issues and react faster. Monitoring KPIs such as overall profitability, change order profitability, and profit gain or fade can maintain profitability and operational excellence as well as possibly realize tax implications for revenue recognition and taxable income situations.

When KPIs are properly developed and the contractor is measuring onsite work progress, they can be predictive and preemptive instead of reactive.

CONCLUSION

When your "house is in order" – or in this case your company – so are the vitals that make it stronger and more adept to change. A focus on continuous improvement as well as targeted investment in operational excellence and your workforce throughout your organization can lead to clearer goals, increased efficiency, and more predictable project success. **BP**



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