

Good morning, everybody, Dennis Engelbrecht with The Family Business Institute where *We Build Better Contractors*.

For our last sessions of Digging Deeper over the next 10 weeks, I was asked to try to summarize the most important things I learned about developing construction success or a successful construction company. So, we're going to start today with number one and we're going to call this session The Four-Legged Stool. And I'm sure all of you have heard the metaphor, either a three-legged stool or a four-legged stool, you need those four legs to keep it stable and keep it holding up. And hopefully, four legs are better than three.

You've also probably heard us talk particularly in our round table groups about the three aspects of construction, getting the work, doing the work, and keeping score. And those are three of the four legs we're going to talk about today. And then the fourth leg, though probably equally important, is the culture, the glue that holds it all together. So, let's start with leg number one, estimating, pre-construction, business development, those elements where you get the work, bring the work into the company. This, of course, is a critical leg to the stool because if you can't estimate the work, you're really prone to winning work because you make mistakes versus winning works because you know your market and you've got your costs down and all of that.

And as construction sort of changed over the last 15 or 20 years, it's much more collaborative upfront. Most of the projects now are delivered in some sort of collaborative method. So, pre-construction, business development, estimating all seem to work together to get you on the doorstep of the work, get you the work, but also get the work set up for success. So, that element is so important. We look at that, because of the collaborative aspect of construction in many cases now, budgeting takes place sometimes over the course of a year or two years even and there's multiple times that you end up having to budget a project in many cases.

And in order to be good at budgeting and to be good at estimating, it's really important to know your market. Of course, in these recent times where prices have been rising ridiculously and you have supply chain issues, really knowing your market is a key aspect to this whole upfront area of construction. You've got to know what materials cost, what materials can be available, what substitutions can be available. And it's really critical also to have good partners on this side of the business, people you can get good prices from and good reliability for actually building the project later on. So, the whole estimating budget and all of that takes on great significance I think in today's construction world.

The second aspect is errors. When we look at projects that fail, well, they do oftentimes fail because of errors upfront, leaving something out or missing something in the estimate. And I think if you look back over time, that second set of eyes that you can put to the numbers, to the estimate, that's always quite important. And I recall in particular one company that had a huge miss, it was about \$1.5 million miss. And they had a very strict regimen of getting the second set of eyes onto each estimate. But it just turned out that the people that would've put the second set of eyes, one was on vacation and the other got called out sick or whatever and this estimate went out without following their normal protocols. And lo and behold, the big error came into it.

So, avoiding those errors and putting a second set of eyes on the upfront stuff is quite important. And then, I think the people that are successful in the upfront process of construction, not only did they have good talent, but they tend to have checklists. Now, these are scope checklists to make sure that nothing's missed in the scope or sort of gotchas, things that got them in the past and turned out to be problems in the past but really making sure you've got the major risks covered. If there are too many risks and you don't have them covered, of course, that's where the big losses can come from. And all of that is in the first leg of the stool, the getting work side of that.

Of course, once you get the work, you have to execute the work. So, project execution's the second leg of the stool. And that involves a lot of things. That involves the talent that you have, particularly at project management and superintendent levels to make sure that the work is set up well for success and that it's organized well for success. And that goes right

down into your field of leadership, you got to have folks that can lead those teams and you've got to have the skills on those teams to make sure that you can execute. So, project execution covers a wide range of activities in each company.

And then you got to make sure also that you have the right fit for the job, or the job is the right fit for the talent that you have on the execution side. And you have to make sure that your team fits together and works together well also. Because a lot of times, you see that in sports sometimes, you put together all these super talents together, but they don't fit, they don't go together. Probably one of the great examples is last year in basketball where you have LeBron James and you have Russell Westbrook, two all-time greats, kind of still at the peak of their career. But both of them need the ball. And two people can't have the ball at once so it didn't seem to fit that well.

And then probably, as important as anything in project execution is to always have a great plan, to make sure you have a great planning process and you come up with the best plan for the job. One of the problems in construction is we have A, B, and C teams, but sometimes we have to go with the C team. And how do you get a great job out of a C team? You have to have a great plan and you have to have support to make the project execution work for every team. And I think a great objective that some of our better construction companies have is to produce a winning job every time, and that's regardless of which team has to be on it. But they do that through great planning and great support for the project execution.

The third leg of the stool and probably underestimated in its importance is the back-office support, which we call keeping score sometimes. But it's so much more than keeping score. Yes, you have to have a strong financial process. You have to know where you are as a company, where you're making money, not making money. And probably, if there's one process that is the most important of all the processes in construction, it's probably the job review process, to make sure that you have solid information, timely information, and a good process to make sure that jobs are on track, staying on track, or getting them back on track if they're faltering in some way.

And that review process is really core, going back to the execution, to make sure you have good execution, but that support comes again from the back-office side of things. And then really, everybody that's in the back office of a construction company, whether it's payables, receivables, human resources, these are the folks behind the scenes that support that project execution team and support those projects, making sure that you collect the money that you need, making sure that you're treating your subcontractors, suppliers well and you're getting them paid so that the entire team that's on the job stays together and can execute together.

And I think the right attitude in the back office to make sure that everybody in that back office understands that project execution relies on them as well, whether you're supporting the project management, supporting the superintendents, or whether you know you're working with the checks or getting people paid in the back office, payroll, any of those things, every one of those things is critical to a successful project and a successful construction company. So, those three legs, estimating or pre-con business development, number one, number two project execution, number three the back-office support, and then finally, that culture, the glue that holds it together.

And I think among the important things in that culture that really make for the successful construction companies that we've seen and worked with, first of all there's discipline in the organization, a disciplined organization that follows processes, does things right, everybody knows what has to be done, there's accountability. People are accountable for themselves in these disciplined organizations. So, I think that discipline's quite important to make sure that we don't neglect the checklists, the important processes. And then, I think the other aspect, the culture that's so important is clear direction. Having a good strategic plan that's well-communicated to everybody, that there are clear roles and objectives for each person in the company, they know what their role is in the overall.

And of course, you need good leadership, strong leadership, positive leadership that keeps that culture together, keeps the whole team together. So, when we see failures in construction, it's very easy to tie those failures where you have a major job failure or you have a company failure, heaven forbid, we usually see that one of those stools is weak or missing. And so, it's really hard as we look back over all of our years in construction and look at all the success we have, the strongest companies, the fastest growing companies, the most profitable companies are those that have all four legs of the stool and they're working together in unison to make a successful company.

So, thanks for tuning in again, Dennis Engelbrecht, Digging Deeper. Watch for number two next week.