

**PROFILES IN SUCCESS
HOW CONTRACTORS
DEFINE AND
ACHIEVE SUCCESS**



MANAGEMENT CONSULTING • INVESTMENT BANKING
for the CONSTRUCTION INDUSTRY



— **PROFILES IN SUCCESS** —
HOW CONTRACTORS DEFINE AND ACHIEVE SUCCESS

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DEFINING SUCCESS FOR CONTRACTORS

Success is boring. There is no need to run for the exits when someone cries, “Success!” It doesn’t sell newspapers. Then again, who wants to hire a contractor or anyone else who doesn’t know how to succeed, who rarely gets the work done on time or who loses money on every job? Success should be celebrated more, talked about, touted as a crowning achievement in one’s career or the life of a company. It shouldn’t be a secret. And it shouldn’t be boring. But it can sometimes cause fear, because it always hints at its loss, at success that can turn to failure.

“Success is not final, failure is not fatal; it is the courage to continue that counts.”

— Winston Churchill

Success must become part of a company’s culture; and if anyone thinks it is boring, consider the alternative. Contractors that succeed must overcome the fear of failure and conquer risk. Now, the question is, how do you define success?

FMI set forth to research the subject, with a view toward codifying ingredients of success in the construction environment. When contractors fail, it is usually unambiguous; they run out of money and go out of business. Is success then a mirror image of failure or does it have different metrics?

FMI studied why contractors fail. [“Why Contractors Fail: A Causal Analysis of Large Contractor Bankruptcies” *FMI Quarterly, Issue 2, 2007*]. In that study, we discovered that failure — failure to the point of going out of business — was the result of several things going wrong simultaneously, leading to a chain reaction from which the organization could not recover. Failure was the end of the story for the organization. Some companies that failed had

long records of success until things started going irretrievably wrong. While we found many successful contractors experience setbacks at one time or another in their history, they characteristically turn setbacks into learning experiences for building future success.

To gain a deeper understanding of success, we studied how contractors define success for their own firms. We conducted interviews with contractors and FMI senior consultants to identify a list of common attributes used to define contractor success. Those attributes formed the core list of attributes used in our subsequent broad survey. Responses to the online survey were made by 356 CEOs and top executives of construction firms from around the country and included a wide range of contractor types and sizes as measured by annual contract revenue. FMI’s aim for this research is to bring some organization and clarity to the variety of ways contractors define success.

If we had hoped to find one dominant definition of success, we would have been disappointed with our results. However, from our long experience working with contractors, we expected that contractors would offer varied definitions of success. Our expectations were met. Yet there were more similarities than differences when we began comparing and analyzing the responses.

We used both open-ended questions and forced-choice preferences chosen from our attributes of success. From those responses, we grouped similar replies into five **Contractor Success Profiles**. Because of the resulting attributes, we named these profiles the Humanist, Freewheeler, Bottom-Liner, Generalist and the Tactician. All of the 356 responses fell into one of the five Contractor Success Profiles because they shared common factors in their def-

“If your success is not on your own terms, if it looks good to the world but does not feel good in your heart, it is not success at all.”

— Anna Quindlen

Newsweek columnist and best-selling author

initions of success. The five Contractor Success Profiles are not entirely separate and distinct from each other. To varying extents, the profiles overlap somewhat with each of the other profiles. However, each profile emphasizes different attributes, such that they present identifiably different perspectives of success in the construction industry.

ON SUCCESSFUL CONTRACTORS

There is a great deal of literature aimed toward leading readers to success. Many of these publications are of the quick-fix variety; however, a number of widely read books focus on success in business or how to build “high-performing,” successful companies. From our interviews, it became apparent that many construction executives were familiar with certain literature and, at least selectively, applied the teachings of these works for guiding the success of their companies. However, few of the business models studied in the mainstream “success” literature specifically cover contractors working in the construction industry.

We focused our study strictly on contractors to discover if there are unique aspects and approaches for achieving success that define this industry, even though there are clearly models applicable to many industries. We avoided the temptation to create a model of success that would predetermine what the successful contractor looked like. We asked construction executives to tell us not only how they define success for their companies, but also how successful they think they are at achieving success. How we asked the questions changed the levels of success reported by the participants. Rating their companies on the idea of being an “overall success,” only about 19% of respondents felt they were 100% successful. However, in a question offering only a yes/no response, 95% rated their companies as an “overall success.” In other words, almost all contractors studied considered their companies successful; yet few said they were 100% successful. This leads us to our first conclusion for contractor success.

Rating their companies on the idea of being an “overall success,” only about 19% of respondents felt they were 100% successful.

GENERAL CONCLUSIONS

First General Conclusion:

Contractors are reluctant to declare overall success for their companies.

The reluctance to declare success for their companies was detected in interviews as well as from responses to the online survey. Thinking of success as the pinnacle of a life’s work or the goal of a business implies that, once achieved, there is nowhere to go but down or out of the business. In this context, the achievement of success would be the end of the story or nearly so. In a few responses, we even detected an element of fear when viewing success as an ultimate achievement. As one contractor noted in our interviews:

“What is scary is that, once you have accomplished a level of success, you get this idea that you could lose that success. There is more at stake and more people that count on you to do well. Oftentimes you feel this pressure. It is harder, but a lot of fun.”

— *President, General Contractor, \$230 Million*

A more positive and common aspect of our first conclusion is that overall success is not a specific event or terminal destination, but rather something that is achieved over a long period. This is the idea of success as a journey, with the road toward success including continual improvement. On that basis, a company is never 100% successful, but rather views itself as being on a positive track toward success. For instance, one response reflects what we heard from many contractors in our study:

“Yes, we feel like we are a success, but we do not feel like we are perfect nor are we done trying to be even better. We are constantly working on how we can improve.”

— *President/CEO, General Contractor, \$65 Million*

Second General Conclusion:

Profitability is not the leading factor in defining success for contractors.

This may be a shocking conclusion for some of our readers. Participants told us achieving above-average or higher profitability ranked 10th from a list of 15 attributes of success with only 49% of respondents selecting “achieving above-average (or higher) profitability as an ultimate achievement” for defining success. How could profitability not be the cornerstone of any success definition? After all, profitability is how we keep score, isn't it? For successful contractors, profitability shows up on the scorecard, but it is not the sole measure of success, nor for many is it a highly weighted attribute of success. Successful contractors understand they must do many things in order to achieve sustainable and respectable levels of profitability. We noted many comments similar to the following:

“The company must be profitable, but more importantly, the company must be a place where the employees feel a sense of family and belonging, and they have a personal stake in the success of the company. The employees should feel like their contribution is the reason for the company's success.”

— *President, General Contractor, \$200 Million*

“The company must meet the following: satisfied customers; repeat business; excellent, happy and productive employees. The company must have the highest integrity—a safety culture and we must give back to the communities where we work. And we must be profitable.”

— *CEO/Chairman, General Contractor, >\$1 Billion*

Third General Conclusion:

Values play an important role in defining and achieving success for contractors.

Looking strictly at profitability can be misleading when judging the level of success for a contractor. Values are based on much more than the value of money. The values that build a strong organizational culture serve not only as the foundation for building a strong, profitable company; these values are also the reward as well as the measure of success. Ideals like a “sense of family,” “quality employees” and “integrity” frequently trump profitability. Success defined by values and a values-based culture crosses generations, often stemming from the values of the company's founder(s). The value-based definition of success embraces many important aspects of community and business, for example:

“Success is the continuous re-creation of the business as a strong, prosperous and diversified organization through which lives the values of our founders.”

— *CEO, Civil Contractor, \$85 Million*

“It is important to me to develop a business with a culture that embraces our core values, which include safety, integrity, professionalism and responsiveness. We get a lot of satisfaction from seeing our employees develop and being part of a community and contributing to its success.”

— *CEO, Electrical Contractor, \$30 Million*

SUCCESS STORIES

BUILDING A CULTURE OF SUCCESS BASED ON VALUES

The important role of living up to the company's values was often mentioned in our discussions of success with contractors and in various parts of our survey. We asked one question to get an idea of how values are communicated and instilled into the organization. We asked participants to select from statements that generally describe what their company does or does not do in an effort to foster the adoption of corporate values.

The most-often-selected choice from our list was “We tell stories about our values and how that impacts our success.” We were not entirely surprised by this response. In our interviews prior to the formal online survey, several successful contractors told us they used a narrative or storytelling approach to both reward and foster success in their companies. In one case, when asked if they told stories in his company, the chairman of a large general contracting firm sent us a recent book it produced telling of the company's long history and ongoing successes. It was a story reflecting the values of the founder and showing how those values helped overcome adversity and grow the company with like-minded people into the second generation and working on the third.

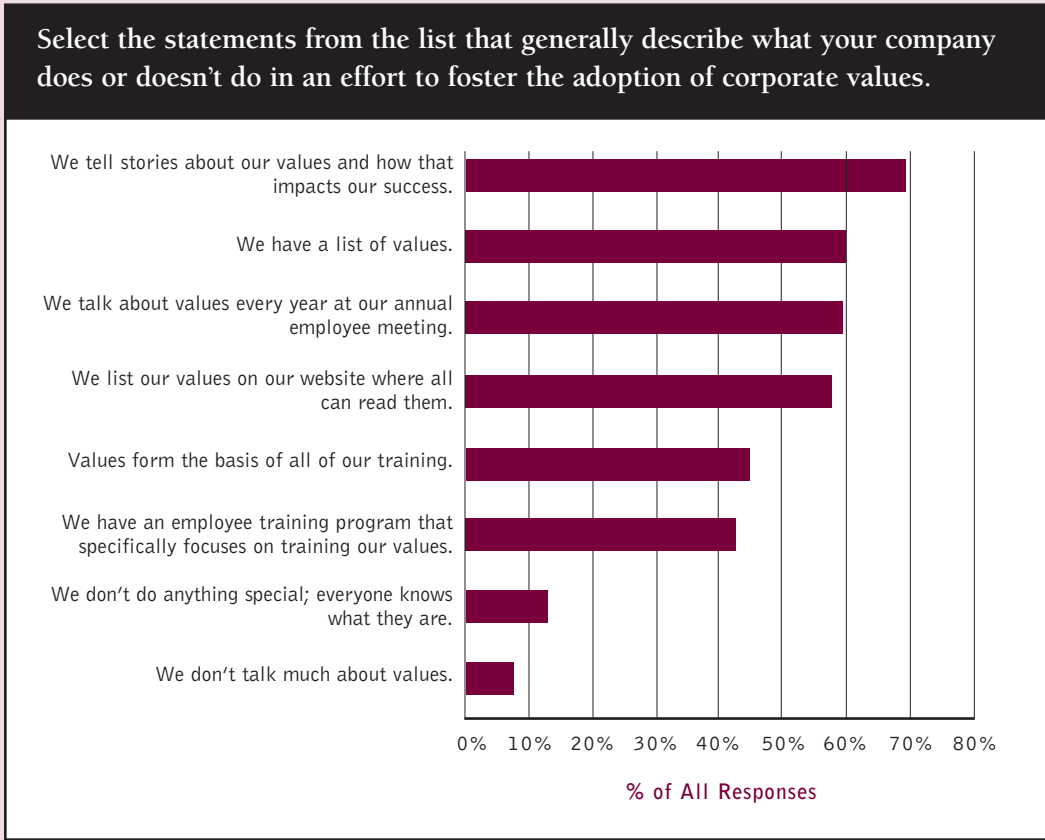
Whether written down or passed on by word of mouth, successful contractors write their own success stories. The stories not only serve as examples for the next generation and new employees, but they become a source of pride and form of recognition. Those working for the company become not just employees, but also characters in the story. For instance,

“We just had a sub that did some floor work. He was in a hurry, and our superintendent approached him and told him that he needed to take up his work and redo it. The guy was giving him a hard time. The superintendent said, “we are trying to raise the benchmark of quality.” The sub smiled, tore it out and re-did it. It came out perfectly. The core values allowed this superintendent to get the sub to buy into the process. The subs want to be on our jobs because we will bust our butts to make them profitable, and get them in and out; but we are not going to sacrifice quality to do that. He shot me this story in an e-mail, and I sent it to everyone. Everyone likes a good story like this. I tell the superintendent's story all the time about how this man made a life change, and he and his wife couldn't be happier about it. Now we are getting more people like him who want to work for us.”

— *President, General Contractor, \$300 Million*

While contractors share many of the same values, it is clear from our study of contractor success and the different **Contractor Success Profiles** that the focus placed on values differs among contractors. It is important to go through the work of determining and listing the values the company lives by, as well as making those values the subject of presentations at annual meetings and posting them on the company website. “Telling stories” makes those values both memorable and tangible. The stories describe values in action and how living and passing on those values to others can lead to continuing success.

Success stories can be formal and informal, public and for internal use only. Stories may be transmitted in many different ways, including company newsletters, e-mail, water-cooler chats, company meetings, training sessions, books and articles. We suspect some form of storytelling is prevalent in most all successful organizations. One way to test this hypothesis informally might be to ask employees about any stories they have heard lately. If they only know stories of projects gone bad or failures, then success isn’t being passed on very well. If they can tell at least one story about success and the company’s values, then the company is on the right track.



Fourth General Conclusion:

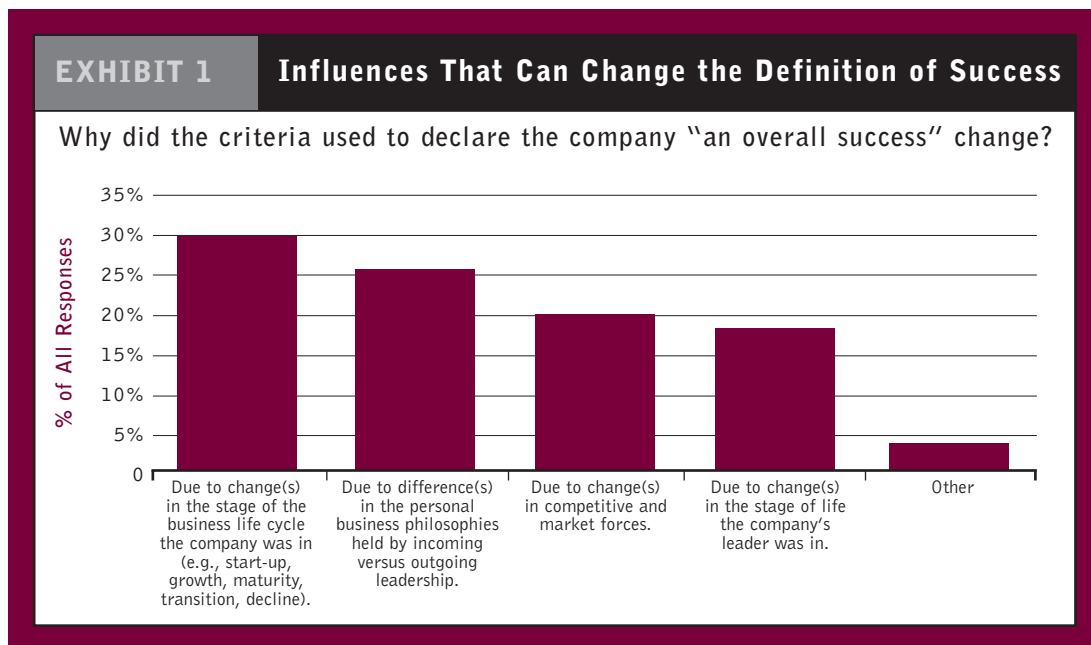
The criteria used by contractors to define their success are variable.

According to a remark from an interview with the president of a large construction firm, “Success is a nebulous topic. Everyone will have their own definition and measurement.”
— *President, General Contractor, \$300 Million*

To the extent that contractors have many ways to define success, they differentiate themselves from their competitors. Even contractors that have nearly identical definitions of success can vary their focus on certain aspects of success depending on the culture they are trying to create or have inherited from the founders.

Variability in definitions of success is driven by the values of the company’s leadership. Just as individuals have differing personalities, the differing values of individuals provide variation in word associations, notions of hierarchies of importance and significance of personal experiences. Additionally, the leadership skills of company managers have considerable influence over the degree to which their personal values imprint their organizations ... or vice versa.

Success definitions are not always static, even within the same organization. While many of the criteria and definitions of success remain the same over the life of the business, about 55% of the contractors responding to our survey said their definition of success changed over the years. This may be due to changes in the business cycle, changes in leadership or changes in market forces and the competitive environment (see Exhibit 1).



CRITERIA FOR DEFINING SUCCESS

Reviewing our initial interviews, we came up with a list of 15 criteria often used to describe or define success for contractors. All of the success criteria play a role in a contractor’s success, but are more or less prominent or important depending on how an individual company defines success. The general significance of these criteria in defining success as rated by the executives of construction firms responding to our survey is:

Rankings of Success Criteria

- Consistently operating with the highest level of integrity (87%)
 - Being the leader in customer satisfaction (77%)
 - Achieving an excellent reputation with community and/or industry leaders (74%)
 - Accomplishing the company’s mission (72%)
 - Achieving high scores in employee satisfaction (70%)
 - Having a thriving organizational culture (66%)
 - Having a superior safety record (64%)
 - Consistently delivering the highest-quality workmanship (61%)
 - Surviving (being financially solvent; not in bankruptcy) (52%)
 - Achieving above-average (or higher) profitability (50%)
- (The following items were mentioned by less than 30% of respondents as strong elements of success.)*
- Making a difference in the quality of the community
 - Maximizing employee wealth
 - Maximizing owner wealth
 - Attaining above-average revenue growth
 - Completing high-profile projects

BUILDING CONTRACTOR SUCCESS FACTORS

A comparison of the criteria of success noted in self-generated definitions of success with those selected from a checklist resulted in the identification of six Success Factors (see Exhibit 2). This process reduced the number of components for our analysis and created the building blocks for our Contractor Success Profiles.

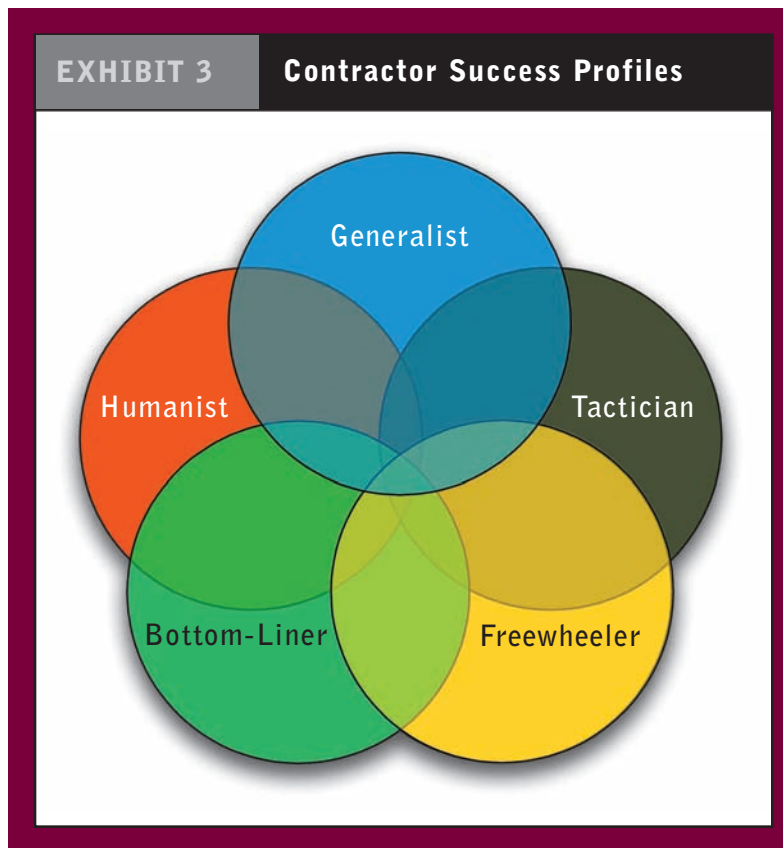
EXHIBIT 2 Success Factors for Contractors

- Improving People and Their Lives
- Profit and Wealth
- Sense of Presence and Reputation
- Survival and Sustainability
- Progress on Mission and Preparation for the Future
- Project Execution

All six Success Factors played a role in the definition of success for the contractors in our sample. However, there were significant differences among contractors as to the importance and focus placed on certain factors; some factors played only ancillary roles or were much less important for defining success. Rather than force-fit the data from our survey into a preconceived model, we grouped the responses by the prominence or strength of the Success Factors used to define success. This effort produced five distinct Contractor Success Profiles (see Exhibit 3).

CONTRACTOR SUCCESS PROFILES

- **Humanist** - Success is building strong relationships with customers, employees and community.
- **Generalist** - Success balances all six factors.
- **Tactician** - Success comes primarily from project and process success.
- **Bottom-Liner** - Success is measured by financial results.
- **Freewheeler** - Success comes from appropriate responses to changing opportunities, times or market situations.



CONTRACTOR SUCCESS FACTOR: Survival and Sustainability

The Success Factor we call *Survival and Sustainability* is composed of basic elements in a contractor's definition of success. A company must survive to be successful on any level.

In our study of contractor success, survival includes the more-positive and forward-looking idea of “sustainability.” On average, the companies analyzed for this survey have been in business for 57 years. Of the companies in our sample, 38 have been in business for more than 100 years. For successful companies, survival means much more than just getting by. Survival means building a sustainable legacy and leadership over generations, as evidenced in the following:

“Success in a word would be sustainable. More completely, it would mean being sustainable financially — outperforming an industry average margin and delivering real economic value to employees and shareholders (public or private). It would include having a sustainable reputation; creating a brand that embodies the concept of a teammate; a tenet of uncompromising safety; and delivering value to the client, employees, shareholders, industry partners and the general public. It would include leadership in creating a sustainable industry, where company leaders gave back to our industry and, through innovation, improved it. And it would include creating business sustainability through ensuring prepared leadership within the next generation of employees.”
— Chairman/CEO, General Contractor, greater than \$1 Billion

CONTRACTOR SUCCESS FACTOR: Improving People and Their Lives

Improving People and Their Lives is a success factor composed of a number of success criteria. Building relationships with customers and employees, building relationships based on integrity and providing support for the community are all important for achieving success in the construction industry, which is often referred to as a “local” business.

CONTRACTOR SUCCESS FACTOR: Profit and Wealth

The *Profit and Wealth* success factor is composed of elements of profitability along with creation of owner and employee wealth and similarly related comments from self-generated responses. Although maximizing owner wealth was reported by survey participants to be a high necessity for determining a company's overall success, this criterion was seldom mentioned in open-ended responses as defining success for contractors.

CONTRACTOR SUCCESS FACTOR: Sense of Presence and Reputation

The *Sense of Presence and Reputation* combines elements often used to determine a contractor's position in the market or industry. Building high-profile projects and having rapidly increasing revenues are among the elements that build industry reputation. When we read about contractor success, it is often in conjunction with the award or completion of a high-profile project. These projects make headlines and interesting reading, and some contractors will seek out such projects as challenges to build their reputation. Rapid revenue growth is another way that success is measured for some contractors. However, rapid revenue growth does not always equate to growth in profits, just as high-profile projects often mean higher risk.

CONTRACTOR SUCCESS FACTOR: Progress on Mission and Preparation for the Future

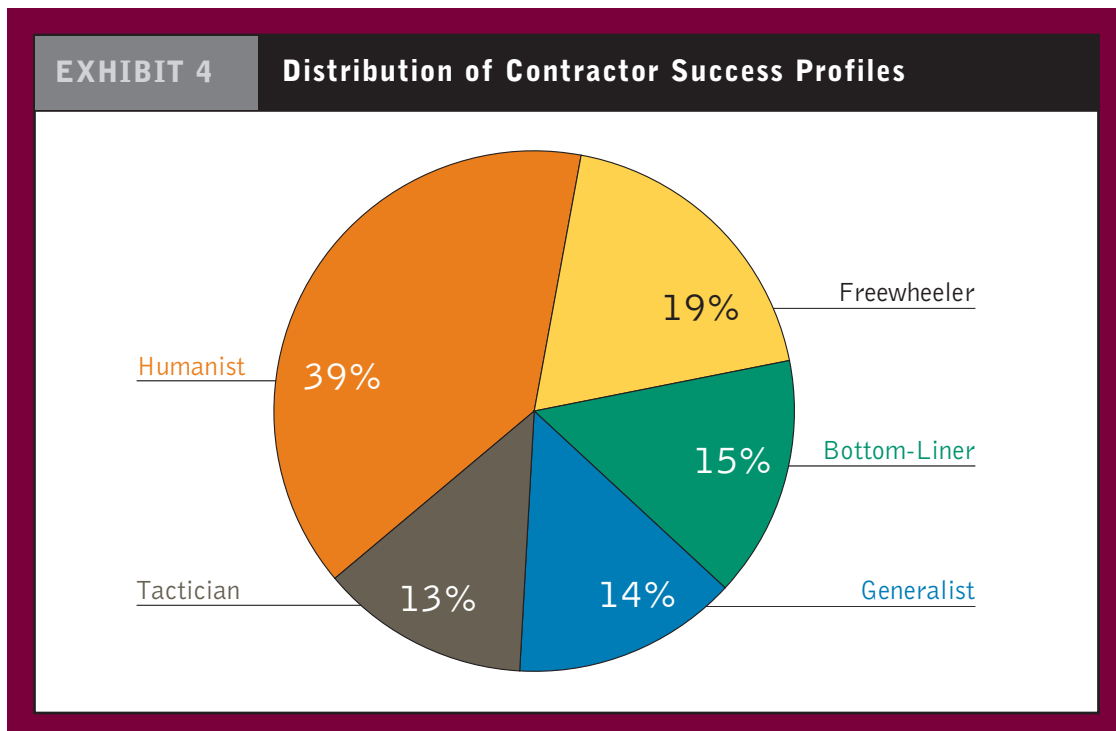
Progress on Mission and Preparation for the Future reflects the importance of having a well-defined mission and working effectively to accomplish this mission. When ranking criteria on a checklist, most contractors selected “accomplishing the company’s mission” as an important element in achieving success; however, it was seldom mentioned in open-ended definitions of success. While some companies work long and hard to develop a clear mission, it appears that few make accomplishing the mission a key part of their definition of success.

CONTRACTOR SUCCESS FACTOR: Project Execution

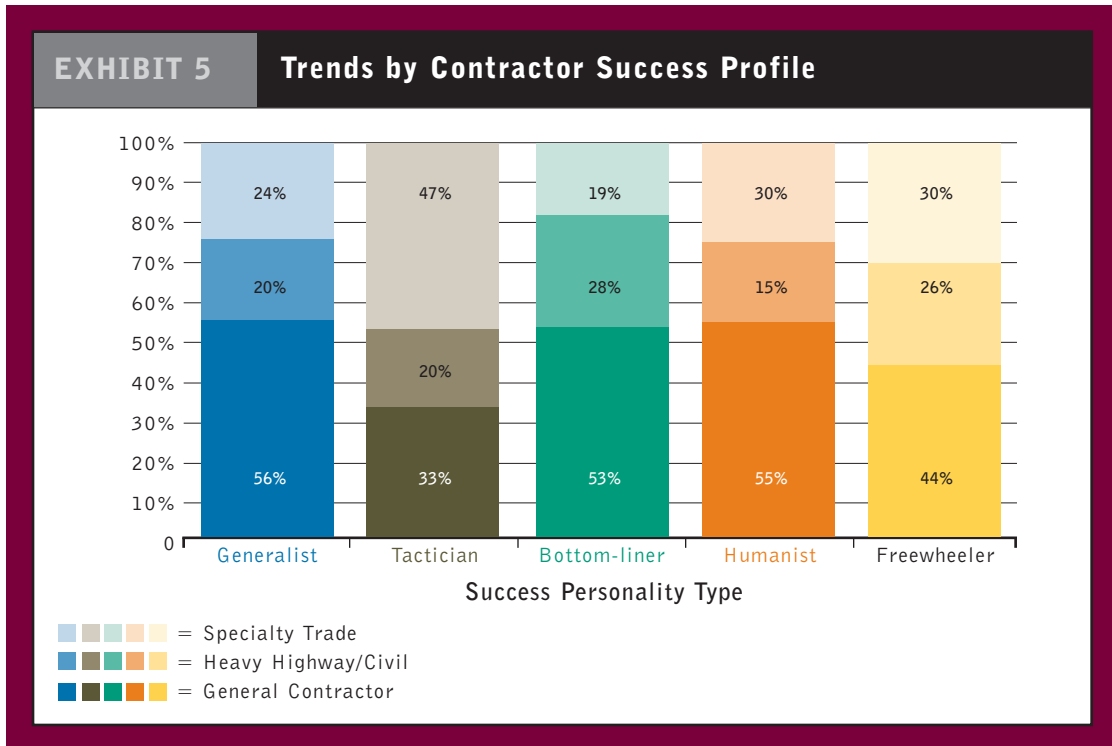
Project Execution is a factor composed primarily from responses to open-ended definitions of success. Some self-generated responses noted the importance of project success and creating successful work processes. Repeatedly producing successful projects is viewed by some of our participants as one key to overall success for the company.

CONTRACTOR SUCCESS PROFILES

The group we profiled as Humanists represent 39% of our sample, while each of the other five Contractor Success Profiles ranged from 13% to 19% of the sample (see Exhibit 4). Tacticians claimed the lowest distribution, although a spread of only six points separated the four profiles with lower distribution than Humanists.



We also classified responses by three broad contractor types: general contractor, specialty trade contractors and heavy highway/civil. A significant difference was observed when the Contractor Success Profiles were separated in this way. With that cross-tabulation, 47% of specialty trade contractors were profiled as Tacticians (see Exhibit 5). Not too surprisingly, trade contractors are the most likely to focus their definitions of success at the project level, likely because their business model focuses on a productive workforce. However, the Tactician trade contractors were the exception. In general, it is clear from our analysis that the Contractor Success Profiles are not specific to the type of contractor or size.



The Humanist

The Humanist, as the name implies, defines success as finding and developing people and building relationships with customers and community. The Humanist's top-two success factors are "improving people and their lives" and "progress on mission and preparation for the future" (see Exhibit 6). Humanists also show secondary concerns "survival and sustainability" and "sense of presence and reputation." Many Humanists would agree with the following concept of success:

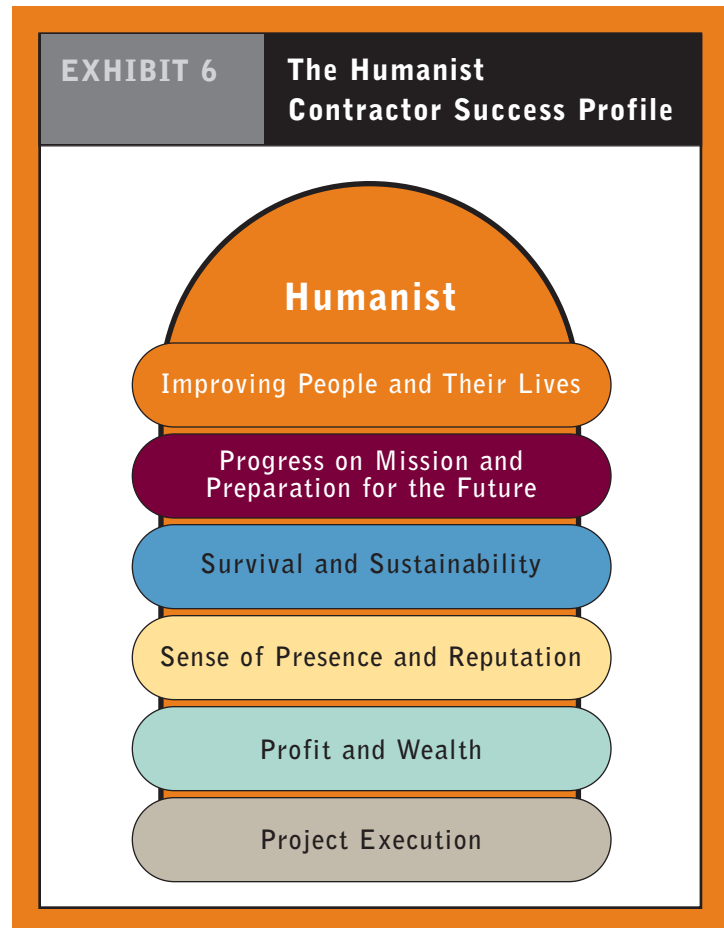
"We try to provide a challenging and rewarding workplace for our employees. Success is measured by the small things, such as attendance at extracurricular activities sponsored by the company, voluntary training, etc. The proud way our employees protect the company's reputation against poorly performing subs and new employees is another indication of their pride in the company. Moderate returns to the shareholders are also important, but not the most important indicator of our success."

— *President/CEO, General Contractor, \$60 Million*

When contractors often make declarations like, "Our people are our most important asset," it is the Humanists that are likely to say it with the most sincerity and back it up with training programs and actions that build customer loyalty. This is also the profile most concerned about building relationships with the community through volunteering and other acts of community support. Humanists take pride in their reputations and provide support for their people to build long and successful careers. Many Humanists define their companies as family businesses. Even if not owned by a single family, this group is most likely to treat everyone in the company as family.

The Humanist profile focuses most on relationship-based activities:

- Hire the best and the brightest
- Conduct extensive ongoing training
- Develop customers by intent, not accident
- Develop positive relationships with design professionals
- Acquire knowledge of competitors



Humanists focus on building long-term relationships and good reputations with customers in order to win repeat business. Their strategies are based on having the right people in place to do the job and training people to build their skills and work safely. They place a high value on integrity and building a thriving organizational culture. One contractor offered a thorough description of success that fits well with the Humanist Contractor Success Profile:

“My objectives when I left a promising career and joined this family business were:

- ❑ To build a company that would live on from generation to generation.
- ❑ To work with people who I both liked and respected and to provide the same environment for them.
- ❑ To manage the company as if it were a public company (e.g., no eating from the company trough).
- ❑ To level out the peaks and valleys of the business cycle to avoid churning personnel.
- ❑ To attract and hold managers who would otherwise be our competitors.
- ❑ To leave the company in strong financial and management condition at the end of my career.
- ❑ For the company to be known and respected for its excellence and a source of pride for its employees.
- ❑ To instill an ownership culture in our management team, while providing a good living for all of our employees.”

— *President, Mechanical Contractor, \$200 Million*

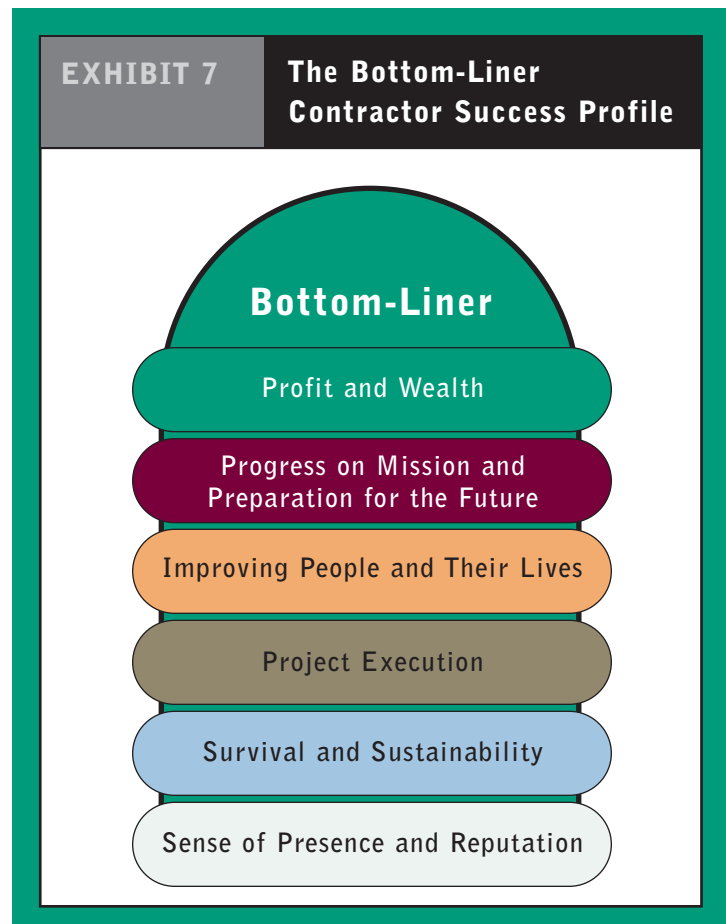
Building a culture where everyone feels like an owner and enjoys working for the company is laudable in any business, but increasingly lacking in the modern business world. Many contractors are demonstrating that the Humanist is a worthy profile for contractor success. One concern for contractors that fit this profile may be they don't lose sight of their financial condition so that they will have the profitability needed to fund their goals.

The Bottom-Liner

Companies that fit the Bottom-Liner Contractor Success Profile tend to keep a keen eye on the financials to gauge their level of success. The two most important factors of success are:

- Profit and wealth
- Progress on mission and preparing for the future

As in all the Contractor Success Profiles, Bottom-Liners do not overlook other factors. For instance, “improving people and their lives” as well as “getting the work done and done well” are both important factors for the Bottom-Liner, but not the primary areas they



look at to define success. According to one executive who fit the Bottom-Liner Profile:

“First and foremost is financial success. For me this means in excess of 10% operating profit. Next, and a very close second, would be that we provided career advancement opportunities for as many folks as possible. Third is that we did everything possible to provide a safe working environment for all of our people. Fourth, that we satisfy our customers such that we are their first choice.”

— *President, Specialty Trade Contractor, \$50 Million*

This comment demonstrates the overlap among the various Contractor Success Profiles. The Bottom-Liner, for instance, need not be strictly focused on finances; it is just that the bottom-line comes first when defining success.

Bottom-Liners tend to focus on the following activities:

- Having a well-developed plan for executing the company’s strategy
- Executing business plans with discipline
- Measuring what matters
- Hiring the best and the brightest people
- Understanding the company’s core competence

There is a tendency when looking at the Bottom-Liner Success Profile to say, as one contractor interviewed did, “First, it’s all about the money.” However, companies with this profile will have clear missions and strategic plans for achieving their goals. While the bottom line defines their success, they also show discipline in executing their plans for achieving profitability goals and maximizing wealth.

The danger for Bottom-Liners is they could forget what it takes to create a sustainable bottom line. They can get into trouble if they look only in the rearview mirror at financial results. Therefore, Bottom-Liners need to maintain discipline and execute their plans to avoid being blinded by short-term gains that result in long-term losses. For contractors who can focus on the bottom line without sacrificing long-term strategy, there is sure to be continual success.

The Generalist

For the Generalist, all of the factors of success are of equally high importance (see **Exhibit 8**). The Generalist attempts to focus on all six factors equally:

- Survival and sustainability
- Profit and wealth
- Progress on mission and preparation for future
- Sense of presence and reputation
- Project execution
- Improving people and their lives

Open-ended responses for those companies fitting this Contractor Success Profile tended to be longer and more inclusive of the various criteria of success. For instance, one Generalist’s definition of success was as follows:

“1) Well-respected among owners and the design community for high level of professional services and for approaching our work with the highest level of integrity. The result would be that we are considered for every project in our area that fits our profile. 2) Recognition that we are industry leaders in adopting creative ways of thinking and adapting to the constant changes in the marketplace. The result is that we are sought out for projects that are high ‘value-added’ jobs. 3) Strong contributors to the communities we live and work in, both financially and in ‘sweat equity.’ The result is a source of pride on the part of all members of our team. 4) We regularly exceed industry averages for net earnings and ROI. The result is a source of pride for our team, above-average compensation and excellent results for our shareholders.”

— President, General Contractor, \$50 Million

The Generalists have many areas to work on in order to meet their expectations of success. When we compared their definitions of success with selected activities that successful contractors are likely to undertake, the Generalists tended to rate the following high on the scale:

- Developing ongoing leadership succession
- Linking compensation to the company’s vision
- Measuring what matters
- Differentiating their companies from competitors
- Fostering teamwork

All of the activities on the above list require well-coordinated internal processes and an eye toward the future as well as a shared vision for the company and the means to implement that vision over the long term. Building depth in leadership positions means attracting and retaining good people.

Building a vision and linking compensation to that vision require excellent communications within the company as well as solid measurement systems and clearly defined compensation plans. Clarity of vision for the company is a good place to start when developing strategies that differentiate the company from its competitors. Teamwork throughout the company will help to carry out those plans.

The Generalist Success Profile shows signs of a mature company. On average, the companies identified as Generalists have been in business about 65 years compared with an average of 57 years. While the term “Generalist” implies a lack of focus, we infer from the sustainability and success of those fitting this profile they have put many of the factors of success together more or less simultaneously.



If there is a concern for continued success for the Generalists, it is that some areas may be weaker than are others. For instance, if the Generalist fails to develop or retain leaders who are capable of stepping into key positions as the company grows, the company's success may falter. When a company focuses in many areas at once, it is challenging to maintain a common vision and sense of teamwork. However, once the company finds the right mix among the factors of success, success may continue year after year.

The Tactician

The Tactician is the Contractor Success Profile that focuses most on the “project execution” and “survival and sustainability” factors for defining success (see Exhibit 9). The Tactician is least motivated by the “profit and wealth” factor, but shows some concern for all other success factors: “sense of presence and reputation,” “progress on mission and preparation for the future,” and “improving people and their lives.” However, project performance is the most important focus for the Tacticians.

The Tactician builds success one project at a time. Tacticians place more emphasis on creating and honing processes than the other Contractor Success Profiles do. This profile may also be the one that strives most for continual success. When it comes to implementation of its strategy, the Tactician focuses on the following areas:

- Adopt innovative ideas early
- Acquire knowledge of competitors
- Collect receivables on time
- Develop positive relationships with other partnering contractors
- Develop customers by intent, not accident

The Tactician is focused on the field, workforce productivity and being competitive. It often differentiates its services at the project management level. The Tactician shows all the signs of the practical contractor that focuses on building success from the ground up by giving people the right tools and the knowledge and responsibility to be successful on every project. The Tactician is an early adopter of technologies and may be one of the most forward-looking of our Contractor Success Profiles. Therefore, it is not too surprising that they are, on average, the youngest companies, having been in business an average of 49 years; yet several in this group have been in business for more than 100 years.



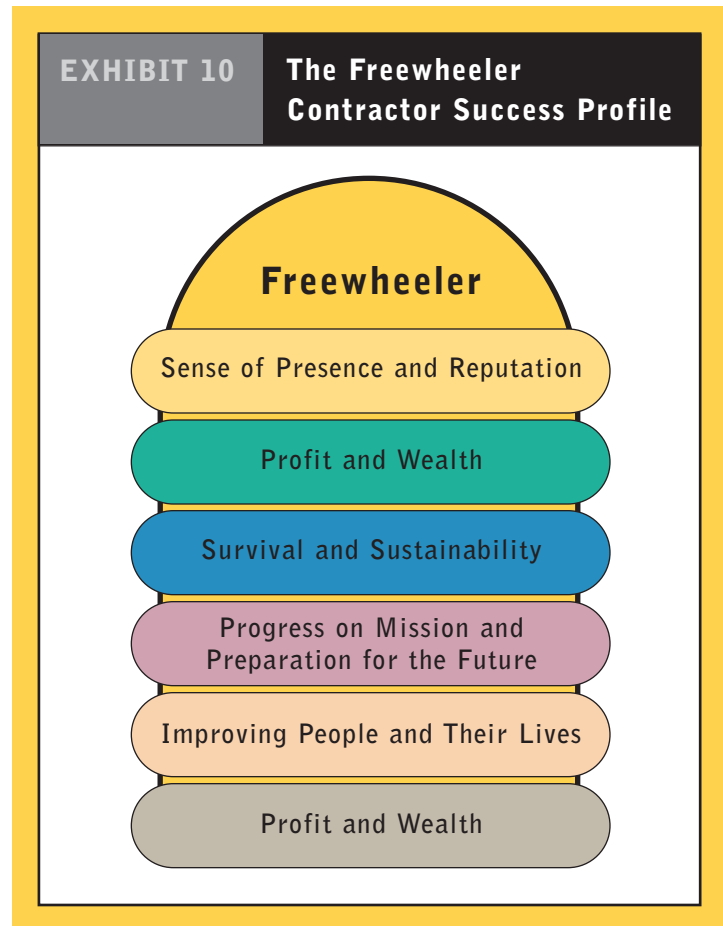
If there are any potential weak points in the Tactician Contractor Success Profile, it may be that this group has difficulty understanding its vision. It may also be a challenge to maintain project discipline as Tacticians grow to take on many larger projects. The Tactician's focus on project success could mean a lack of strategic direction, but combining both sound strategies with sustainable project success is sure to foster overall success.

The Freewheeler

The Freewheeler Profile can change position and color like a chameleon, to look similar to any of the other four Contractor Success Profiles at least for short periods in the company's history (see Exhibit 10). The Freewheeler does not appear to have a primary focus area. However, the secondary Success Factors include:

- Sense of Presence and Reputation
- Profit and Wealth
- Survival and Sustainability

This profile is less focused on missions, people and project success. However, in some ways, the Freewheeler is like the Generalist, but perhaps less systematic. The Freewheeler does not focus on as many things at once as the Generalist, but may be faster to respond to changes in the markets or more able to jump on opportunities as they present themselves. Survival and sustainability mean being nimble enough to choose the best path at a given time and to do this repeatedly over the years.



“The business is always under change. You change or slowly die.”

— *President/CEO, Trade Contractor, \$200 Million*

“Our longevity is a testament to the respect we have in the industry — from our customers, suppliers and competitors. We have provided a value service for many years, while at the same time providing a quality of life for our employees that is second to none.”

— *President/CEO, Trade Contractor, \$130 Million*

The Freewheeler focuses on developing positive relationships with suppliers. These relationships with suppliers may be one of the few constants over time, so the value of good relationships is rated highly by companies that fit this profile. The Freewheeler also seeks to understand the company's core competence, collect receivables on time, hire the best and the brightest and adopt innovation early. These are all characteristics of companies concerned about being agile and adaptable, often characteristic of specialty trade contractors that operate in numerous markets, but useful traits for all types of contractors in a changing economy. Since the Freewheeler can overlap significantly with the traits from the other profiles, it is the most difficult to identify and maybe the most difficult to discern for anyone comparing his/her own definition of success with each of our Contractor Success Profiles.

If Freewheelers have a potential for weaknesses, it is their lack of a long-term vision or mission, and changing their focus frequently can mean that sometimes they miss out on opportunities by not sticking with a direction long enough to fully exploit that market seam. If they are prone to changing their mode of operation to suit the markets, Freewheelers must also be able to realize when they have made a wrong choice or when the market trends are changing again.

WHICH CONTRACTOR SUCCESS PROFILE MAKES THE MOST MONEY?

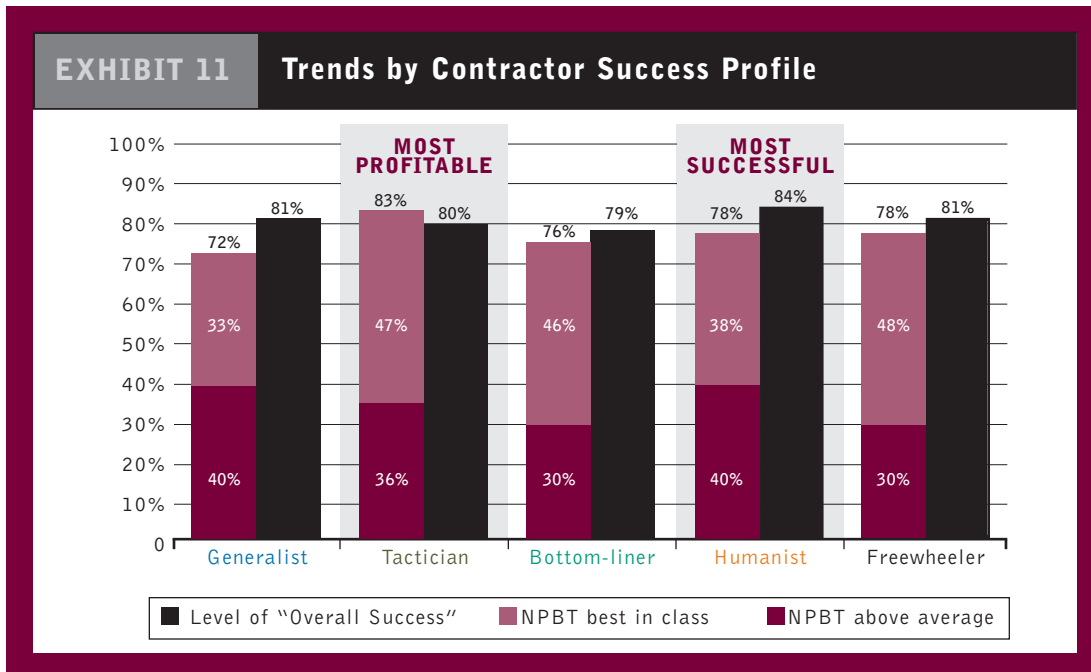
Although in our research most contractors did not appear to define their success by profitability levels, we expect our readers would like to know the relative profitability of each of the Contractor Success Profiles.

We compared each Contractor Success Profile with profit levels indicated in the survey response. Our information was not based on an analysis of actual financial records. We asked respondents to indicate their profit levels from incremental choices given in the survey form. We then broke the profit level data into two categories, "best in class" and "above average," as compared with our own experience and information from CFMA (CFMA's 2007 *Construction Industry Annual Financial Survey*, Construction Financial Management Association).

It turns out that the Tactician and Freewheeler Contractor Success Profiles ranked equally high when comparing the percent of each profile as having best-in-class profit levels (see Exhibit 11). Humanists scored themselves higher on the "overall success" scale, but profitability was generally lower than all but the Generalist at the best-in-class profitability level. The Generalist Profile reported the lowest profit levels as a group, which may result from their need to focus on so many aspects of success simultaneously.

All together, there is little difference among the Contractor Success Profiles when ranking them by perceived levels of success or levels of profitability. The cultures on which each company builds its own Success Profile are perhaps one of the most distinguishing elements of success and the basis for differentiation in the market each contractor serves.

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SUCCESS AND EMPLOYEE TURNOVER RATES

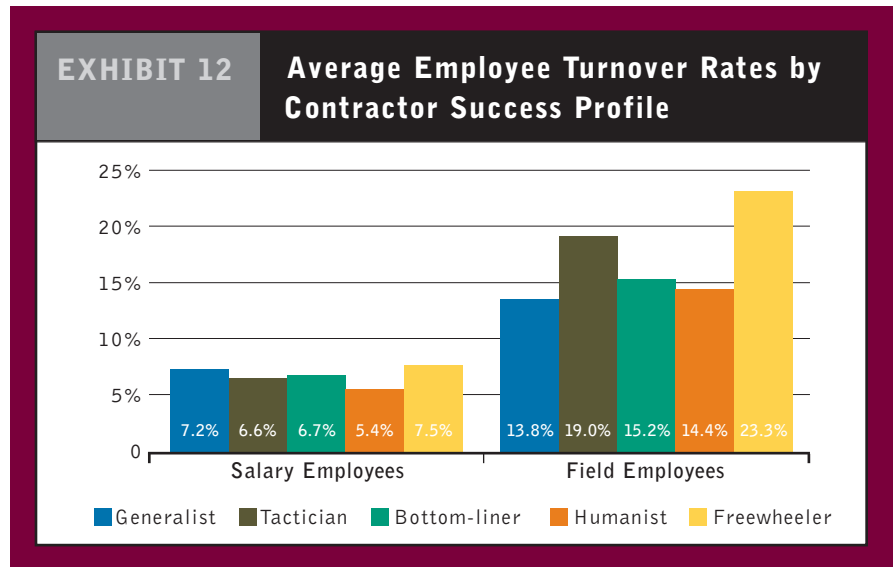
Many of the successful contractors responding to our survey expressed low employee turnover as an important criterion for success. As might be expected, the Humanist Contractor Success Profile exhibited the lowest turnover rates of all Success Profiles for salaried employees and the second lowest for field employees. Turnover for field employees varies greatly depending on the type of contractor and the markets in which they work, but successful contractors strive to keep their best employees employed and improve their skills by providing training opportunities and new challenges.

“[Success] is about having engaged, fulfilled and really happy employees. We have taken the approach to focus on the employee part of our business; working to develop our people, systems and company. We have had an HR focus that seems to us to be very successful and helped us attract new folks. It is hard to give great customer service if you as an individual are unhappy. We want our employees, from executives to front office, to be excited to be here and part of the team. It is contagious.

We have taken many approaches. We have tried to be better at hiring people who are smarter than [we are] and people who have complementary skills. We have focused on retention, and now we have very low turnover. We work with our managers to empower people and not be micromanagers. We have done a lot of research, and the research tells us that people hate to be micromanaged. They want opportunities, and they want constructive feedback. Research that really stuck out with me was how many companies set up environments and bureaucracies that really harmed their own productivity and made the employees’ job almost impossible to do.”

— *President, General Contractor, \$65 Million*

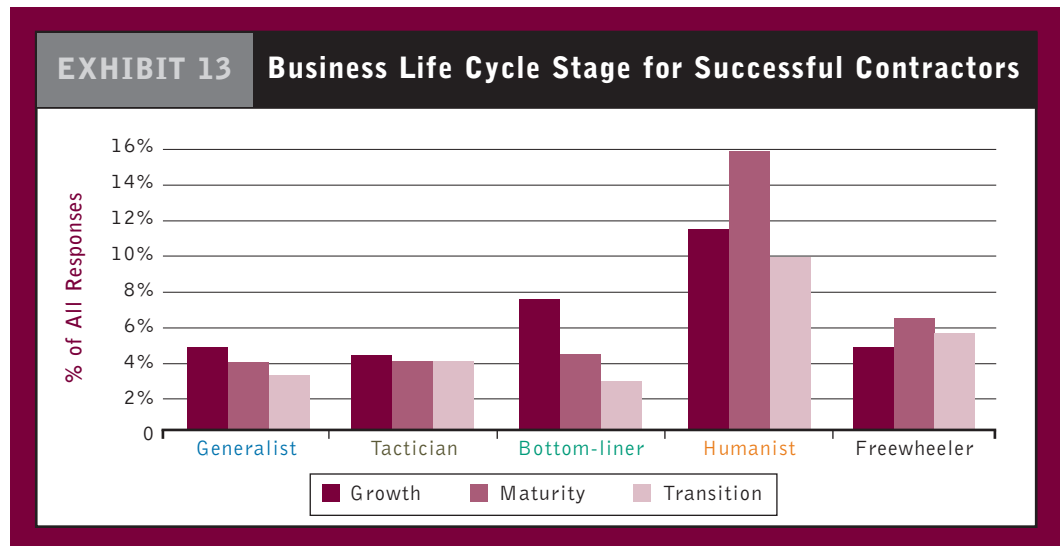
In our work with contractors, we often find their perception in the marketplace depends not just on their capabilities and overall service, but also on the abilities of their employees to relate with customers and complete the project to the owner's satisfaction. Having talented people with low turnover also saves time and money for recruiting (see Exhibit 12).



THE BUSINESS LIFE CYCLE AND SUCCESSFUL CONTRACTORS

The business life cycle is typically described as having five stages: Start-up, Growth, Maturity, Transition and Decline. We asked the contractors to categorize their companies as to which phase of the business life cycle they were currently in. None of these successful contractors were in the start-up phase or in decline. With a couple of exceptions, there was little difference among the five Contractor Success Profiles as to phase of the business life cycle. The Humanists tended to identify themselves more often as mature companies, while the Bottom-Liners were somewhat more often seen in a growth phase.

Success can be obtained in any phase of the business life cycle, and it is not dependent on the age of the company. While mature companies were nine years older than those identifying as either growth or trans-



sitional, there were both older and newer companies in each of the three phases. There were a few that identified themselves in an “other” phase, but most fall in the transitional phase as they are at a point where they are looking for new growth areas or undergoing other changes in the company at this time. Ultimately, we do not think the phase of the business cycle is itself a determinant for success other than to say it is important to understand the business life cycle and how it affects your strategy and plans for growth.

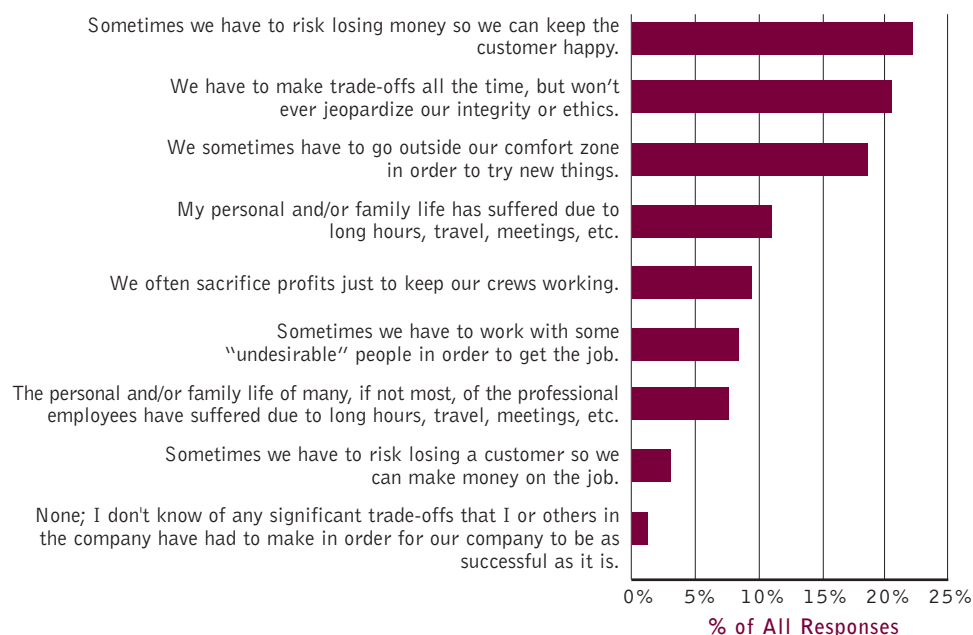
SETBACKS AND TRADE-OFFS ON THE ROAD TO SUCCESS

Few, if any, companies achieve success without experiencing some setbacks along the way. For successful contractors, it is usually better to deal with setbacks early in their careers or in life of the company. Such setbacks, once overcome, become part of the success story and serve as examples of how the company overcame adversity. Setbacks become learning experiences that are talked about openly and solutions are found to prevent such problems in the future. Of course, some setbacks are not preventable, and we heard a couple of stories about the loss of some key people who met premature deaths. Such events become part of the company's memory. Generally, the successful contractors, the ones that survive, learn to recognize setbacks before they become insurmountable problems leading to failure.

Setbacks to success are usually singular events that occur now and then in the life of any company. Trade-offs can be of more nagging concern. When we asked contractors to choose among a list of potential trade-offs they have had to make to become successful, they most often said that they sometimes risk losing money in order to keep the customer happy. Considering concern for customer satisfaction was second only to having high integrity on our list of criteria for success; this is not surprising. Successful contractors will often go out of their way to please their customers. Only a small percentage indicated that sometimes they have to risk losing a customer in order to make money. The key to avoiding both trade-offs is to pick good customers whenever possible.

EXHIBIT 14

Which of the following costs or significant trade-offs have you or your company had to make in order for your company to be as successful as it is today?



Integrity was one thing successful contractors said they wouldn't trade off. Sustainable, overall success in contracting is highly dependent on reputation. This is what gains repeat customers and recommendations for new business. Integrity permeates all the factors of success, and no company can maintain sustainable success without it.

We heard several stories about burnout and difficulties with family life due to long hours and travel that is often necessary for anyone building a successful company. We added that choice to our survey as a possible trade-off, and about 12% of contractors agreed it was a problem. However, several commented that family "sacrificed" more than "suffered." Families come to realize this is a necessary part of the business and is part of success.

Eighteen percent of the participants said that they sometimes had to go outside their comfort zone and try new things to be successful. The Freewheeler and the Bottom-Liner were the most likely to experience this trade-off. The Freewheeler profile may more naturally seek out such challenges that befit their opportunistic nature. The Bottom-Liner would more likely only be in that position because of necessity. In all cases, when companies are seeking to be in business a long time, it is certain they will have to take on new projects and work in new regions in order to grow and maintain their success (see **Exhibit 14**).

PROFILING SUCCESS FOR CONTRACTORS

According to Julia Kirby, writing in the Harvard Business Review, "The challenge of measuring companies' relative performance... declaring the top performers, and finding the common drivers of their success is so daunting that it might seem a fool's errand to attempt." (Julia Kirby, "Toward a Theory of High Performance." HBR, July-August, 2005.) In our first causal analysis of contractor success, we have found a deeper definition of success, and we have found no single driver or set of drivers that lead to success for all contractors. Instead, we found there are many paths to success that we could summarize into five Contractor Success Profiles.

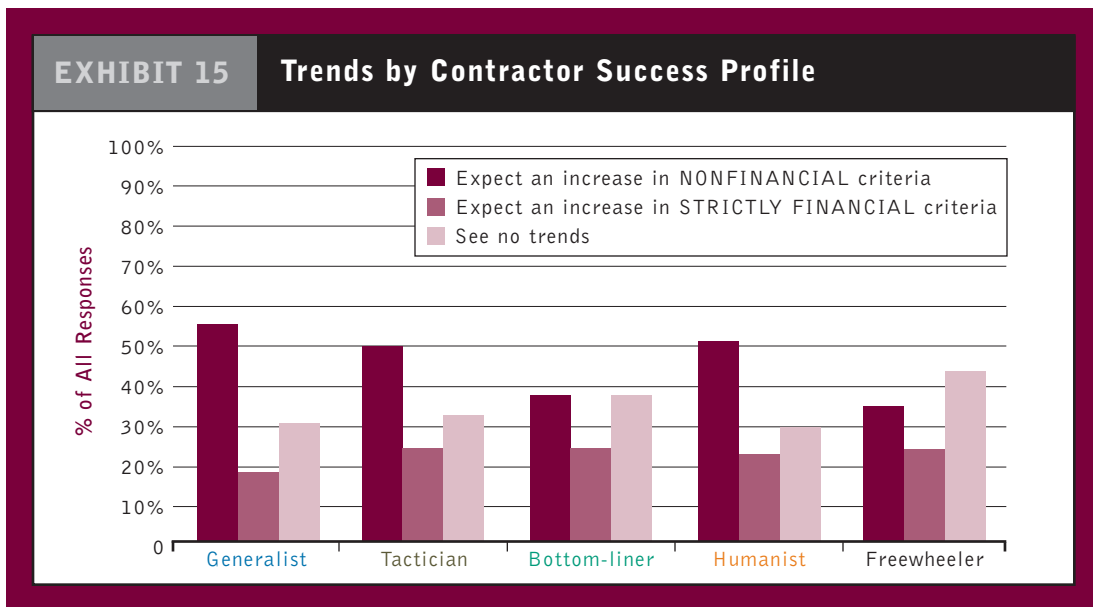
We do not expect these profiles to remain completely stable over time (see trends in **Exhibit 15**). Does that mean that the Bottom-Liners will all become Generalists or Humanists? No, but profile changes may reflect changes in the industry, with greater emphasis on nonfinancial measures. There are also those who think the financial aspects of success will dominate the future. They are aware of the difficulties of making and keeping profits in this industry. On the other hand, 29% of contractors surveyed do not expect the way contractors define success to change in the foreseeable future. For many, the definition of success has changed little for generations. In their world, success is formed by a culture passed down from founder(s) and perfected over time.

Where does your company fall in relation to the five Contractor Success Profiles? Many readers may have already identified themselves as fitting one of the profiles. In future research and in our daily work with contractors, we will look to further refine and apply the Contractor Success Profiles to help contractors find continuing success. One lingering question we have is, "What happens when companies seek to move from one profile to another?" This might occur when new leaders take the helm. For those companies that said the definition of success had changed over the years, changing leaders and philosophies was one of the leading causes along with a change in the life cycle of the business. Do great risk and confusion accompany changing profiles? Is there a period of diminished profitability? Do key employees turn over more readily during such changes?

Upon closer analysis, it isn't that contractor success is boring, but it is more complex than contractor failure. One reason that stories of contractor success rarely make the headlines is that success isn't a singular event in time. Rather, overall success is an ongoing, continuous effort. To achieve lasting success, a contractor has to build a culture based on its founding ideals and definition of success and keep on building success, often for many generations. Success isn't boring; it is interesting; it is challenging and a lot more fun than failure. As one contractor interviewed said:

“Success is not a series of static events but an accumulation of knowledge that can only occur over time. Success is a prolonged event. It is not momentary. It is not one good year or even a record year. It is a body of work, and that is how I have come to believe the industry defines success. It is long-term.”

— CEO, Utilities Contractor, \$85 M



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Professional researchers in FMI's Research Services Group conduct rigorous quantitative and qualitative studies within the construction industry. We gather and analyze information, placing it in the context of our industry and transforming it into knowledge. We are committed to adding to the collective knowledge of the construction industry.

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