



CFMA PEER GROUP PROGRAM

REVIEW & ANALYSIS OF TOPICS &
DISCUSSIONS FROM 2016-17

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BACKGROUND

In 2015, the Construction Financial Management Association (CFMA) began evaluating the potential implementation of a peer group program in which Association members could voluntarily join peer groups to explore topics of interest.

Once CFMA committed to implementing the program, a pilot program approach was established. During 2016, eight peer groups were organized. These peer groups were divided into two groups—four of the peer groups would use an outside facilitator, and the other four peer groups would be self-facilitated.

To assist with the facilitated peer groups, CFMA solicited proposals from outside groups to provide the facilitation services. After reviewing the proposals, CFMA engaged BKD, LLP to serve as facilitators during the pilot program in 2016.

At the conclusion of the 2016 pilot program, the peer groups provided feedback and CFMA made the decision to expand the program in 2017 with open enrollment across the entire CFMA general membership. The result was the formation of 10 new peer groups, bringing the total number of peer groups in the program to 18, representing approximately 175 CFOs, controllers, and construction financial managers (CFMs). CFMA formed the peer groups using various factors, including size, geographic location, and type of construction, and separated competitors as requested.

One outcome of the 2016 pilot program was to make facilitation available for all 18 peer groups in 2017. Because the four self-managed peer groups had varying levels of success during the pilot program, CFMA decided to transition all self-managed peer groups to facilitated peer groups in 2017. This decision will be re-evaluated as the program matures.

The program's structure enables peer groups to engage in periodic interaction via teleconferences, which can vary from monthly to quarterly calls at the discretion of each peer group. In addition, each peer group commits to one in-person meeting per year, which usually spans one or two days. Some peer groups have selected the company headquarters to host in-person meetings, while other peer groups have scheduled the in-person meetings in cities and hotels that are convenient for travelers.

The following sections of this white paper are an accumulation of various topics we have observed during our facilitation of the peer group calls and in-person meetings over the first two years of the program. We have divided the topics into five broad areas: Technology; Human Resources; Insurance and Risk Management; Succession Planning; and Financial Metrics and Processes.

ANALYSIS & REVIEW OF TOPICS

TECHNOLOGY

Throughout the first two years of the peer group program, it was readily apparent that technology-related issues can dominate a CFM's daily and monthly workload for their construction company. Many of the CFMs expressed levels of frustration at trying to manage the overall technology strategy of their company, as the demands of bidding/estimating, operations, finance, accounting, and human resource management intersect with a highly mobile workforce. In many of the peer group companies, the responsibility to develop and implement the strategy has been placed squarely on the CFM.

CURRENT ERP SYSTEMS

Most CFMs in the peer groups have reported significant investments of time and dollars in upgrades to their enterprise resource planning (ERP) system over the past five years. Major vendors have continued to roll out enhancements and upgrades to their platforms, resulting in a continuous cycle of implementation and transition for CFMs, which can create frustration for the CFM and other users.

During the peer group discussions and meetings, most CFMs believe pace of change is going to quicken in the near term, as companies and vendors look to technology to drive productivity improvements in construction.

Newer ERP technologies that include cloud-based solutions are beginning to achieve acceptance in the construction market. Historically, construction companies have been highly protective of data and skeptical of using a "hosted" solution in which their data was stored off site or in the "cloud." As newer solutions from ERP vendors move toward hosted or cloud-based solutions, more construction companies are evaluating these as a viable alternative. Further, cloud-based solutions lower a company's overall investment in technology, making more advanced ERP platforms available to smaller contractors. However, one hindrance is the CFMs' fear they would become the go-to person on this project, and not many were willing to add another task to their list of responsibilities.

IT DEPARTMENTS

Many CFM participants discussed best practices regarding the structure of their IT support services. Some companies have staffed in-house IT departments to support their existing operations, while others have outsourced their IT departments to external IT companies. While there was no consensus on

what the best practice for IT department structure is, it was clear the size of the construction company has a direct effect on the ability to staff talent internally for an IT department.

MOBILE TECHNOLOGY

In the past few years, no topic has received more attention in construction technology than mobile. Due to the nature of construction projects, the ability to access mobile technology solutions at the jobsite has become almost mandatory. CFMs in the peer groups discussed various ways they were using mobile and jobsite technology, including smartphones and tablets, and most see this area developing quickly over the next few years. The majority of CFMs report limited success in thoroughly implementing these mobile solutions, with sporadic acceptance by employees working at the jobsite. Some key applications for mobile technology include time and labor reporting, daily job progress reports, and workplace safety/incident reporting.

JOBSITE/FIELD REPORTING

Construction companies continue to evaluate the overall technology available at the jobsite. Peer group CFM participants indicate that project management continues to be a significant focus. Included in project management, peer group members reported access to drawings, integration with the other contractors working on the project, scheduling, and change order management as some of the important workflows that need to be initiated and monitored at the jobsite level.

NEW APPS

With the push toward mobile technology in the construction company workforce, some of the peer group CFMs are beginning to report development of proprietary applications for smart devices (phones/tablets). Many have indicated they are evaluating additional applications in the open market that can be implemented through mobile technology currently in use at their company.

Some challenges of integrating mobile technology are security, data management/integrity, and establishing company policies for use. CFM participants feel this is an area that will require more management and focus in the future.

EXPENSE REPORTING

CFMs at construction companies with a highly mobile workforce are focusing some technology solutions on expense reporting. Many times, the base ERP or payroll system being used is not designed to also handle expense reporting. Many construction companies have policies and procedures for expense reimbursement that can have various levels of complexity such as per diems, unique travel rules, company-owned credit cards, purchasing cards, etc. Many peer group members reported that implementing a technology solution to handle expense reporting can be challenging. Some have found success with off-the-shelf data collection and reporting programs, while others have found modules available with their current system provider. The key is verifying integration with the systems already in place.

PROJECT MANAGEMENT

The fundamental technology application that can affect the performance on a construction contract is the project management software the construction company has implemented. Many CFMs in the peer groups discussed the various vendor solutions currently available in the marketplace, along with some custom-developed applications that deal with specific items within the project management solution.

Similar to jobsite/field reporting examined above, one of the key items identified by peer group CFMs was the integration with the other contractors on the project, especially with respect to changes in the construction drawings and change order management.

Several CFMs indicated that a source of major frustration for specialty contractors (who often are subcontractors on a project) derives from general contractors using different project management systems and processes and expecting the subcontractor to use the same platform for integration. This can result in significant investment of time and money for the subcontractor as they move from project to project, working with different general contractors.

PAYROLL

The accumulation of time and effort and processing of payroll on a project have long been basic processes that are critical to a construction company's success. Many peer group CFMs reported that they are continuing to spend a large amount of time and resources on properly processing payroll. With ever-changing federal, state, and local income tax rules coupled with other required reporting (union, certified payroll, workers' compensation, benefit plans, retirement plans, etc.), CFM participants recognize this is a high-risk area if not processed correctly. Most reported processing their payroll internally, usually as a module within the ERP system. Some CFMs reported outsourcing their payroll to a third-party vendor, but they were a minority within the peer groups.



BKD Comments

Technology in a construction company can be a distinguishing factor for a high-performance contractor versus an average- to low-performing contractor. Developing a well-thought-out and documented strategic technology plan can help you identify weaknesses and opportunities for improvement within the organization. It also allows the decision-makers of the company to make better decisions with real-time information. However, without a strategic plan, the additional data can just become overwhelming.

How well do your technology operations support your construction company's strategic goals? How can you transform your business processes to reduce costs and improve your company's competitive position? Does your technology have the speed and flexibility to accommodate the changing needs of your business? Answering these basic questions can start you down the path of improvement within your construction company.

During the peer group teleconferences and in-person meetings, we found that CFMs who play an active role in developing their organization's IT strategy also demonstrate leadership within their company, and this put them in a position of senior leadership in their organization.

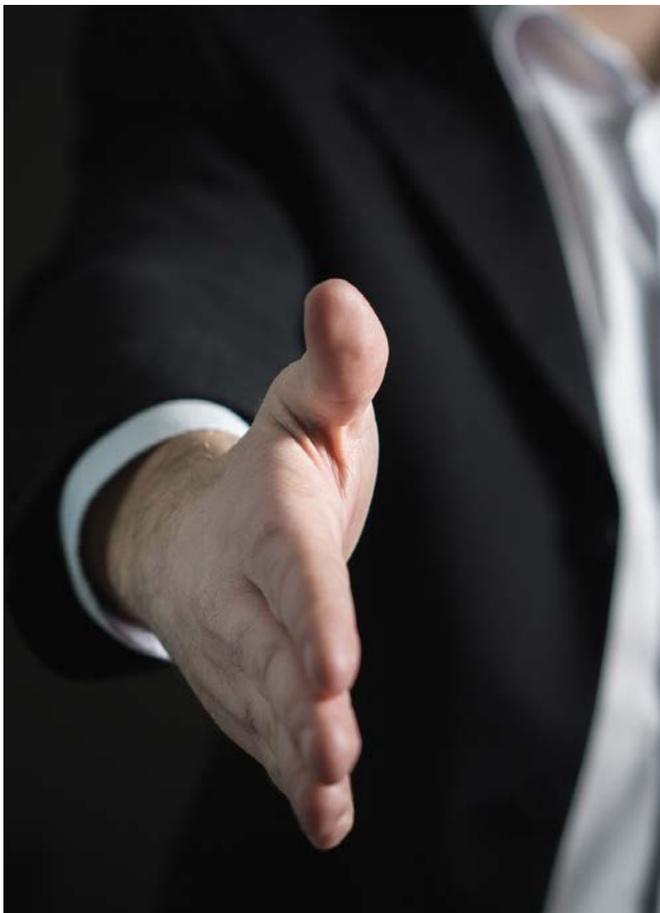
CFMs who have reported successes in embracing new technology have found that a cut-the-cord mentality seems to work best. Most people fear change, causing the transition to be challenging. Hard cutoffs of old ways and processes forces the issue and moves the process forward.



ANALYSIS & REVIEW OF TOPICS

HUMAN RESOURCES

Most peer group CFM participants have strong educational and work backgrounds in finance and accounting. In contrast, most of the CFMs reported that one of their key duties within the construction company is managing the various aspects of human resources (HR). This includes talent acquisition, onboarding, retention, compensation, benefits, leadership development, and coaching—all areas in which a CFM has little or no formal training. Expectedly, peer group participants explored many topics that fall under the umbrella of HR during peer group teleconferences and in-person meetings.



RECRUITING

Peer group CFMs are keenly aware of the issues in the construction industry related to talent and a skilled labor force. In general, most peer group participants seem to acquire enough talent to “get the job done,” but many also recognize the tremendous opportunity for improvement in productivity and quality, which leads to better margins on projects.

While all peer groups have some level of recruiting at their companies, contractors that utilize union labor focus more recruiting efforts on their non-union positions (project managers, bidding/estimating, etc.), while contractors that are open shop must recruit for all positions.

As expected, there are regional and local differences among peer group members when discussing recruiting. It also is apparent that differences occur when recruiting project managers and supervisors versus field labor.

Most CFMs reported using some type of recruiting bonus with existing employees to assist with the acquisition of new talent in the organization. However, CFM participants reported limited success from these recruitment bonuses, with several instances of new hires leaving within a short period of time or performance problems with the new hire.

One interesting discussion with a peer group involved promoting the company culture when recruiting. Many construction companies have not spent the time or effort to identify what their company culture is based on the peer group discussions. This could be an area to explore further.



BKD Comments

The management of human resources (human capital) has been a critical component of construction since the early days of construction. From recruitment and hiring practices to training and development and project management, high-performing construction companies dedicate significant time and resources to this area of their business. No matter what size or type of construction a company is involved in, implementing HR-focused strategies and best practices will drive performance. Formally documenting policies and procedures, along with adequately funding the necessary budget to be a high-performing organization, is the key to success. Items such as employee engagement, flexibility, recognition, appreciation, safety, and company reputation have taken on greater meanings with current and future workers. Companies that take a proactive approach with their human capital can see a positive effect on their bottom line. Recruiting, retaining, and properly training the right employees can help minimize costs by promoting productivity and reducing costs associated with safety and risk management issues.



RETENTION BEST PRACTICES

Many of the peer groups have active efforts aimed at retaining employees. Some CFMs reported stepped-up efforts on training and skill development (leadership, technology, and project management), but most peer groups are still using traditional methods to facilitate retention, such as holiday parties, company picnics, and gift cards.

CFM participants who reported successful retention efforts have linked company culture and robust training programs to their retention strategies. Some CFMs reported that setting a benchmark for budgeting learning and development has helped in promoting this culture. Companies have noticed the makeup of the workforce changing. Companies with strong retention rates have focused on providing a close-knit, family-type atmosphere where issues such as safety are extremely important. Employees are looking for an employer that not only provides a place to earn a wage, but one that also genuinely cares about them.

ONBOARDING

The concept of formally onboarding new employees has gained acceptance over the past few years, with most peer group CFMs reporting standard policy and procedures regarding this practice. High-performing construction companies place considerable emphasis on this, with formal job shadow programs for new employees and extensive training before a new employee is deployed to the field.

Onboarding of new employees is closely tied to the technology that a company deploys. CFMs must play a key role in helping the company design and implement appropriate technology training to help new employees become productive and efficient as quickly as possible. Some of the peer groups reported difficulty with implementing technology in the field (for both new and existing employees), but it appears the difficulty is often caused by a lack of focus and commitment to training.

ANALYSIS & REVIEW OF TOPICS

INSURANCE & RISK MANAGEMENT

During various peer group meetings, the area of insurance and risk management was consistently discussed by the CFMs. Similar to the HR topics previously examined, very few CFMs have received any formal education or training on insurance and risk management, but many times their job responsibilities at the construction company have grown to include this area. This responsibility can vary widely, from supervisory oversight to direct responsibility for the programs.



BKD Comments

Insurance and risk management has become a strategic, competitive advantage for high-performing construction companies. Resources invested in these areas help increase productivity and efficiency, resulting in better margins and ultimately better projects. This is a highly complex area; utilizing outside expertise such as brokers and consultants who specialize in risk management can result in better outcomes, no matter what size or type of construction your company performs. In addition, with the tax law that was passed in late 2017, certain benefits to captive insurance programs have been enhanced.



SURETY & BONDING

CFM participants are very engaged in the surety and bonding relationships their companies have. The perception is that these relationships are critical to a contractor's success. The high-performing contractors have engaged in relationships with their broker and the respective underwriters, and they consider those relationships a key part of their strategic plan.

CAPTIVES

The implementation of a captive insurance program continues to be a topic of discussion in many of the peer groups. CFMs in the peer groups appear to be staying educated on the topic of captives, but few smaller companies have actually implemented a captive program. However, many of the larger companies are active in the captive arena.

Understanding what risks a construction company can place in a captive is an important factor in determining the financial viability of implementing a captive strategy. It appears peer group CFMs will continue to be educated on the topic of captives and will consider implementing the strategy in select cases.

HEALTH INSURANCE RENEWALS/STRATEGIES

Perhaps no other topic garners the attention of CFMs more than the annual renewal of company health insurance plans. This process touches almost every aspect of the business, including finance, operations, HR, bidding, and estimating. Many of the peer groups reported spending a large amount of time and effort during the renewal process for health benefits, trying to balance the benefits under the insurance with the cost of the premiums. Some CFMs indicated hesitancy to bid out the health benefit package due to the disruption it would cause employees (potentially changing health care providers).

While some companies are increasing the amount for which employees are responsible (higher co-pays and deductibles), most peer group companies were attempting to limit increases in monthly premiums paid by employees as part of their retention efforts.

WORKERS' COMPENSATION BEST PRACTICES

Due to the nature of construction, there has been a major focus on safety and management of workplace injuries for years. Many of the peer group companies reported very robust programs to keep safety and workplace injury avoidance front of mind, especially on the job site. Some of the more innovative programs discussed employing physical therapists who specialize in construction workplace environments to be on the jobsite to help mitigate potential injuries such as back injuries, joint injuries, and muscle strains.

ANALYSIS & REVIEW OF TOPICS

SUCCESSION PLANNING

For the most part, very few of the CFM participants have ownership in the construction companies for which they work. Even so, peer groups reported many concerns involving succession planning, both from an ownership perspective and management perspective. Regarding the ownership succession topic, a few CFMs reported successful transitions that have occurred over the past few years. However, most CFMs reported a lack of planning for ownership succession, which was causing concern among the nonownership group at many peer group companies. This appears to be an area in which CFMs would benefit from additional guidance and training on how to have these conversations with an owner and how to develop a formal strategy.



BKD Comments

Did you know 88% of business owners view succession planning as important? Yet only 36% of business owners have a formal succession plan.*

Surveys show business owners view succession and continuity planning as one of their most important issues, but most lack a formal plan. What prevents owners and management teams from developing successful succession plans? Two things: day-to-day distractions of running a business and lack of experience.

Succession planning is critical for a construction company, as many important customer relationships and construction project skills are usually tied to individuals versus the company.



MANAGEMENT SUCCESSION VS. OWNERSHIP SUCCESSION

Management succession is sometimes hard to separate from ownership succession in a construction company, as many owners also are the key executives. What many organizations fail to realize, however, is that when companies get into financial difficulty during transitions, it is more often caused by management issues than ownership. Many CFMs in the peer groups reported concerns about management succession outside the ownership group, primarily regarding long-term project managers and superintendents.

Best practices in the peer groups indicate a well-documented and articulated ownership and management succession plan is the key step to long-term financial health of a construction company. It is never too early to have a succession plan in place.

DISCOVERY	INTEGRATED PLANNING	IMPLEMENTATION
Gather information	Identify gap between current & desired state	Capitalize on opportunities
Identify needs	Execute & adapt to meet goals	Close gap between current & desired state
Identify stakeholders	Identify opportunities & risks	Reduce risks
Co-design process	Design road map to enhance communication	Achieve objectives
Clarify objectives	Assess needs & prioritize	

ANALYSIS & REVIEW OF TOPICS

FINANCIAL METRICS & PROCESSES

As expected, CFM participants demonstrated deep expertise of financial metrics and processes in their company. It was interesting to note that very few CFMs wanted to use the peer group program to discuss financial benchmarking; rather, they wanted the focus to be on best practices and general information. In addition, it was clear in peer group discussions that it is very difficult to separate the technology implemented in a construction company from the financial processes. This requires CFMs to have an in-depth working knowledge of the technology platforms while also maintaining technical expertise in the accounting and tax areas.



BKD Comments

CFMs have long been the key person for financial metrics and processes. We have observed over the past few years that high-performing CFMs have become significantly more involved in the review and analysis of contracts in process. The interactions among CFMs, bidding/estimating, and project engineers are a critical component that top-performing companies have adopted.



WORK-IN-PROGRESS SCHEDULES

The peer groups had robust discussions on the process of accumulating work-in-progress (WIP) schedules on a monthly basis. The CFMs reported a wide variety of experience levels regarding their involvement (other than accumulating information) with respect to the WIP schedule. Best practices indicated the CFM was an active participant in the monthly review of the WIP schedule with the executive teams in the company.

ACCOUNTS RECEIVABLE BEST PRACTICES

During peer group meetings, several CFMs wanted to explore best practices for accounts receivable (A/R) for construction companies. This included the entire process, from WIP accumulation and approval by project managers to drafting of the invoice and collections (including retainage). Again, best practices indicated the CFM played a very important role in managing this process in high-performing organizations. Another indicator of a high-performing organization was the ability to forecast cash flows accurately on a weekly/monthly basis. The benefits of this resulted in better cash management for the construction company.

KEY PERFORMANCE INDICATORS

Almost all peer group CFMs reported some type of key performance indicator (KPI) utilization within their companies. The key to effective use of KPIs is customizing the KPIs for the CFM's organization. While there seems to be a standard set of indicators that matter to most companies, tweaking or creating focus on unique indicators was found to be very informative for the peer groups. It gave a fresh perspective and caused many CFMs to revisit and retool the indicators they use in their practices.

MANAGEMENT REPORTING

Several of the peer groups had robust discussions on what types of management reporting (beyond monthly financial statements) were being utilized within their construction company. The CFM's involvement in the management reporting process has expanded, especially with the continued implementation of technology that is creating vast amounts of data that must be analyzed and reported back to management. CFMs are in a unique position given their expertise in finance and accounting, along with their significant involvement in the technology applications in use within the company.



MONTH-END CLOSING PROCESSES

The effectiveness of many CFMs in the peer groups is measured by how quickly the monthly financial and management reports are available after month-end. This discussion among the various peer groups resulted in a wide range of timing, with some companies reporting availability within five days after month-end to as long as 25 days after month-end. The size of the company did not appear to have a direct impact on the timing of the closing—rather, the process itself had the most significant impact.

Many CFM participants reported that a company's ability to efficiently and accurately prepare a WIP schedule is the key factor in speeding up the month-end closing process.

FORECASTING

Within the peer groups, it appears high-performing construction companies are implementing sophisticated forecasting models to assist with cash flow planning and cash management. The ability to accurately project cash flows on a weekly/monthly/project basis allows companies to better manage their supply chain and banking relationships. Some CFMs reported that their senior management spends more time focusing on the forecast rather than the historical results.

COST TO COMPLETE PROCEDURES

Developing accurate cost-to-complete estimates on a timely basis is fundamental to a high-performing construction company. With the continuing integration of technology within the construction process, CFMs more often are working directly with operations to assist with the cost-to-complete estimates for contracts in process. CFMs reported that identifying variances to original estimates on projects early is a best practice for a high-performing company. Some CFMs discussed attending the weekly/monthly job status meeting, which historically was attended by operations personnel only. This appears to be a best practice as well.