A Conversation on How CFMs Can Help Manage & Improve the GC/Subcontractor Relationship

At the Sage Summit 2014, Dennis Stejskal, Sage Construction and Real Estate VP of Strategy, led a roundtable discussion centered on the ongoing relationship between GCs and subcontractors. The roundtable participants engaged in thoughtful dialog and shared some great ideas.

CFMA’s Chairman, Steve C. Tenney; ICCIFP’s Chairman, Joselin R. Martin, CCIFP; and CFMA’s President & CEO, Stuart Binstock were all in attendance.

Together, we thought that the conversations that began at the Sage Summit could be extended into an article to share with all CFMA members.

The thoughts shared in this article include the authors’ individual perspectives, as well as some of the ideas and comments shared at the roundtable.
Stuart: Steve and Joselin, let’s begin by learning about the companies that you work for and your positions.

Steve: I joined Story Construction Co. just over 18 years ago as the CFO, and I’m proud to be one of 29 stockholders. A merit shop GC, Story Construction has approximately 130 employees and is based in Ames, IA. Story Construction delivers projects as a construction manager in both at-risk and agency relationships. Story Construction also self-performs as a design-builder and GC, and manages approximately $80 million a year.

Joselin: I joined Hayles and Howe, Inc., 15 years ago and am now the CFO. Hayles and Howe is a specialty subcontractor based in Baltimore, MD that manufactures and installs ornamental plaster and scagliola throughout the U.S. with a commitment to the highest quality product in both new construction and restoration projects.

Like Story Construction, Hayles and Howe is merit shop with 35 employees and several subcontractors with whom we partner. While we primarily act as subcontractor, we also drop into the general or construction manager role for certain specialized jobs. Having no artistic talent myself, I get a vicarious thrill from watching our team bring beautiful buildings back to life.

Stuart: How can GCs and subcontractors work together in a cooperative manner to ultimately deliver a final product to the project owner?

Joselin: Our best jobs to work on are those in which the GC includes us in the planning process from the minute we get the job. Even though our work is performed during the last stage, we can give useful input into what happens before to make sure that the end of the job goes smoothly. Just knowing what has happened before we step on site helps us plan our work. We can identify potential issues and/or changes early, so the general can adjust schedules and notify the owner early as well. The more conversations we have, the more likely we will all have a better outcome.

Steve: Like Joselin explains, cooperation is essential for a successful project – not only between the GC and subcontractors, but also with the owner and design professionals. Understanding expectations helps establish processes that work together to meet the goals of the project.

The other key ingredient is communication. We work very hard to engage all parties in regular and meaningful communication. Once a project is underway, we prefer to have active and regular meetings at the jobsite and to use a visual approach for planning (more on that later).

Stuart: Are the expectations different on a hard bid project compared to negotiated projects? If so, what are some of those differences?

Steve: I think some of the expectations are different. For example, on a hard bid project, there is an expectation that the project design and specifications have been determined by the design professional and project owner. There is also an expectation that the lowest responsible bidder will be awarded the work.

For negotiated projects – especially design-build projects – there will probably be an earlier project relationship established among all the parties. The early engagement can lead to value engineering options with the subcontractors and a deep commitment to the project success for all parties. The relationship between a GC and its subcontractors may be similar on some projects depending on the way in which the GC solicits proposals. Joselin can probably better address her perspective on this.

Joselin: Steve is exactly right. Negotiated projects almost demand the development of a relationship between the GC and its subcontractors. There are some generals that we
love working with because we understand their relationships with project owners, and we know what they are going to need from us in terms of value engineering, technical expertise, and design alternatives. Then, there are others that exclude us completely; those jobs are usually not easy ones to perform.

I agree that the lowest bidder will win the hard bid projects. I'm not sure all GCs include the “responsible” part. There is no reason, though, that we can't start a relationship with the general early on those jobs, too. In fact, I would argue that it might be even more important that the construction team be working together on those jobs because there probably isn’t a large margin for anyone. If any part of the project team drops the ball, it could mean big trouble for everyone, especially the general.

Stuart: Joselin, what can a GC do to improve relationships with subcontractors?

Joselin: I think we’ve already hit on the biggest one: communication. And I mean communication about all aspects of the job. We’ve talked about the project communication, but there is also the back office communication that makes everything run smoother. The more transparent the general is about documentation and payment procedures, the better I can ensure they have exactly what they need and when they need it.

For example, a lot of time can be saved for both parties if a GC provides subcontractors a list of its back office contacts, communicates its billing and change order processes, and lists all the documentation needed for the job with the contract. Knowing these details upfront helps ensure GCs get what they need – and how and when they need it.

Also, my PMs say they want to be part of the job scheduling process from the beginning. Since we are a finishing contractor, some GCs think we don’t need to be involved until they are ready for us. However, changes that are made to work precedent affect our work process, especially on restoration jobs. If we are involved in the process, we might be able to provide process improvement recommendations that could make the job better for everyone.

And I would be remiss if I did not mention the most obvious relationship issue: payment – prompt and fair payment. While not always the case, there are some GCs that don’t seem to understand a subcontractor’s financial constraints. We usually have to pay our creditors net 30, while GCs often don’t pay us for 60-90 days. While Hayles and Howe has relatively sophisticated cash flow management procedures for a small-midsized business, many subcontractors that are performing good, quality work are living from draw to draw.

Stuart: Steve, what can a subcontractor do to improve relationships with GCs?

Steve: As a GC, we know that we need to actively participate with all project partners to make sure the entire team is successful. We need to establish the right environment for communication and issue resolution. Early in the project, subcontractors should participate by providing an accurate schedule with realistic manpower staffing and material deliveries.

When the project is under construction, one of the biggest benefits we receive from our best subcontractors is continuous communication. The impact of schedule changes, opportunities for project acceleration, pricing of proposed change orders, and sub-subcontractor management are some of the key factors that help us manage our own work as well as the coordination of efforts of other subcontractors and designers.

We’ve recently expanded our use of a planning and communication process (we call it Construction Production 2.0 or CP2.0), which dedicates a trailer on the jobsite to project planning and communication. (See photos on the following pages.) We’ve found that the trades that actively engage in our process have better results and a more satisfying and predictable project. We’re continually refining this process in which we are investing and supporting.

Some other factors that can improve the relationship include timely submission of payment applications or invoices, providing the paperwork required by the contract, timely payment to suppliers and sub-subcontractors, and submission of lien waivers.

Stuart: Another hot topic in the industry is prequalification. We know from our members that owners are seeking prequalification from GCs pursuing their projects, and GCs are seeking prequalification from subcontractors. What are your thoughts on subcontractor prequalification?

Steve: We work very hard to have great relationships with owners, designers, and subcontractors. As a GC, we’ve been very fortunate to have some great relationships with our subcontractors – some even span the full 80 years that we’ve been in business. Our prequalification process is very informal and depends on the subcontractor, our past relationship with...
them (if any), the type of work being performed by the subcontractor, and project owner requirements that may push down to the subcontractor level.

Some pushdown requirements may relate to safety records and insurance coverage. Loss time accidents, experience modification rate, and incident frequency rates are pretty common safety statistics that we may ask about. Insurance coverage is also an area that we have to confirm.

Situations that end up requiring joint checks, follow up on certified payrolls, delays in returning subcontracts, certificates of insurance, and other documents required for the contract make it harder for us to maximize our productivity and seem to encourage a refined selection process for subcontractors.

**Joselin:** While many subcontractors resent prequalifications in general, my primary objection is simply the logistics of completing different prequalification forms. If everyone used a standard form, like the AIA, it would save a lot of time and resources. At Hayles and Howe, we complete 2-5 qualifications monthly, and each one asks the same questions but in different formats. In fact, we had to submit two qualification forms for one job that requested exactly the same information but in different formats – one was for the owner and the other was for the GC. However, they both were submitted to the same person! It doesn’t seem like an effective use of my staff’s time.

Still, there are significant benefits to the prequalification process. It is an opportunity for my company to show off the work we do, how we do it, and the teams that make the work happen. It means that we are only competing against competent contractors, and not being undercut by a contractor that will not complete the job as specified. It also means that the other trades with which we would have to work will also be competent in their trades, which only makes our work better.

**Stuart:** What are your thoughts about a subcontractor asking for financial information from the GC? What protection does the subcontractor have that it will be paid?

**Joselin:** The entire project team depends on the owner for payment. Subcontractors have to rely on their generals to do their investigation to ensure we all get paid. Mechanics liens and payment bonds are available, but no one wants to have to go down that road.

I have always said that I should have the same financial information from any general who gets mine. Many generals say we should rely on their reputations and therefore their financials aren’t necessary. But, Hayles and Howe has been in business in the U.S. for 25 years, has never defaulted on a job, has never not completed a job, nor has it ever not been able to provide a bond. Our company has a positive reputation throughout the industry. What’s the difference?

We have only had a few jobs where the GC failed to pay according to the terms. If we had each of those company’s financial statements before starting our last jobs with them, we might have known that the companies were not financially sound.

**Steve:** This is an area where we hope that the relationship and reputation as a quality GC reduces subcontractor anxiety. We have to vet project owners to determine whether or not we want to pursue a project with that owner, and it is up to the subcontractor to do the same with us. On some projects, the financial protection of a surety payment bond may be the primary assurance of payment for subcontractors.

If a subcontractor were to ask us for financial information, I’d likely meet with that subcontractor to talk about our financial results. This is one of the areas in which I derive benefit from my CFMA membership. It is extremely helpful to know the CFO, controller, bookkeeper, or other accounting personnel from meeting them at a CFMA chapter meeting and it makes such discussions about financial information, backlog, and other requests much easier. That relationship works regardless if I’m asking the questions or if they are!

**Stuart:** Do you have a project closeout process that you use to evaluate your team’s performance?

**Steve:** We do have a closeout process. We evaluate the entire team – from owner to designers to subcontractors and suppliers – and perform a pretty thorough self-evaluation of our productivity and performance. Our rating is used internally to communicate performance to our PMs and executives. This gives us a perspective for future projects.
Joselin: We also have a project closeout process. I found a form on CFMA’s Connection Café that another CCIFP posted and adapted it to fit our company. We include everyone from the site supervisor to the general manager in the meeting. I like the idea of actually applying a rating at the end of this meeting, but right now we focus and debrief on what went right, what could have been better, and what we might have done differently. Some of our best process changes have come from the site supervisors during these meetings.

Stuart: We haven’t addressed contract terms yet. What are some areas in contract language that could be changed to improve the GC/subcontractor relationship?

Joselin: It seems that every GC has a different contract. At Hayles and Howe, our attorney reviews all new contracts and we keep a file of important dates, conditions, and processes for a given GC. Having a CCIFP on the finance staff who understands the impact of major provisions is also helpful.

One thing that GCs can do is to consider the use of purchase orders or short-form contracts for small work. We actually received a 99-page contract for a $10,000 repair job! We had to submit their application form, and they held retainage on the job. That logic (or lack thereof) just made me scratch my head.

Steve: We use a standard subcontract agreement that we developed to address the key components of the relationship with the subcontractor. On projects in which the subcontractor is the design-builder for their area of work, we use industry standard subcontract agreements whenever possible.

As Joselin noted, there are lots of variations in contracts, even when industry standard contracts are used because they often are modified. We run into that with our contracts with owners when industry standard contracts are modified too. I know CFMA is part of the ConsensusDocs coalition, and consistency helps in many ways. Unfortunately, customized contract language is probably not going away anytime soon, so we all need to try to make sure the language results in a fair contract.

Stuart: What are some other ways you establish and maintain good relationships between GCs and subcontractors?

Steve: One of the events we’ve held for several years at Story Construction is an annual subcontractor and supplier recognition event. Our employees submit nominations for both the subcontractor and supplier of the year. Those nominations culminate with an informal early evening gathering, great food, refreshments, fellowship, and announcement of the winners.
We make sure we follow up and congratulate all of the companies that were nominated. Everyone seems to appreciate and enjoy the time spent together, and it seems to improve the relationships with everyone.

Joselin: We always appreciate our generals including us in the types of events Steve described. We appreciate being acknowledged by our GCs, especially in front of our peers and other generals.

The role of the CFM in building relationships cannot be underestimated. We are involved from the estimate to the closeout. We handle the contract, the billing, the staffing, the risk management, and especially the budget and reporting – and those are not just important internally. Each one of those aspects impacts a subcontractor’s relationship with its GCs. So, get out of the office, go to the jobsites, and build those relationships with owners, PMs, and your peers in the GC’s office.

Stuart: I hope you enjoyed reading this article as much as I enjoyed working with Steve and Joselin. Here’s my summary of the most salient points I learned from our conversation:

- Planning will be maximized the earlier a subcontractor is brought into a project.
- Regardless of when a subcontractor is brought into the process, it is crucial that both parties understand expectations and constantly communicate.
- Different project delivery systems can impact the relationship between a GC and a subcontractor. Negotiated projects demand the development of a good working relationship. But, because there isn’t a large margin of error in low-bid projects makes it even more important for the construction team to work together.
- A prequalification process can be informal but will sometimes be impacted by an owner’s requirements on a GC. Subcontractors don’t mind prequalification; it would just be nice if a standardized form was in more common use.
- Both GCs and subcontractors can benefit from a close-out process that will improve their performance on future projects.

I encourage you to continue this conversation with your fellow CFMA peers online at cfma.org/gcs/subcontractor to share your successes, struggles, and best practices in the relationships between GCs and subcontractors.

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