

Don't Ignore Your CFO

It's a frightening truth. Construction company failures are often unpredictable and, in most cases, the accounting people saw it coming. The chief financial officer of a business often plays multiple roles, including steward of the company's assets and strategist in the use of funds and credit. After 30 years researching the causes of construction-business failures and participating in the resolution of hundreds of distressed firms, I came to the conclusion that there was another role played by the CFO: ignored.

The problem: When a construction CFO sounds the alarm, no one may be listening. Some CFOs are isolated or considered a necessary

but unimportant function of the business. In discussing the issue with contractors, I've been told: "They don't know anything about construction."

And a common response from the CFO is: "And you don't know anything about accounting or finance."

A construction company has three primary functional areas: get the work, do the work and account for the work. All three are critical to success. After you get the work, you still have to do it efficiently, and if you don't accurately account for the first two functions you won't be in business very long—in which case the first two won't really matter. Therefore, accounting for the work is just as important as getting and doing the work. However, too few managers respect the accounting function as the critical element it is to the firm's success.

Construction-business failures don't happen overnight, but are years in the making and definitely foreseeable. In hundreds of the failed com-

panies I worked on, the CFOs warned management: "We have some serious financial issues" or problems or exposures. Management's reactions often were: "You don't understand" or "You don't know what you are talking about. It's just that one bad job" or that unreasonable owner or that unbuildable design. These contractors saw the problem as an "event" when it was actually a "symptom." In some cases, the accounting people believed the excuses for a while, but when the issues persisted they would sound the alarm a second and third time, which sometimes resulted in the rejections becoming more forceful.

In more than half of the construction failures I dealt with, the CFO or in-house accountant told me: "I knew there was a problem" or "I knew we were in trouble" or something like that. My response was always the same: "Why didn't you tell them?" The answers were: "I did, but they wouldn't listen," or something similar. In one case the answer was, "The CFO I replaced told them and got fired."

In the majority of failed companies the CFO was not on the organization's executive committee—or even included in senior management team meetings. This is not uncommon in small and mid-size firms, but was also true in all the large company failures I handled.

In our industry, the accounting

function is not given the status and significance it should have. One reason is that people who take the unbelievably difficult exams to become a certified public accountant and those who study accounting and finance generally have different personalities than other types of construction executives, managers and entrepreneurs. This complicates communication between them, because they don't always converse the same way or use similar words. Not surprisingly, the construction executives, managers and entrepreneurs have less patience than the CFO or accounting staff.

Construction professionals need to remember that numbers don't lie: They tell the entire financial story. The financial problems revealed by the numbers can't be waved aside with a "Yes, but," and they cannot be explained away. Words don't change mathematics. The failures that I saw weren't caused by mistakes in accounting, just mistakes in the reaction to the accounting and numbers.

Our industry continues to become more complex, which amplifies risk. To profit, we need to do the work more efficiently than ever, and we can't know accurately or timely if that is happening without greater attention to, and respect for, the accounting functions of our businesses and the people who carry them out. There is a lot of industry talk about collaboration between the parties involved in the projects. We need more collaboration internally, too. ■

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