

Using Financial Data—Trusting your CFO

The CFO—A Critical Voice: Listen to Your CFO (Back to [Table of Contents](#))

Thirty years researching, identifying and cataloging the causes of construction business failures and participating in the resolution of hundreds of distressed firms I discovered a frightening truth. These failures were predictable; and in most cases the in-house accounting people saw it coming. The problem:

When the CFO of a construction company sounds the alarm: Does anyone listen?

One of the reasons some of these contractors got in trouble was that they did not listen to their CFO or accounting people who tried to sound the alarm.

Some CFOs are isolated or considered a necessary, but unimportant function of the business. I regularly heard from contractors: “They don’t know anything about construction”. A response might be: “And you don’t know anything about accounting or finance”. You don’t have to know how a computer works to use it.

The reality: A Construction company has three primary functional areas: get the work, do the work and account for the work; and 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 equally important as getting and doing the work. However, too few managers respect the accounting and administrative functions 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 failures I worked on, the CFOs warned management: “We have some serious financial issues” or problems or exposures. Management’s reactions 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 sounded the alarm a second and third time which resulted in the rejections becoming more forceful.

It is like a person in the boiler room of a ship calling the Captain to tell him the ship is leaking and the Captain on deck saying “Everything looks good from here”.

In more than half 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 always given the status and significance it should have. One reason is that people who take the unbelievably difficult CPA Exams and those that study accounting and finance are generally different personalities than construction people. This complicates communication between them because they don't always converse the same way or use similar words; and one personality type has less patience than the other.

Construction professionals need to remember is that number don't lie. Numbers tell the entire financial story—they don't deal in "Yes-buts" and cannot be explained away. Words don't change mathematics. The failures that I experienced weren't caused by mistakes in accounting, just mistakes in the reaction to the 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.