

Managing Subcontractor Default Risks



With the complexity of many projects, getting to a successful outcome has become a journey fraught with bad turns. Problems get buried or unreported, and costs begin to mount with so many moving parts and activities. It is relatively easy for executive teams to lose sight of the minutiae.

Although the performance of the subcontractors is a major component of project success, it is not the biggest issue. Instead, lack of communication is the biggest issue, and solving that may resolve many other issues.

THE COMMUNICATION LOOP

In a perfect world, communication would flow from each entity on a project to the executive leadership to keep a project on track. Yet often, communication trickles from the job site and issues that could swell into huge problems get lost in the flow.

Therefore, stakeholders need to learn how to improve communication – and what information is most important to leadership – in order to assure better project successes. For starters, leadership needs to know those critical factors that impact the balance sheet:

- Subcontractor default risk
- Major project delays
- Major quality concerns
- Gross safety risks

Any of these factors could adversely impact the financial well-being of the project and the company. Timely informing the senior executive team could affect the bottom line, allowing them to deploy much-needed resources and manage those issues quickly. For example, leaders can increase company resources (workforce/overtime) to correct scheduling issues, manage messages to the project owner, and work with subcontractor principles to develop corrective action plans to get the project back on track.

Creating a smart communication chain makes this process much more effective and gives leadership the ability to move quickly before problems balloon and threaten project outcomes.

Yet, communication is difficult to manage internally. The level of communication needed is much higher than many teams and subs are willing to entertain. Project teams are guarded on conveying problems on their project sites, believing it's their job to manage those problems. Elevating a serious issue usually happens when it has grown in severity. Many teams tend to stay within their silos and fail to communicate information with each other regarding their subcontractors. As a result, subcontractor performance issues are not conveyed, and pre-construction may continue to award work and ultimately provide project teams with subcontractors who are not ideal partners.



THE TECHNOLOGY LINK

Here is where technology comes into play. Project software can help companies streamline communication. For example, the more feedback the project team gives to the pre-construction team, the more likely the pre-construction team is to award (or withhold from awarding) work to a subcontractor in the future. Then the selection process becomes easier because the team shares information about performance, quality and how well the subs respond to issues to avoid larger, more expensive.

Today's technology allows everyone in the project lifecycle to record observances. An observance is anything recordable about the job: a delivery showing up on a job site, faulty workmanship and the number of subcontractor workers showing up each day. At each level of the job, teams can take photos and rank the severity of each observance.

With more severe issues, the software will then send out notifications to senior-level management. This micro-level of communication gives leadership the ability to immediately manage the issue and place resources where they need to be.

Overall, this kind of communication gives supervisors more comfort in reporting small issues and leaves an electronic paper trail for leadership to track subcontractors' performance. Leadership themselves can determine what type of observance warrants their attention. Thus, they can control who gets notified because they create the email distribution lists.

EXPECTATIONS, MANAGED

With these observance expectations set up, leadership can then manage the delivery of work and the relationship with the subcontractor. They can set up annual reviews with subcontractors and aggregate all observances into one report to review with subcontractors. This way gives both the leaders and the subs a basis for their conversation. A sub with 37 elevated risk observances, for example, would be in jeopardy of losing any future work. Subs with very few observances would be easily identified and could be those professionals that the company wants to grow a relationship with.

With such detailed communication via technology, subcontractors are put on notice. The contractor can now follow their work habits and quality more closely and hold them accountable more quickly.

NFP works with our clients to implement these processes. We work with individual groups (executive leadership, pre-construction, risk management, project teams, and technology partners), set strategies, recommend technology partners and facilitate technology demos. Our team of experts works with clients at every stage of implementation, and we can help your organization ensure that your automated communication program is set up to streamline communication throughout the project chain of command.

Adopting an automated communication process can help your organization run a more successful subcontractor default issues program. But also, increasing communication and making it an integral part of the project, from planning to completion, can make your organization a better run and more efficient business.

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