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The Changing Landscape of the Construction Industry

Marybeth Carroll

The challenges of running a successful construction company are greater than ever. Senior managers need to contend with significant employment issues, such as keeping qualified workers in a market that fuels constant turnover. They also learn new skills and techniques for dealing with issues such as sexual harassment using technology effectively just to stay in business. With these key issues as a backdrop, Liberty Mutual recently led a discussion of current and emerging topics with 15 leaders of U.S. construction companies. Collectively, the leaders have hundreds of years of construction experience. Drawing on their expertise, the topics such as: the most critical areas to be managed in the construction business in order to be successful, key risk-management issues, and the strategic challenges they expect over the next two years. Their conversation shed light on changing dynamics in the construction industry and highlights actions they have taken in their own organizations.

Managing for Success -- Now

When we asked the group of contractors to identify the top three elements of success in the construction business, they named the following:

- * Staying on top of employee and personnel issues
- * Keeping up with the ever-changing regulatory environment
- * Maintaining competitiveness

1) Employee and Personnel Issues

A lack of trained, qualified workers, combined with the aging of the skilled workforce has produced a significant labor shortage. Contractors often deal with new workers who, as a group, have the highest rate of turnover and workers' compensation claims.

Companies must develop cost-effective training techniques focused on keep employees safe. The cost of training new workers leads many contractors to employees in positions with relatively low hazards and that require less tech training. Using a "waiting period" approach allows the contractors to spend appropriate amount of training dollars on safety issues and save the technical dollars for workers who plan to stay.

Also on the radar screen are employment practices liability concerns, such as harassment, discrimination and wrongful termination. Increased regulation and changing makeup of the workforce have led contractors to focus more on workers with this critical exposure. Contractors of all sizes are experiencing increase employment-related claims. As corresponding litigation costs and damage awards climb, contractors are becoming more sensitive. The panel shared the following:

- * Establish policies against sexual and other forms of workplace harassment. Policies should appear in an employee handbook or be issued separately.
- * Train frontline supervisors. Supervisors and other employees who oversee day-to-day operations, discipline, and termination all need to be well versed in not only the basic laws applicable to the employment relationship but also the specific regulations.
- * Know the types of promises, representations and seemingly innocent statements that can lead to liability.
- * Develop a uniform orientation for all new employees, in which representations are carefully reviewed and communicated by the same person or group of professional human resources.

2) Keeping Up with Changing Regulatory Environments

A significant challenge for contractors today is staying on top of and responding effectively to new and existing safety and health regulations. One OSHA fine can eat into monies allocated for daily operations or worse -- profits. The group identified controls that contractors can put in place to help them stay informed and to respond appropriately to regulations:

- * Connect to the OSHA web site.
- * Develop a written process for identifying and correcting hazards.
- * Provide safety training, accredited by OSHA, to all employees.
- * Investigate accidents in a timely and professional manner.
- * Ensure that your OSHA record keeping is a priority.

3) Maintaining Competitiveness

The construction job market is tighter than ever, and staying competitive requires

innovation and the ability to "flex" with the customer. The group felt those who can balance job safety, job productivity, job costs and human and material resources in an aggressive yet methodical

manner, while staying focused on the customer, will continue to win in the r

What's at Risk?

When we asked the leaders about the largest issue facing their risk-management programs, they cited jobsite safety and the rapid change in the way the customer about procuring construction services.

1) Jobsite Safety

Given the trend toward a less skilled workforce, contractors continue to work on eliminating accidents on the job. The construction roundtable felt the best way to top of jobsite safety is to ensure that frontline management is appropriately trained and can instill a sense of safety, pride and ownership.

2) Procuring Construction Services

Construction customers are exploring the benefits associated with procuring construction services in new and innovative ways. The trend, as contractors involves moving more functions from specialty areas into combined approaches. Contractors are assuming more project risk as they transfer more risk away from owners, engineers and other professionals. This change in customer bid behavior created new liabilities for contractors. Careful review of contracts and proactive involvement early in the bid process are techniques that helped this group keep accountability with the right entity.

Strategic Challenges for the Future

When asked what new strategic risk-management challenges they anticipate in two years, two items rose to the surface - the role of technology in the construction business and an increase in fraud.

1) Technology

Overall, the consensus was that technology will be the single largest change in the future for contractors. Contractors said that much of the way business is conducted would change over the next two years. Technology could affect practices such as how bids are won and lost,

training issues and daily interactions with business partners.

Using technology such as e-mail and construction-specific chat rooms and web boards is a primary way to ensure that construction customers keep an open line of communication relative to current issues and trends.

2) Fraud

Many in the industry expect employee fraud to gain momentum over the next few years primarily due to a predicted market shift on the horizon that will naturally attract more fraud. Fraud could potentially cost contractors more money and damage to their reputations in the future. The panel discussed many ideas for preventing fraud:

- * Start fighting fraud during the hiring process.
- * Discuss workers' compensation as a benefit during new employee orientation.
- * Report accidents immediately.
- * Provide supervisors with an accident checklist.
- * Consider creating a safety team.
- * Keep in touch with injured employees.

John O'Leary, director of investigations for Liberty Mutual's Commercial Claims department in Boston, offered some more specific tips on preventing fraud. He said that contractors could help make certain that claims are properly investigated and managed by taking the following steps:

- * Watch for Fraud Warning Signs: Companies need to help make sure their supervisors watch for the red flags -- and then quickly pass any information to the claims adjuster.
- * Listen to the Company Grapevine: Companies need to make sure all employees, especially managers and supervisors, listen to the grapevine and pass along any information to the case handlers.
- * Develop an Accident Checklist: Information gathering is especially critical immediately after the accident happens. Detailed information about the injury and the circumstances that led to it helps claims adjusters do their jobs.
- * Report Claims Immediately: Prompt claim reporting is another important step to fighting fraud and keeping costs down. This allows the claims adjuster to receive information immediately and begin managing the recovery of injured employees.

Going Forward

Attaining success in the construction industry becomes more and more challenging as the dynamics continue to shift in the marketplace. Work to hire and keep quality employees and ensure that they and frontline managers have the appropriate training. Beef up your skills. Familiarize yourself with the latest technology and equipment used by contractors. Focus on employment issues. Fight fraud in your own organization. Remember, not all risk is bad; it's up to you to decide whether your company's situation calls for mere watchfulness or for strong action.

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Liberty Mutual Group in Boston. Liberty Mutual is a leading provider of risk management programs for contractors and owner-controlled insurance programs.

Editor's Note: This is the first article of a quarterly column for contractors with Liberty Mutual Insurance Company managers.

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