



The Shortage of Qualified Personnel and What You Can Do About It

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Times have generally been good for the construction industry in recent years. With perhaps the exception of approximately the eighteen months following 9/11, contractors have enjoyed profitability and backlogs that are very healthy by historical standards. One challenge I have repeatedly heard from my clients is the shortage of skilled field labor, project management, and engineers, as well as a shortage in qualified financial professionals in the back offices of many contractors. Unfortunately, owners of construction companies generally don't place as great a value on these Controller/CFO positions as they do on the operations side of the house, but both are equally important.

If it's not one challenge facing the contractor, it's another. In some parts of the cycle there isn't enough work to keep everyone busy, and the contractor is faced with letting go decent personnel. In times like recent years, there is more work than the contractor can effectively handle. A somewhat concerning comment I'll hear in good times is, "Glenn, I've got 150 employees in the field and the bottom 10% have no business being out there -- *they are just not qualified.*" My response is, "I suggest you let go of that bottom 10% because they will cost you more than you are making on the jobs you have them assigned to. Their productivity is most likely lacking and the impact they will most likely have on your Workers' Compensation Insurance will eliminate any profitability you will hope to make by employing them." Although we say, "It's not about the top line, it's about the bottom line," we don't practice what we preach. It may sometimes be necessary to turn a job down because we you don't have the qualified personnel to effectively execute.

When it comes to managing your business and dealing with the shortage of qualified personnel, you have one of two basic choices in my opinion. You can either turn the work down to keep the workload at a manageable level given your current workforce, or you can expand your qualified workforce to be able to take on more profitable work. By "turning down the work" I'd suggest that you raise prices to the point where you control the demand for your company's services. This tactic is sometimes referred to as "cherry-picking." In some cases, however, you might find it more appropriate to moderate your bid activity if your skilled labor shortage is severe. Although it is true

that it is a tight labor market (unemployment here in Orange County, CA is somewhere around 3.5% while 5% of the population is unemployable...you do the math!) it is not impossible to find qualified personnel. What one has to do is be quicker, smarter, and more persistent in the search for these people. In our firm we have a recruiting division, and through a variety of means we have been able to successfully source a number of very qualified, productive, intelligent operations and office personnel for our contractors. It is a full-time effort and one must be committed to the task each and every day.

As mentioned above, pursuing qualified personnel is a full-time job. Do you have the time to pursue these people? Do you have someone on your staff who is charged with the responsibility of sourcing qualified candidates and given the appropriate time to pursue that task? Most middle market to smaller contractors do not have such people on board. There are firms out there that specialize in the construction industry, but you need to qualify these search firms. Who will they have conduct the search? Does he or she have the background required to be able to properly qualify and assess the candidates? Does the search firm even meet the candidates face to face? Do they charge a fair rate for the work they perform? Many search firms in today's market are commanding between 25% and 35% of first year's compensation. I would suggest many of those firms are not performing the requisite due diligence to properly qualify candidates they are referring. There are also firms charging 20% of first year's compensation and doing a great job of sourcing and qualifying candidates. The rate that a search firm charges is not necessarily correlated to the quality of that firm's services. It is up to you to qualify search firms and gain comfort that the firm you select is charging a fair rate and doing the requisite work in order to present the best candidates to you.

SUMMARY

It is a tough labor market and you, as the leader in your company, need to decide whether you will moderate the workload to match your current work force and not break your existing infrastructure or expand your qualified work force. If you decide to expand your work force, be prepared to use a qualified search firm if you do not have those capabilities in-house.