

## OWNING A CONSTRUCTION COMPANY

Although the main concern of the owner of a construction company is to secure the next job and create a comfortable backlog, in today's marketplace, owners are confronted with multiple issues that require proactive attention to remain successful.

When the economy is strong, employees have more options. In the construction industry, there is generally a shortage of skilled laborers in each of the trades leaving companies with a lack of competent employees to properly perform the work. One critical solution to this challenge is to retain key employees, as well as those who demonstrate that they will become the next generation of high performers.



In this regard, a competitive employee incentive plan could set the company apart from its competition and be the catalyst that encourages employees to be more engaged and think like owners. Instead of paying traditional bonuses at year-end, it may make sense to educate the employees on what is needed to sustain profitability and share profits with the high performers. Employees who are engaged and invested in the company are less likely to leave for a small pay increase elsewhere.

Another issue that is front and center for construction companies is developing a sound succession plan to avoid significant risk to the owners and their families, as well as to management and employees. It's never too early for business owners to develop a succession plan, which the owners can evaluate and modify when circumstances change. Start early and work with professionals to understand the issues and develop a plan that is easily implemented.

Unanticipated events could easily bring down a successful company if there is no plan for dealing with them such that the operation will continue without disruption when the founder has passed or becomes disabled. Several options exist for owners

of construction companies including (i) generational transfer; (ii) key employee buyout; (iii) employee stock ownership plan, and (iv) external sale. All options should be discussed with the financial and legal advisor in order to develop a workable strategy that is easily implemented in the event of an unanticipated life event.

In addition to employee retention and succession planning, other business issues owners need to be mindful of are financial, technology and cybersecurity. The accounting industry has been working on a revenue recognition standard that eliminates industry-specific guidance for revenue recognition. The initial year of adoption for privately-held companies started after Dec. 15, 2018. Understanding and implementing this standard in the company's financial statements is important to maintain bonding and borrowing capacity.

*industry spotlight*

Also, in December 2017, the largest tax overhaul seen since the Reagan administration was passed. Understanding the impacts of the new legislation is vital. Without proper tax planning, companies may see an increase in income tax liability. To maximize deduction decisions on items such as entity structure, method of accounting for tax purposes, and owner payroll, proper planning should be addressed each year.

All businesses must constantly evaluate software and applications to determine the best fit for their business operation. Implementation of new, top-of-the-line technology can help improve efficiency on the job and provide the competitive edge needed to maintain profitability. Optimal use of technology will also help in addressing labor shortages by eliminating waste in the office.

Along with increased reliance on technology comes the issue of cybersecurity. A security breach can result in loss of business, confidential data, and can be time-consuming and costly. Investing in and understanding the cyber risks to your company is imperative. Owners should work with a qualified IT consultant to develop and maintain your cybersecurity and help reduce your risk of a potential cyberattack.

It's important for business owners to be surrounded by a professional team who understand the best practices for the construction industry, as well as the specific challenges the company is facing. Trusting your advisors on these and other issues is a key component to any company's success. Successful construction companies are able to manage these issues, continuing to deliver projects on time, within the budget, and retain profits. For more information about the construction industry and related business and legal issues, please contact PLDO Managing Principal Gary R. Pannone at 401-855-2601 or email [gpannone@pldolaw.com](mailto:gpannone@pldolaw.com).



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