

# INCOME RECOVERY STRATEGIES

## Why the need for an Income Recovery Strategy?

The Institution of Civil Engineers in the UK used to describe the activities of its professional members as: *"Harnessing the forces of nature for the good of mankind."*

We all gain great satisfaction from playing a part in the creation of grand engineering projects. Sometimes, it is easy to forget that grand engineering projects can only be created in modern societies through the collection and organisation of resources by large construction companies. Such companies can only survive and thrive by earning money.

**Money is the lifeblood of our optimistic business. Ensuring that money flows abundantly and without obstruction into our businesses is a vital activity for their continued operation and success.**

Just as keeping our human arteries healthy and unobstructed is a lifelong process, maintaining a healthy and unobstructed flow of money into our businesses requires long-term strategies. If the flow of Income from a project suddenly dries up, it is rarely possible to get it flowing again by simply turning on a valve.

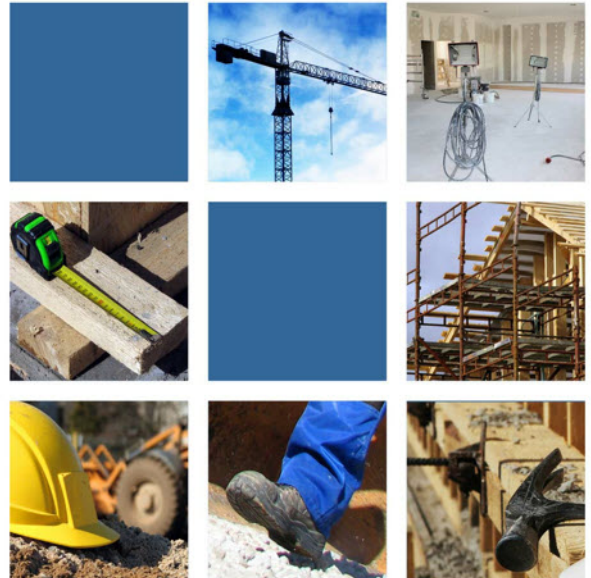
Assuming they are aware that payment is expected, people fail to pay for one of two reasons:

- They cannot pay; or
- They will not pay

### Cannot Pay

Construction companies cannot remain healthy if they depend for their money upon unhealthy Clients. Once a Contract is signed, it is generally the case that the Contractor has to perform before being paid. So, acquiring unhealthy organisations as Clients needs to be avoided. To avoid them, Contractors need good financial information about new prospects. And they need to form long-term relationships with those Clients who are healthy and pay promptly.

Once a Contract has been made with an unhealthy Client, the strategies required to minimise being damaged by his collapse are the same as those that need to be deployed for dealing with Clients who decide they will not pay.



### Will Not Pay

Clients are human beings, just the same as Contractors, only they are sitting on the other side of the table. The most common reasons why people decide they will not pay are:

- They do not believe that the other person is entitled to payment; or
- They believe he is entitled to payment, but they can get away without paying him.

People usually reach these decisions on the basis of both objective and subjective factors. They consider the objective information that appears relevant to them; then they colour that information with their subjective viewpoint in order to justify the decision they are about to make.

### Relevant Information

Generally, people treat information that supports their preconceptions as relevant. Information that does not support their preconceptions is often disregarded as irrelevant. It is rare for people to go looking for information that will oblige them to reconsider their position. Even if such information is accidentally discovered or put forward for their consideration, there is a tendency for reasons to be found that allow it to be disregarded.

Because a Client is likely to select as relevant only the information that supports his instinct not to pay, it is important for the Contractor to have all the information at his fingertips that he considers relevant as justification for his application for payment; and that he presents it effectively to the Client. Then the Client has no choice but to consider it.

### Getting Away Without Paying

There is an inherent resistance in everyone to pay out hard-earned money unless it is really necessary to achieve what is desired. If there were not a rule of law that enforced the payment of debts, then no construction company could survive and prosper - nor could most other legitimate enterprises.

However, the reluctance to pay becomes markedly greater if you find yourself disliking or mistrusting the person you are paying.

### Double-edged Strategy

**In order to develop a strategy that will make the money flow, a Contractor must influence both the objective and subjective aspects of a Client's decision-making process.**

The Contractor's strategy has to be double-edged:

- He must be master of the information that is needed by the Client in order to make his decision to pay; and
- He must influence the Client's feelings towards him by managing the relationship between them.

### Information Management

A Client will not want to pay unless he believes:

- There is a Contractual or a legal requirement for him to do so; and
- The Contractor has done everything he can to keep him informed at the time of circumstances that might cause extra cost or delay.

That is to say:

- When it comes to actions required of the Client or the Client's project management team in order to avoid delay or extra cost, the Contractor has given him clear warning of the need for that action a reasonable time in advance of the deadline;
- When it comes to unforeseen extras or delays, the Contractor has promptly notified him of the circumstances and what he is doing about them, in order that his actions can be cross-checked as they occur; and

- The Contractor has promptly provided him with full details and particulars of the time and money consequences, in order that their veracity can be cross-checked at the time.

All of these points demand a high standard of information management from the Contractor. He has to be very familiar with his Contractual scope of work; with the elements of work that require the Client's input or the input of other parties; and with the time required for the Client's organisation to process various types of information. His record-keeping about what his team were doing and when they were doing it has to be impeccable.

But good record-keeping is only part of good information management. The flow of information needs to be carefully planned, so that it supports the construction process, rather than delaying it.

In order for information flow to be properly managed, it has to be linked to, and integrated with, the Contractor's time schedule that was developed for the construction works. Furthermore, because changes and unforeseen events always impact projects, the information management process - along with the construction process - both need to be established on a critical path network, so that planning can be promptly modified in the event of delay or potential delay.

In just the same way as it is usual for the construction process to be monitored against the planned time schedule, the flow of information should be recorded and monitored. The flow of information is less visible than the physical progress of construction on a site. Hence, the ideal monitoring system would be linked to calendar alarms that warn of imminent deadlines, allowing notices to be issued that alert management (both Contractor's and Client's) to the possibility of delay as soon as, or even before it occurs.

### Relationship Management

What would you look for in the ideal work colleague? Trustworthiness, industriousness, integrity, concern for your interests as much as his own...? There is no reason why a Contractor cannot behave in a similar manner without putting himself at risk of being disadvantaged.

In fact, if he were to do so, he would find that his money would flow to him more easily, because he would have removed many of the psychological justifications that people use when they are looking for reasons not to pay.

However, they need to be genuine attitudes that infuse all levels of the project management team. Clients are not easily persuaded that Contractors have such good intentions and may initially be on the look out for any sign that it is a charade.

Every Client will be influenced by such healthy attitudes, but some more than others. There will be some who will maintain their mistrust of Contractors, or be unable to resist the temptation to withhold payment for any reason they can think of. But adopting healthy attitudes will not have harmed the Contractor's position. On the contrary, the Contractor's approach will be viewed much more favourably than the Client's in the event of arbitration or litigation.

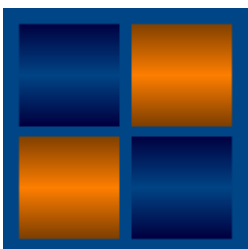
The potential rewards are enormous for a Contractor who communicates effectively and delivers building work more smoothly and efficiently through enhanced management of information - and furthermore - who shows no signs of wanting to extort undeserved profits from his Clients.

Many Clients out there are looking for just that type of Contractor, keen to develop long-term and fruitful relationships with them.

### **Making Money Flow to You More Easily**

- Set up an information management system on each of your Contracts that will :
  - Provide high quality records of what your team did and when they did it;
  - Plan out the information needed for the Contract to be completed with as much care and in as much detail as the construction work itself is planned out;
  - Link this to the construction process by means of a critical path network;
  - Regularly monitor the flow of information just as you would monitor progress of the construction process; and reschedule the network to identify developing risks and delays;
  - Use calendar alarms at milestones in the network to provide warnings of deadlines by which information is required - not only from your Client, but also from your own team and subContractors.
  
- Establish a relationship with each of your Clients that is based on mutual respect and trust; and
  
- Make sure every member of your project management team genuinely displays these attitudes towards your Client on a daily basis.

## **CONTACT**



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