

Strategies for Success

How to Improve Worker Productivity

As the pace of work in the construction industry picks up, it can be easy to lose sight of the basics, such as the importance of maintaining efficient and productive work crews. In good times or bad, worker productivity is essential for success.

Several years ago, Clemson University's Department of Construction Science and Management analyzed various published studies on construction productivity and came to a sobering conclusion: On average, construction crew members were engaged in actual productive work on their assigned tasks only about 40 percent of the time. The rest of their time was spent on nonproductive activities, such as waiting for materials, equipment or instructions, or it was lost to inefficient work methods, work restrictions or personal time.

Pinpointing Inefficiencies

Simply urging crews to "work harder" or "work faster" will not solve this problem. But sophisticated cost control and earned value reporting systems — which can help pinpoint areas where productivity is being lost — can be expensive and difficult to implement.

For most contractors, the solution to improving worker productivity is found somewhere between these two extremes. The key is to apply experience and recognized best practices to help pinpoint the inefficiencies that keep crews from achieving their full potential.

A good way to begin is by establishing a program to monitor work processes, analyze results and make improvements. Assign this to your most experienced supervisors, and let your crews know that the purpose is not simply to look for mistakes or wasted time. Rather, the goal is to develop smarter and more efficient ways of doing things. (See the lead article on page 3 for more pointers.)

As you make observations, be alert for opportunities to apply some of these proven productivity techniques:

- **Reduce administrative delays.** You will probably discover numerous instances where crews are ready but the jobsite is not. Take time for weekly planning to make sure the right tools, equipment and materials are available and onsite when needed. Also improve coordination among subcontractors to minimize the amount of time workers spend waiting for other trades to clear the site. When delays cannot be avoided, have a plan for reassigning workers to other tasks.
- **Correct inefficient work methods.** Conduct activity sampling analyses and establish sound performance benchmarks for all major tasks. Focus on standardizing as many processes as possible. Prefabricate components offsite whenever practical, and re-evaluate the way work is sequenced and how tools and equipment are used.



- **Keep it safe.** Accidents are not only dangerous — they also cost you lost time (not to mention potential fines). Make sure your jobsite safety program is active and effective. Regular safety meetings are a must, as is proper training on tools and equipment, and the mandatory use of personal protective equipment.
- **Keep it clean.** A study at Penn State University identified a direct link between a clean and orderly jobsite and worker productivity. When the site is cluttered and disorganized, the time lost working around the clutter or

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Deductible Casualty Losses

Adequate Records Are a Must

When business property or equipment is damaged or stolen, tax planning is probably the last thing on your mind. But getting some tax relief at the end of the year could provide at least a minor consolation, so it's wise to be aware of the documentation you will need to provide.

To be deductible as a casualty loss, the damage to your property must be the result of a sudden or unexpected event — for example, a fire, flood, earthquake, hurricane, tornado, hail or windstorm. Losses due to theft or vandalism can also be deductible, but losses that occur gradually — such as water damage from a leaky roof in your warehouse — generally are not.

If you have suffered a loss, there are a number of tax issues to consider. These include the valuation of the property, limitations and adjustments to the loss, and the tax consequences of any insurance reimbursements you receive. In some cases you might be allowed to take a casualty loss on an amended return for the prior year. But if insurance is involved, the “closed and completed transaction” doctrine generally limits when you can take the loss to the period when the insurance is settled.

Business Versus Nonbusiness Casualty Losses

The tax treatments for business-related and nonbusiness-related casualty losses differ in several important ways. In the case of a nonbusiness-related loss (such as storm damage to your personal residence), the deductible amount is generally determined by the difference in the fair market value of the property before and after the loss, or by the cost of the necessary repairs to restore the property to its original condition.

The amount of a loss cannot exceed your basis, and your allowable deduction is reduced by any amounts that are covered by your insurance company. That reduction applies regardless of whether you actually file a claim.

After the loss is determined and the insurance reimbursement is subtracted,



your deduction is further reduced by \$100 for each casualty event, and by a figure equal to 10 percent of your adjusted gross income. Those two adjustments do not apply in the case of a business-related casualty or theft loss.

There is also a special rule if business property is stolen or totally destroyed and its fair market value immediately before the casualty was less than its adjusted basis. In such a case, no consideration is given to the decrease in fair market value as a result of the casualty. The amount of the casualty loss is simply the adjusted basis of the property, minus any insurance reimbursements and salvage value.

Determining Decrease in Fair Market Value

A professional appraisal is needed to determine the decrease in the fair market value of property due to a casualty loss. The appraisal must take into account the effects of any general market decline that might occur simultaneously with the loss in order to ensure that any deduction is limited to the loss resulting from the actual property damage itself.

In most cases, the cost of repairs is also acceptable as evidence of a decrease in fair market value. However, you must be able to show that the amount spent for the repairs is

not excessive, and that the repairs do not take care of more than the damage suffered. You must also show that the repairs are necessary to restore the property to its prior condition, and that the repairs did not cause the current value of the prop-

erty to exceed its value immediately before the loss.

For example, if a work truck is stolen and later recovered with a destroyed engine, you might be able to deduct the cost of replacing the engine. However, the new engine cannot increase the truck's fair market value to more than it was before the theft. In addition, of course, your deductible loss would be reduced by any insurance reimbursement you receive.

Supporting Documentation

As with any tax issue, thorough documentation is essential. Good record-keeping is also necessary for filing an insurance claim.

It is important to maintain an up-to-date inventory of all property that could be damaged or stolen, including both real estate and business equipment. Ideally, a detailed listing should be augmented by photographs or videos.

Whatever method you choose, compile your inventory now and keep a duplicate copy in a separate location. You should also maintain proper records of your cost or other tax basis.

Finally, in the event of a loss, thoroughly document the condition of your property before making any repairs. ■

Please call us to discuss any questions you might have regarding casualty loss tax issues.

Setting Benchmarks

Start with Onsite Observations and Activity Sampling

Achieving measurable and sustainable improvements in worker productivity requires more than just pep talks and bonuses. The key is to identify the hidden barriers that are keeping workers from performing at their full capacity.

Spotting the often-overlooked causes of poor productivity begins with careful onsite observation and studies of all job activities. The goal is to document exactly how various tasks are done by sampling and observing the activities of work crews to establish accurate and reliable benchmarks. Once these are established, you can begin to analyze bottlenecks or unneeded steps that can be eliminated.

Create Detailed Activity Lists

During these observations, you should record every specific activity being performed in order to develop a detailed list of all the individual steps involved in each task. For instance, a painter's activity list might begin with preparing the surface. This would include each of the specific steps in that process, such as cleaning, sanding, dust removal and masking surrounding surfaces. The list could also include assembling scaffolding and other preparatory steps before continuing on to the actual mixing and application of the paint.

For workers performing continuous processes like painting or sanding, each activity should be observed for a minimum of five minutes at a time, at various times of the day, over the course of several days. For cyclical or noncontinuous activities, such as assembling components or installing equipment, observe a minimum of 10 to 15 work cycles, again at various times over several days.

The managers or supervisors conducting these observations should thoroughly understand the overall work process and the specific activities being studied. This is no job for a newcomer.

Involve Workers in the Process

One legitimate concern many managers have is how to conduct these obser-

vations without making workers feel threatened or resentful. Here are some important points to bear in mind to help alleviate this concern:

- **Open communication is essential.**

Workers themselves should be made aware of what you are doing. Trying to conduct observations or activity sampling without employees' knowledge and input can devastate worker morale and productivity — which is exactly the opposite of what you are trying to achieve.

- **Be sure workers understand why you are observing.** This is not an attempt to catch people goofing off or making mistakes. Rather, it is an effort to discover the hidden time-wasters — such as waiting on materials or extra steps in the process — that can make their jobs more difficult and frustrating.

- **Make it clear this is not being done to pave the way for cutting payroll.**

Whenever possible, any reductions in crew size that may result from the observations should result in employees being reassigned to other tasks, rather than terminated.

- **Involve the workers themselves.** Crew members offer hands-on expertise that can be helpful in creating the observation tools, activity lists and task descriptions. During the observation, they will naturally be on their “best behavior” — which is exactly what you want to see. Remember, you are trying to establish existing best practices and improve from there.

- **Finally, the supervisor should meet with the crew afterward** to present the results of the observations, and to ask for the crew's feedback and suggestions.

Observation and activity sampling are important tools that can help open your eyes to valuable productivity improvement opportunities. ■

Improving Worker Productivity

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searching for missing items can be considerable. Provide adequate facilities for disposing of trash, and keep tools and equipment organized and properly stored.

- **Keep it real.** It might be tempting to try to motivate crews by establishing highly ambitious goals and then offering incentives to match. But setting goals that are unrealistic can actually cause a drop in productivity, as crews recognize they have no hope of achieving the expected results. A better approach is to establish performance targets that are ambitious, but realistic.

- **Control overtime.** Numerous studies have demonstrated that extended and persistent use of overtime leads to lower hourly productivity. The effects can be seen in worker fatigue, increased acci-

dents, and higher levels of absenteeism and turnover. Careful planning and supervision can reduce the need for overtime. Managers should be required to consider all other options before resorting to overtime to keep the job on schedule.

A Healthier Company

Enhancing the productivity of your onsite crews can accelerate job schedules, cut project costs and reduce overhead, resulting in a healthier, more profitable company. By measuring and analyzing productivity consistently, you can identify both long-term trends and immediate opportunities for improvement. ■

Would you like to discuss productivity improvement in more detail? Please call us to schedule an appointment.

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Add Value to Create a Competitive Edge

Looking to create a competitive edge for your company — without having to resort to low-balling your bids? Think about ways you can provide added value to building owners as part of your contracting relationship.

While the tax code might seem an unlikely place to look for such opportunities, there are several tax-related services savvy contractors can offer to set themselves apart.

- **Cost segregation studies:** These studies identify construction-related costs that can be depreciated over a shorter time span — typically five, seven or 15 years instead of the 39-year depreciation schedule for the building itself. Accelerating depreci-

ation schedules can reduce current tax obligations and increase cash flow.

Cost segregation studies generally require support from a CPA and other professionals like architects and engineers. By offering to organize this team and manage the study, you can differentiate your company and make your bid more attractive.

- **Local government incentives:** Many state and local governments offer economic development grants, tax increment financing districts and similar community improvement subsidies. Savvy contractors can provide added value by helping project owners explore various incentives and ensure they qualify. By staying informed about vari-

ous local business incentive programs, you can show project owners new ways to reduce or recover some of their costs.

- **Federal tax incentives:** Tax incentives at the federal level can also help push a project forward — and give you another opportunity to add value. One of the best-known federal incentives, the Section 179D deduction for improvements to a building's energy efficiency, expired at the end of 2013. However, there is considerable political momentum for extending it once again. ■

Contact our office for updates on tax-related issues that can give your company a competitive edge.



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