

Highly competitive assignment



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It is fragmented, very sensitive to economic cycles, and highly competitive because of the large number of firms and relative ease of entry. It is basically due to these unique characteristics that the rate of construction business failures has become very high. Understanding the mechanism of failure is key to attempting to avoid failure. Corrective action cannot be taken if trouble is not acknowledged or foreseen. Unlike the study of how to succeed in business, the study of business failure has not been given much attention. This is particularly true for the construction industry in the United States.

Although some financial institutions have collected information about business failures, no comprehensive study of bankruptcy cases for construction companies has been completed. Despite all this, much is known about business collapse. What is missing is a means of synthesizing this information into a particular plan to avoid failure and a way of finding common elements of business failures in the construction industry. If these points could be understood, then perhaps ways to prevent or reverse a company's collapse could be found.

This paper examines the mechanism behind the financial failure of construction companies. Actions that are necessary to minimize the risk of failure are presented. A macroeconomic model has been developed. Ten years of applicable data are used to analyze the prediction of business failure probability in the construction industry. The goal is to establish a means for defining the impact that external factors have on construction failures, so that companies can monitor these factors and hopefully avoid failures by realizing the impact that these changes have on failure risk.

Statistics on bankruptcies are maintained by the U. S. Bankruptcy Court system; however, the statistics are not broken down into areas, such as construction. The largest source of information on failures in the construction industry is the Dun and Broadsheet Corp.. It is a private corporation that maintains a data base on various aspects of the business world and publishes some of this data base in various forms, including failures in the construction industry.

According to Dun and Broadsheet, a business failure is defined as a business that: (1) Ceases operation following assignment or bankruptcy; (2) ceases operation with losses to creditors after such sections as foreclosure or attachment; (3) voluntarily withdraws, leaving unpaid debts; and (4) are involved in court actions such as receivership, reorganization of arrangement, or voluntarily comprising with creditors. Fig. 1 shows the relative weight of 10 major causes of business failures identified by Dun and Broadsheet. Clearly, the most significant failure cause is economic factors.