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## Entrepreneurship in the Construction Industry: Key Themes and Factors to Success

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### Abstract

In the dictionary entrepreneurship is defined as: “the activity of setting up a business or businesses, taking on financial risks in the hope of profit”. However, this definition does not even begin to scratch the surface for the work done in the construction industry. Construction companies are ever changing and, depending on each project that is embarked on, can be huge blessings or huge headaches. Behind every strong construction company is a strong competitor who is willing to put his or her name on the line with each and every project. These entrepreneurs are the backbone of the construction industry and without their willingness to lead the way, the industry would not be accounting for 798.10 USD Billion Gross Domestic Product in the fourth quarter of 2016. This study sets out to discover common trends and qualities that accompany the construction industry’s most successful entrepreneurs. The researcher wanted to discover what character traits and circumstances set one up for success when it comes to starting and running one’s own construction company. In order to do this, interviews were conducted with eight entrepreneurs who have built impressive businesses during their professional careers. These interviews lasted around thirty minutes each and the interviewees were given a list of questions before hand to look over and contemplate their responses. The interviews were later transcribed and combed through for further analyzation. Many conclusions were determined based off of the data that was received from the interviews. The interviewees revealed that the optimum time for someone to start a company in the construction industry is when they are in their thirties. The researcher also discovered that the entrepreneurs who had ten plus years of prior experience in the construction industry set themselves up for a greater chance at success. Furthermore, the biggest reason that each entrepreneur set out to start their own company was to have more control over their own decisions. Finally, the researcher also found that construction companies function the best when they are set up as s-corporations. Further research should look further into external reasons that entrepreneurs find success in the construction industry. Some of these factors might include overall industry health, key competitors or potential clients opening or closing their businesses.

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## 1. Introduction

### 1.1. Research Rational

Entrepreneurship in the United States is the practice of creating and running a business that contributes to the gross domestic product. Entrepreneurship is the backbone of the United States economy. Any company that has ever existed was started by someone at some point in time. Without entrepreneurship as the sole focus in our country, our economy would be non-existent. According to Inc.com contributor Leigh Buchanan, a new study has found that the United States currently has 27 million entrepreneurs in its ranks. That puts entrepreneurs at around 14% of the general population in the United States. When you consider the number of American citizens that these 27 million entrepreneurs put to work, the numbers can become even more astounding. According to the United States Bureau of Labor Statistics, in the year

2015 there were 3,022,581 jobs created from new business start-ups that were less than one-year-old. Because entrepreneurship has such a large amount of impact it is imperative that we give entrepreneurship the resources and research that it deserves. The construction industry is one of the more rewarding industries an entrepreneur can decide to perfect his or her craft. Unlike some industries, the construction industry truly does reward an honest day's work.

However, the fact that there are 27 million American citizens who categorize themselves as an entrepreneur does not mean that starting and running a successful business comes easy. In fact, starting a company can be one of the most challenging tasks any person could set out to accomplish. The pressures to succeed can be unbearable at times. Contributor for Inc.com, Jessica Bruder, explains that entrepreneurs experience much higher levels of anxiety than typical employees who work for them. According to the United States Bureau of Labor Statistics only 25.4% of construction companies that were formed in the year 2004 were still in operation ten years later. With only a quarter success rate, starting a construction company can be a daunting task in the United States. The question is, what about that 25.4% is different than the rest of the companies that failed? Was there some common ground in the quarter that succeeded verse the rest? If there is a common ground among those companies, how can that be taught or copied for firms who wish to start a business from the ground up in the future? All of these questions and more are worth looking into and seeking answers for. The future of the construction industry depends on the start-up of local trade companies looking to make a name for themselves. The future of development in the United States depends on new general contracting firms pricing jobs competitively in order to get a start on their own. There are numerous stories that are waiting to be told and unveiled in the construction industry. There are many founders who are waiting to share the stories of how they built their businesses from the ground up and pushed through the times when others felt things were turning out to be a lost cause.

### *1.2. Research Aim*

The aim of this study is to investigate what character traits, qualities, abilities, opportunities and knowledge it takes to become a successful entrepreneur in the South-eastern United States construction industry. This is better defined in the bulleted items below:

- Identify an ideal age for an entrepreneur to start a construction firm
- Identify how much experience is enough for an entrepreneur to find success at starting a construction firm
- To understand what drives construction entrepreneurship and what makes construction professionals start their own company

### *1.3. Research Objectives*

The objectives of this research include:

- To investigate the personality types of successful construction entrepreneurs in the construction industry
- To discover the key ideas and themes that arise in the entrepreneurial process
- To assess common road blocks in the entrepreneur's path toward success in the construction industry
- To evaluate the best source of financing for start-up costs in the construction industry
- To determine best strategy for establishing a strong client base in the start-up phase

### *1.4. Key Questions*

1. What character traits do successful entrepreneurs in the construction industry possess? Are these character traits taught or learned?
2. How do the majority of the successful entrepreneurs get their start in the construction industry?
3. How many years of experience do most entrepreneurs have when they decide to start their own firm?
4. How do most entrepreneurs go about funding their construction firm in the start-up phase of the company?
5. What was the hardest part about starting a construction firm and how did they work to overcome that obstacle?
6. Where did the majority of the successful entrepreneurs find their first clients?

### *1.5. Scope*

The research scope will be limited as follows:

- Commercial general contractors, subcontractors, material suppliers, and homebuilders
- U.S. based companies
- Firms size ranging from \$100,000 to \$150 million in annual revenue

## **2. Literature Review**

There were many “stand out” themes that arose in the process of working through these publications. One that you might expect in the research area of entrepreneurship is the importance of passion for one’s work. Entrepreneurs must possess a passion for the work that they perform [1]. If you are not passionate about what you are pursuing, then you will not have the commitment to make it through the start-up of that venture. In fact, it is extremely evident that entrepreneurial commitment is strongly tied to how passionate the entrepreneur is about his or her business. There has to be a strong emotional connection to the business if it is going to make it through the toughest of times in the start-up phase of that company [2, 3].

Another interesting finding is that there are certain qualities that make entrepreneurs different from the average company or corporate employee. When studying the qualities that most entrepreneurs have, the research says that entrepreneurs tend to be more have more self-efficacy, opportunity recognition, perseverance, human and social capital, and social skills. It is also interesting that entrepreneurs who lacked these qualities but still pursued their ventures any way tended to be less successful than those entrepreneurs who had these qualities [4].

One of the biggest factors that played into entrepreneurial success was the ability to successfully exercise strong social skills. Entrepreneurs must have extensive social ability. Studies found that entrepreneurs who had strong social capital and were able to leverage that capital to their advantage were some of the most successful [4]. It was also noted in these publications that people with stronger social capital were more likely to notice entrepreneurial opportunities. The research found that the stronger an entrepreneur’s social capital is, the more likely they are going to recognize entrepreneurial opportunities and seek out these opportunities by mobilizing some of their external resources. There was also a positive relationship with external resources and previous entrepreneurial experience. Entrepreneurs who had previous experience in the arena of entrepreneurship and management not only had stronger social capital at their disposal but they also had more resources to take advantage of the opportunities that they recognized [5].

Another major topic that was touched on in these publications was the process of new start-up growth and what sort of factors play into that process. It was noted that there are many barriers to new ventures being able to grow and expand their operations. Some of the most evident included: high costs of raising capital, legal system & fiscal policy regulations, strong competition, grey markets, low access to human capital, and the suppliers having control over prices. These barriers not only prevented growth but also in some cases prevented start-ups from even forming in the first place [6]. Another topic that was discussed in the area of growth was the importance of innovation and the role that innovation plays in developing a company. It is important to never stop innovating as a business if the goal is to succeed in business. Two other important factors to growth of small start-ups are making sure to learn from external sources outside the firm and being open to changing investment decisions as the firm finds growth [7].

Overall the articles gave a very strong overview of the arena of entrepreneurship and what some of the themes are right now. Obviously, there is plenty of room to pursue further research in many of these areas; specifically, in the construction industry.

## **3. Research Methodology**

In order to better understand the subject matter and work to develop some frame work, the initial research was carried out through literature review. Themes and ideas were developed through published scholarly articles.

The second step taken for was to reach out to company founders and request their participation in the interview. A set of 18 interview questions was asked to the selected sample. The sample with descriptions can be found in the appendices at the end of the report. The interview questions are as follows:

- What services does your company provide?
- How old were you when you started your construction firm?
- How many years of experience did you have prior to starting your company?
- What made you want to start your own company?

- Have you seen those ambitions realized?
- What is the best part of owning your own company?
- What was the hardest part about starting your own construction company?
- Where did you get your start-up capital?
- How did you go about finding your first project(s)?
- How is your company structured?
- What sister companies do you own/have?
- What made you structure your company how you did?
- What was your choice of entity and why?
- What relationships proved to be the most useful when it came to the success of your construction company?
- What character traits do you have that have helped you run your own business?
- How has starting your own company affected your personal life?
- What transition plans do you have for your company?
- If you could go back would you start your own company again? Why or why not?

As one might see, the interview questions are very broad and open ended so that the interviewee is drawn to share as much as possible about their experience starting their own construction firm. The interviews were recorded for transcription. The recording took place on an iPhone and was saved in a .mp3 file format.

During the transcription of the interviews, notes were taken of the common themes and buzz words that stick out. These were organized with a shortlist to get a better idea of what the data contains. This also helped reduce some of the unnecessary data that is inevitably collected with every interview.

Once the transcriptions were complete, the data was imported into Atlas.ti. Buzzwords will be isolated and coded. Once all of the coding was in place the data was be mined for common themes and topics that arose in the interviews. This helped determine if there were common themes that conclusions could be drawn form.

Once these common themes were determined, the quantitative data from the coding allowed the use of graphs, tables, and matrix to represent the data. This gave a better and quicker understanding of what the interviews revealed about entrepreneurs and the process of starting a construction firm [8].

Finally, once the visuals were created and complete, conclusions could be drawn about the data. Summarizing the interviews highlighting key points and themes also took place in this report.

**4. Results and Discussion**

The interviews were imported into a software called Atlas.ti for further analyzation. In this software, the researcher is able to code the data which helps group and identify common themes and ideas that arose during the collection process. Some of the major themes identified are represented in graphs below.

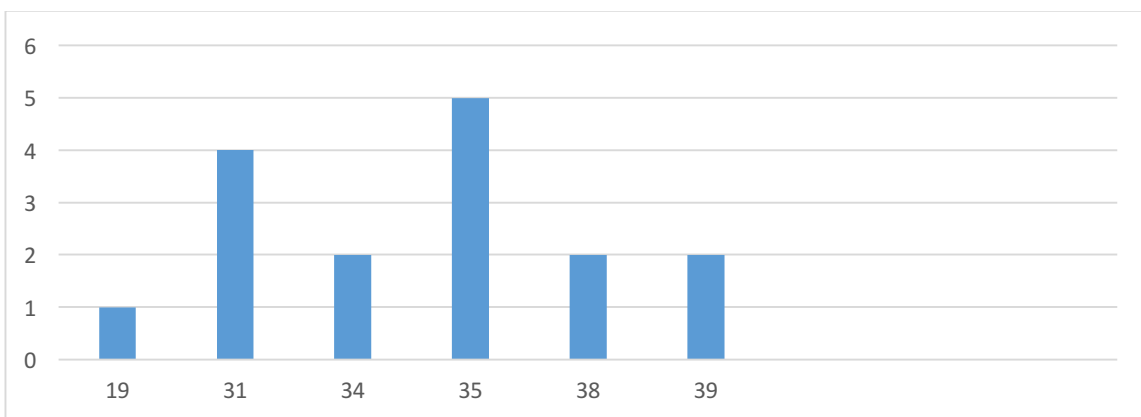


Figure 1 - Age When Starting Company

While one entrepreneur, a home builder, started his company while he was still in college at the age of 19, all of the others were in their 30s (Figure 1). A trend that most respondents echoed the same sentiment – that you needed about ten years of experience before embarking on your own. After working for another construction firm for 10 years Mr.

A decided it was time to strike out on his own. Mr. A was 31 at the time. Mr. B said “Well, I always had an entrepreneurial spirit, even back in high school. I mean, there were things I did, so from early on, even during high school, and through college, I took on projects of different types of things that tended to be more entrepreneur than working at a wage job, so it just seemed to make sense, and obviously I wanted to do it, but I went to work for someone else out of school and gained the experience that I thought I needed to do it, and always felt like if the opportunity ever came up, I was going to do it, and ended up doing it at age 35”. Mr. C noted “I got into the industry straight out of college, and what is probably important for this interview and for your perspective, is that when I got out of business school at Emory University, I had a burning entrepreneurial spirit. Just unsettled and driven to build a fine business of some kind. And I knew that I could produce sales. I knew that had the personality to go sell anything that I was interested in selling... I meet a lot of people that do it, and people do it for different reasons, but not all necessarily the right reasons, I don't think. But mine was out of pure desire and dedication to do it and enjoy the experience and the challenges that come with it”

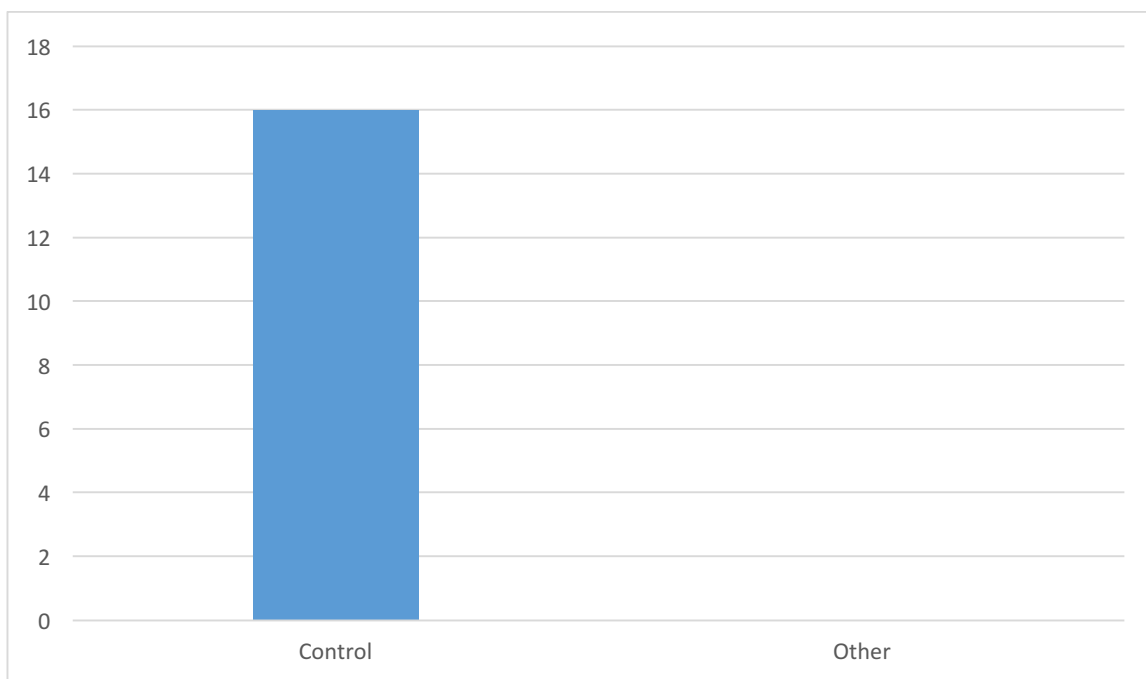


Figure 2 - Reason for Starting Company

One of the questions that received unanimous responses revolved around why they wanted to start their own business (Figure 2). The responses all had the word “control” in their answers. As Mr. D stated “I mean it's your company and you have an immediate impact of the decisions that you make. It's your dollars. It's your equity. It's your name. It's your brand. It's your reputation on the line every day. You can't blame anybody else if something happens other than yourself. When your name is on the company, it's hard for you to think of it any differently than that”.

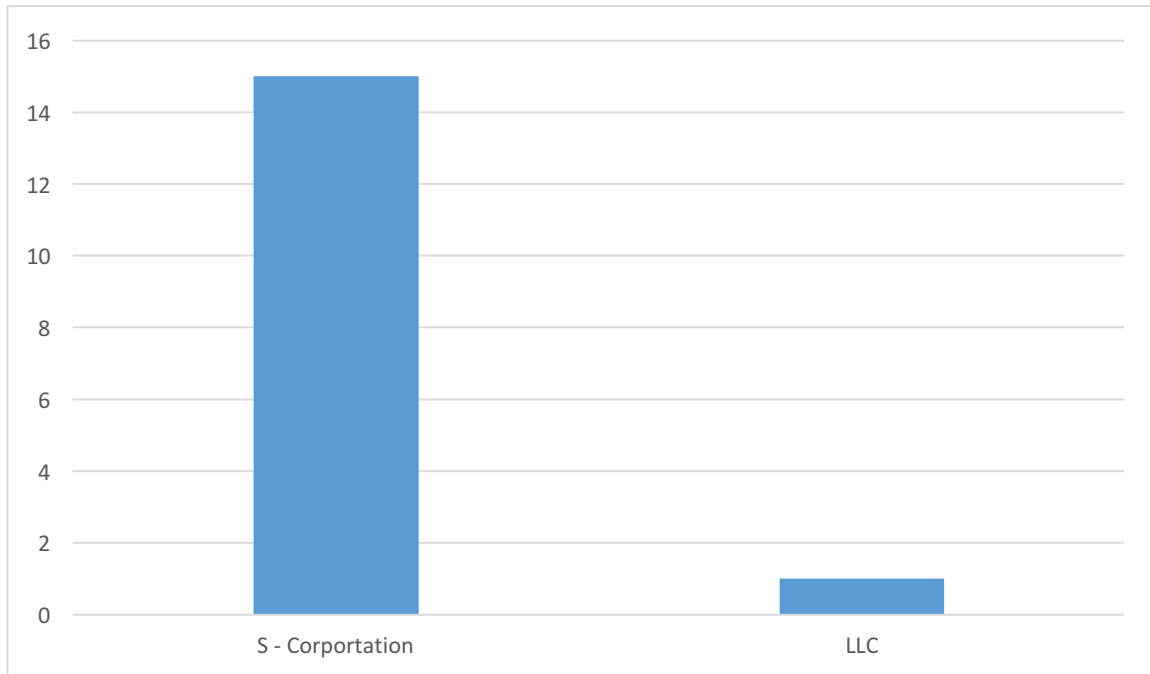


Figure 3 - Choice of Entity

One of the first decision any entrepreneur must make is the type of legal entity to choose. Under the current U.S. tax system, the most logical choices are an S-corporation or a limited liability company. Both offer the owners liability protection for their personal assets and are “flow through” entities meaning they are only taxed at the individual level and not at the entity level [9]. Figure 3 illustrates that all those interviewed had chosen S-corporations or LLCs as their choice of entity.

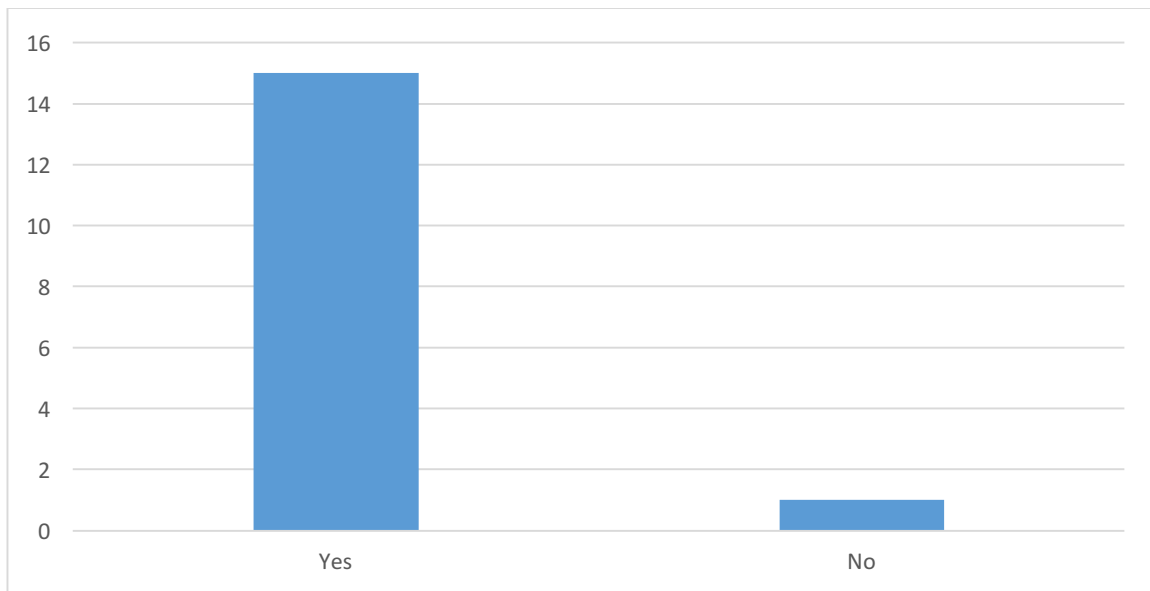


Figure 4 - Would You Do It Again?

Another area of research explored the entrepreneur's willingness to take the same steps if they had a chance to do it over again. Again, the respondents were near unanimous in their responses. Mr. E noted "I would do it again. I've enjoyed it for one, but the construction industry, as a whole, has very few barriers to entry in it, and so as an entrepreneur, it's one of the, in my opinion, it's one of the easier, least capital requirement-type businesses that you can start, and get into without having to invest a lot of capital in advance of obviously getting work. My answer is that the barriers, there's little barriers to entry in general contracting, and most construction-type firms". And another stated "Yeah. Yeah, no, I'd do it all over again. I wouldn't change anything about it. I mean, there's some mistakes I made along the way, but they were all good. That's just part of my story. So, I'm happy, man. Everything's good on my end. I don't think I could ask for anything more. So, I'd do it all over again".

## 5. Conclusions & Recommendations

### 5.1. Conclusions

Based on the coding of the interviews there are a few conclusions that can be made about the data. The most obvious conclusion that can be made is that the ideal time for one to start a company in the construction industry is in their 30's. Obviously, this isn't true for every entrepreneur and every situation but for the majority this is the prime time to start a company. This is most likely because at this time in someone's life they have the experience and knowledge necessary to make it happen but also are still young enough to have time in their career to make it happen. In addition, at this time in someone's life they have usually saved enough money from working after college to finance the venture.

Another conclusion that can be drawn is that it is best for someone to have 10+ years of experience in the construction industry before deciding to strike out on their own. In the case of some of the founder's I interviewed this obviously was not true. But running a construction company without adequate experience will not last very long. 10 years gives the entrepreneur enough time to experience multiple facets of the company(ies) they worked at prior and also breeds the confidence that running one's own company requires.

In addition, it can be concluded that an S-corporation is the best choice of entity for construction companies. Although the majority of construction companies are not set up in this structure this type of set up allows for more flexibility of ownership and still protects the owners. Every company spoken with during this study was an S-corporation, with one exception. The only exception was an LLC.

Lastly, it can be concluded that the biggest reason that these entrepreneurs wanted to start their own company was to have more control over their decisions. It is true that entrepreneurship provides that type of control, however, sometimes it can be at the cost of one's professional success. Luckily, for those that participated in the interviews, that was not the case.

### 5.2. Recommendations

These recommendations are for those wishing to start their own construction firm:

- Work for around ten years for a contractor that is willing to teach you as much as you can learn about all facets of the business
- Start your business in your early 30s
- All relationships are important – work to establish a positive reputation in the industry
- Save as much money as you can while working for someone else, use that money to start your venture
- Start small and reinvest your profits from previous projects back into the business
- Grow slowly and manage your cash flow

### 5.3. Future Research

Future research could be done exploring the personalities of entrepreneurs in greater depth. Entrepreneurs could take personality tests so their strengths and weaknesses could be recorded. Also, it would be interesting to track the growth rates of their firms. Yearly revenue could be tracked year to year so growth rates could be established. Entrepreneurship is the backbone of the construction industry and it is important that academia aide it's development in younger generations.

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