



Construction & Design

INSIGHTS



Aligning Subcontractor Risk: *What You Don't Know Can Hurt You*

by Brian Donald & Wilson Long

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Subcontractor use has always been part of the construction and design ecosystem. What has changed is scale, specialization, and consequence. For firm leaders, subcontracting now carries implications that extend well beyond individual projects, affecting reputation, financial performance, and long-term growth.

Four industry trends are driving this shift:

1. Today's Projects are Larger and More Complex

The construction landscape is being reshaped by large-scale projects, especially data centers, energy infrastructure, semiconductor facilities, and other “mega” works. Data center project starts alone in 2025 totaled more than \$53.7 billion in spending through November, representing more than a 138% increase compared with the same period in 2024.¹ These projects often exceed half a billion dollars apiece and demand specialized labor and expertise that many firms cannot provide internally.

2. Specialized Project Work Is on the Rise

The U.S. Bureau of Labor Statistics projects that construction industry employment will grow 4.7% from 2023 to 2033,² faster than the average for all industries, reflecting ongoing demand for technical and specialized roles that support complex projects. This includes increased need for electricians, power infrastructure workers, and other occupational categories tied to advanced industrial construction.

3. Labor Shortages Increase Reliance on Subcontractors

Worker demand continues to outpace supply. The U.S. construction industry needed approximately 439,000 additional workers in 2025³ just to meet demand for construction services, a number that substantially exceeds most firms' ability to staff internally.

Likewise, broader labor analytics foresee a potential shortage of more than 2 million skilled craft professionals by 2028⁴ if current demand trends persist, particularly in sectors like electrification, HVAC, and welding. These workforce pressures make subcontractors a practical necessity for many firms.

4. Geographic Reach Is Expanding

Projects are no longer constrained to local areas. Firms based in one region increasingly win work hundreds or thousands of miles from their home markets. Subcontractors often provide the regional labor and regulatory familiarity necessary to deliver these jobs, but they also introduce layers of risk that firms must manage intentionally.

¹ ConstructConnect “[January 2026 Data Center Report: Spending Surges Fivefold in Two Years](#),” January 8, 2026.

² U.S. Bureau of Labor Statistics “[What's behind the projected construction employment growth from 2023 to 2033?](#),” March 2025.

³ Associated Builders and Contractors “[ABC: Construction Industry Must Attract 439,000 Workers in 2025](#),” January 24, 2025.

⁴ Deloitte “[2026 Engineering and Construction Industry Outlook](#),” November 13, 2025.

Why This Matters to Firm Leadership

Price will always matter. But for firm owners and leadership teams, the more important question is brand risk. A firm can spend decades developing a reputation for quality and reliability, and a subcontractor misstep can erode that reputation in a single incident.

This raises a central question for architecture, engineering, and construction leaders: Does subcontracting reduce risk or increase it? The answer depends on preparation, process, and discipline.

In practice, the outcome often depends on what happens before a subcontractor has signed onto the job. The following sections outline practical considerations for evaluating subcontractors and managing the risks that come with increased reliance on them.

Before You Hire a Subcontractor: Start with Your Own Business

Subcontractor risk management begins well before a bid is submitted or a contract is signed.

Firms should start with an internal assessment of their own capabilities, strengths, and growth objectives. This includes understanding:

- Core technical competencies
- Geographic strengths and limitations
- Capacity constraints
- Strategic growth goals

Too often, firms learn about a project opportunity and scramble to identify subcontractors later. Proactive firms do this work in advance. They know where subcontractors are strategically necessary and where internal delivery is essential to maintaining control and consistency.

For example, a \$500 million firm pursuing rapid growth in the data center market may need to subcontract specialized electrical or utility work to meet demand. That decision should be aligned with a broader business plan, not made reactively during project onboarding.

Hire subcontractors when they provide:

- Technical expertise not available in-house
- Labor capacity a firm cannot reasonably staff internally
- Geographic presence where the firm lacks local resources



Subcontractor Risk Adds Up

One subcontractor issue may be manageable. Multiple subcontractors, across multiple projects, over time, less so. Risk compounds when:

- Oversight is inconsistent
- Contract terms vary by project
- Insurance requirements drift
- Subcontractor selection becomes reactive

Establish a Scalable Prequalification Process

Once gaps and needs are identified, firms should adopt a formal subcontractor prequalification process. The sophistication of that process should scale with the size and complexity of the business.

A \$100 million firm is most likely not going to prequalify subcontractors the same way a \$1 billion firm does. While neither can skip the vetting process, each will have unique expectations of subcontractors.

Additionally, a growing business will outgrow its prequalification process. One that worked five years ago may no longer be sufficient if the firm's current revenue, project size, or geographic scope has increased. Make sure you evaluate and then update your prequalification process as the firm grows and legal and market conditions evolve.

Furthermore, prequalification that happens under deadline pressure is a recipe for failure. Firms that build and maintain an approved subcontractor pool are far better positioned to manage risk when opportunities arise

Evaluate Experience, Safety, and Staying Power

Thorough due diligence matters. According to U.S. Bureau of Labor Statistics data, roughly two-thirds of U.S. businesses do not survive beyond 10 years,⁵ making longevity a meaningful, though imperfect, indicator of operational stability.

When evaluating subcontractors, firms should assess the following for each subcontractor:

- Financial stability (smaller subcontractors may not have audited financials)
- Capacity to perform work of the needed size and complexity
- Willingness to meet contractual and insurance requirements
- Safety programs and claims history
- Portfolio of similar projects
- Experience with comparable scope and scale
- Safety programs, including EMR and total recordable incident rates
- References from prior clients and partners

A common mistake is assuming that a subcontractor capable of performing small projects can seamlessly scale up. Firms should ask direct questions:

- Have they completed other work of this size?
- Have they worked under similar contractual structures?
- Have they supported projects with comparable risk profiles?



Subcontractor Risk: Red Flags to Watch For

- Reluctance to share safety metrics or claims history
- Coverage exclusions that conflict with the scope of work
- Inconsistent or outdated Certificates of Insurance
- Limited experience with projects of similar size or complexity

⁵ U.S. Bureau of Labor Statistics “[34.7 percent of business establishments born in 2013 were still operating in 2023](#),” January 12, 2024.

Practical Tip: Some firms bring subcontractors on-site or into their offices before work begins. These sessions set expectations around culture, communication, safety, and performance, as well as help establish relationships before problems arise.

Be the Partner Subcontractors Want to Work With

The strongest firms view subcontractors as partners rather than transactional vendors.

In many organizations, outside specialists are brought in when expertise falls outside internal capabilities, with expectations clearly defined around performance, accountability, and risk transfer. The same approach benefits construction and design firms.

Firms that are transparent, fair, and consistent tend to attract stronger subcontractors. In competitive labor markets, subcontractors have choices. Firms known for unrealistic expectations, delayed payments, or inconsistent contract enforcement often struggle to secure high-quality partners.

Creating a partnership mindset does not reduce accountability. It increases long term alignment with the right subcontractor partners.

Contracts: Where Risk Is Won and Lost

Contracts are a primary risk control tool but also the greatest source of exposure in a subcontractor relationship.

Every contract should be governed by a written agreement signed before work begins. From an indemnity perspective, risk must be allocated intentionally, not by default.

Key recommendations for managing contract provisions:

- Clear scope of work
- Flow-down provisions aligned with the prime contract
- Consistent use of a standard subcontract template
- Annual review of contract language
- Legal review by counsel familiar with construction risk
- Training for operational leaders responsible for contract administration

Firms should also include provisions addressing noncompliance with insurance requirements, including the ability to withhold payment when coverage is incomplete or misaligned.

Insurance language in contracts must match the actual coverage in place. This is a common gap, particularly when subcontractors work with less sophisticated insurance brokers or purchase lower-cost policies with broad exclusions.

Work with an industry-specific attorney and broker who understands construction to review each contract before signing.



Drafting Effective Statements of Work (SOWs)

- Define deliverables clearly and avoid ambiguous terms
- Specify who is responsible for providing labor, equipment, and materials
- Eliminate implied tasks that create scope creep
- Watch for hidden terms embedded in proposals
- Establish document priority and flow-down obligations
- Draft collaboratively with legal and technical experts

Clear SOWs reduce disputes and improve claim defensibility.

Insurance: A COI Is Not Enough

Certificates of Insurance (COIs) confirm coverage exists but not what that coverage actually includes.

Firms should review subcontractors' insurance policies in full for these exclusions and more:

- Trade-specific exclusions
- Height-related exclusions
- Limiting Residential Language
- Coverage limits appropriate to the scope of work
- Additional insured status aligned with contract terms

Different trades carry different red flags. Electrical contractors, utility contractors, and other specialty contractors each present unique coverage considerations. A one-size-fits-all approach increases exposure.

Small Contracts Can Create Large Losses

Smaller contracts often receive less scrutiny and can generate outsized losses.

Consider a scenario where a subcontractor is engaged under a small purchase order without a signed subcontract agreement. A minor scope change leads to a structural failure, resulting in a multi-million-dollar Professional Liability claim. Without a signed agreement, contractual risk transfer mechanisms may not apply, leaving the prime contractor fully exposed.

Firms should ensure that:

- Purchase orders tie back to master agreements
- Vendor agreements are signed before work begins
- Additional insured status can be triggered contractually

Low-dollar work does not mean low-risk work.

Scope Clarity Is Critical

Many claims hinge on scope definition. Ambiguity creates opportunity for dispute.

If a subcontractor's responsibility is not clearly defined, they may argue that the work performed — or the condition that caused the loss — fell outside their scope. The more specific the scope, the stronger the firm's position when issues arise.

When Owners Dictate Subcontractor Selection

Owners sometimes require firms to use specific subcontractors. These situations still require formal documentation and risk controls.

An owner's preference does not eliminate exposure. Firms should document scope, responsibilities, insurance requirements, and contractual terms regardless of how the subcontractor was selected.

When claims arise, attorneys will request documentation — not recollections.

Subcontracting With Intention

Subcontractors are essential to modern project delivery. They enable growth, specialization, and geographic reach. They also introduce meaningful risk.

Firms that approach subcontracting deliberately through internal planning, disciplined prequalification, thoughtful contracts, and rigorous insurance review are better positioned to manage that risk long term and across a portfolio of projects. Firms that treat subcontracting as a last-minute solution often discover gaps when it's too late to address them.

The difference is rarely luck. It is almost always the result of better preparation.

We're Here to Help

Subcontractors are essential to delivering today's projects, but unmanaged subcontractor risk can undermine even the strongest firms. The right approach balances growth, flexibility, and specialization with disciplined controls around contracts, insurance, and risk transfer.

EPIC Construction & Design works with architecture, engineering, and construction firms to evaluate subcontractor risk, strengthen contractual and insurance frameworks, and support long-term business objectives. Our team understands the operational realities of complex projects and helps firms align subcontractor strategies with their broader risk management programs.

If your firm is navigating increased subcontractor use — or reassessing how subcontractor risk fits into your growth plans — we're here to help you take a more deliberate, informed approach.

Learn more at epicbrokers.com or contact your EPIC Construction & Design advisor to start the conversation.

Let's Talk

Working with EPIC means partnering with insurance professionals that are also mechanical, electrical, plumbing, and structural engineers, general contractors, architects, or construction lawyers who have spent years in your boots and know first-hand what you're up against.



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