



Change Management

Managing Changes to Avoid Being Squeezed

Introduction

Many consulting engineers struggle with change orders. Some feel it is bad business to ask for changes. Others feel changes are strictly a construction contracting matter and not a consulting engineer's issue. Some seem to think that submitting change orders is unethical.

This attitude leads to delayed or little communication, which results in surprises, write-offs and many times an unhappy client. In an increasingly competitive environment, improperly handling changes can be hazardous to your client relationships as well as your bottom line. Changes often determine the profitability of a job, and with more and more clients demanding total price commitments, changes may be necessary to a mutually successful project for both the client and the engineer.

The good news is, there are ways to successfully do changes, satisfy the client and improve your profit.

Communicate, Communicate, Communicate

The key to tactfully and successfully selling your client on the need for change orders is timely and appropriate communication. This communication must occur throughout the process – from the proposal to contract award and implementation to close-out. The proposal phase is important because it is the time when well-defined assumptions are developed and communicated. If communication is ineffectual here, it included in the contract as part of the scope of work. If these assumptions are incorrect or not appropriately communicated at this stage, the scope of work included in the contract may prevent changes from being accepted by the client.

At contract award, you must further define and communicate a comprehensive scope of work. Today, many clients require a total price commitment, such as time and materials with a "not-to-exceed," firm fixed price, lump sum, or other contractual arrangements. But, many things can cause the scope of a project to change, from competitive factors to a client who simply changes their mind. The consulting engineer is not omniscient. Throughout the project, changes can and will occur and must be addressed to ensure proper price changes and reasonable treatment of both the client and the engineer.

At the end of the project, some clients perform audits to determine the appropriateness of the amount paid. If undocumented changes occurred, a retroactive adjustment could result, and, at a minimum, the consultant will be criticized for his change practices.

Importance of the Contract

The contract should be the foundation of understanding between the client and engineer. Before any work starts, an executed contract should be completed. Such a contract should include terms, provisions, and pertinent clauses for the work being performed. When changes occur in payment terms, limits of insurance, risk allocation, or the scope of work, then a change is most likely appropriate.

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The scope of work section may be the most important part of the contract. If a well-defined scope of work exists, changes are easier to communicate, sell, and carry out. If the scope of work is not well defined, it can be difficult or impossible to obtain acceptance of change. (If the questions regarding what, when, where, who, and how can be answered in the scope of work, it is presumably well defined.)

Even if the scope of work is well defined, it must be read by all people working on the project. If this does not occur, how can the project engineer know when a change is occurring? The scope of work must be fully understood by all people working on the project.

Kick-Off Meetings

The kick-off meeting is the time to determine the client's attitude toward changes and to establish rules regarding the processing of changes. If, or when, a change occurs, how will the client react? Who has the authority to authorize the work, and who can approve the change? If the client says, "I expect changes to occur and appreciate you establishing the ground rules," then changes can be handled much differently than if the client says, "I can't believe you are already thinking about doing changes when the job is just starting." The need for timely, clear communication will be much greater in the latter case than in the former. This initial discussion will enable you to establish specific methods of communicating and documenting changes.

Communication and Documentation are the Keys

Communicating with the client today is better than tomorrow, tomorrow is better than the next day. Notifying clients is often postponed until it becomes awkward or seemingly impossible. A major part of this communication process is documenting changes. The method of documenting changes should be discussed during the kick-off meeting. Establish a straight-forward format and present it to your client. Some items to include are:

- Reference to the contract
- Identification of specific client personnel
- Reason for change
- Authorization for change (if applicable)
- Cost impact of change
- Required signature for approval and acceptance

KEEP IT SIMPLE. Any type of documentation is better than none. In this age of faxes and internet email there is little reason for untimely approval and acceptance. Even if your client is reluctant to react quickly, it is still a good idea to send something in writing to formally document the need for a change. A unilateral letter to the client is better than no documentation.

And remember – most clients will appreciate the courtesy of a "heads up" phone call warning them to expect a change. Nobody likes to learn about changes for the first time when the change or invoice shows up in the mail.

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Types of Changes

Three types of changes should be addressed: increases, decreases, and no change. Many times, increases are the only type considered by the engineering professional and the client. To establish a relationship of trust, goodwill, and professionalism, changes must also include decreases and changes that do not affect the price, schedule, etc. Timely communication of all types of change to your client will pay big dividends on the current project, and future project opportunities, as well.

Reasons to Charge More for Changes

To charge more (per unit) for changes is fair and reasonable, but if you believe such a practice is unfair, consider these reasons to charge the same per unit rate for changes:

- Changes destroy schedules: Time is money. Changing a schedule affects the people involved on the project, as well as their participation in other projects.
- Changes may result in more liability: A project may change from a low-risk project to a high-risk project.
- Changes reopen discussion of previous conclusions and decisions: Changes also call previous risk assessments into question. Senior management typically is involved in initial project scoping, review, and assessment of methods to use in performing work. Changes may result in the need to re-evaluate everything.
- Changes destroy staff morale: Changes often result in more work being performed within the existing schedule. Staff may need to work overtime to complete the project. This can result in staff morale problems, which can directly and indirectly increase costs. (e.g., overtime, recruiting costs, etc.)
- Changes affect other projects: Appropriate staffing levels and meeting commitments of other clients is especially difficult when numerous changes occur.
- Further changes are deterred: The best way to obtain changes is to not charge for them. Clients do not want to be "nickel and dimed" for changes, and they shouldn't be. However, a consulting engineer cannot accept changes at no charge without compromising the profit margin. Once again, upfront communication is the key to gracefully handling the issue of charging more for changes.
- Expertise is an essential commodity: Remember that you have the expertise. The client may not know exactly what they want or need. Oftentimes this is why the consulting engineer is hired in the first place. Don't sell you value short.

What Managing And Selling Changes Can Do

Successful change order management results in a number of important benefits.

- Profits: You get paid for the work you do.
- Service quality: Timely communication will result in perceived quality being as good as actual quality. Too often, statements are heard from clients such as, "If you can't manage changes, how can you possibly manage difficult technical issues?"
- Company morale: Successfully selling and implementing change orders allows employees to enjoy successes and being compensated for work performed.

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- Documentation: Project changes that are fully documented and available for close-out audits can alleviate or eliminate questions that might arise from the client.
- Proactive management: Anticipating changes gives management the opportunity to address potential problems in a timely and proactive manner. Chances are, managers have experienced similar problems in the past and their timely involvement can reduce present and future problems.
- No surprises: Stopping surprises is a major benefit. Address the change immediately when requested by the client or when identified by you and communicated to the client. (Remember, today is better than tomorrow and tomorrow is better than the next day.)
- Communication: Clients want to know now when a change occurs – not later.
- Our future: Credibility and professionalism will result in goodwill, a stronger partnering relationship, and additional future work.

Submitting and justifying changes is sometimes difficult, especially with tough clients. Selling the changes to ourselves is often as difficult as selling them to our clients. However, if changes are handled appropriately, the result will be stronger client relationships that will lead to happier clients, repeat work, and higher profits.