

## **OK Construction, Inc. Change Order Policy**

### **Introduction**

There is a prevailing belief in the industry among owners and architects that contractors look for and cause change-orders as a source of income. OK Construction does not solicit change-orders or rely upon them as a secondary source of profit. It is our job to educate the owners, architects and their representatives of that reality and, further, to tutor them about the very real ramifications of multiple change-orders on our efficiency and schedule. When work is performed out of sequence, areas left uncompleted, or re-work caused by lack of owner decisions, it dramatically impacts our progress and productivity. Even when we are compensated for extra work by change-order, we cannot regain the loss of efficiency and productivity on our base bid caused by lack of decisions. We are seldom offered extensions of time or compensation for the delay and usually absorb overtime costs to maintain schedule. Contrary to popular belief, industry experience indicates that projects with large numbers of change-orders turn out worse profit and schedule wise than those with fewer. Experience also verifies that you can never be compensated enough for untimely, multiple changes to make up for the profit opportunity that exists if a project proceeds without delays or disruption.

### **Change-Order Policy**

It is our policy to be actively and energetically proactive with owners and architects concerning the need for timely decisions to maintain schedule and avoid, to the extent possible, change-orders. Owners have a critical role in the construction process, and it is our responsibility to explicitly define that role for owners who do not clearly understand it. Absent this, we will appear to be responsible for delays when all we lack is timely owner decisions and direction. Owners often claim they rely on their architects for decisions that involve change-orders, but few give them the authority. We cannot manage a project efficiently with an uninformed owner.

The opportunity to become pro-active with an owner exists only at the beginning of a project which is where our Change-Order Policy is introduced. It is necessary for us to cause our owners to designate a responsible representative with change-order authority. It is our policy to copy the owner's representative and the owner with all correspondence that impacts, or potentially may impact, schedule or cost.

### ***For Internal Use Only*** **Change Order Policy**

At the very first project meeting (usually a pre-construction meeting), the OK Construction Project Manager will ask the owner directly, clearly and professionally about the handling of change-orders on the project utilizing the following procedure:

1. Direct the discussion to the owner, not the architect or engineer, but in the presence of the architect or engineer. It must be during the formal meeting while everyone is attentive—not a side conversation. The primary objective is to get the questions and answers into the meeting minutes.

2. Ask: ***“Who can authorize change-order work?”*** It is easily established that only the owner has FINAL and ULTIMATE approval. It should be clarified that the designer does not have final approval because if he did, it would be unnecessary for the owner to sign change-orders. Unless the owner states for the record that the architect’s approval of change-orders is final and binding on the owner, ask, ***“During the course of construction, should we proceed with change-order work without owner authorization?”*** The answer is invariably no. At that point, address the architect or engineer stating, ***“We will, therefore, wait for change-orders signed by the owner before proceeding with any extra work no matter who orders it.”*** You need to establish that we cannot accept direction to perform extra work without an assurance we will be compensated for it. State that ***“We are commonly directed to perform work which is a change of scope when the designer says it is not. Then we are supposed to debate later –‘with the same designer’ to get paid.”*** We must attempt to demonstrate to the owner the unreasonableness of the position we are put in if we are to present change of scope to the same person who declared it not extra work when they directed it to be performed. It is imperative that we demonstrate the absolute necessity of owner participation in disputed work from the onset. Otherwise, we state we will be unable to perform ANY of it even if it delays the project. The objective is to establish an expeditious, binding, owner involved change-order process in advance of construction, because it is in the best interest of the owner.

3. The process often does not include actual signed change-orders because the designer usually says the paperwork takes a long time. The object is to attempt to establish hand written change-orders and/or signed field orders by the owner’s authorized representative as binding. No matter what the results, we establish that we intend to fax changes of scope to the owner and expect an immediate reply. If they DO NOT want us to proceed with the work they should say so. Owners often say they are unable to do this because they do not understand the nature of the work in question. This continues the discussion in the intended direction because it demonstrates that the owner MUST rely on their designer in technical areas. However, we do not intend to be directed by the designer if he has no authority to approve extra work. Our position is: If the owner does not understand a technical issue on a field order that we fax him, they can say so, and we will NOT proceed with the work until it is clarified to their satisfaction. This usually leads to a discussion of the necessity of a rational Change-Order Management Policy for the project.

4. Timing is crucial, so attempt to establish that ALL open change-orders be cleared at a monthly meeting which the owner attends (or every two weeks). Owners may say their representative does not have the authority to approve change-orders—which begins the discussion all over again. The entire communication is an attempt to clearly demonstrate that we do not want to be directed to perform extra work, while NO ONE with authority to approve compensation is available or even aware of the circumstance. Explain that this is a primary basis for disputes that is totally outside of our control without active owner participation and we should not be asked to participate in it. It is our position that the owner must be available for change-order approval, at a minimum monthly, or they must authorize someone to bind them. Often an amount is established where the designer can bind up to a limit, the owner’s representative up to a limit, and only the owner after that. This is acceptable.

5. It is helpful to the designer for you to state that ***“If the designer gets some authority to pay for extras he is better equipped to manage the project in a fair and impartial manner, which is the basis of our contract with the owner.”***

6. The meeting minutes, unless prepared by us, seldom include the detail necessary to clarify our position on change-orders and extra work. As soon as they are published, complete clarification of our position is to be sent to whoever wrote them and copied to the owner. This also demonstrates our intention to copy the owner on all money and schedule issues—no matter what!

7. Even when the discussion is not entirely successful in establishing a good change-order management process, it communicates and, hopefully, clarifies the construction process for the owner and helps establish that we are not the primary cause of extra work disputes.

8. Change order meetings schedule should be agreed on during this meeting.  
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