Best Practices:
Change Orders

5 Steps to Developing a Proactive Change Order Management Strategy

Contractors agree that, with few exceptions, change orders are productivity killers that often become the focal point for schedule disruptions and project controversy. Studies show that as the frequency of change orders increase, labor productivity decreases. Customers sometimes believe contractors seek change orders. Not true. Most contractors would be delighted to work projects with little or no changes, additive or deductive.

Project managers walk a tenuous line when charged with managing not only the project but also preserving and maintaining the relationship with the customer. Even on hard-bid, lump sum projects where maintaining strong customer ties for the next project are less important,

there is no discounting the project harmony that is lost with a heated and controversial change order battle.

Here lies the conundrum. Proceed with the work and maintain the schedule and relationship, or stop, haggle and argue disrupting the wheels of progress and shake the project's momentum.

Developing a proactive change order management strategy will not only minimize the firm's financial and reputational risk, it also provides a mechanism to better manage customer expectations and relationships.

Following are some best practices to develop a change order management strategy.

Best Practices

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Best Practices

1. Manage Change Early

The first and most important step in change order management is setting expectations—and this begins before an order is ever submitted. It starts, in fact, with your own team. Developing a plan and sticking to it will speak volumes to your employees and contractors about your commitment to smooth change order control.

In this process, everyone needs to know where the decisions are made.

When beginning any job, it is important for everyone to understand the line of authority. Make sure everyone working on the project can answer the following questions:

· Who can approve what and for how much?

· What timeframes are established for resolving change order issues?

· If change orders cannot be resolved at the jobsite, what are the levels at which issues are escalated?

2. Communicate Frequently with the Customer

As soon as there is a chance for a change order, talk to your customer. Many contractors view this methodology of addressing potential of change orders early in the project as adversarial and worry customers will view this as a sign of things to come.

Quite the contrary. When the change order process is discussed proactively and you engage the customer throughout the process, those conversations become less intimidating.

Educate your customer about standard operating procedures such as invoicing, quality control and schedule management. This type of education mitigates the risk associated with ignorance—and negativity—about how to handle change.

Providing sufficient explanation makes change more palatable for the customer, increasing the rate of approval.

Another tool to keep a project on deadline and customers happy is the practice of giving them a running time and material change order update on specified dates. This continually proves them with change order costs during the process. Here, the customer can continually compare the progress to their baseline or expectation. The right software makes this process an easy one.

> *In addition to capturing the various costs ... customers can quickly review reasons for projected cost overruns*

Time and Material Change Order - Over Excavation of Lot 13
Projected Value [Proposed Change Order 7] = $25,000

UPDATE	CURRENT LABOR SPENT TO DATE	CURRENT EQUIPMENT SPENT TO DATE	TOTAL COSTS TO DATE	ANTICIPATED COSTS TO COMPLETION	PROJECTED OVERRUN	DISCUSSION
12/5	$2,500	$2,000	$4,500	$25,000	$0	
12/12	$5,000	$5,000	$10,000$	27,000	$2,000	Lot 14 included per John Smith direction
12/19	$12,000	$7,000	$19,000$	30,000	$5,000	Rock formation at station

In addition to capturing the various costs and presenting it in a fashion that provides a chronological history, customers can quickly review reasons for projected cost overruns

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3. Stay Proactive

You do not want to face change on the defensive. The best way to avoid that is through thorough project knowledge. The project manager and superintendent should examine the plans, specifications, subcontractor purchase orders, permits and the actual site.

During this process, keep in mind these potential job progress hazards:

- Trade Coordination - Review the scope of each trade contractor and/or supplier to identify scope holes or duplication.

- Detail Review - Scrutinize connection details, grade changes, cross sections, panel summaries, room details, etc. It is often here that small details are missed or omitted.

- Staging - Develop site plans and logistical coordination to manage storage, deliveries, and exit strategies. Laminate a site plan and use scale models to represent material bundles, access roads, critical utility tie-ins, trailers, crane swing radii, etc. This best practice protects against presumptive change orders relating to logistics and handling, and guides the project team to strategically manage the site.

- Schedule Review - Review all schedule milestones and ensure both production and procurement schedules support the overarching project goals.

4. Avoid Sabotage

Monthly job cost review meetings can become the bane of any project manager's schedule. PMs squirm and rationalize poor project performance. Sometimes, there are change orders that are "in the mail" and will be changed in a week's time. The week passes with no signature and compounded project costs. Strong team leaders exist in firms that have a commitment to change order policy.

Some customers are high maintenance. Some continually compress or elongate, or routinely choose weak designers. The ruthless change order saboteur thwarts even the greatest PM in their efforts. Put systems into place to recognize these individuals as soon as possible.

While most businesses are built on relationships, deadlines are important too. Focus on the upstream processes to minimize change and the potential impacts. Determine the root causes. And if a customer causes you to lose money, do not work with them again.
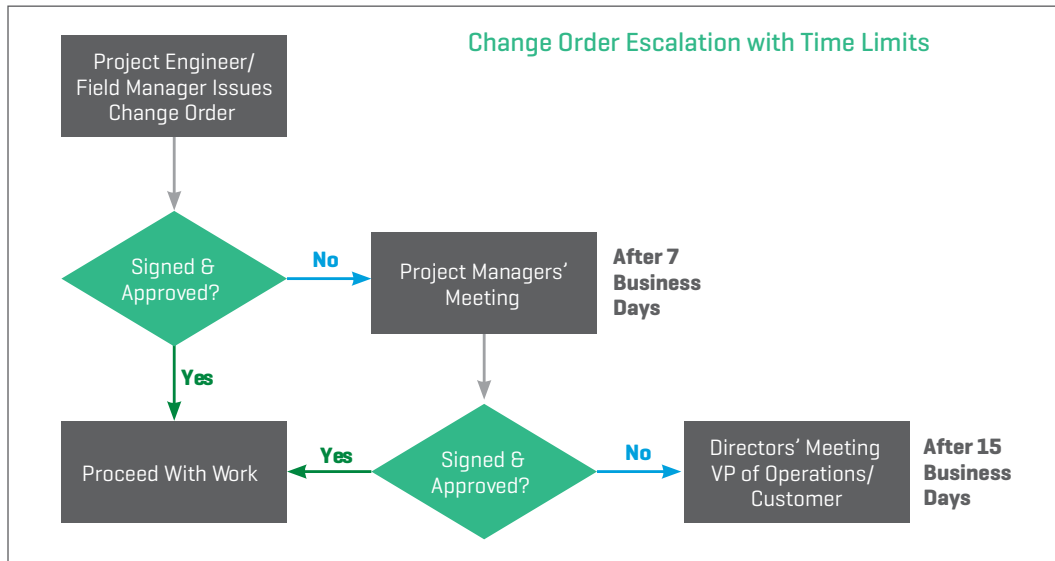
The longer it takes to approve change, the longer it takes to complete a project. Keeping an approval schedule can help keep the project on track

Change Order Escalation with Time Limits

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5. Follow the Metrics

Today, construction business owners can easily determine how much they are paying for labor, equipment and materials down to the penny. The software that provides these data will also offer an opportunity to dig deeper into your other processes, including change order management.
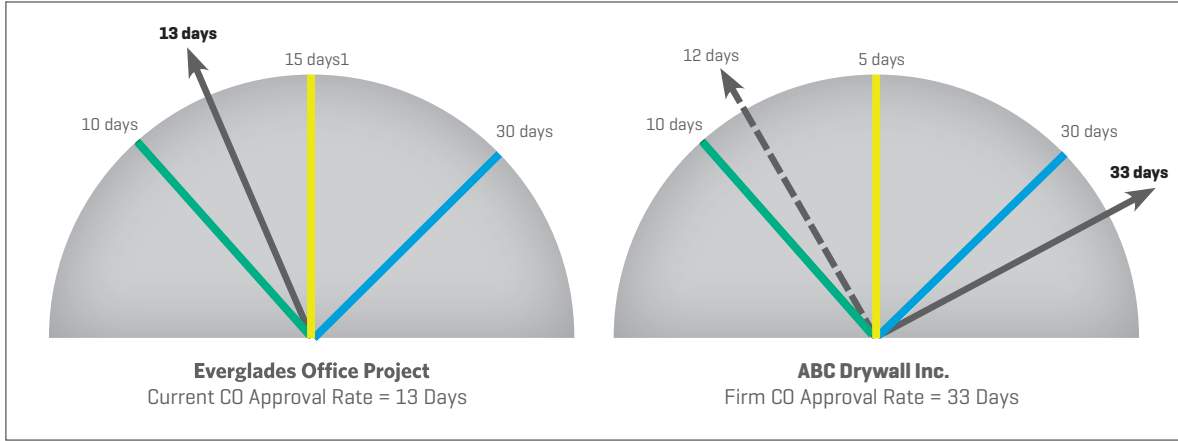
Establishing a change order closure rate provides a benchmark for monitoring the status of unapproved change orders. Let the software help you determine where you are now and then set goals of where you want to be. Follow the progress and if improvement is not made, ask yourself why.

Change order dashboards empower owners to make educated, data-driven decisions to improve their operations.

Conclusion

Process, procedure, proactive management and measurement will mitigate many of the potential risks that construction business owners face in change order management.

In the end, the responsibility to keep projects on track lies with senior management. Create a strong, aggressive process and follow it. Use the right software to track it. Evaluate it and alter the plan as needed and stick to it. You will find that understanding how to prevent change, communicate change and manage change not only serves to deliver a higher quality finished product, but to create more knowledgeable project teams for your company.

"The right software can offer immediate information that will help in the decision-making process. Dashboards like this one give PMs a quick and easy look at approvals.

Everglades Office Project
Current CO Approval Rate = 13 Days

ABC Drywall Inc.
Firm CO Approval Rate = 33 Days

Change Order Dashboards with Approval Metrics
The right software can offer immediate information that will help in the decision-making process. Dashboards like this one give PMs a quick and easy look at approvals

To learn more about Developing a Proactive Change Order Management Strategy, **click here:**

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