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How to Properly Control Client-Induced Changes in Your EPCI Project

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Changes cannot be fully avoided during project execution, but they should be minimized to avoid disturbing the execution. One major practical concern is the amount of changes that can be created by the Client, and which are too often not acknowledged. This leaves the Contractor in a sometimes difficult conundrum. Yet it is essential for the Contractor to remain protected because a significant value can be at stake. This Paper examines some good practices that should be implemented by Contractors to protect themselves.

Why it is important to avoid Changes in a Project – but why they cannot be fully avoided

Changes to the Project technical baseline must be avoided as much as possible, for two reasons:

- First of all, changing the technical requirements might change the cost from what it was estimated at bid stage,
- Secondly, changes always lead to disturbances and re-works, for all parties impacted, far more damaging and difficult to evaluate than the direct costs.

Moreover, the impact of changes tend to increase dramatically as the project progresses as they imply more rework and a broader consequences on interfacing scopes.

Numerous changes are implemented during the execution of a Project.

Some are normal part of Project execution, and cannot be avoided. They include design development, incorporation of information from vendors etc.

Numerous changes, however, can be avoided. These are the requests made by the Client which are actually extras over the Contractual requirements.

Managing Changes created by the Client

These are two types of such requests:

- **Acknowledged changes**, i.e., formal letter from the Client with a request for additional work, implementation of new requirement, etc., asking the Contractor to provide an estimate of the cost/schedule impact, and

- **Non-acknowledged changes** that come in the form of comments on deliverables, requirements transmitted "candidly" via letters, records in minutes of meetings, informal communication (oral, emails etc.)

Acknowledged changes are a lesser issue as they will normally lead to compensation (time and money) from the Client through a Contract Change Order.

Non-acknowledged changes are the most numerous. They are the most damaging for the Contractor as they are often undetected and incorporated by Contractor at its cost.

Industry sources estimate that Contractors lose between 5 and 7% of the Contract value due to non-acknowledged changes.

How to Deal with such changes?

First of all, the Contractor must request from the Client to receive an official instruction.

The practical way to do this is to provide the following standard answer to any such request, e.g., that made as a comment on a Contractor deliverable etc.:

Contractors lose on average 5 to 7% of the Contract value due to undetected additional requirements requested by their Client

"This comment constitutes an additional requirement to the Contract. (Explain why by referring to the applicable Contract documents). This request will not be considered unless Company issues an official request pursuant to Article X of the Contract "Company initiated change-order"".

This will eliminate the vast majority of such requests, as the Client will want to avoid the resulting extra costs.

It will initiate, for the remaining ones, the process leading to Contractor compensation.

Maintain your position in the case of non-acknowledged changes

Should the official request be received from the Client, it could either acknowledge that the request is a change to the Contract or not.

If the change is acknowledged, the Contractor will prepare the cost/schedule impact estimate. Discussions will then take place with the Client about such estimate. The challenge for the Contractor would be to promptly agree such estimate with the Client, which will then be recorded in a signed change order. The Contractor wants to avoid proceeding with the change, because of time pressure, without a signed Change Order.

When one knows that on large projects it takes typically one year between the date of receipt of the an acknowledged change request from Company and that of the signed Change Order, one understands that the Contractor is exposed for a long time.

In case the request is not acknowledged as a change to the Contract, the Contractor must notify that it constitutes such a change. If the Contractor fails to do so within a specified time period, it will forfeit its right to be compensated for extra cost / time.

The Contractor may either directly submit the cost/time impact estimate or state that it will not consider the request unless the Client acknowledges it as a change. This will depend on the Contractor willingness to implement the change, its impact, and time/effort required to evaluate the latter.

Once the above notification / estimate has been issued, the answer from Company shall be closely tracked.

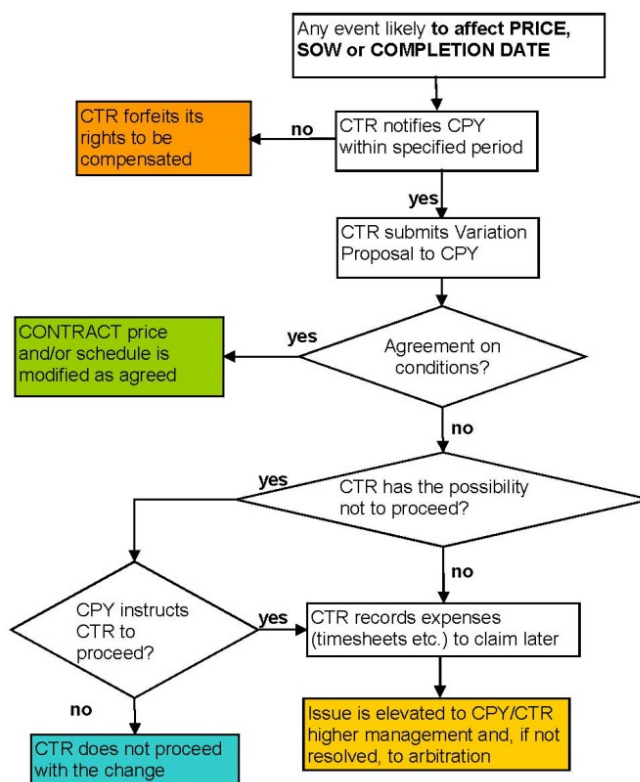
Such answer may be a denial that the request constitutes a change. In such a case, Contractor **shall not** implement the request.

There is an exception to this when the answer from the Client contains a formal instruction to Contractor to implement the change. Contracts indeed usually give the Client such right to force Contractor to proceed and Contractor the duty to comply.

The Contractor will then record the costs incurred to claim them latter to the Client.

Should the answer contain no instruction to proceed, however, or should there be no answer received from the Client, the Contractor **shall not** implement the request.

Proper tracking by the Contractor of the Client answer and communication to all concerned parties whether or not to implement the request is essential.



Conclusion

It is critical that Contractors implement a tight system to detect the Client requests that constitute changes to the Contract, such as the own depicted on the flow chart above. Contractors shall indeed only implement the requests that are recognized as changes or the ones they are forced to implement by formal instruction.

Failure to implement such a tight system, which is fairly common, results systematically in significant losses for the Contractors.

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