

How to Get a Good CM

Some Background

In recent years many public bodies have been disappointed in the results of the legally prescribed system of building design and construction. It seemed to them to be full of controversy and unnecessary expense. They have felt that private owners were much better able to find methods and relationships that met their needs and allowed them to concentrate on their basic business objectives. After some consideration several states and other public entities have changed their laws to allow a greater degree of flexibility for a public body in structuring a building program. Florida has made regular revisions in their state codes since 1990 (?), the Oregon state statues with respect to many types of construction were changed in 1992, and the State of Texas revised the rules for elementary and higher education in 1996.

Owners in these jurisdictions now must learn how to operate within the new rules, and learn all of the pitfalls that any change in procedures brings with it. Since all of these systems involve a larger measure of experienced judgment in choosing members of the design and construction team, they are open to a number of missteps and lessons in learning how to use them. Just as the previous systems worked well in certain situations, and still do, the new systems require some experience and communication between owners to become comfortable standard procedures.

This monograph suggests some of the necessary steps and attitudes which will help in choosing a Construction Manager in these new systems, to replace a general contractor and assist the architect in the design of an efficient and economical building program.

What a CM is

A Construction Manager is an organization which assists the Architect and Owner with early estimating and construction planning during design, and replaces a General Contractor during construction. These organizations have usually evolved from the two halves of the divided industry - General Contracting or Architecture - and have moved toward more collaborative work with

the other half to produce a better integrated, more Owner friendly system of delivering a completed product.

Why there was a need.

The traditional system in the United States for public construction since World War II has been one in which the task was divided between a professional architect, educated as an artist, who turned over a complete set of plans for a building to the organization that offered to build it for the least cost, a general contractor. This system was not prevalent in the United States prior to this time, nor has it been popular in the rest of the world, but under many of the conditions of the times it served us well. When supply and demand are fairly balanced, and the people who play these roles have long experience with one another, and expect to go on working together, and the social norms of behavior are well enough set to avoid legal action over most disputes, this system works well.

As the American economy expanded, and many projects began to involve people and organizations with greatly different expectations and backgrounds, the system began to produce a remarkable degree of controversy. It promoted behavior calculated to protect the individual players at the expense of the cost, time and quality of the completed work. Many public organizations began to take as a given the expectation of a lawsuit at the end of a construction project. The cost of these lawsuits, when added to the cost of the building itself, made the result a poor bargain.

At the same time many private owners had begun to gravitate back toward a selection of the various parts of the design and construction team on the basis of experience working together, and a history of dispute free projects. Private owners were free to structure the process as they thought best, while public owners were bound to observe the public bidding laws. It is these developments that lead to the changes in the public laws affecting design and construction.

How it has worked out

Most of the Owners who have used the new alternative systems report themselves well satisfied. The Construction Industry Institute has conducted studies of Owner satisfaction and found that in general the projects done under these new systems have resulted in what the Owner perceives as quicker schedules, lower cost, and

better function and quality of construction. (We need a better reference for this! Maybe this week's ENR)

There are of course some counter examples, and they provide some valuable lessons for any public body about to try all this. Some Architects have felt that the early estimating done by the Construction Manager was overly conservative, and resulted in the design of less satisfying buildings than the traditional system, for the sake of being sure to stay within the budget. Some Owners have felt greater pressure not to change designs in the early stages, and less power with respect to the Construction Manager when they wanted to change during construction. Almost all of these instances point up the need to use the judgment allowed under the new laws to hire a firm with whom the Owner and the Architect have a strong ongoing relationship, and in whom they can feel a measure of trust that their objectives are shared.

How to get a good one

To produce better choices and more satisfaction with the result, there are four rules we feel public owners should use in hiring Construction Managers:

- Start Early
- Work Hard on the Selection
- Pay a Fair Price
- Expect a Lot

The Basic Ingredients

Starting early

Because the Construction Manager is a newcomer to many Owners, and often has evolved from a General Contracting organization, many Owners assume they should be chosen late in the design period, about when they usually start thinking about contractors. That single decision can change a good idea to a mediocre one at best.

The bulk of the decisions that determine the cost of any building program are made very early in the thinking about the needs that bring the building about. Sizes, shapes, materials, and timing are set usually by the time a conceptual design has been approved, and all of the Value Engineering in the world cannot make a serious change in

the result. Many Construction Managers have systems for preparing historical or Pro Forma or parametric estimates to improve the early budgets, and project definition tools to make sure the team thinks about some things that are important to achieving the Owners objectives.

Hiring a Construction Manager at the same time that the Architect is hired insures that there will be someone in the group who is keeping these issues in front of the decision makers.

It also insures that the Construction Manager agrees with the basic project strategy decisions, and will work hard to make sure that they turn out well. Early involvement keeps the group that will represent the Owner in the latter half of the project from feeling that they had little control over some basic decisions, and are therefore not to blame if the result is not good.

Finally, many CM firms have developed services that are very useful in developing a building program, at the outset of the effort. Some have Facilities Assessment groups that can assist in surveying your existing stock of buildings, and help develop a data base from which to choose a capital renewal program. Others have experience in public relations and community outreach to assist in bond programs, and in collateral fund raising. All of these possibilities will be available if the CM is brought onto the project team early

Working the problem

The second ingredient in a good selection is a lot of work. Most of us hope that we can rely on procedures and selection systems to automatically make good choices for us in major decisions. Unfortunately, in many years of watching we have rarely seen a good selection made simply by the application of a selection system - someone has to take the task on as an important part of his own success or failure before all of the tasks of a good selection will be carried out.

Most legislative rules for these procurements specify a two stage selection, and that approach has proven to be wise. The first step is to find qualified firms, and the second step is to choose the specific individuals who will best integrate with the Owner and Architect, and can both adopt the Owners goals as his own and communicate honestly when the project is going off track. That means two rounds

of requests, two rounds of reading a stack of written material, two sets of tense selection meetings, as well as a long few days of interviews. The result is worth it, however, and the result of not doing it is generally poor.

In addition to the internal and candidate communications, it is wise to talk in depth with the references which every firm will supply, and if possible with some knowledgeable friends in addition. No one will initially want to say anything remotely negative, even if their experience was not very good, but most of us have developed ways to draw out honest opinions when necessary. All of this must be taken with a grain of salt, but a relevant opinion heard from several knowledgeable people should be given a lot of weight. Most Construction Managers have sales departments that exist to create a good impression, so some diligence is necessary to get past that.

The tradition of selecting builders on the basis of cost is strong, so many Owners feel they have to ask for the prices that will determine the items that the CM has more or less under his control - CM fee, general conditions, and contingency. The trouble with using these numbers as strong determinants of the selection is that they are all very susceptible to different interpretations, and the one skill that general contractors have all honed is the ability to exploit ambiguities in the specifications. The best method for a knowledgeable Owner would be to ask, but not place too much weight on the answer. The best method for a novice Owner who can't ignore the answer is not to ask. More on this later.

Finally, make the final choice from among firms all well qualified to do the work, and make that choice on the specific personnel who will be on the project. It is the almost universal experience of Owners that the satisfaction with a project depends on the specific personnel that the Construction Manager (and the Architect and Engineers) have assigned. Try to get into a position where it can be the sole determinant of the final choice.

Paying a fair price

Many Boards will also feel that the less they spend on this service, the more is left over for the primary educational needs. The difficulty with that philosophy is that you will get no more than you pay for, and paying too little will result in getting so little service that the effort will not meet your needs. Saving a few percent on a

bargain Construction Manager can cost as much as saving on a poor architect or brain surgeon.

Like most businesses, Construction Management has a return necessary to sustain good work. The Construction Financial Management Association reports a "gross margin" - equivalent to fee on a CM job - of about 5.5% of the construction cost for all builders in the US last year. That gross margin covers the necessary return on the working capital for construction as well as the non project overhead costs needed to stay in business. It can be earned as a combination of fee, mark-up on field labor, savings sharing, and a number of other creative ways, but a CM who is working for less than that is earning less for his shareholders than he could do elsewhere.

Some of the markets that are currently trying these alternative strategies have seen a steady reduction in fee percentages offered as General Contractors try to gain experience in this field. The net result has been that many of the more experienced firms have stopped proposing, preferring to use their efforts in more attractive ways, and the field is being left to less experienced firms. An Owner who lets this happen to him is apt to find that they have gotten a great price on a firm ill prepared to play this role.

The answer, we believe, is not to ask the fee, but to either refer to industry average margins, or to negotiate with the most qualified firm until the Owner is satisfied that he has gotten a fair fee. This is similar to the most common ways of selecting Architects and Engineers, and will keep the interest of those who are best able to help the design and construction process.

In addition to fee, many Owners ask for an estimate, or a bid, on the costs of temporary or "General Conditions" construction. That is the only other item of cost that is not subjected to a bidding process, so one might reason that if that was a part of the original proposal also, then all of the work would effectively be bid, and the Owner would be free of the criticism that Construction Management subverted the traditional lump sum bid process. The trouble with that notion is that "General Conditions" is not a well defined scope of work which can be priced before the building is designed. A great deal of effort

has been put into defining these things early so a comparison can be made, but the situation defies a definition clear enough to allow bidding and avoid later misunderstandings. Many items can be part of subcontractors scopes later on, and so could be left out of an early estimate, while others are subject to a lot of debate about how much is needed. The largest cost in General Conditions estimates is supervisory personnel - minimizing that often leads to poor results. We strongly suggest that Owners not try to determine a fair general conditions price before selection.

Expecting good performance

The final suggestion for getting good performance from Construction Managers is to communicate high expectations. All of us tend to perform to expectations, and to do our best work for those who ask for it. In hiring a Construction Manager you have broken with the traditional approach in order to get better service, and it is fair to let everyone know you expect it. If you have some benchmark standards on cost, function, time, and quality, you should be setting the goals for this next project somewhat higher, and making it clear that you expect the newly chosen project team to deliver a better product.

Our common experience of several years is that high goals, clearly communicated and consistently repeated, have produced far better results than the industry averages. Practically everyone in the design and construction business has a story about a project done for less money, in less time, with better quality than they would ever have expected, just because an Owner had a clear need, and made it possible for all the team members to do an unusually good job.

The goals have to be physically achievable, and if they change often it will be a great demotivator, so take care to say the same things and have your colleagues say the same things, every time the chance arises.

Finally, high performance by project teams is often associated with positive motivation and public praise for good performance, and only quiet private criticism. The group nature of the process leads to an atmosphere that can either enhance or detract from the effort, and an Owner who wants the best effort of a Construction Manager (or Architect, or Engineer) should make an effort to be a cheerleader.

