

How to obtain the best professional contract as a PMO?^{1, 2}

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ABSTRACT

This paper has been prepared for the course entitled "Worldwide Project Contract", for the Master of Science "Program and Project Management and Business Development" of Skema Business School. The purpose of this paper is to ensure how we can get the best professional contract and how to avoid the major problems related to payment and change orders. Also, we will be mentioning the relationship between payment and change order and how they affect the scope and how they affect both parties of the contract.

Also, the analysis of this paper provides us with the best alternative for facing change orders. Thoroughly review the contract to alleviate risk and for the payment; the best one was payment bonds.

Key words: Change order, Payment, Owner, Stakeholder, Contract, Contractor, Project, Compensation, Repayment

INTRODUCTION

Working without an agreement is simply requesting inconvenience. Without a legitimately restricting contract, a customer can ask for your administrations and after that not pay for all your chance and diligent work. Yet, did you realize that an agreement can likewise be utilized to ensure your solicitations are paid on time?

A contract will help layout the consent to finish work between a merchant and a customer. It permits both the seller and the customer to get in agreement when choosing the extent of work, installment rates, installment terms, due dates, and so forth. This will ideally keep any question down the line and guarantee the two gatherings comprehend expectations and task terms.

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Another critical part of an agreement is deciding precisely how you'll get paid. When the two gatherings know about how and when an installment is normal, it keeps a postponement in installment. Moreover, it enables all charging data to be all together from the beginning, and this can be utilized to set up repeating charging in bookkeeping programming, which will spare you time and guarantee your solicitations are sent when required. Proficient solicitations are the initial step to getting paid.

What happens when a customer hasn't paid the receipt by the settled upon date? An agreement helps settle this issue and spurs speedier installments since it will portray and authorize any late expenses the customer will bring about (for instance, a 2% intrigue charge for every month after the installment due date). Other than late charges, conceding to non-installment terms could mean you quit working for the customer until the point that the receipt is forked over the required funds.

Also, another important factor that both parties should take into consideration is the change order. In the construction industry, Change Orders represent between 5% and 10% of the total value of the Project. With time, there are billions of dollar squandered, in light of poor change order administration. Change Orders are unavoidable. A Change Order will affect the task in term of costs, time, efficiency et cetera. Thus, managing those progressions is one of the greatest difficulties a Project, alongside the Owner and Contractor, may confront.

A change Order is a formal and solid request that a proprietor proposes to the contractual worker with a specific end goal to roll out an improvement or to erase something in the extension, process, or any piece of an undertaking.

In a venture, contracts can be changed as the due date tags along, and this is when things may get dubious. Some change orders influence the expenses to build, give additional work, and don't enable more opportunity for the contractual worker to complete the additional measure of work.

The paper will provide answers to the following questions later in my paper covering:

- 1) What differences exist among the different Change order and payment forms?
- 2) Which one would be the most efficient for the Contractor?
- 3) Which one would be the most suited to the Owner?

Understanding the significance of those structures, and the need of them being painstakingly composed, and very much perused is a key achievement factor of one's task.

METHODOLOGY

1. PROBLEM STATEMENT

Going through and analyzing the history of projects we can conclude or deduct that the same issues is still facing projects in our moments. To mention the major problems facing a project from long time ago and they are delays and change orders in general and that's will affect the contractor and his work especially when there is a change order related to his payment agreement and that it is going to affect the scope of the project in general. So in this paper we will try to show the relationship between a change order and a payment and their importance on both parties of the contract.

1.1. Payments

A work contract is a composed authoritative report that lays out restricting terms and states of a business connection between a representative and a business. Contrasts exist in private and open area business contracts on the grounds that the objectives of a work contract are diverse in every segment. An installment is the exchange of significant worth from one gathering, (for example, a man or organization) to another for products, or benefits, or to satisfy a lawful commitment. The payment agreement and all the details related to payment is one of the most important points should be mention in the contract to ensure that both parties are in the safe side and to protect the rights of the employee.

1.2. Types and methods of payment

- Check
- Cash
- Money transfer
- Credits cards

All off this methods and techniques and what they cover or not should be strictly clear on time and what are circumstances of delays.

1.3. Compensation

The demonstration or condition of adjusting as by compensating somebody for benefit or by compensating for somebody's misfortune, harm, or damage by giving the harmed party a proper advantage (*bonuses, air travel, accommodation, meals, rented automobile*).

1.4. Change Order

In venture administration, a change order is a segment of the change administration process whereby changes in the Scope of Work consented to by the Owner, Contractor and Architect/Engineer are actualized.

Types of change orders:

- Payment change order
- Scope change order
- Time and Schedule change order
- Material change order

1.5. Relationship

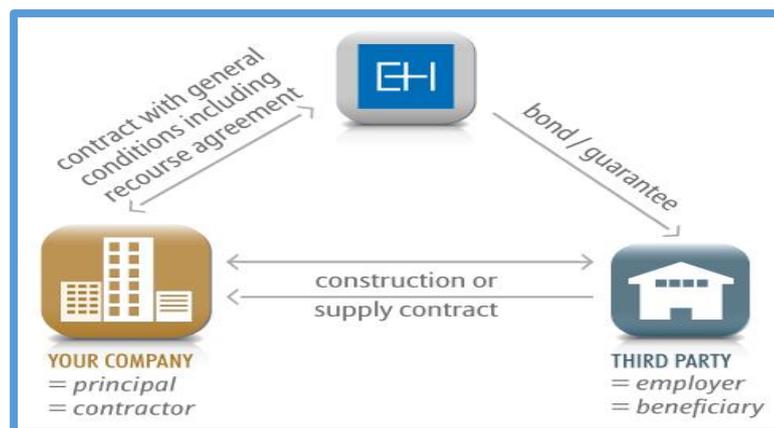
It is obvious for everyone the huge relationship between payment, change order and compensation those three elements play a big role in achieving the scope of the project on time and cost. If the employee is happy and satisfied and motivated and nothing is interrupting his work he will be loyal for the project and give the best of him for the best of the project.

2. FEASIBLE ALTERNATIVES

- I. Payment Bonds
- II. Letter of Credit
- III. Sureties
- IV. Put the schedule on a Gantt chart and share it
- V. Thoroughly review the contract to alleviate risk

3. DEVELOPMENT OF OUTCOMES

- A. Payment Bonds:** It is a surety bond presented by a contractual worker on ensure that its subcontractors and material providers on the undertaking will be paid. They are required in contracts over \$35,000 with the Federal Government and must be 100% of the agreement esteem. They are frequently required in conjunction with execution bonds.



Advantages

- ✓ Payment Bonds offer wellbeing of essential and intermittent intrigue wage.

- ✓ A payment bond is a surety bond
- ✓ Securities are perfect ventures for retirees who rely upon the intrigue pay for their everyday costs and who can't bear to lose any of their reserve funds.

Disadvantages

- ✓ It is generally unrealistic to acquire this bond without other supporting bonds. Be that as it may, in uncommon cases, certain private development undertakings may expect you to just get an installment bond.

B. Letter of Credit: A letter of credit is an archive from a bank that ensures installment. While there are a few sorts of letters of credit, they are frequently utilized when purchasing and offering: if a purchaser neglects to pay a merchant, the bank that issued a letter of credit will pay the vender (expecting all prerequisites are met).

Advantages

- ✓ A letter of credit gives the exchange accomplices a capacity to execute with obscure accomplices or in recently settled exchange connections. It helps in growing their business rapidly into new topographies.
- ✓ A letter of credit is profoundly customizable. Both the exchanging accomplices can put in wording and conditions according to their necessities and land at a totally unrelated rundown of provisos. It can likewise be altered starting with one exchange then onto the next with a similar exchanging accomplices.
- ✓ A letter of credit is more secure for the vender or exporter on the off chance that the purchaser or merchant goes bankrupt. Since the reliability of the merchant is exchanged to the issuing bank, it is the bank's commitment to pay the sum as concurred in the letter of credit. Therefore, a letter of credit protects the exporter from the shipper's business hazard

Disadvantages:

- ✓ A letter of credit adds to the cost of working together. Banks charge an expense for giving this administration, and it can increment steeply if the gatherings need to put some extra highlights.
- ✓ A letter of credit has complex representing rules and can be abused to exploit the candidate.

C. Sureties: A person who embraces a commitment to pay a total of cash or to play out some obligation or guarantee for another if individual neglects to act.

Advantages:

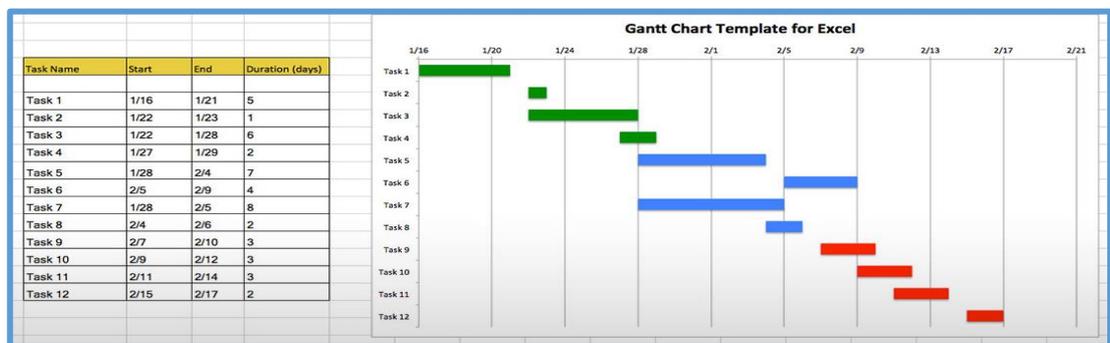
- ✓ Guarantee

- ✓ Surety enhance the image of the contractor as they are considered able of completing the project

Disadvantages:

- ✓ The weakness is that you are in charge of the advance if the other individual does not pay the advance back.

D. Put the schedule on a Gantt chart and share it: A Gantt diagram is a level bar outline created as a generation control device in 1917 by Henry L. Gantt, an American designer and social researcher. Every now and again utilized as a part of undertaking administration, a Gantt outline gives a graphical representation of a timetable that designs, organize, and track particular errands in a venture.



Advantages

- ✓ It organizes your thoughts
- ✓ It demonstrates that you know what you're doing
- ✓ It help you to set reasonable time allotments

Disadvantages

- ✓ They can turn out to be exceptionally unpredictable and complex
- ✓ The span of the bar does not demonstrate the measure of work. Each bar on the diagram demonstrates the era over which a specific arrangement of errands will be finished.

E. Thoroughly review the contract to alleviate risk: both parties should always refer to the contract small details to be on the safe side and do not miss any detail or guide while working

Advantages

- ✓ Be on the right track
- ✓ Reduce risks of mistakes or losing money

Disadvantages

- ✓ Losing time

4. SELECTION OF CRITERIA

The importance of change order and payment is based on the effect of its criteria on the future and the success of the project. We decided to cover the most hazardous change order and payment criteria that if not considered properly may jeopardize the entire project

- Change of scope: if the scope of the project change so the hall plan of the project is changed
- Impact on the Time/Schedule: any changes in those two might affect the scope and the budget of the project
- Impact on the Cost: changes in the cost is a complicated one because who is going to take the responsibility to cover the change.
- bonds: the importance of some types of bonds and how they affect the project
- Delay in payment: the negative affect and the demotivation of the employees and how it may affect the project
- Securities: the importance of this criteria is based on what it cover from damages happened in the project

Figure 1: Quantitative analysis of the alternatives evaluated regarding their interests

Attributes	Payment Bonds	Letter of Credit	Sureties	Put the schedule on a Gant chart and share it	Thoroughly review the contract to alleviate risk
Change of scope	2	1	1	3	2
Bonds	3	2	2	1	1
Impact on the cost	2	1	2	2	3
Impact on time/schedule	1	1	1	3	3
Securities	3	2	3	1	2
Delay in payment	3	2	3	2	3

(Note: the rating is based on the importance of the attributes on the feasible alternative. So 3 is very high= green, 2 is high= yellow and 1 is normal= red.)

Looking at the Matrix analysis, we can see that a ranking order starts to come up. The preferred solution would seem to be payment bonds and then the Gant chart.

FINDINGS

Out of our five alternatives, we have eliminated the second option (Letter of credit) as being the least desirable alternative. This decision was made after analysing the previous matrix table showed and presented before. To improve that conclusion and go deeper in our analysis, we can produce a MADM ratio scale.

Figure 2 – Quantitative analysis of the alternatives evaluated their interests in ratio scale

Attributes	Payment Bonds	Sureties	Put the schedule on a Gant chart and share it	Thoroughly review the contract to alleviate risk
Change of scope	0.5	0.1	1	0.5
Bonds	1	0.5	0.2	0.2
Impact on the cost	0.4	0.3	0.3	1
Impact on time/schedule	0.2	0.1	1	1
Securities	1	1	0.1	0.5
Delay in payment	1	1	0.4	0.8
Total	4.1	3	3	4

Selection of the preferred alternative

Thanks to the MADM analysis in ratio scale done above we can now confirm how much better or worse each option is when it is compared to one of the others. Following this analysis, the payment bonds is $(4.1/3 = 1, 37 * 100) = 137\%$ better than the less successful alternative the sureties this is in the payment factor.

Now we will see also, by using the same method what is the best alternative for change order. Thoroughly review the contract to alleviate risk is the best one $(4/3 = 1.33 * 100 = 133\%$ better than the Gant Chart alternative.

From a contractor point of view he would like to have his payment fully paid as mentioned in the contract, for that reason having a payment bond that covers everything in case in any fraud or crises from the owner side is the best alternatives. Also, the temporary worker has experienced a thorough prequalification process and is judged prepared to do satisfying the commitments of the agreement. Contractors will probably entire reinforced ventures than non-fortified tasks since the surety organization may require individual or corporate reimbursement from the contractor. From the owner position in this way he guaranty that his project is still on and save money and time in courts.

While concerning the change order the best alternative for both parties also is thoroughly review the contract to alleviate risk in this way the contractor will work on the basis of the owner demands and if any change might happened we should see who is taking the responsibility of that

Post-evaluation of results

After the entire analysis made, looking from both sides of a contractor and an owner all the alternatives mentioned before are good but some of them are better from the other. For the future both parties should take into consideration more the importance of change order and the impact of this change on the future of the project, so taking seriously the details of the contract and work by its outlines is going to save time money and make the project successful. At the same time using the Gant chart will facilitate all the work and save us time and money.

Concerning the payment bonds, in the future they should cover 100% of the amount of the project in this way contractor will be motivated and working with guarantees. Moreover that's does not mean that the sureties are useless no at all they are so important also for both parties.

CONCLUSION

Initially this research effort was undertaken to answer the following questions:

What differences exist among the different Change order and payment forms? After analyzing those two point in each type of project we end up by discovering the answers for the two following questions. Which one would be the most efficient for the Contractor? Which one would be the most suited to the Owner?

So this paper shows and proves that concerning change order we should choose Thoroughly review the contract to alleviate risk because it suites the rights and the advantages for both parties and when it comes to payment payment bonds is the best way to assure and guaranty the right and continuity of the project.

FOLLOW ON REASEARCH

On account of the accompanying examination lead in this paper, we found that between the diverse options raised some is by all accounts more intriguing to misuse than the other. Be that as it may, with respect to the setting some may be more fascinating than the other.

Also, we gave a clear idea how to avoid obstacles and how to choose the best format related to change order and payment format.

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About the Author



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Roy Mikhael is currently a Master of Science in Project Program Management and Business Development Candidate at SKEMA Business School, Lille Campus, based in France for the academic year 2017-2018. As part of a key module “The International Contracts” qualification requirement under the direct supervision of Professor, Paul D Giammalvo, the Course Director and the Professor Paul Gardiner, the Program Director, this student paper has been produced with the purpose of getting it published in the *PM World Journal*. He hails from KAFARAAKA in north Lebanon, famous globally for its rich crop cultivation of Olive and producing Olive Oil.

Previously, he has served as Project manager assistant in TechShop and business developer for 8 month in the same company. Also, served as Project manager assistant in D.G. Jones & Partners Middle East Limited SAL Lebanon for the LAU Project (multimillion dollar project >10M \$). He has completed his graduation in Business Management with honours from American University of Culture and Education, North Lebanon during the year 2015. He is a certified AgilePM® Professional and GPM (Green Project Management) practitioner. Contact him on: Roy.mikhael@skema.edu or Roymkhael@gmail.com and on <https://www.linkedin.com/in/roymikhael/>