Line Items in a Budget **ARE NOT** Just Numbers on a Piece of Paper

This article is comprised of three excerpts from the book "Construction Management: Understanding and Leading an Ethical Project Team"
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(From Chapter Two)
Project managers, whether they are construction managers, general contractors or architects, regularly supervise multiple projects concurrently. Each of these projects must be managed independently, particularly with regard to cost accounting. For this example let us consider the following scenario; a general contractor's project manager is responsible for two projects that were each awarded on a negotiated basis with guaranteed maximum price (GMP) contracts. All savings under these GMP agreements will be returned to the owner. Project #1 is progressing well and expected to finish well under budget. Project #2 is not going well, has incurred many problems and is expected to finish substantially over budget. The general contractor's president and vice president are placing tremendous pressure on the project manager to minimize their losses from project #2.

This is an incredibly familiar scenario, so much so that the majority of people in the industry will find themselves in this predicament at some point during their career. When faced with this situation the project manager might be tempted to charge a portion of the staff salaries, office expenses or other costs utilized on project #2 to project #1. This means the owner of project #1 is paying for work performed on project #2. By performing this unethical accounting the project manager is effectively stealing from the owner of project #1. Unfortunately, this has become a widespread practice throughout the industry. Disappointingly, experience has shown that the owner of project #1 is unlikely to realize when this theft has taken place.

Prior to conducting this ethically questionable act the project manager should ask himself the self-reflective question; "if I were to tell the owner of project #1 that I'm charging him for costs incurred on another project will he be OK with it?" The answer to this question is obviously, "no". In fact, the owner of project #1 would probably terminate that project manager just for asking this question.

Another interesting point is that project managers rarely lose their jobs when only one project runs over budget. This is especially true when they are also in charge of a second well run and profitable project. Therefore, with this scenario the project manager might be stealing tens of thousands of dollars from the owner of project #1 simply so their boss will be a little less upset with them. This is a massive amount of money to ask someone else to pay for his own selfish purposes.

What this project manager did is often considered a "business decision" and the reality of the world we live in is that people hold little or no accountability for their decisions or actions when the label of a "business decision" can be placed on them. Have no doubt about it, this project manager made an individual and personal decision to overbill the owner of project #1 and should be held individually and personally responsible for his actions.

Let us examine this issue from the perspective of company executives. Presidents and vice presidents have an obligation to supervise, assist and coach their employees. Executives routinely tell project managers to control their over budget projects and "stop the bleeding". However, executives do not always take the time to assist and coach their project managers in how to accomplish this feat, which is crucial to controlling problematic projects. In spite of this trend, the fact still remains that executives have an ethical and professional obligation to ensure their employees are performing their duties within the realm of good and ethical business practices.

For instance, executives routinely review and analyze cost reports for all of their projects. Naturally, special attention is paid to over budget projects. They obviously know when their project manager is running multiple projects, but may recognize from the cost reports that 100% of his time is being billed to project #1. Or, they may recognize that staff assigned to project #2 on a full time basis is actually charging their time to project #1. The executives must choose from two available options. First, they can turn a blind eye to this activity and allow the owner of project #1 to be over-billed. With this choice they will reduce their losses, but by unscrupulous means. Or, they can discipline the project manager, correct the billings and pay for their own mistakes. The latter is clearly the more difficult choice, but it is also the only ethical option.

Let us examine this issue from the perspective of owner #1. He has employed this general contractor on a negotiated basis because he trusts them. This owner has also provided them with a good and profitable project. Not only should the trust this owner has instilled in the general contractor be honored, but the general contractor should also be very thankful to the owner for bestowing them with such a great project. A substantial financial loss is difficult to bear, but it is highly unethical to cheat someone else into paying for our own mistakes. This is especially true when this other party has treated us extremely well.

(Also from Chapter Two)
People have a tendency to view money differently when it is their own than they do when it belongs to someone else, such as their company, a project owner or a subcontractor. Of course, this tendency is evident in all businesses and is not by any means unique to the construction industry. However, this trait of human nature is of particular concern in our industry because the costs and risks inherent with a construction project are considerably higher than other business types.

A major contributor to this trait is the fact that we never actually see any physical money through the course of our daily duties. All dollar values are simply represented as line items on various cost reports, change order requests, billings and other administrative documents. Over time, people have a tendency to develop numbness to these documents and resultantly tend to forget that those numbers represent actual money that is coming out of someone's pocket. In fact, I firmly believe that people would view money much differently if we exchanged piles of cash for all financial transactions rather than ordinary pieces of paper. Of course, trading piles of cash is not practical for obvious reasons and is not recommended, but the point is that we must always view documents symbolizing money as the actual cash those documents represent. Every member of a project team needs to remain cognizant that the decisions we make have a significant financial impact and even though we may not personally benefit from any savings or hold personal liability for any losses, someone we know is. This person may be the owner of our company, the owner of the project, the owner of the subcontractor's company or, in the case of a public project, the taxpayers.

For example, consider a superintendent who reviews the project estimate to verify how much money has been budgeted for each work activity immediately before they begin the respective work. He might pay special attention to items of work that have a respectively small budget and complete that work in the most economical fashion possible. Conversely, this same superintendent might pay little or no attention to work activities for which he is certain can be constructed under budget. This lack of attention may result in slow work performance by the field crews or inefficient methods. It is reasonable to assume that if the money spent was coming from the superintendent's own pocket, he would in fact complete all work activities in the most economical fashion possible regardless of their budgetary values.

A budget is a management tool used to monitor the progress and financial status of a project. A budget should never govern how aggressively a work activity is performed. Work activities should always be planned in the most expedient and economical fashion possible, without regard to their individual budgetary values. If a superintendent anticipates that an activity will be completed well under budget it is their duty to keep that work as far under budget as possible.

(From Chapter Seven)
Due to the nature of construction administration, project team members do not always control their own fate. We are frequently reliant on our teammates for fair and equitable considerations. The following anonymous case studies from three unrelated projects serve to explain this mutual concern.

a. Consider an occasion in which the owner and construction manager meet to discuss a general contractor's estimate for a negotiated guaranteed maximum price contract. The CM presents the estimate to the owner, who merely looks at the total value and summarily directs them to coerce the general contractor into lowering their price by $150,000. The construction manager replies that the estimate has already undergone several revisions and has been scrutinized by them, a third party reviewer and even the owner himself. He adds that all parties have agreed that the estimate is fair and equitable at this point. The owner once again orders the CM to just go try and get another reduction. The CM then states they do not feel comfortable making this request and the owner responds, "why do you care, it's the general contractor's money?"

b. Next, consider an occasion for which the construction manager and general contractor meet to discuss a subcontractor's change order request. Notably, subcontractors are not customarily present during these meetings. In this example the construction manager directs the general contractor to coerce the subcontractor into lowering their price. The general contractor replies that the subcontractor's pricing appears reasonable and is well substantiated. Without any intelligent basis the construction manager once again demands that the general contractor just go try to get a reduction. The general contractor again refuses and the CM responds, "why do you care, it's the subcontractor's money?"

c. Finally, consider a meeting between the general contractor and subcontractor held to discuss one of the subcontractor's change order requests. The general contractor has

> reviewed the itemized cost breakdown and discovered clear evidence that the subcontractor has grossly inflated their pricing. After being provided an intelligent, clear and fact based explanation of why the pricing should be reduced, the subcontractor still refuses to make any modifications. The general contractor then responds that they are not comfortable submitting this request to the owner, at which time the subcontractor replies, "why do you care, it's the owner's money?"

These statements are clearly unethical, but they are also unbelievably common throughout the construction industry. Regardless of the situation or parties involved, the only ethical response to questions of this nature is; "that's why I care".

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