Construction management critical essay

[Business](), [Management]()

CONSTRUCTION MANAGEMENT Chapter 4 Construction contracts. Author: Pawel Kotas, Polska Construction as a service activity having many dimensions. Starting from ideas, thru find funds, investor, design construction, find contractor, phase of construction, meet the requirements which investment needs to be in use and complete facility. All these aspects are associated with large amounts of documents, permits. In this essay will be described various types of contracts between the investor and the contractor. Contract is an agreement between two or more parties to do something for a consideration establishes the basis for a contract.

Because of business aspects of contracts problems can be solved in the court. Then the most important questions are: * Who are parties to a contract? * What are promises? * Other aspects of the contractual agreement. Construction contracts structure the way in which construction is purchased. There are variety between construction purchasing system and buying something in a store for instance mobile phone or sofa. When we have the finished product available for our inspection, we can decide whether it meets our requirements. Since the final product is available, we can purchase it from a single store.

With the construction it works different. The facility is purchased before it is „ manufactured" based on set of drawings and work descriptors. Finally item requires the purchaser to coordinate many entities to include: * Designers * Contractors * Subcontractors and vendors Major construction contract types The most widely used format of contract is the competitively contract. In public sector it is almost the only way to perform investment. The two main categories of competitively bid contracts are stipulated-sum contract and he unit-price contract. Both names refer to the method of quoting the price of work. Another contract format is the negotiated contract. In this way it is investor who after checking the strengths and weakness of the contractor's proposal select the executor of the contract. This format is not the best option for public projects because favoritism can play a major part in determining which contractor is chosen. The factor that affect whether a contractor can be considered responsible. * Technical competence and experience Current financial position based on the firm's balance sheet and income statement * Bonding capacity * Current amount of work under way * Past history of claim litigation * Defaults on previous contracts The major advantage which is essential for public work is that all bidders are treated equally and there are no favorites. That is very important because the political influence or another pressure can bias the selection of contractor. While construction contracts serve as a means of pricing construction, they also structure the allocation of risk to the various parties involved.

The owner has the sole power to decide what type of contract should be used for a specific facility to be constructed and to set forth the terms in a contractual agreement. It is important to understand the risks of the contractors associated with different types of construction contracts. Lump sum contract In a lump sum contract, the owner has essentially assigned all the risk to the contractor, who in turn can be expected to ask for a higher markup in order to take care of unforeseen contingencies.

Beside the fixed lump sum price, other commitments are often made by the contractor in the form of submittals such as a specific schedule, the management reporting system or a quality control program. If the actual cost of the project is underestimated, the underestimated cost will reduce the contractor’s profit by that amount. An overestimate has an opposite effect, but may reduce the chance of being a low bidder for the project. Unit price contract In a unit price contract, the risk of inaccurate estimation of uncertain quantities for some key tasks has been removed from the contractor.

However, some contractors may submit an “ unbalanced bid” when it discovers large discrepancies between its estimates and the owner’s estimates of these quantities. Depending on the confidence of the contractor on its own estimates and its propensity on risk, a contractor can slightly raise the unit prices on the underestimated tasks while lowering the unit prices on other tasks. If the contractor is correct in its assessment, it can increase its profit substantially since the payment is made on the actual quantities of tasks; and if the reverse is true, it can lose on this basis.

Negotiated contracts An owner can enter into contract with a constructor by negotiating the price and method of reimbursement. This type can during the contract enter into fixed-price or unit –price contract. * Cost Plus Fixed Percentage Contract For certain types of construction involving newtechnologyor extremely pressing needs, the owner is sometimes forced to assume all risks of cost overruns. The contractor will receive the actual direct job cost plus a fixed percentage, and have little incentive to reduce job cost.

Furthermore, if there are pressing needs to complete the project, overtime payments to workers are common and will further increase the job cost. * Cost Plus Fixed Fee/ Variable Percentage Contract Under this type of contract, the contractor will receive the actual direct job cost plus a fixed fee, and will have some incentive to complete the job quickly since its fee is fixed regardless of the duration of the project. However, the owner still assumes the risks of direct job cost overrun while the contractor may risk the erosion of its profits if the project is dragged on beyond the expected time.

When the fee is paid as a variable percentage the contractor agrees to a penalty if the actual cost exceeds the estimated job cost, or a reward if the actual cost is below the estimated job cost. * Target Estimate Contract This is another form of contract which specifies a penalty or reward to a contractor, depending on whether the actual cost is greater than or less than the contractor’s estimated direct job cost. Usually, the percentages of savings or overrun to be shared by the owner and the contractor are predetermined and the project duration is specified in the contract.

Bonuses or penalties may be stipulated for different project completion dates. * Construction Management In construction management type contracts, one form is retained to coordinate all activities fromconcept designthrough acceptance of the facility. The firm represents the owner in all activities. It is the easiest way to construct the facility, but because of the fact that there must be employ addition company taking care about everything the price can be higher, and it might be easy way for the management companies to fool the investor. Bibliography: Construction

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