03/ How to Successfully Manage Compensation Events

FEB

Even the best laid plans can sometimes change and that applies just as much to the construction industry as any other.

When change happens, managing it in a structured and collaborative way helps ensure you avoid disputes and manage the project more effectively.

In the Engineering Construction Contract (ECC), the process of managing change comes under compensation events (section 6).

Compensation events are the third stimulus to good management – the others being early warnings and programme management.

The significance of the ECC compensation event process cannot be underestimated. It has effectively reinvented the rulebook for change management in construction contracts.

Essentially, what they provide is clarity. Or to put a little more flesh on that statement, what they provide is a clear process, clear deadlines and clear sanctions if the process is not followed.

In section six of the ECC, there is a clear definition of the 19 compensation events and a process for notifying, quoting, assessing and implementing.

The process is very detailed but there are some simple rules you should bear in mind to ensure that you successfully manage compensation events.

Tip 1: Ensure a joint understanding of the process:

It's important to make sure everyone has a genuine awareness of this essential building block of good project management.

Collectively, as a team you need to agree what is and what is not a compensation event. This is best achieved through a joint training or briefing session involving both the supply chain parties and the stakeholders from the Employer's team.

Once you are satisfied that you have agreement on these key points, it is essential that you always follow the notification, quote, assess and implement process set out in the contract.

A word of warning – don't be tempted to skip any stages thinking it will save you time because in the long run it will end up causing you problems.
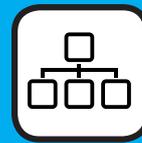
Tip 2: Agree a joint system for managing compensation events:

Once you have done this, collectively agree a joint system that you will all work to. This is very important because with compensation events you have to adhere to certain timescales. Logging response times becomes very difficult if people are using different systems.

The simplest way to provide a clear structure is to use a pro-forma or an online project management system such as Sypro, which has an in-built compensation event process.

As a minimum, you would expect a good team to use pro-formas.

However, as the process becomes more complicated with defined timescales, potential extensions and re-quotes it can become very difficult to manage via a spreadsheet.

The answer is to use an online contract management system such as Sypro.

The Sypro software gives users a consolidated live dashboard of the project and because it's a secure web-based platform, users are able to access the information from any web-enabled device, thereby removing the spreadsheets barrier.

Top tip 3: Discuss and agree changes before formal submission:

Doing this can save you valuable time in the long run. The best teams meet on a regular basis, for example every week or fortnight, to discuss the compensation events face to face and agree the assessment jointly.

Then they follow that through by adhering to the formal process in the contract. There is no set timescale to the timings of the meetings – it's whatever works best for the project teams.

The important thing to stress is the principle that getting together and discussing the compensation events can save a lot of time and hassle down the line.

Top tip 4: Follow the process and record in accordance with the contract:

Ensure that the team follows the process and records each stage correctly (as per clause 13.1). The ECC requires professional record keeping.

Conclusion:

By working in this way you will encourage a more collaborative relationship and better serve the needs of the Employer.

More specifically, the benefits include real-time final accounting and joint agreement on a Completion Date.

Failure to follow the correct process for compensation events can result in the Contractor and Project Manager becoming time barred. The Contractor can lose entitlement and end up not being paid for extra work they have done.

For the Project Manager, silence ultimately means acceptance and they could end up with an unexpected bill.

Ultimately, the ECC compensation event process is just professional project management. It's what should be done on every project as a matter of course. The ECC just provides a structure to good practice with some clear time scales.

Finally, the key point to remember is that it's good to talk. Always keep the dialogue going, even though it can be tough at times.