

# One Good Turn Deserves Another

## (Case 1027)

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### The Case:

As part of the professional services your firm (Multiplex Design Ltd) offers, you provide site civil engineering designs for large office complex developments, including road, parking lot and walkway layouts; pavement design recommendations; architectural earthwork design for landscaping; surface water retention/detention and drainage design; and the design of on-site wastewater treatment and disposal facilities. Most of your firm's clients are relatively large developers, and since you are a project manager for Multiplex Design, you work closely with a number of these clients for various projects. Usually, you work on a project-by-project basis for individual sites within a client's substantially larger development complex.

Since it appears to be second nature to many developers, it is not unusual for a client to tell you that funds are limited for your services on a specific project site, other firms have been knocking on their door in increasing numbers seeking to obtain design contracts for the same kind of services you provide, and you should remember there are a lot more project sites to be designed within the overall complex planned by the developer. And so it is with Bill Broot, development manager for Universal International Unlimited Developers, one of your clients.

You have been doing several design projects for Universal International Unlimited for a large complex a few miles outside of town which will eventually expand to more than 20 multi-story office cluster sites. So far you have been involved in all of the first five cluster projects in the complex, the latest being the Dawson Enterprises four-building site. Despite the fact that you had been careful to spell out your scope of work in your design contract with Universal International, Bill Broot asked you to provide recommendations for several items not included in your scope of work for the Dawson site, and you complied (especially when he told you there was a lot more work on other sites coming in a couple of months).

Just this morning, your in-house accountant notified you that the final figures for the Dawson project showed that your group had overrun your \$28,500 contract budget by \$6,300, and there is no authorization to bill Universal International for this additional work. Your original estimated profit for the Dawson project was \$4,000, and now that is gone, plus more.

After a meager lunch (and several aspirin tablets), you sit down to concentrate on some paperwork piled high on your desk when the receptionist at the front desk calls you on the intercom and says that Bill Broot wants you to call him about another project. You call Broot, find out that the new project is directly adjacent to the Dawson Enterprises site, and the work required is relatively similar in scope to what your original contract for the Dawson project had required. You agree to put a cost estimate together and call Broot back in the morning.

You complete your estimate for the new project site. If the site were in a totally new area of the entire development complex, the budget estimate for your design work would be \$31,700. However, since the new site is directly adjacent to the Dawson site, much of the information your group had gathered for the Dawson site, as well as a substantial amount of the basic analyses for that project, could be used for the new project. If you deduct the estimated cost of this information and analyses from the \$31,700, you find you could probably do the work for the new project site for \$22,800.

Keeping in mind the loss you suffered on the Dawson project, as well as Broot's remarks about plenty more work coming in the overall complex, and the intensity of your competition pounding on his door for work, you must decide what to give Broot as your design contract amount for the new project.

What do you decide to tell Broot in the morning?

### **Alternate Approaches and Survey Results for "One Good Turn Deserves Another" (Case 1027)**

1. The budget estimate you give Broot is \$63,400, lump sum, twice what you think it would take on a new site, but the going rate for obnoxious jerks. Hey, you are not in the business of engineering for experience; you're in it for cash. Since Broot has shown himself to be a difficult client, if not a credit risk, and since you bill lump sum, you see no reason not to get all you can out of the guy if he'll agree to it. After all, he'll surely seek to "lean" on you to cut your fee, and you want something left after the cutting is done. Enough already!  
**Percentage of votes agreeing: 2%**
2. The budget estimate you give Broot is \$38,000, lump sum, the cost of your services for a new site plus the "extra" unbilled services he finagled out of you on the last project. You would like to bill him double if you could, but you are just not quite that strong. Still, you see no reason not to get all you can out of the guy if he'll agree to it.  
**Percentage of votes agreeing: 9%**
3. The budget estimate you give Broot is \$31,700, lump sum, the cost of your services for a new site. Whereas you would like to bill him double for the work if you could (he's that much of a pain), you know he will only go so far, and this is probably the best fee you can hope for. As it is, you are

concerned how he will come back and ask you to lower your fee. You see no reason not to get all you can out of the guy if he'll agree to it.

Percentage of votes agreeing: 26%

4. The budget estimate you give Broot is \$22,800, lump sum, the cost of your services for a follow-on site. Whereas you would like to bill him double for the work if you could (he's that much of a pain), you know how competitive he is, and this is probably the best you can hope for. The \$6,300 in unbilled effort from the past project is simply a cost of doing business, and you are thankful to have the job.

Percentage of votes agreeing: 9%

5. The budget estimate you give Broot is \$15,850, lump sum, half of the cost of your services for a new site. It seems your competitors always find some way to cut their fee to half of yours, and this time you beat them to it. This is the only way to stay in business in a tight market.

Percentage of votes agreeing: 0%

6. The budget estimate you give Broot is \$31,700, not to exceed, on a time-and-materials basis, the cost of your services for a new site. You are a thorough person, and you know you can justify this figure to Broot by down-playing the follow-on aspects of the work. It won't be an easy negotiation, but your logical approach, objective figures, and calm demeanor will win the day. This will allow you to complete the project at an actual follow-on cost of \$22,800, but to adjust the billings to make up for unbilled (past) revenue.

Percentage of votes agreeing: 7%

7. The budget estimate you give Broot is \$31,700, not to exceed, on a time-and-materials basis, the cost of your services for a new site. You are a thorough person, and you know you can justify this figure to Broot by down-playing the follow-on character of the work. It won't be an easy negotiation, but your logical approach, objective figures, and calm demeanor will win the day. Sure there is extra money in the budget, but you view this as a contingency. Under good circumstances this will allow you to complete the project at a normal, if not relaxed, pace, and under difficult circumstances it gives you some badly-needed financial breathing room.

Percentage of votes agreeing: 26%

8. The budget estimate you give Broot is \$22,800, not to exceed, on a time-and-materials basis, the cost of your services for a follow-on site. You figure that Broot will be so enamoured with your low fee that he'll skate through the negotiations and sign you up without looking at the details. Then he won't notice how you carefully fluffed your low-ball budget by failing to include certain non-essential, yet desired, services you have normally identified as part of the scope of work. Once you get into the new project, the need for those services will become apparent, but at that point Broot will have no choice but give you the change orders for additional fees you seek.

Is this not the way the game is played? Finally, Broot will respect you both as an engineer and a businessman.

Percentage of votes agreeing: 2%

9. The budget estimate you give Broot is \$22,800, not to exceed, on a time-and-materials basis, the cost of your services for a follow-on site. You know that Broot is a hard-driving businessman, and this is all he will pay. You also know the good will you bought on the last project (\$6,300 in unbilled effort) will get you this project, but that is all. This is simply the cost of doing business. Considering the options, it is less expensive than developing a new client relationship with different developer.

Percentage of votes agreeing: 17%

10. The budget estimate you give Broot is \$22,800, not to exceed, on a time-and-materials basis, the cost of your services for a follow-on site. You know that Broot is a hard-driving businessman, and this is all he will pay. But this doesn't concern you all that much, since you know you can recoup the cost of doing business in Broot's market segment from your other, less-astute, municipal clients. You do this by assigning less-efficient personnel to their projects, by negotiating more generous billable rates, and by more broadly defining the billable aspects of the work, among other things. Your municipal clients are great people. You know they trust you to do the right thing, and that's what business is all about.

Percentage of votes agreeing: 2%

#### **Forum Comments from Respondents**

1. The budget estimate you give Broot is \$26,800, not to exceed, on a time and materials basis. This will prove very competitive against other companies as you will be giving Broot the benefit that there is certain basic work already achieved from the previous site. The \$4,000 over the actual \$22,800 will cover a degree of the loss from the previous project. He is a hard businessman, however, you are a professional and expect to be remunerated for the work you do.
2. If in the past you have allowed the client not to be bound by the contract for a lump sum job, this is your mistake. If you did not have contingencies for extras or did have and went over that amount, that was also your mistake. With a difficult client "doing favors" can win you brownie points, but it is not a sound business practice if you have no contingency in the budget for these "extras." In the future this client may remember that you have done him some favors, but in a tight negotiation this will mean little to the client that is looking for the bottom dollar bid. The extras you have given this client have been given to him. Dealing with extras is part of the job and the fewer you have the better your bids will be received. Having worked with firms that are change order producing machines, I can tell you from experience that option 8 will get you a reputation and will ultimately hurt your business.

3. Where is the ethical dilemma? This is a normal business situation we face several times a year. You've been giving Broot "freebies" and it busted your budget. It's time to make up the losses. Tell Broot that you'd ordinarily have to charge \$31,700 for the new project (and explain why), but tell him that since the new site adjoins the Dawson site and since he is such a good client, you'll do it for \$29,100, for a savings of \$2,600. When he squawks that the Dawson project only cost \$28,500, remind him that the work at the Dawson site allows you to understand that the new site is more complex, and tell him that if he goes out on the street for a competitive proposal, he will be charged at least \$33,000 by your competitors.
4. It appears that a decision was made at the time services beyond the scope of the original contract were provided, that these additional services would be furnished as a marketing effort. If it was intended to request an additional fee for the additional services, it should have been made at the time Universal requested the services. Each project (or assignment) should stand on its own. Therefore, Multiplex Design Ltd should quote the \$22,000. It would be ethical, however, to discuss the overruns on the first project and request relief. The relief would be at the option of Universal, however.
5. Always a fascinating situation. You underbudgeted to start with, then did not have adequate project management accounting during the project to know when you were going over budget. You may have been able to argue for additional funds had you broached that subject earlier, but now...nope. You have a new section to work on. You have a process to use to develop a budget estimate and may have the opportunity to recoup some of your loss from the first project. The key here is value-based pricing. When you sell hours, are you getting your value, or are you reducing yourself to a commodity? What is the value that Broot will receive from the services you provide? Because you have some knowledge that others don't, you can "afford" to cut your price. Does your knowledge reduce the value that Broot receives for your services? If you go and buy a Mercedes, the dealer may give you a "real deal" if you negotiate up front to buy another one each month for a year. But when you go there and buy one at a time, why should he bother? Price your services as high as you can reasonably go for the value you bring to the project. Tell Broot you'll do the work for \$30k and recover what you lost on the first project. (By the way, having a client that you can't make a fair profit with is not having much of a client!)
6. Tell Broot you will use a lump sum contract. The fee for the services should be based on the value of the service provided not the cost of providing them to avoid an ethical problem (i.e., charging the client for time not actually spent on the client's project). In other words, ethics would require that the engineering firm use a lump sum contract based on the value of the services, not a cost-plus or hourly contract.