

the case for an owner's representative

AT A GLANCE

- > Hospitals can retain an outside owner's representative to manage a building project.
- > To prepare for the selection process, hospitals should consider the nature of the building project and of the organization.
- > For a successful project, hospitals need to clarify roles, manage expectations, and make decisions.

Most hospital building projects are complex, expensive, and risky.

These projects require owners to make many decisions on issues that are beyond their expertise and not typically core to the hospital's mission. Some of the decisions will involve significant financial and schedule impacts and require collecting and interpreting unfamiliar data from the design and construction teams. What do you do in this situation?

Enter the owner's representative. An owner's rep well-versed in project planning and delivery can help you successfully negotiate the complex process of a hospital building project, thereby improving outcomes, reducing risk, and preventing unnecessary expenses. In addition, a project's successful completion depends on the quality of the collaboration among the owner, architect, and builder, and on how well the owner prepares for the project. An owner's rep can help a hospital with that preparation, ultimately leading to a better project outcome.

Of course, an owner's representative may not be for everyone. Some large hospitals are already adept at anticipating a large building project's twists and turns. This can typically be said of organizations that have been through the mill of many such large projects. Many of these projects probably caused great turmoil and pain, but the hospital learned from those experiences. For the majority of healthcare institutions without such resources, an owner's rep is not a bad idea.

Owners usually benefit from having someone on their side to interpret information and guide them through the decision-making process. Owner's reps worth their salt can consistently deliver projects on time and at or below budget by constructively engaging the very parties most architects fear—the owners.

Why a Hospital Insider Won't Do

Just as there are multiple reasons for including an owner's rep as part of your next hospital building project, there are also good reasons why a hospital "insider" or your architect or builder is not the right choice to play this role.

To understand why, consider that the jobs of the architect and builder are fairly straightforward and well understood. They are trained professionals who are certified and licensed to design or construct. As the project owner, the hospital is responsible for the final outcome, regardless of knowledge and experience in the planning, design, and construction process. Every hospital building project presents



many challenges that can result in cost overruns, schedule delays, unhappy end users, diminished political goodwill, delay in the start of a new program, or the forfeiture of a donor gift or favorable payment program.

Although an insider such as a hospital staff person or executive will understand how the organization functions, an owner's rep can take a big-picture view and translate that knowledge into a language that the design and construction teams can understand and react to.

The learning curve typically associated with a building project requires time and money, and many hospitals simply don't have either to spare. Getting it right the first time requires education, a willingness to share information and question all assumptions, and an

open mind. An objective outsider often can see the flaws in a design or idea. Objectivity, emotional intelligence, and the willingness to ask "dumb" questions are essential to steering a project.

Another reason to tap an outsider for the owner's rep job is that a hospital's internal staff has other primary responsibilities. These staffers become involved in building projects because they have been asked to or have a vested interest in the project's outcome. These people bring many assumptions with them about how things should proceed. The key is to not allow assumptions such as "Our CEO will never accept it" to go unchallenged. It's often easier for an outsider to challenge the status quo or embedded belief system.

Yet another reason to hire an owner's rep is money. The rate of spending on a typical hospital building

ON THE RISE

Construction spending for hospitals and nursing homes is expected to rise from \$21.3 billion in 2002 to \$33.1 billion in 2010, with most spending devoted to new construction. Source: *The Future of Not-for-Profit Healthcare Capital Financing*, Healthcare Finance Forum, 2002 (www.hfma.org/resource).

WHAT TO LOOK FOR AND WHAT TO AVOID

Hiring an owner's representative can be a major—and scary—step for a hospital or healthcare facility that has never done it before. When should an owner's rep be brought in? Where do you look for one? What qualifications should you seek? What fees are reasonable? In what circumstance should you not bring in an owner's rep? Here are a few guidelines for answering such vexing questions:

When should you bring in an owner's rep? Consider retaining an owner's rep on projects that exceed \$5 million, projects that have an accelerated schedule, and/or projects that involve significant phasing and interface with existing operations.

How do you find candidates for the owner's rep job? Talk to industry experts (architects, engineers, builders, developers), board members, and associations.

What qualifications should you consider?

> *Education:* The best owner's reps possess some experience in each leg of the triangle (owner/facilities/design). Look for an education in architecture or civil engineering. Business experience or education is a plus, as is familiarity with organizational development or any exposure to people skills.

> *Years of experience:* Minimum of 10 years.

> *Skills and expertise:* Work in design, construction, or real estate development.

How much might an owner's rep cost? This expense can range from 3 percent to 5 percent of total project cost.

How can a hospital determine if the added cost will be worth it? Look at your hospital's past track record of delivering projects. If change orders exceed 5 percent, or there are a large number of post-occupancy complaints, your hospital is most likely a good candidate for using an owner's rep.

Who should make the actual selection of an owner's rep? The project leadership team, C-level administrators, vice president of clinical and administrative services, director of facilities, and representatives from boards, e.g., facilities and grounds.

Who should oversee the rep? Often the vice president of clinical and administrative services or whoever is responsible for facility creation handles this responsibility.

Under what circumstances would hiring an owner's rep not be a good idea? An owner's rep is not a good idea if an owner is unwilling to delegate leadership responsibility, the project is small (under \$1 million), and/or the program is straightforward and the owner has sufficient capacity in-house to handle requirements.

BUSINESS

READY FOR THE BUILDING BOOM?

As hospitals throughout the country prepare to renovate and build facilities, it's clear CFOs and other financial managers can play a key role in ensuring a timely and cost-efficient process. Dan Gainsboro and other industry experts discuss what financial managers should consider when reviewing their organization's construction plan in the *hfm* 2006 real estate section. Look for it in May.

project increases every month as a project proceeds from the planning phase to the design phase and ultimately to the construction phase. Missteps made in the design phase are much more costly than missteps made in the planning phase, not including the loss of staff time required to address the necessary redesign work. A good owner's rep can steer you clear of expensive late-stage changes and help you be more proactive and less reactive. The bottom line: The more prepared you are as an owner, the better results you will experience on your project.

Why can't the architect or the builder take on the role? In most cases, contract agreements are structured such that the architect's fees are tied to the total cost of the project: the higher the cost of construction, the greater the fee. The same is true for the builder. An owner's rep can identify nonbuilding or minimal building solutions that solve a problem without incurring considerable expense or the disruption that a typical project creates.

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The Need for a Leader

A typical building project requires the owner and design and construction organizations to come together. This larger project team requires a leader who ensures that the appropriate people inside and outside the organization (including consultants and subcontractors) are brought into the project at the right time. Unless the owner's staff includes someone with a working knowledge of the best-performing industry service professionals and current best practices in negotiating effective contract agreements for large building projects—usually not the case—there is a high probability that the project will suffer needless setbacks, delays, and unnecessary expenditures. The best bet is to recruit someone from the outside to serve as leader, e.g., an owner's rep.


To be effective, this leader needs to possess certain core skills and characteristics, including a comprehensive understanding of the building process and the organization's culture, working knowledge of how team dynamics influence a project's outcome, and strong facilitation and communication skills. The leader should understand the role of timely decision making and the importance of establishing trust among team members, possess the ability to move between the big picture and the details, and be able to hold people accountable and ask tough questions. A good owner's rep will possess such qualities.

How to Select an Owner's Representative

Choosing an owner's rep takes as much work as—and is often less glamorous than—selecting an architect

AT A GLANCE

Hospitals can retain an



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WHAT WILL THEY BUILD?

HFMA research shows that hospitals' most frequently cited planned capital projects, after technology acquisitions, are to increase emergency department capacity, increase operating room capacity, add a specialty unit, increase laboratory capacity, increase bed capacity, add a new outpatient center, expand outpatient facilities, and build a new hospital. Source: *Financing the Future Report 3: How Are Hospitals Financing the Future? The Future of Capital Spending* (www.financingthefuture.org).

or builder. It's important to know your own organization first. A good owner's rep has to be able to play several roles, including psychologist, information manager, leader, designated truth-teller, facilitator, change agent, accountability nag, and lightning rod.

You should give the owner's rep selection even more attention than choosing an architect or builder, because this person has to be able to work side-by-side with your own staff. In this sense, selecting an owner's rep resembles hiring an FTE. Trustworthiness and the ability to establish and maintain rapport are key considerations. An owner's rep who can quickly understand and adapt to your organization's culture will be more likely to get the best results for you.

To prepare for the selection process, you should review both the nature of the building project and the nature of your own organization. When reviewing the nature of the project, consider the complexity of the project, the aggressiveness of the schedule, and the tightness of the budget.

When considering the nature of your organization, think about the following questions:

- > Who from within your organization must be involved, how much experience do they have in designing and constructing new facilities, what role

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- will they play in the project, and how much time do they have to be involved in the project?
- > How will your organization make decisions (top-down or bottom-up)?
- > What is the most appropriate contract method for procuring the design and construction services, and how open and inclusive a process will be followed?

All these factors influence the type of skills your owner's rep will need. In addition, some pertinent questions will be valuable when interviewing the owner's rep. Here are a few:

- > Tell me about a time when you had to deliver some bad news to the client. What did you do? What were the results?
- > Tell me about a time when you discovered that the design team had made an error in the construction documents. What did you do? What were the results?
- > Tell me about a time when you had to tell a user group one of their needs would not be able to be achieved within the budget. What did you do? What were the results?
- > What approach do you use to manage user group expectations during the design process?
- > How do you ensure that the design is developed within the project budget?
- > What is your philosophy on the amount and purpose of contingencies?

The conditions that must be created for a successful project to occur fall into three categories: clarifying roles, managing expectations, and making decisions. Setting goals around these conditions will help you figure out what kind of owner's rep you need to bring in. Be wary if prospective candidates for the job don't

mention the above concerns in their response to your request for a proposal or during an interview. These are the factors that, if left unaddressed, can cause a project to go badly off-track.

Remember that, just like hospitals and the people who run them, owner's reps

possess unique skills and abilities. You need to match the skills, traits, and characteristics of your organization and project with the owner's rep you select to help conceive, orchestrate, and complete your hospital building project. ●

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