

Article category: PROCUREMENT

# General CONTRACTING VS CONSTRUCTION management

By Steve Saucerman



***If you're anything like me, you spend most of your day confused. Come on, admit it! Sure, you might be able to look like you've got your act together (for a few minutes at a time) -- you may even be good enough to fool your boss -- but I know better... you're confused!***

Well, don't worry, I won't tell anyone... and besides, you're not alone – there are about five billion others in our club (I know, because I counted them at the last meeting). As for me, I do pretty well for the first five minutes of every day... and then it all goes pretty much down hill from there. For the next 8 hours and 55 minutes, I spend my day not understanding my co-workers, not understanding my clients, and really not understanding architects and engineers... only to go home at five so I cannot understand my wife and daughter.

So, with confusion such a key element in my life, it's little wonder I search out construction topics I find ambiguous or puzzling and attempt to sort them out. Such is the case with the titles General Contractor (GC) and Construction Management (CM); a couple of phrases that we hear all the time in this industry and yet probably are a bit fuzzy as to their exact definitions... particularly when compared to one another. These definitions, however are important because (except for a few specialised situations where a sub-contractor is the lead- or prime-contractor) the GC and the CM are generally the two recognised lead contractors for most commercial construction projects.

## **General contracting versus construction management**

So, we'll examine the GC and CM, but before we begin, it's important to note right away that it really can be difficult (if not impossible) to tell the difference between a GC and a CM. In particular, many GCs often act more like CMs at times (by employing virtually all sub-contractors and little of their own forces on a particular job) than their "classic" general contractor role. Still, there are definable limits and attributes that do separate the two. So, let's take a moment to discuss some accepted differences and similarities between the general contractor and the construction manager:

### **General contracting**

Let's start with the general contractor. The GC is likely the one to which you're more familiar. These are often older (perhaps two or three generations deep), family-owned-and-run operations that (assuming an annual volume of around \$10m) may employ full-time anywhere from three to seven members in the office and additional full-time trades-people to act as key field personnel. These outside players can be carpenters who double as job superintendents, but might just as easily be cement masons, bricklayers, or excavators, depending on the GC's specialised area(s) of work. In addition, the GC will often engage even more full or part-time help to make up the crews who perform the GC's "in-house" (work done by his own forces; not sub-contracted out) work.

This entire group of full-time employees (those who enjoy the accepted employer fringes and benefits such as health insurance, retirement plans, vacation, etc) might be called the nucleus of the GC's organization. The remaining work output for the GC would then be supplemented with outside sub-contractors, suppliers, temporary workers, and other outside independent contractors (those providing their own benefits) firms. Keeping all of these employees on the payroll is an attribute more unique to the GC – and one notable difference between the GC and the CM structure.

Another characteristic that separates the GC from the CM is in how work is obtained. Although many older and more established GCs enjoy a fair percentage of negotiated work, the majority of work taken on by the GC most likely comes from the competitive bid process. This is particularly true when the GC is new to the block and doesn't yet have the name recognition and/or repeat clientele of the older, more established firms.

The competitive-bid process goes something like this: An outside architect is hired by the owner to draft the plans and specifications (specs) for the project. He is then usually retained to assist with preliminary budgets, to structure and oversee the bid process, and then supervise the actual construction.

A selected number of GCs are invited to submit blind, competitive-bid proposals for the project. The proposals will be based strictly on the plans and specifications and presented on bid-forms that are most often created by the architect. Generally anywhere from three to six – sometimes more -- GCs are invited to bid... and sometimes, many more! I've been to commercial bid lettings with as many as 28 generals (now tell me, would you really want to be the low bid out of 28?)!

During the bidding process, all sub-contractor and supplier proposals are received and processed by the GC. At that point, depending on their merit, the chosen proposals are incorporated into the bidding GC's overall proposal, where they may or may not be marked-up. The GC's bid is then delivered to the owner before a predetermined date and time, known as a bid opening or bid letting. These lettings may be open (where all bids are read aloud to the public) or closed (where only the owner's representatives know the results).

Most of the time, once the bids have been thoroughly evaluated by the owner's representatives, the lowest, qualified bidder is selected for the project. However, the owner does almost always retain the right to choose the next higher bidder(s) if he feels he would receive a better overall value for his money (for reasons ranging from previous bad experiences to simply feeling more comfortable with one contractor over another).

Once the project begins, the GC's line of communication to the owner generally runs through the architect (who – although he primarily has his own interests at heart – acts as the owner's agent) and vice-versa. The owner may or may not have an established and trusting working relationship with the contractor and often has very little to say about what sub-contractors and suppliers are chosen for the project. The relationship the owner has with GC is therefore often more detached than with that of the CM.

The GC oversees the project and co-ordinates all of the subs, suppliers, and equipment. Almost all of the sub-contractor and supplier communication to the architect is funnelled through the GC's office. The GC's own in-house employee will likely act as the job superintendent or foreman and – depending on workload and his abilities – the GC may perform some (if not all) of the work with his own crews. In the end, if all goes well with the project and problems are kept to a minimum, schedule is maintained and the architect works up a final punch list. The GC addresses the list, final pay-outs are made, and the parties all go their separate ways.

If things don't go well, the situation can become quite adversarial. Remember that no

attempt was made to establish an atmosphere of partnership between the GC, owner, and architect... so none exists. The closeout procedure will often turn into a mercenary money-grab, which is generally accompanied by a proportionate level of sabre-rattling. In short, it becomes every man, woman, and child (and builder) for himself!

## **Construction Management**

The construction manager (CM) approaches his lead role somewhat differently: The CM acts more as a fiduciary agent to the owner and remains responsible for almost all phases of the building process – including bid solicitation, job management, and accounting. There is generally a closer alliance between the CM and the owner. Of course, this type of relationship generally requires the CM to gain the owner's trust - a quality that is often only obtained after years of interaction and positive experience between the two.

In general, the CM doesn't keep many (if any) full-time, permanent trades-people as employees. Virtually all of the hierarchy below the CM's administration level is made up of independent contractors and suppliers. The administration of employee benefits is avoided in this way, but it could be argued that the CM loses an element of control over the construction process from not having developed closer ties and loyalties to the workers.

The CM seldom becomes involved in the classic competitive-bid scenario (where a lump sum price is offered to the owner for the complete project). If there is competition, it's generally between the fees (often a percentage above the direct cost for the project) of the competing CMs.

The CM works directly with each sub-contractor and supplier (and even with a general contractor) to come up with value-engineering ideas that maximise cost savings to the owner. Individual contracts and purchase orders are issued to all of the separate trades and suppliers and the CM then oversees their work throughout the course of construction.

The conventional owner-wisdom is that the mark-up taken by the GC on sub-contractors and suppliers is avoided through the use of the CM, but in actual practice, this likely isn't the case. The net cost to the owner above and beyond the actual direct project cost would have to be considered to properly compare the two. If the CM's overall fee is the same as the GC's profit and overhead (which includes the sub and supplier mark-ups), little (if any) has really been saved by going with the CM. Basically, it turns into the same old shell-game of "where do we hide the numbers now?"

Architectural services may or may not be supplied by the CM. The CM may even have architects/engineers on staff. The owner may also decide to bring his own architect to the table.

CMs are generally used for larger dollar-volume construction projects – where the economics of incorporating a CM into the mix tends to make more budgetary sense.

The main difference then between the GC and CM appears to be more a product of administrative structure and employee relationships than about the actual techniques of the construction project itself. In fact, within any given locale, it's likely the same mason and electrician will be used regardless of whether the lead player is a GC or a CM. This way, the final (physical) end product (regardless of leader) would likely end up being virtually identical to one another.

That being said, an owner's reasoning for choosing between the GC and the CM often may have more to do with the quality of the individuals running the firm, the owner's experience with that firm, and less to do with the structure of the firm itself (so what's new?).

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[Back to the top](#)

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