

The Value Engineering Clause

By Antonio A. González-Quevedo

A design company has signed a contract with a major bank to design a new branch to be located in Mayagüez, Puerto Rico. The bank included a clause in this contract known as value engineering. This clause is incorporated in order to motivate the design firm to reduce construction costs without reducing the building's quality, serviceability, safety, durability and strength. The bank wants to eliminate luxury items, which would add costs to the project without adding "value", that is, without improving the architectural and engineering aspects of the building. According to the clause, all savings will be split between the bank and the design firm. The fee for the design is based on a percentage of the final cost of the building plus 50% of the costs the design company may save in the final cost of the building.

In this case, because of tough competition in the construction industry, the basic fee of the design company is much lower than the standard. The design firm is toying with the idea of producing a preliminary design with a lot of luxury items.

Questions:

1. Discuss this possibility from the perspectives of the design engineer, the design manager, the president of the design company and the bank.
2. Would it be ethically correct to produce and present to the bank such a preliminary design with a lot of luxury items? Why or why not?