

## 2<sup>ND</sup> GENERATION CONSTRUCTION PROCUREMENT REFORM

Veluppillai Mohan\*

**ABSTRACT.** This objective of this paper is, to identify the 2nd Generation Construction procurement Reform from the procurement global construction survey and to attend to the views of the clients (owners) or Executive Entity of currently in the construction services and look at their take on the current state of the industry, their levels of satisfaction and importantly, some of the key issues facing future project planning and the appointment of contractors. Survey carried out research which sought to identify those issues which keep the Executive Agencies of major contracting companies to say, the business risks facing currently by contractors in managing their construction projects. The research survey carried out among chief executives and senior executives of major leading global companies to explore three main areas: 1.Current business trends, 2.Managing the building process and 3.The future.

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\* Veluppillai Mohan, B.Sc (Eng), M.Sc (PPM for SD), is Project Director, Road Development Authority, Ministry Of Highways, Sri Lanka  
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## INTRODUCTION

Procurement is defined as the overall process of acquiring goods, works and services including functions from the identification of needs, solicitation and selection of sources, preparation and award of contract, and all phases of contract administration through to the end of a contract. Public procurement is procurement falling under the jurisdiction of a Government or other public sector organisation including all entities that use public funds. In practical terms public procurement ranges from the buying of fuel to construction of roads and highways, from school books to medicines and from office supplies to consulting services. Procurement of goods (e.g. fuel, medicines, and office-supplies), services (e.g. cleaning services, consulting services) and works (e.g. construction of highways, or schools) accounts for a significant amount of national expenditures.

Globally, expenditure for public procurement is estimated at about 15% of the world's GDP, though in some developing countries the percentage may be much higher. Improved effective and efficient public procurement, therefore, has positive impacts on achieving economic and social outcomes or goals .

Wastage in public procurement results both from lack of competence and corruption and clearly the degree to which this is the case will vary from country to country. As an example, it has been estimated that if all Italian public bodies were to pay the same prices as the one paid by one of the best "savings would be between 1.6% and 2.1% of GDP. Another example is the Government of Sierra Leone that estimated that even if only 15% of public procurement expenditure was being wasted due to incompetence and/or corruption, Measures to improve procurement could save something in the region of USD 30-40 million per annum. It's clear that savings of this magnitude provide an opportunity for Governments to increase the buying power of the budget with corresponding improvements in the level and quality of public service delivery to citizens or, in times of economic stress, support cost savings and budget reduction whilst maximizing the impact of public expenditure. However, many countries are finding that the contribution of public procurement goes beyond such savings and can in fact support delivery of Government policies in

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other areas. Public procurement is a stimulus for growth in the domestic and/or regional private sector as the government is one of the main clients of the private sector and thus hugely influences the way that business processes evolve within the country. Through sustainable public procurement, governments can lever public spending to promote economic, environmental and social policies in the country. Clearly then, procurement is strategically important and the argument for Governments to invest in improving their public procurement systems is compelling. However, experience shows that technical fixes alone do not lead to sustainable transformation of public procurement systems. Public procurement is not only an integral part of public financial management, but is also intimately linked to wider Public Sector reforms which in turn are deeply political.

**Value for Money** is often described as being the balance of economy, efficiency and effectiveness and many countries are now recognizing that it has a strategic element that goes beyond the narrow focus of cost or cost versus quality related to an individual procurement case. Rather the optimal definition of value for money will depend on the strategic goals and outcomes specific to each government (or public sector organisation). For instance some may put more weight on the overall importance of “buying green” or supporting the development of SMEs compared to the weight of an individual transaction cost in calculating the overall value for money.

#### **Main Principles of Construction Procurement Reforms:-**

- **Professionalism Procurement** :has often been viewed as an administrative function, but the evidence suggests that investing in professionalism in procurement and emphasizing not only compliance to the rule of law, but also market and organisational knowledge as well as ethical standards, can be extremely effective in terms of improving procurement.
- **Electronic Government Procurement (e-GP)** is a tool that, when applied appropriately, can facilitate tremendous improvements in terms of efficiency and effectiveness in procurement. Many countries are now using web-based technology to improve access

to procurement information - an inexpensive but highly effective means to increase transparency and competition. Other countries are applying much more sophisticated approaches.

- **Performance Management:** Most countries are now looking at implementing systems to measure the performance of the procurement system allowing them to demonstrate improvements as well as driving the ongoing implementation of reforms.

In summary, when the fundamental procurement principles of fairness, integrity and transparency through competition are combined with operational efficiency and effectiveness, reduced corruption and increased professionalism, the result is greater value for money and improved public service delivery.

With this in mind in 2003 a unique partnership between the OECD/DAC and the World Bank led to the creation of the Procurement Roundtable, a partnership that quickly grew to include all interested bi-lateral donor organisations, multi-lateral development banks, United Nations organisations and representatives from partner countries. The focus of the Procurement Roundtable (later called the Joint Venture) was on strengthening procurement capacities in developing countries. The Roundtable prepared a publication entitled "Strengthening Procurement Capacities in Developing Countries

- Procurement Capacity Development; and
- Benchmarking, Monitoring and Evaluation.
- Strengthening Country Procurement Systems:
- Results and Opportunities.

A fundamental principle of this paper is that "procurement transformation" is essentially an internally driven process which responds to many factors both internally and externally generated. Therefore the paper's targeted at those leading change in their own countries or organizations. However, it will also be relevant for others who provide support including donors, development partners and consultants.

## CONCEPTUAL FRAMEWORK

It's important to start out by describing the fundamental concepts that underpin the approach presented. Terms such as reform, modernization, capacity building or development and change management are frequently used and confused. "Transformation" as used in this guide is an umbrella to encompass all these concepts. Transformation is defined as "a marked change or alteration, usually for the better".

### **2.1 Procurement Reform**

Procurement Reform often involves a political dimension where government leaders consider linkages, sequencing, dependencies and synergies between other components of the public sector reform process. Procurement reforms are increasingly being described in terms of "first" and "second" generation reforms. First generation reforms have typically encompassed a package that includes legal and regulatory reforms, reform of institutional and organizational frameworks and training procurement officials and other stakeholders on the new arrangements. Second generation reforms often include initiatives aimed at upholding the integrity of the system and also related to the introduction of electronic Government Procurement (e-GP), performance management, the links to other public sector reforms, the roles of stakeholders and, in some cases, the role of procurement in supporting or contributing to government social and fiscal policy objectives.

### **2.2 Procurement Modernization**

The term Procurement Modernization is increasingly being used bringing with it the idea of a process of continuous and ongoing improvements. Modernization also brings with it the idea that improvements are based on the experiences and lessons from other countries.

### **2.3 Capacity Development**

The terms capacity development or capacity building are sometimes understood as being limited to the training of individuals, but the concept is much broader and includes organization/institutional and

societal elements. A number of definitions exist, but most are similar to the OECD/DAC definitions of capacity as “The ability of people, organizations and society as a whole to manage successfully their own affairs” and capacity development as “Processes whereby people, organizations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time.” These definitions emphasize three important concepts:

- To be successful it needs to be an internally driven process.
- The focus is country-specific and multi-tiered, ranging all the way from society through its institutions down to the individual level; and
- The process of capacity development is much broader and more complex than just “strengthening”, but also includes “unleashing”, “conserving”, “creating”, “adapting”, “sustaining” and “maintaining”.

More specifically, public procurement takes place within the overall country context which includes political and economic interests, incentives, values and ideas together with formal and informal institutions, many of which are not specifically focused on procurement but both influence and are influenced by it. The national procurement system provides the overall framework within which procurement takes place within the country. Procurement is typically conducted within entities (both national and sub-national) and sectors, each with their own interests, incentives, values, cultures, formal and informal structures. Individuals are the backbone of all these tiers, not only those working within the public sector, but citizens as well as those in the private sector. All these elements form a complex system.

**Figure 2.3: Tiers of procurement**

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## 2.4 Change management

Procurement reform or transformation clearly involves change; and there is a growing body of knowledge and experience relating to the management of change. Typically definitions of change management refer to processes and approaches used to bring out organizational change with particular focus on the human perspective. Change management models and approaches can be useful in addressing this aspect and also in recognizing that failure to do so can be one of the biggest impediments to the successful implementation of a procurement transformation or reforms. Some of the main reasons emerging from research as to why change projects fail include:

- Lack of clear ownership and commitment at appropriate levels in the organization.
- Lack of a clear and powerful vision for what the outcome of the change initiative would be, or where it does exist, failure to communicate that vision and lack of clarity about what is required in terms of “new” behaviors and approaches that is consistent with the new vision.
- No link to the core objectives of the organization i.e. a lack of a clear link between the change initiative and the organization’s key strategic priorities including agreed measures of success.
- No sense of urgency (no burning platform for change), or the initiative was not given any serious priority so was under-resourced and everyone had their normal jobs to do at the same time.
- Not removing obstacles to change (which also signals that there is not really that much commitment to the change).

- Failure to create quick wins and no follow through e.g. neglecting to anchor the change securely in the organizational culture as “the way we do things”.
- Lack of effective engagement with stakeholders.
- Lack of skills and proven approach to project and risk management e.g. no single point of responsibility and too little attention to breaking the initiative into manageable steps.
- Lack of follow through e.g. not finished, overtaken by the next initiative, lack of budget.

#### 2.4.1 Transformation Process

Transforming procurement is not a one off intervention but an ongoing cyclical process. This paper has been structured around this process with the following steps.

1. Procurement Assessment
2. Strategic Planning
3. Implementation

This is an ongoing process since experience shows that once procurement systems reach a certain level of maturity, the desire and need to implement further improvements arises.

**Figure 2.4.1: Transformation Process**



It's important to conduct an **assessment at the start of any transformation process** in order to clarify the objectives, identify the

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current situation and, not least, to identify and engage stakeholders in the process. The Reform Steering Committee recognized that there were a number of stakeholders with vested interests in the procurement system and considered it essential that they were not only supporting, but driving the process. Different avenues were used to keep them engaged in the process including newsletters, manuals and workshops.

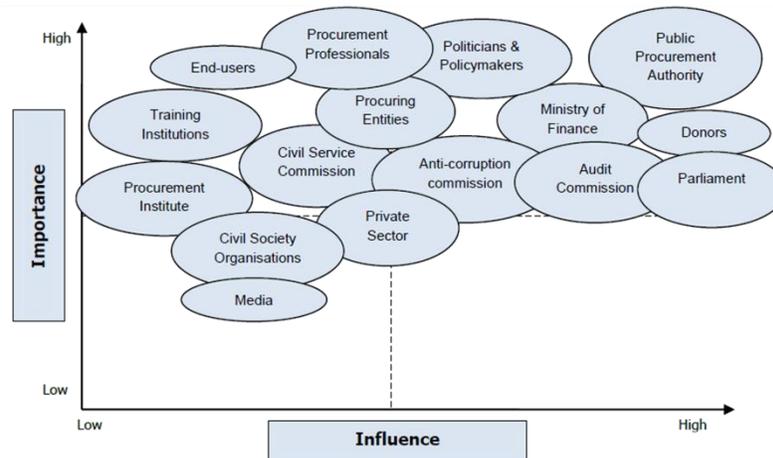
## **2.5 Engage stakeholders**

The level of engagement and participation of stakeholders should be appropriate to their expected role in the change process i.e. their level of interest and influence. There are various approaches and tools available to map and analyze stakeholders, but typically it involves a 4 step process:

- 1. Identify the stakeholders.** They will vary from situation to situation, but may include: national institutions such as the public procurement oversight organization; ministry of finance; civil service commission; anticorruption commission; audit commission; training and education institutions; political social and economic leaders; procuring entities (ministries, districts, municipalities); departments within procuring entities including end-user departments; individual procurement staff and other officials engaged in the procurement process (accountants, engineers, project managers etc); professional procurement associations: the business community; civil society organizations; citizens: the media; donors and development partners.

- 2. Analyze stakeholders.** The stakeholders can be mapped according to their relative influence and importance bearing in mind that this may vary at different stages of the transformation process. It can help to present the mapping visually using a matrix.

Figure: 2.5.1 Example of stake holder mapping



**3. Plan stakeholder communications:** There is no “one size fits all” approach: communications to the business community would not be the same as for individual procurement staff whose jobs are directly impacted (or maybe even threatened) by the process. The plan therefore needs to include a differentiated approach using different channels to engage different stakeholders and with different levels of active participation. Channels can include newsletters and bulletins, meetings, workshops and individual or group consultations. Depending on the stakeholder, the communication flow may be mainly or entirely one way i.e. keeping the stakeholder informed, or it may be a two-way communication with active involvement and input.

**4. Engage with your stakeholders:** Once the plan is in place it is important to follow through with it. It can be all too easy to get overwhelmed with the practical aspects of planning and conducting an assessment and the communications aspect gets put on the back burner, so it is important to include it in the work-plan along with other activities. It also needs to be revisited regularly as the influence and importance of different stakeholders will shift during the process. The ultimate objectives of any reform process of the public procurement system are value for money and this is directly linked to the trust the private sector has in the system. The modernization of

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the system has been successful implemented and one of the most important strengths of Senegalese Public Procurement System is the existence of an independent and financially autonomous

### 3. RESEARCH METHODOLOGY

#### 3.1. Designing and Planning Assessments

The decision to conduct an assessment is quite often the result of a perception that the procurement performance, stability and adaptability of one or more institutions need to be improved. No matter the motivation, conducting an assessment can be a resource intensive exercise, both in terms of time and money. Experience shows that the investment made in the design and planning phase pays off later when it comes to conducting the assessment and implementing the strategy. There are a number of steps involved in designing and planning an assessment:

- Clarifying objectives
- Designing the assessment
- Planning the assessment.

#### 3.2 Clarifying objectives:

The assessment exercise needs an **Assessment Owner - an individual whose role it is to manage and oversee the process**, facilitate the dialogue between different actors and stakeholders and ideally also be a lynchpin to the further strategic planning and implementation stages. If the Assessment Owner isn't immediately clear at the outset then (s) he needs to be identified as a very first step.

Regardless of where or why the initial impetus for the assessment arose, the overall objectives and expectations need to be clarified. It is a good idea to start with identifying overall high-level objectives for the assessment. Some guiding questions to assist this discussion could be:

- What is the purpose of the procurement assessment?
- Are priorities for the procurement assessment based on national, sector or organizational priorities?
- What are expectations regarding its output?
- Are these expectations realistic?

Discussions should result in identifying an overall high-level objective for the assessment exercise. Examples of such objectives could be:

- “To measure progress since earlier assessment exercises of the national procurement system and form baseline against which to measure future progress”.
- “To assess the current procurement capacity within the Ministry and prepare a plan to develop the necessary capacity to enable the Ministry to undertake procurement in a manner that provides value for money and that is in compliance with the applicable legal and regulatory framework and with international standards.”

It is important at this point to be clear as to what the assessment results are to be used for. A large proportion of assessments end up as documents in a bookshelf and are never looked at until the next round of assessment. If the assessment is to be used as a starting point for a reform or capacity development effort then it is a good idea to prepare the terms of reference for strategic planning and implementation already at this stage. The next stage is to identify the scale and scope of the assessment.

**Whose capacities need to be assessed?** Will the assessment focus on the entire national procurement system, on one organization or group of organizations, or on a sector? For example, the procurement capacity of a ministry, a municipality or district authority or an entire sector, such as the health sector? Will it focus on only the public service or on all stakeholders and factors that influence or interact with the procurement system? Will it focus on the procurement department and/or committees within an organization, or on all departments that are involved in the procurement process such as end-user departments and finance?

**What capacities need to be assessed?** Is it the capacity of the entire national procurement system to meet international standards? Or is it the capacity within an organization to manage one particular type of procurement, for example, pharmaceuticals? Or to manage one part of the procurement process, for example contract management?

There is a tendency to want to measure the whole spectrum of capacities, but if an assessment is to be conducted in a time and cost

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effective way, then it makes sense to narrow the focus using the above questions.

At this point in the exercise it is also necessary to consider where the resources are going to come from (in terms of time, human resources and money), not only for the assessment exercise (guidance on costing an assessment is provided below), but also the subsequent strategic plan and its implementation. If the resources are not available in the regular budget or readily available from other sources, then a plan needs to be made to mobilize resources or to adjust the scope and scale of the assessment to make it more realistic. Currently the environment in many countries is very conducive to mobilizing resources towards improvements in public procurement both from government and the donor community thanks to the global focus on development effectiveness.

### **3.3 Designing the assessment:**

The following include details of existing tools that can be adapted particularly for assessments. Key points to consider when adapting existing tools include:

- Be clear about the objectives of the assessment – whose capacities, what capacities and for what purpose?
- Review existing tools to identify those that most closely match the objectives. The tables in this guide provide a brief summary of the tool as well as a hyperlink to make it easy to review. In addition, it can be helpful to enquire within your network and collect experiences/tools from others who have conducted similar assessments.
- Don't be confined to using just one tool – it may be more appropriate to combine a couple of different tools e.g. one that looks at context and one that looks at more technical aspects.
- Once you have identified the tool(s) you wish to adapt review it(them) considering the following questions:
  - Which indicators are appropriate as they currently are?
  - Which indicators need adjustment? In what way?
  - Are there indicators which are not relevant in this context?
  - Are there areas that need to be assessed that are not covered in the tool?

- Is the scoring approach appropriate?
- How is data going to be collected?

The level of work involved in adapting an existing tool will vary. In other cases it may be more appropriate to develop a new framework using the existing tools as inspiration for preparation of indicators. Often it will be somewhere between these two extremes.

Involving **stakeholders** in the design phases can ensure that the process is well adapted to the actual needs and that the results will be relevant and useful. However it also provides an opportunity to reinforce stakeholder commitment to the results and can provide an opportunity to develop their capacities. Last, but not least, engagement with stakeholders can ensure that the process is well integrated with other processes that are taking place.

### 3.4 Planning the assessment:

Some of the issues that need to be considered when planning an assessment include **who** is going to conduct the assessment and **how** it is going to be conducted. The size of an assessment Team will depend on the scale and scope of the assessment as well as the resources available. Some small assessments can be conducted by a single individual, while for a complex assessment a whole team may be needed, potentially even incorporating sub-teams, particularly if data needs to be collected from various regions or districts. There are various **roles** needed in an assessment team though each role does not need to be performed by a different person (e.g. one person could play the role of both facilitator and procurement expert.). Examples of different roles are described in the box. Deciding on the members of an assessment team is partly about identifying individuals with the knowledge and skills to perform these roles, but there are other factors which influence whether the ideal assessment team composition consists of internal staff or external experts in the form of local or international consultants:

- **Capacity:** Are there internal staff with the skills to fulfill these roles? Participating in an assessment is also an opportunity to develop the capacity of internal staff which also needs to be considered.
- **Resources:** Using internal staff will often be cheaper, but they need to have the time and be released from their normal duties

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for the duration of the assessment. It is unrealistic to expect that staff can

- Actively participate in undertaking the assessment on top of conducting their regular job.
- **Sensitivity & objectivity:** In some instances it can be easier for external consultants to ask difficult questions; to get open responses without fear of repercussions; to bring out different perspectives and also draw on experiences from elsewhere (whether national or international). On the other hand they will have less understanding of the local environment.
- An effective solution can be to have a team that includes both staff and external (national and/or international) consultants.
- A regardless of the size and scope of the assessment a **work plan** should be drawn up for the assessment detailing the outputs to be achieved, activities, due dates and roles and responsibilities. This work plan provides the basis for estimating the costs of the assessment. Designing and costing a capacity assessment may evolve into an iterative process that balances design and budget. Potential costs to include in the assessment budget are:
  - Salaries of staff involved in the assessment
  - Consultant costs
  - Renting locations for meetings and workshops
  - Stationery
  - Travel expenses
  - Reproduction of materials
  - Costs for conducting surveys or other data collection.

### 3.5 Assessment Team Roles:

- **Facilitator:** to manage the process and facilitate discussions on the design and conduct of the assessment, as well as the analysis of results.
- **Context Expert:** familiar with the political and socio-economic environment in which the assessment is being conducted.
- **Procurement Expert:** With procurement knowledge relevant for the assessment. Depending on the context, this may need to include sector-specific procurement experience or experts in cross cutting issues such as legal or audit.

- **Administration & logistics:** Making appointments and taking care of administrative tasks related to the assessment

### 3.6 Conducting Assessments

#### 3.6.1 Data collection

In principle the decision about **what data** should be collected will be driven by the assessment framework. In practice it will also be driven by what information is available. A simple worksheet can be developed listing the indicators to be assessed and the sources of data to inform the assessment team sufficiently. Possible **methods to collect data** include:

Review of documents such as laws, regulations, procedures manuals, organization charts, monitoring reports (including annual reports and audit reports).

- Interviews.
- Focus group discussions.
- Questionnaires.
- Client satisfaction surveys and scorecards.
- Workshops.
- Self-assessment instruments.
- Web based assessment tools and templates.
- Review of case files and records (based on checklists).

Web based assessment tools can increase accessibility and levels of participation. Formulating precise questions is essential to ensure the data collected is meaningful, but also to reduce the amount of data and information to be collected. When deciding on the approach to collection and analysis, it is useful to reflect on the purpose of the assessment. The following questions can be useful in this process:

- How important is hard quantitative evidence, as opposed to softer qualitative information?
- How important is it to use data and information collection as a learning experience?
- What are the benefits of using a third party to collect data and information e.g. is objectivity important?
- To what extent is it necessary to compare data and information over time or across entities or as a measure of change?

As well as providing an opportunity to validate the findings and/or identify and correct mistakes and misunderstandings, more importantly it provides an opportunity to share information and ensure buy-in and commitment from stakeholders, which is important for the future implementation of the strategic plan. Usually this would be done in a workshop, though sometimes it can be a good idea to organize separate workshops for different stakeholder groups to ensure open discussion. During the workshop(s), the preliminary findings can be presented and stakeholders invited to express their views. Usually this will increase trust among them and increase the credibility of the exercise.

- Is the purpose of data and information collection to emphasize strengths and opportunities that can be built upon? Or is it to focus on gaps and constraints?
- If focusing on gaps and constraints, how is it possible to pinpoint the underlying reasons (root causes) for the gaps and constraints?

The size of **data samples** is also a key consideration. Large amounts of data can be expensive to collect if it involves a number of different ministries, municipalities or provinces or reviewing a huge number of case files. In addition, collecting a wealth of information is pointless if there is not enough capacity to analyze and interpret the findings or if it will not lead to actionable results. **As a general rule it is better to collect the smallest amount of input needed to draw valid conclusions.** This will maximize cost effectiveness and avoid unnecessary complications when analyzing the findings.

### 3.7 Outcome of the Survey

During the data collection phase of an assessment, various stakeholders will typically participate through interviews, workshops, surveys etc. and if there are groups of stakeholders who are resistant or feeling threatened by the assessment this may influence the information they are prepared to provide or the responses they give in interviews or surveys. Therefore planned communications and information that is provided, as well as the way that data was collected, to take these kinds of reactions into consideration. This was done by taking care to explain how the assessment results used and to remind participants that the assessment is not an individual

performance review or audit. Where possible, harness the engagement of supportive stakeholders by finding ways to engage them actively in the assessment process.

### **3.8 Practical Aspects**

There were many tasks that need to be effectively and realistically planned and coordinated when conducting an assessment including:

- Assigning roles and tasks among assessment team members.
- Conducting a literature review to collect related and relevant assessments and documents and reviewing these documents.
- Preparing interview guides, questionnaires, and worksheets.
- Using web based solutions where appropriate.
- Planning/booking meetings, interviews and workshops.
- Travelling to/between appointments.
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### **3.9 Analyze Findings**

Once the necessary data and information has been collected, usually from multiple sources, the assessment team compiled and summarized and interprets the results.

The analysis focused on identifying trends, cross cutting issues and common bottlenecks as well as analyzing gaps and their root causes. After broad agreement on the findings of the assessment, the final report has been prepared. Typically an assessment report would include:

- An introduction and background
- An executive summary
- A description of the approach
- A presentation of the country context
- An overview of the findings, including the emerging trends and issues.

### **3.10 About this survey**

ICC International (International Construction Consortium) conducted its research during the final quarter of 2006. The purpose was to explore owners' views of the challenges facing them in planning and procuring 2<sup>nd</sup> generation procurement on major construction projects.

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## OUTCOMES OF THE SURVEY

In 2006, internationally carried out research which sought to identify those issues which keep the CEOs of major contracting companies' business risks facing contractors and the management of construction projects. Whether you look at the construction business at a regional or international level, the story is the same. Projects are becoming ever more complex. Furthermore, the buyers of construction services are increasingly seeking to transfer risk to other parties, while continuing to demand more and more from their construction contractors. Our questions, answered by owners, chief executives and senior executives of major leading global companies, explore three main areas:

### 1. Current business trends

- What are the biggest challenges facing currently by the leading companies in planning major projects and appointing contractors? What are their preferred methods of contracting and how do they select their contractors?

### 2. Managing the building process

- How do companies manage projects and project risks? What controls and monitoring procedures do they have in place and what are the key performance indicators? How have they navigated contractual disputes?

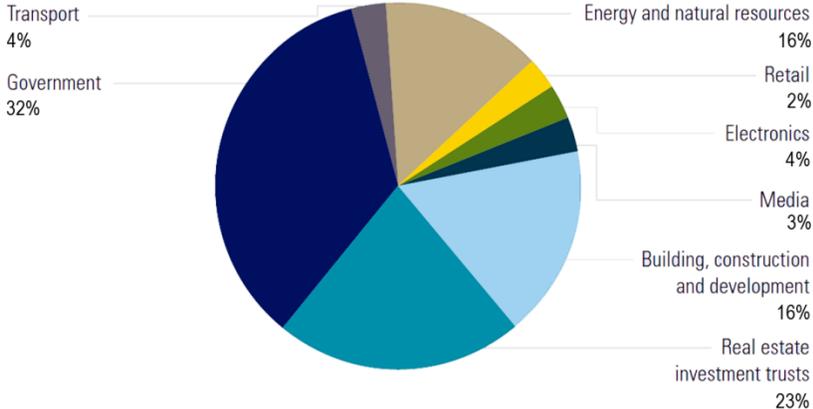
### 3. The future

- How do the buyers of construction services rate their level of satisfaction in the future? What is their future demand for services? What are the challenges in the future by facing new projects?

The survey focused on large companies with major capital programs or capital expenditures planned in 2006 within the next five years. It drew industry responses from organizations that included government agencies, commercial and residential developers, energy and natural resource miners with a combined construction spend of over U.S. \$70 billion over the next five years. Over 60 percent of

these organizations have annual revenues in excess of U.S. \$1 billion, while 30 percent were multinationals.

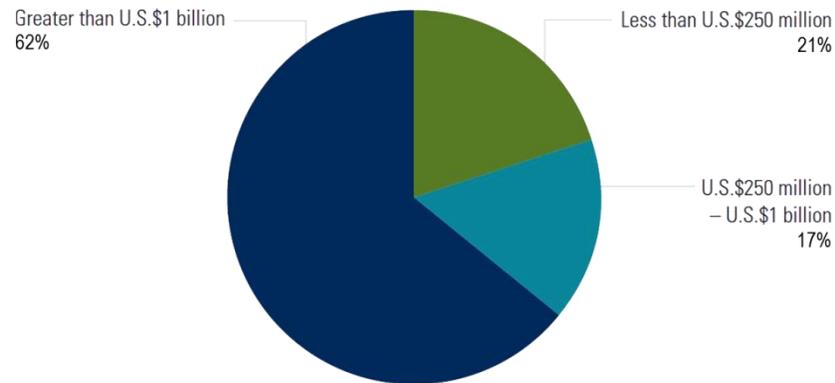
Primary industry of the business is:



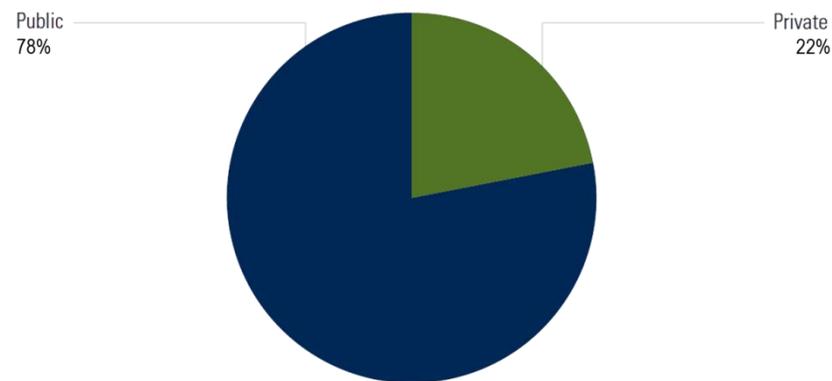
**Responses** Were gathered by ICC representatives specializing in the construction industry, during face-to-face interviews with senior executives responsible for planning and managing major projects and the appointment of contractors. The questions we asked reflected ongoing concerns expressed to ICC’s clients and customers. This report contains a summary of the responses as well as a number of direct quotes from participants.

1. Company annual revenue in US Dollars

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2. Company is

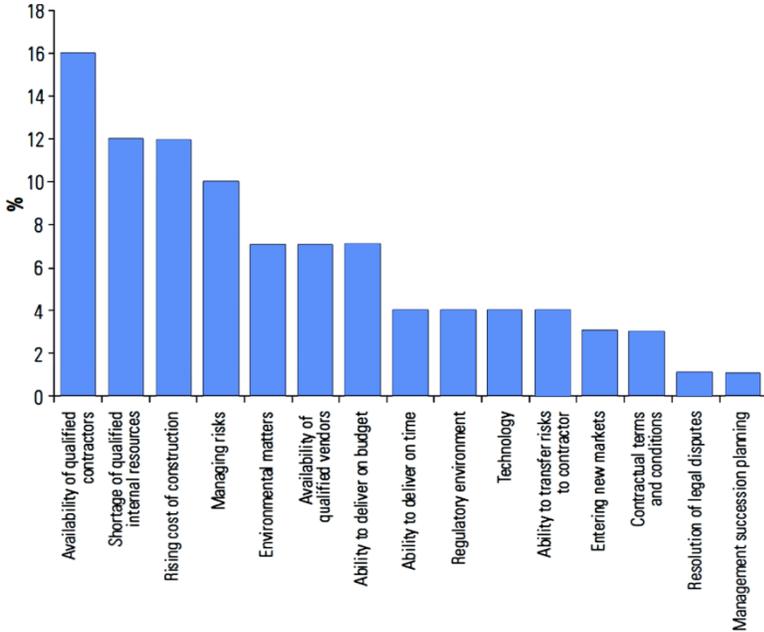


A. What are the three biggest challenges currently facing your organization in executing construction projects?

As outlined above, the single biggest concern facing large organizations in the planning of projects and engagement of contractors is the lack of qualified contractors, with 16 percent of respondents highlighting this issue? The problem appears to be particularly significant in the U.S. which showed far more emphasis on this issue than in other areas around the globe.

40% cited a shortage of qualified resources, and the rising cost of construction as significant challenges

B. What are the three biggest challenges currently facing your organization in executing construction projects?



Availability of qualified Contractors Shortage of qualified internal resources rising cost of construction Managing risks Environmental matters Availability of qualified vendors Ability to deliver on budget Ability to deliver on time Regulatory environment Technology Ability to transfer risks to contractor Entering new markets Contractual terms and conditions Resolution of legal disputes

The management of risk remains a priority for major international companies with 10 percent of respondents saying this was their biggest issue. However, only four percent of respondents referred to the ability to abdicate risk to contractors.

When asked to qualify why the shortage of qualified contractors was pinpointed as the single biggest challenge facing large international agencies and companies, many companies indicated two principal causes – the increased demand for qualified contractors in a smaller pool, and a shortage of contractors with adequate skilled labor in order to complete major projects.

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While this problem clearly affects companies around the world, it is of particular relevance in the United States where the shortage of qualified contractors and the rising cost of construction were directly linked by respondents.

“An issue is finding qualified internal resources. We are competing with the private sector. We cannot pay what the construction industry is prepared to pay.”

### **3.Types of Contracts in Global Contract system**

Fixed price

Guaranteed maximum price

Unit price

Cost plus fixed fee

Other

respondent said:

“The nature of the work leads to an excessive amount of client input into the design and construction process, often resulting in scope changes. Therefore fixed price contracting is not optimal.”

### **What is the preferred method of contracting?**

Many respondents highlighted the difficulty in effectively managing large projects that delivered to an initial fixed price. Globally, there has been a significant move towards GMP, with a trend towards partnering with contractors in the pre-construction phase of major projects and budgeting.

Fixed Price remains the most frequent approach, with 35 percent of respondents noting this as the only form of contracting they use. This reflects regional procurement laws that mandate the use of fixed price contracts, particularly in public construction projects.

Does your organization gain any benefit in using “brand name” contractor?

With risk management such a major issue, approximately half of respondents

Valued the reassurance embodied by a well-known ‘brand-name’ contractor.

With high visibility in a global marketplace, contractors with a strong track

Record may have a marked advantage.

What is the preferred method of contracting? “The large complex nature of the project and the interaction with many private and public entities and the press requires an experienced well known contractor.”

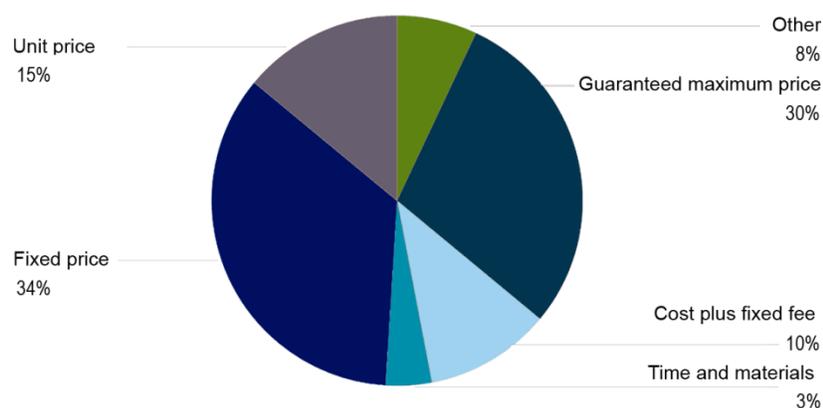
Respondent quote.

Does your organization gain any benefit in using a ‘brand name’ contractor?

Yes

60% “A “name” company can better attract talented workers and higher quality sub contractors.”

Respondent quote.



“Once contractors get over U.S. \$1billion (in revenue) they are not right for us, our projects don’t mean anything to them, and they come with one project manager and five attorneys managing risk.”

Respondent quote.

“Project managers are putting forward young people, with good educational backgrounds, but not practical experience, and we’re getting charged through the nose for them.”

Respondent quote.

Having said that, it is noticeable that more than a third of respondents felt these advantages were overvalued. A brand name

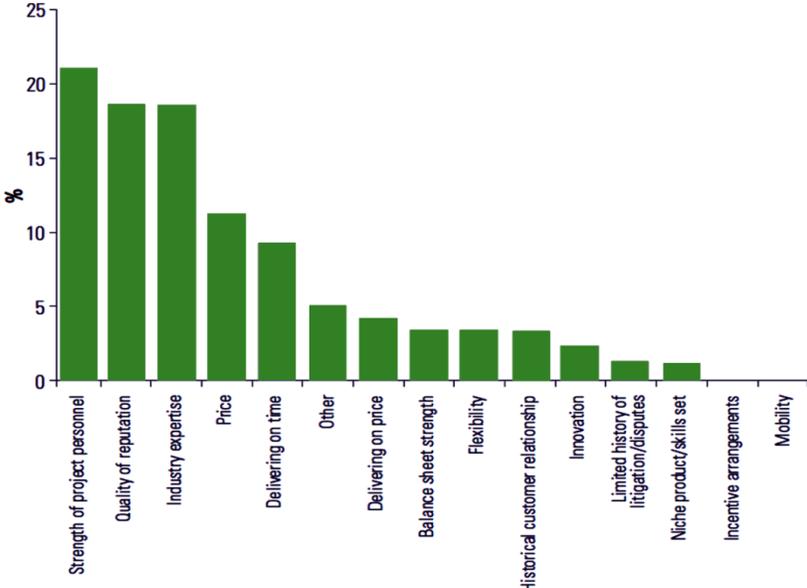
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contractor with proven financial stability may well represent less risk than a new contractor – but then their costs will also be a great deal higher. Nearly half of owners surveyed favor more competitive alternatives, particularly on smaller projects.

**4. Rank in order of priority the three key factors used to select your contractor.**

By far the most important single factor in choosing a contractor is the strength of project personnel, closely followed by quality of reputation and industry expertise.

Taken together, however, reputation and expertise are the dominant themes, concerning a combined total of 36 percent of respondents. This helps to provide a clear picture that having a proven track record and solid reputation are key issues when choosing a contractor. However, some respondents were critical of the way in which some contractors placed cheaper, less experienced resources on a job, without a commensurate change in costs. Rank in order of priority the three key factors used to select your contractor.



57% of respondents said quality of people; reputation and expertise were the most important factors in choosing a contractor.

5. How do you rate your company’s risk management framework for engaging and supervising projects after award?

As a benchmark for respondents, we defined a “sophisticated” framework as one that involved numerous independent controls operating at every stage of the project life-cycle. This would include appointing specialist consultants for each major trade to advise on design, pricing and risk profile. “Advanced” frameworks involve some independent control features which, if they were operating effectively, would probably identify problems early enough for them to be resolved effectively. Basic and limited risk management frameworks fell below these levels.

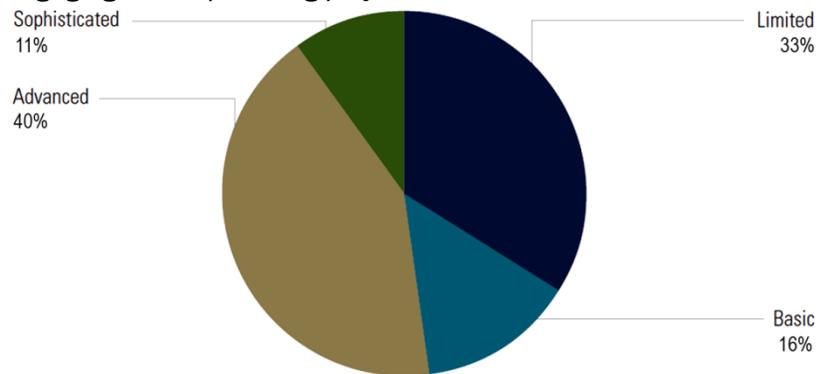
It is worth noting that some respondents who indicated their levels as ‘basic’ still felt their frameworks met their needs. Some respondents said their internal risk management frameworks were being reduced to ‘basic’ levels because of their abdication of risk to contractors and

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the employment of third-party project management and quantity surveying firms.

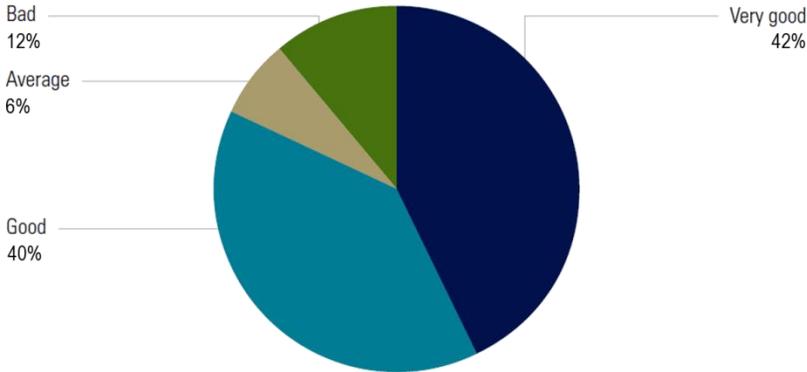
Overall, however, the perceived level of risk management from the owner or procurer is high – as indicated by the responses to two additional questions on policies:

How would you rate your organization's overall policies and procedures for delivering capital construction projects?  
How do you rate your company's Risk Management framework for engaging and supervising projects after award?



6. How confident are you that your overall policies and procedures are consistently applied by project personnel throughout the organization?

How do you rate your organization's overall policies and procedures for delivering capital construction projects?



**FINAL SURVEY RESULTS**

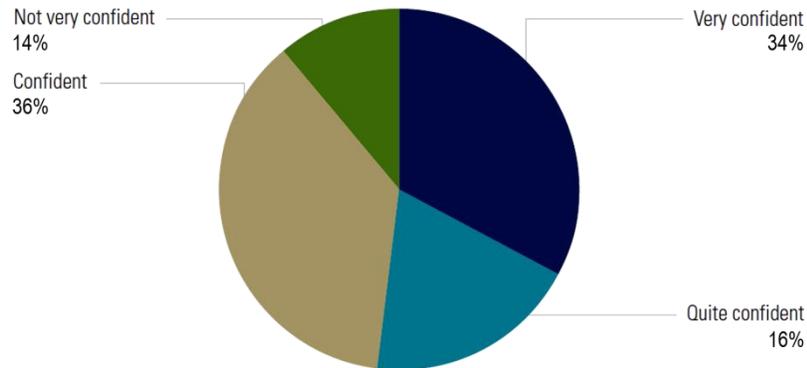
**From the Global Construction survey...**

Indicated that contractors felt that their clients were transferring inequitable amounts of risk on to them. These results may therefore explain why the management of risks is no longer the highest priority for owners.

A total of 82 percent of respondents rated their organization’s overall capital construction delivery policies as either good or very good. Only 14 percent of companies were ‘not very confident’ that their overall policies and procedures were consistently applied by project personnel throughout the organization. Conversely, 34 percent were ‘confident’ and 16 percent ‘very confident’.

How confident are you that your overall policies and procedures are consistently applied by project personnel throughout the organization?

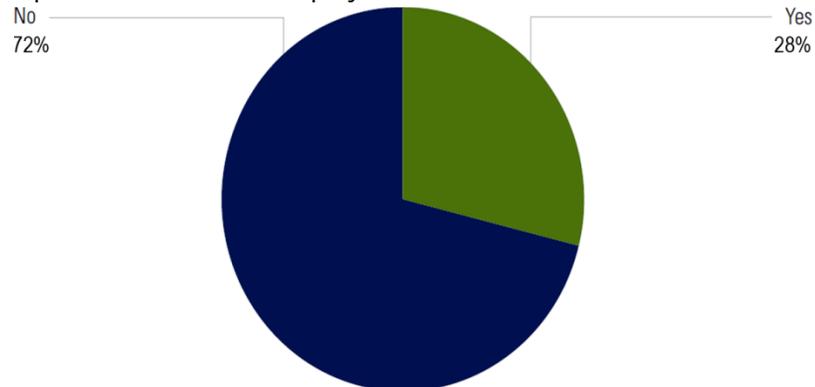
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Would you have preferred your contractor to have some form of equitable interest in the project?

Although many respondents strive to establish close recurring relationships with contracting companies, the idea of sharing any equity interest with them is usually only discussed in the context of an alternative method for extracting private sector capital for public sector use. Public-Private Partnerships are unique in the way the contracts embody the mutual interest the two parties have in a venture. Outside of this context, however, few companies want their contractors to have an equal share in projects.

Would you have preferred your contractor to have some form of equitable interest in the project?



#### 4. Conclusion

- The single conclusion that could be drawn from the study is that the **shortage of qualified contractors** is no doubt the biggest challenge to new construction projects for our 2<sup>nd</sup> Generation challenge in the future.
- Furthermore, with market demand expected obvious to increase significantly over the next five years, this issue looks set to intensify as the **pool of qualified contractors** able to bid compete for future projects **is reduced** and the wider **shortage of skilled labor contractors** impacts the ability of teams to deliver on our 2<sup>nd</sup> generation projects.
- The demands placed on this apparently shrinking **skilled labor pool** therefore have far reaching implications for the 2<sup>nd</sup> generation construction industry.
- First and foremost, our survey highlighted that **expertise and reputation** are the **two most influential qualities** that **Clients look for when selecting a contractor**. Indeed, this has far outstripped the **focus on price as a significant consideration**.
- A clear risk that as this finite pool of contractors get pulled in ever-increasing directions, **projects may not be delivered on time or to budget, and as a result, both the quality of work and the reputation of the contractors suffer**.
- Secondly, a total of **42 percent of respondents claimed that the availability of qualified contractors and the rising cost of construction are real risks to 2<sup>nd</sup> Generation construction projects**. Despite growth being predicted across the industry, will the inherent rise in costs actually slow the demand for construction?
- Regards to profit assumptions, with our survey showing that owners often assume that **as much as higher margins to be achieved than what is actually the case**.

#### RECOMMENDED ACTIONS

- It needs a procurement reform To Establish the single Government Entity to have the mechanism in the national procurement system to promote SME and other small scale contractors to make more and more qualified contractors with

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skilled workers to monitor Contractors performance and upgrade them in proper system and capacity development activities and skill developments.

- By the proposed reform to A clear and powerful vision for what the outcome of the transformation will be and communication of that vision including what is required in terms of “new” behaviors and approaches and Clear links as to how the transformation reforms relates to the core objectives and key strategic priorities of the “organization”.
- A sense of urgency as to why the transformation initiative should be given serious priority. Obstacles to change are addressed and achievement of “quick wins” and attention taken to anchor the change securely in the “organizational” culture as “the way we do things” Effective engagement with stakeholders. Effective project and risk management for the transformation with clear lines of responsibility and the initiative broken down into manageable steps.
- Effective follow through to completion with adequate resources provided throughout. Developing the strategic plan should be a flexible process that is a continuation of the assessment exercise and takes the factors above into account. Creating and sustaining ownership and commitment at appropriate levels in the Government or organization by including key stakeholders in a steering committee;
- Ensuring ongoing links between the implementation of the strategy and other key Government or organizational priorities and objectives; To provide a forum for external expert advisory support and advice;

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