

Thinking outside the Property box

Lessons from collaborative contracting models

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Our Client



Poor performance contributors*

- Low Productivity
- Poor Predictability
- Structural Fragmentation
- Leadership Fragmentation
- Low Margins, Adversarial Pricing Modules, and Financial Fragility
- Inappropriate Training Funding and Delivery Model
- Workforce Size and Demographics
- Lack of Collaboration and Improvement Culture
- Lack of R&D and Investment in Innovation
- Poor Industry Image

* Recent UK Construction Industry Study

Crisis... what crisis?



“One of the core areas that must be addressed is the widespread issue of underperformance within municipalities, which deters private sector investment and impedes the execution of infrastructure projects.” Mr N Lekula, MD PPC South Africa, IMESA Magazine Aug '21

“SA’s construction industry faces leadership and profitability crisis”

- *“The use of competitive tendering is widespread throughout the industry and there appears to be low usage of more collaborative and integrated design, procurement and construction delivery models promoted elsewhere.*
- *Clients tend to fixate on lowest initial tendered price, and this is often perpetuated by consulting firms, which in a traditional procurement model are implicitly employed (at least partly) to manage a fixed and adversarial transactional interface between clients and industry.*
- *The least cost-based procurement model often hinders the ability to focus on value, outcomes or performance if appropriate weightings are not made.*
- *The reality is that many clients, especially with government departments, municipalities and smaller state-owned entities that are simply conditioned to operating in an adversarial and hostile way with industry, do not see a case to move to more collaborative and integrated approaches for fear that a lack of commercial tension will affect their own financial outcomes.”*

A better way of working ...

Procurement

- Innovated procurement mechanisms and contracting strategies can go a long way to improve:
 - Project outcomes
 - Delivery success
 - Community participation and success
 - Building a corps of successful skilled built environment service providers to serve the State productively in the future
- Procurement and project delivery process will yield significant benefits when built environment professionals play key roles and take responsibility for the outcomes.

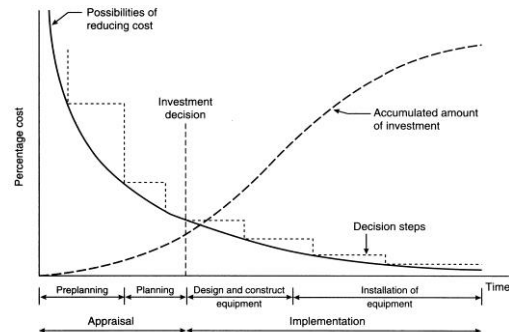


Planned Success

Poorly planned and conceived projects doom:

- Clients to pay more and not have the timeous benefits of a piece of infrastructure
- Communities who then miss the opportunity to meaningfully participate in projects
- Contractors who are then fed to the lions when the project and social environment is so toxic that they are unavoidably fail

Project success is determined in early, collaborative planning
Opportunities are lost once construction operations start



Lessons from the Private Sector and International Best Practice

Out of the Box !!

Defining Relationship Contracting

Contract forms striving toward:

- Equitable risk distribution
- Non adversarial relationships
- No *Master-Slave* relationship
- Teams focussed for the common project good
- Early Contractor involvement
- Value for money

Generically describes a Continuum of Contracting Strategies

The Continuum of Contracting Strategies

- Design by Employer
- Develop and Construct
- Design and Construct
- Construction Management (e.g. EPCM)
- Management Contractor (e.g. EPC, LSTK)
- Management Contracting
- Framework Contracts
- Collaboration
- Alliancing
- Partnering

Conventional Strategies

Modern and new Collaborative Strategies

Why Collaborate - Experience?



- Total project costs were reduced by 10%
- Overall project completion time was reduced by 20%
- Schedule changes were reduced by 48%
- The number of claims were reduced by 83%
- Lost-time accidents were 1/83rd of industry standard
- Change orders were reduced by 80%
- Job satisfaction increased by 30%

Construction Industry Institute (CII) research on 300 collaborative contracts

Specific Benefits



- Team members empowered and driven to achieve project success
- Early award gets team members involved early, putting participants on the same page with a single agenda. Input into methods, materials and design s obtained.
- Improved communication and problem solving skills
- Less resource constraints leading to less duplication with multifunction teams and resource sharing
- Reduced risk trough joint evaluation and shared allocation.
- Key stakeholders unite with a common purpose to complete a successful project and they change the traditional contractual and organizational framework of the contract to facilitate this goal.
- Financially reward success (gain-share) and penalize failure (pain-share)

Cost Benefits

- More Accurate and realistic budgets on which to base investment decisions
- Final Turnout cost = Budget or Target costs
- Parties incentivised to stay in budget and compete on time. Getting the facility productive, earning revenue or delivering services.
- Less Mark-up on Mark-up
- Waste reduction
- Reduction in duplication
- Optimal supply chain access
- Less overlapping
- Better resource and organisational capacity utilization.

Collaboration Objectives

Owner

Enhance revenue,
Reduce maintenance and operating costs,
Reduce losses,
Optimize the time within which aging assets are replaced,
Reduce safety risks to contractors and the public, and
Increase satisfaction of stakeholders

Contractor

Survive in a competitive industry,
Earn an adequate level of profit and recover overhead,
Attain stability or growth by securing future work,
Increase shareholder wealth,
Satisfy stakeholders (such as customer needs),
Use resources in its possession,
Diversify and acquire new skills, competencies or resources, and
Create further work opportunities

Source: *An agenda for collaborative working arrangements: The role of partnering and alliancing in the U.K.*
Ledger, Alan. Dispute Resolution Journal; New York Vol. 58, Iss. 2,

Collaborative Values

- 1) Respect, trust and honesty
- 2) Open communications
- 3) Delivering on promises
- 4) Being mutually supportive and cooperative
- 5) Listening attentively
- 6) Being fair-minded
- 7) Being responsible and consistent
- 8) Being willing to challenge accepted practices
- 9) Having a can-do mentality
- 10) Being proactive
- 11) Promoting creativity and innovation
- 12) Taking pride in a job well done, and
- 13) Recognizing achievement.



Source: *An agenda for collaborative working arrangements: The role of partnering and alliancing in the U.K.*
Ledger, Alan. Dispute Resolution Journal; New York Vol. 58, Iss. 2,

Targeted Goals



Typical collaborative contracting goals could include:

- safety
- schedule
- revenue
- asset availability
- production loss
- maintenance and operating costs, and
- capital costs.

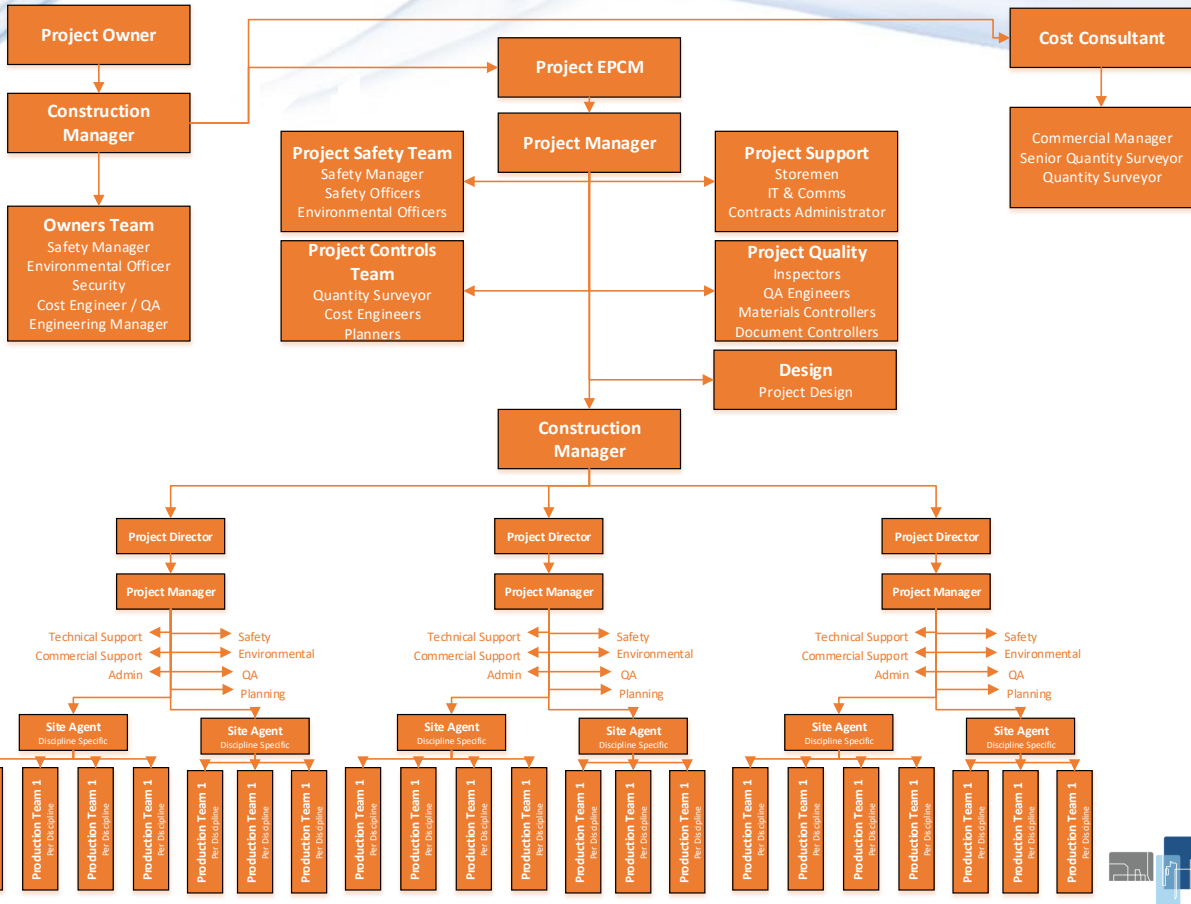
“collaborative working arrangements strongly promote efficiency, innovation, creativity, and better integration of functions”

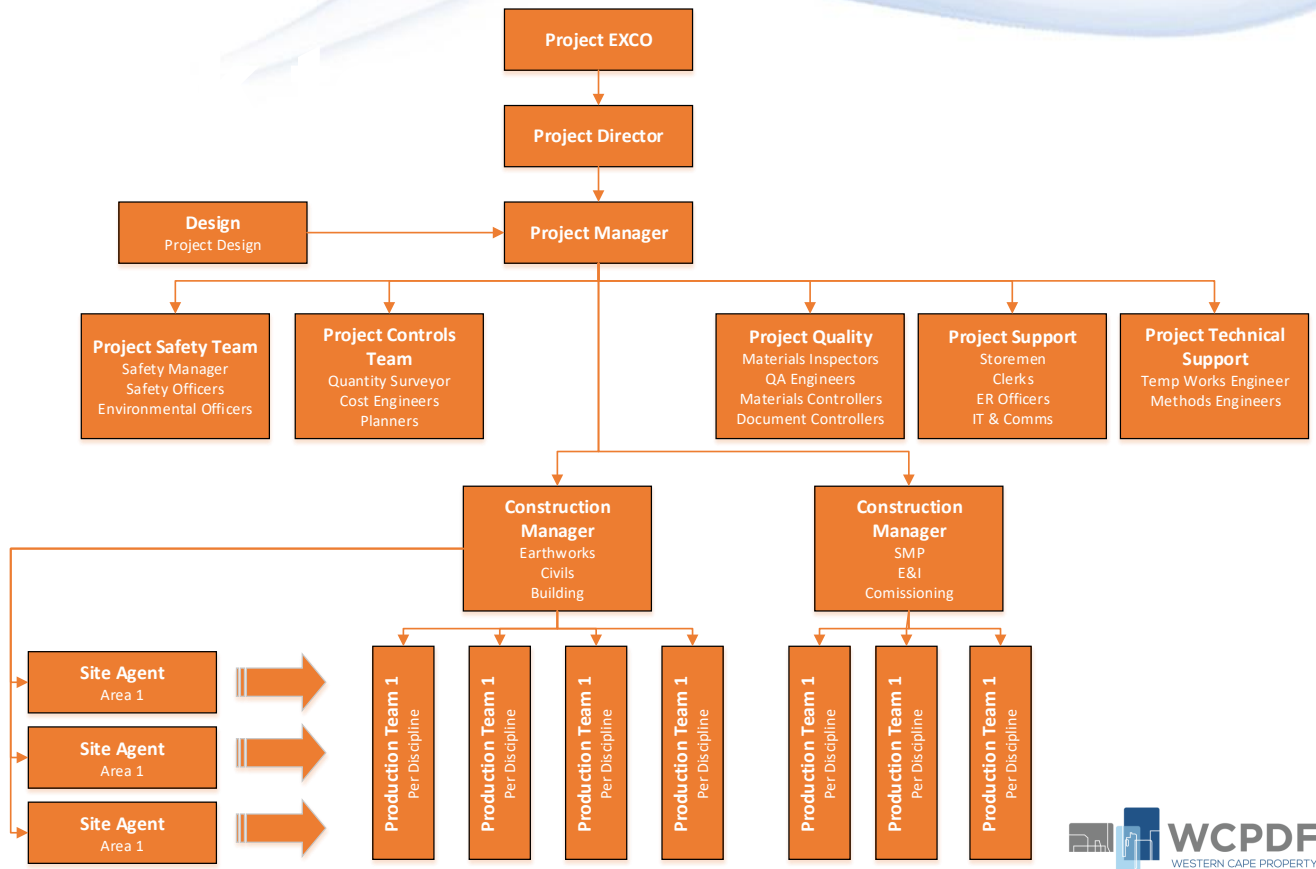
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The Contract

- Collaborative projects are best structured to include both a construction agreement and an overarching partnering or alliance agreement
- Normal contract forms such as NEC could be well used for the construction agreement
- Liabilities and obligations allocated to parties best able to bear risk and manage size of contingency in target cost
- Owner and contractor negotiate the **collaborative agreement**
 - Joint purpose and objectives
 - Mechanism for joint decision making
 - Agreed culture and desired behaviour
 - Measurable KPI's or key success factors
 - Team Structure
 - Pain and gainshare agreements
 - Remedy for failure to collaborate.





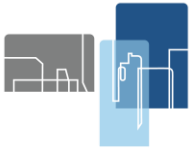


Our Client



Tannie Susanna Jacobs (69)

First time home owner



WCPDF

WESTERN CAPE PROPERTY
DEVELOPMENT FORUM



Thank You

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