

# Market Enablers Interim Report

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Construction  
Innovation Hub

November 2020



VALUE  
TOOLKIT

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# Executive summary

This report sets out the interim findings for the Market Response Workstream of the Value Toolkit. The Workstream aims to engage closely with key parts of the supply chain to identify -and where possible to resolve – actual or perceived barriers to the adoption of value-based decision making. Constructing Excellence has brought together a team comprising significant industry commercial expertise, emerging future leaders and leading academics.

Phase One has focused on creating conversations on the benefits of value-based decision making for all corners of the sector. These findings are based on 12 structured online workshops, held in partnership with industry bodies and associations, involving 131 participants from 93 organisations.

We have found significant enthusiasm for value-based decision making and a hope that with the alignment from government and emerging technologies this time we have the opportunity to embed it across the industry. There is however a fear, especially given the current economic uncertainty, that organisations across the sector will revert to type with tender price being the main driver and procurers focussing on cost.

Engagement and training will play key roles in the adoption of the Value Toolkit. Clear and consistent language will drive understanding and uptake. Respondents who had greater experience and knowledge of value-based decision making perceived less risk and greater opportunity. There was clear recognition of the need for training to ensure consistency.

Our initial research on insurance products reveals it is not seen as a blocker, but rather value-based delivery models offer an opportunity to re-consider how programmes, projects and risks are insured. In terms of contracts organisations don't want new forms of contract, they want to see existing forms implemented in a fairer and more consistent way that maintains the golden threads and incentivises value and manages risk.

The next phase will be a deep dive into contracts and insurances with targeted workshops and one-to-one structured interviews followed by targeted workshops

on evaluation and measurements in December. This will inform an industry-wide questionnaire in January 2021 with UK Construction Week. A number of factors are aligning, including the launch of the Construction Playbook, to drive through a shift to value-based decision making. There is a clear appetite from the industry for this shift and the opportunities it offers as well as appreciation for the opportunity to input into the development of the Value Toolkit. This is backed up by the support the Toolkit has from the key procuring departments and significant clients throughout the sector.

*We have a real opportunity to work collaboratively to grow and nurture an active and vibrant **#ValueToolkit** community!*



# Key findings



## Support

The Industry is really behind both value-based delivery and the Toolkit. People can see its potential. Confidence however is weak, as many have failed to implement on similar plans.



## Cost

Organisation's reverting to type and tender price remaining the main driver is the biggest perceived barrier. Especially in times of economic uncertainty. People are hopeful but sceptical that the Toolkit can address the reliance of procures on cost.



## Language

Plain and consistent language in both the metrics and models drawn from existing understood terms is really important to the supply chain. They are tired of ever changing language and terminologies within the industry.



## Insurance

Insurance isn't seen as a blocker to value-based models but more of an opportunity to re-consider how programmes, projects and risks are insured. Both the supply chain and insurance market are ready for change.



## Contracts

Contracts are seen as a blocker to value-based models but organisation's don't want new forms of contract, they want better use of existing forms, implemented in a fairer, more consistent way. Maintaining the golden threads, offer incentive rather than look to purely dump risk.

# Our purpose

Constructing Excellence has been appointed by the Construction Innovation Hub to contribute to the development of the Value Toolkit. More specifically, Constructing Excellence has been asked to lead the 'Market Response' Workstream.

This Workstream will engage closely with key parts of the supply chain to identify - and where possible to resolve - actual or perceived barriers to the adoption of value-based delivery models.



## ABOUT CONSTRUCTING EXCELLENCE

Constructing Excellence is a platform from which to stimulate, debate and drive much needed change in the construction sector. Our thought leading members from across the entire supply chain - clients, industry and users - share a vision for change through innovation and collaboration.

Constructing Excellence is funded and governed nationally by corporate membership, and is open to anyone who wants to be part of transforming the sector.

### Our mission is to:

*Positively disrupt the industry delivery processes to transform performance.*

**And our vision is to** deliver superior outcomes from new delivery models featuring:

- A client-led transformation by procuring for outcomes and value
- Increased standardisation and pre-manufactured content
- Digitally enabled integrated teams working collaboratively with long-term relationships and aligned commercial arrangements



CONSTRUCTING EXCELLENCE HAS...

**80+**

NATIONAL MEMBERS



WHO COLLECTIVELY EMPLOY

**250,000**

PEOPLE



AND TURNOVER

**£60**

BILLION



WITH

**£10**

BILLION SPENT ON CONSTRUCTION PROJECTS



WE HAVE

**37**

BEST PRACTICE CLUBS



AND

**GENERATION4CHANGE**

IS HELPING TO DEVELOP FUTURE INDUSTRY LEADERS

### CONSTRUCTING EXCELLENCE

Constructing Excellence is a cross-supply chain organisation, committed to the positive transformation of the sector. As such, we are ideally placed to deliver this work for the Construction Innovation Hub. We have access to individuals and organisations across the supply chain who are committed to delivering genuine and lasting change. Constructing Excellence has long been a champion of delivering better outcomes through collaboration and recognises the limitations of existing delivery models in delivering value for all stakeholders in the built environment.

Since 2011, we have been working with Cabinet Office and the IPA to monitor and report on the trial of new models of construction procurement, including cost-led procurement, integrated project insurance and two stage open book. As a result, we have access to many of the individuals and organisations who have been champions of such new delivery models.

Constructing Excellence's procurement group, chaired by Ann Bentley of RLB, is currently focussing on the barriers to a 'Procuring for Value' approach and the potential ways to overcome these. We believe this work provides a solid foundation for the Value Toolkit's Market Response Workstream - building on the progress we have already made in this space.

### WORKSTREAM OBJECTIVES

Building on the brief provided by the Construction Innovation Hub, the Market Response Workstream has two initial objectives:

#### Objective 1

Identify, through structured engagement with stakeholders across the supply chain, actual or perceived barriers of and opportunities associated with the adoption of value-driven delivery models

#### Objective 2

Systematically address each identified barrier by:

1. Identifying and collating existing knowledge and solutions into clear guidance
2. Identifying gaps and opportunities for further investigation and research

Building on existing work to date, the Construction Innovation Hub has requested for the Market Response Workstream to explicitly address actual or perceived barriers relating to contract forms and insurance products, pre-empting to some extent the outputs from Objective 1. It is therefore expected that Objective 2 can be commenced in parallel with objective 1, with any additional themes identified through supply chain engagement being added as they emerge.

Constructing Excellence has engaged directly with key stakeholders through a combination of workshops and structured interviews. Target stakeholders include:

#### Main Contractors:

Managing Directors, Finance Directors, Strategy Directors, Commercial Directors – these will be sourced through the Constructing Excellence network as well as through other industry groupings such as Build UK and CECA.

#### Specialists / Subcontractors:

Managing Directors, Finance Directors, Strategy Directors, Commercial Directors – these will be sourced through the Constructing Excellence network as well as through other industry groupings such as ECA, Specialist Engineering Contractors Group etc.

#### Manufacturers and Distributors:

Commercial Directors, Supply Chain Directors, Strategy Directors etc, these will be sourced through the Constructing Excellence network as well as through other industry groupings such as BuildOffsite and the Construction Products Association.

#### Regional Engagement:

The majority of construction work is delivered by small and medium sized businesses. Targeted workshops with our regional partners on the delivery models will be critical to access this difficult to reach demographic.

# Meet the team



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## **Alison Nicholl**

Head of Constructing Excellence

Alison represents the team on the Project Board for the overall Value Toolkit. Alison is passionate about improving the construction industry and has 18 years' experience delivering knowledge transfer and industry change in the built environment sector. Alison is delighted that much of the groundwork on collaborative procurement that Constructing Excellence has championed over many years is being incorporated into the Toolkit that has the potential to transform how we design, build and operate our built environment.

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## **John Handscomb**

Partner, Akerlof

John leads the Market Response Workstream to ensure the supply chain has a voice within the formation of the toolkit. John is delighted to lead a project that sets out to create a broader understanding of value beyond price and has many parallels with the thinking behind Akerlof who shares its name with George Akerlof, a Nobel Prize winning economist. His seminal paper, Market for Lemons, demonstrated the consequence of adverse selection under conditions of quality uncertainty and unequal information between buyers and sellers; a 50-year-old concept that continues to retain parallels within the construction industry that he hopes the Value Toolkit will go some way to re-address.

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## **Rebecca Cutts**

Senior Quantity Surveyor, Rider Levett Bucknall

Rebecca is leading on the contracts work package within the Market Response Workstream, seeking guidance from leading industry experts as well supply chain members. Rebecca is excited to engaging with these key stakeholders within the industry, looking at how we can overcome certain contractual challenges, moving towards value driven, collaborative contracts that are in the best interest of the project. This is going to be an exciting challenge and definitely one we will all learn from.

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## **Sesitwa Mohlala,**

Cost Manager, Turner & Townsend

Sesitwa leads on the engagement of the insurances work package within the Market Response Workstream. Sesitwa's multi-disciplinary experience has seen him work for various industry clients such as Anglian Water @OneAlliance, The Environment Agency and Heathrow Airport Limited. As a result, Sesitwa has been involved in collaborative procurement and commercial environments which have delivered value. Sesitwa is excited to be

joining the Constructing Excellence team and hopes to make a long-lasting impact in the UK Construction Sector. Through planned engagements with industry bodies and associations; and building a transparent relationship with the Supply Chain, Sesitwa sees the Value Toolkit as being a key success factor for the industry as a whole.

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#### **Itai Kagadora**

Project Manager, Construction Innovation Hub

Itai is a project management professional responsible for overseeing design, commercial, and project delivery activities for various development schemes throughout the project lifecycle. Itai is also responsible for implementing and supporting Agile Scrum principles, values and processes. He is excited and very much looking forward to working on this project which will have a positive impact on supply chain processes and the built environment as a whole.

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#### **Prof David Mosey**

Director, Centre of Construction Law and Dispute Resolution, Kings College

David is world-renowned for his work on improving procurement and contractual techniques for project delivery. He brings his extensive experience and research capability focussing on the interdisciplinary relationships of construction law with the evolving practices of procurement and project management. This includes research into partnering, alliancing, joint ventures and other models for collaborative working. The King's College London Centre of Construction Law is committed to creating integrated procurement and contractual systems that support improved value and reduced risk. The Centre is glad to support the development of the Value Toolkit and to work with Constructing Excellence on the Market Response Workstream.

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#### **Prof Peter McDermott**

Professor of Construction Management, University of Salford

The way that construction is organised, managed and procured has a significant impact on our environment. Peter's teaching, research and professional activities are focused on this and around a determination to make a difference to the built environment / sectors that we serve. Peter's key areas of research include strategies for the Construction and Infrastructure Sectors, Strategic Procurement, Sustainable Procurement, Supply Chain Management, Social Value. Peter will ensure that the project effectively builds the existing body of evidence and uses effective research processes.

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#### **Dr Greg Watts**

Director of Quantity Surveying Programme, University of Salford

Before lecturing at the University of Salford Greg worked in the construction industry up to the level of Senior Quantity Surveyor, for various companies, on a range of multi-million pound projects. Having always aimed to improve behaviours and practices at every company where he worked, in the hope of playing a part (albeit small) in improving the construction industry, Greg decided to move into construction education in the hope of inspiring and improving future generations. Greg's areas of research include Social Value in Construction, Procurement, Ethics in Construction, Professional Development.

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#### **Kate Paul**

Communications & Engagement Coordinator, Constructing Excellence

Kate recently joined the Constructing Excellence team and is passionate about encouraging and facilitating communication and collaborative working across different stakeholders and partner organisations as well as supporting a culture change in the construction industry. Possessing an extensive marketing experience and MBA in Strategic Marketing, Kate is always ready to deploy her organisational skills, knowledge of market research, digital analytics, website and SM presence development to find effective ways to communicate outputs and maximise their exposure and target audience reach.

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### **MARKET ENABLERS INDUSTRY ADVISORY GROUP**

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The team has been advised throughout the process by our Industry Advisory Group:

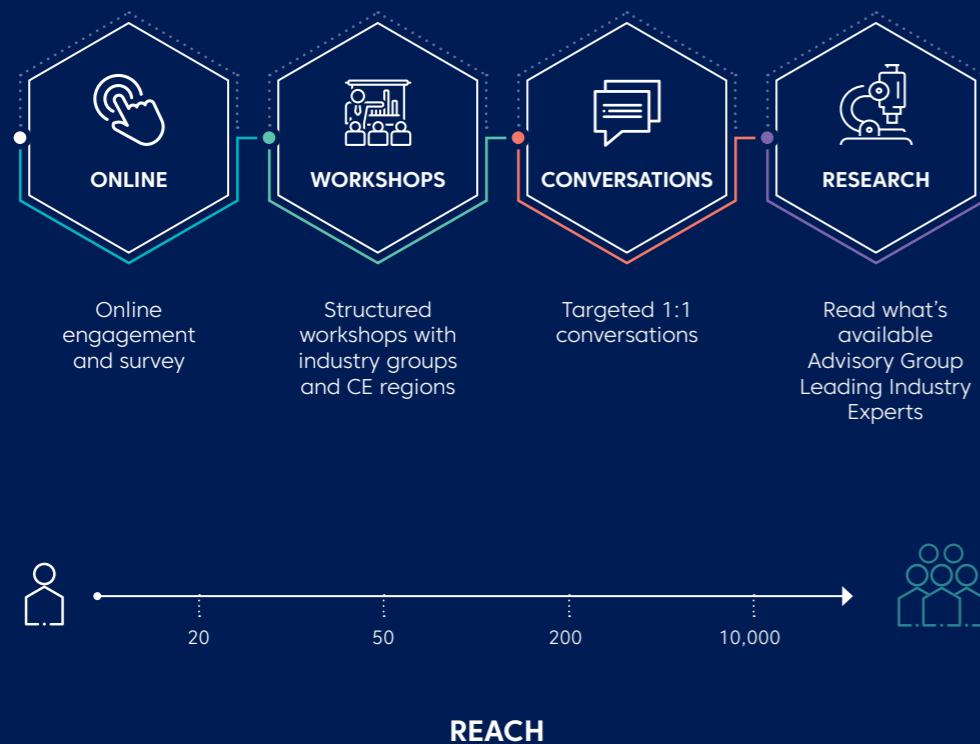
- **Tony Ball**, Managing Director, C3 Alliance
- **Richard Crosby**, Director, Blacc Ltd
- **Madoc Batcup**, Managing Director, Synaps
- **Tim Carey**, Chief Product Director, Collida | Willmott Dixon
- **Ruth Carins**, Solicitor, Costain (Representing G4C)
- **Nathan Doughty**, CEO, Asite
- **Ron Edmondson**, Collaborative Working Mentor, Constructing Excellence
- **Trevor Hursthouse**, Chairman, SEC Group
- **Marcus Harling**, Partner, Burges Salmon
- **Phil Henry**, Market Development Director, Polypipe
- **Rebecca Rees**, Partner, Trowers & Hamblins

# Methodology

This report is the first of three that we will produce through the life of the Market Response Workstream and falls in line with the three phases of the Value Toolkit engagement plan. We have just completed the first phase, where the main aim has been to create conversation on the benefits of value-based decision making for all corners of the sector.

Using the messaging of the wider project engagement plan, we are establishing a communication framework wider than the individual conversations we have and workshops we run. By bringing people into the wider messaging of the Value Toolkit we are forming a link and platform for organisations and individuals to engage through other channels such as social media and regular updates from the Hub.

Multi-level engagement has been key during this phase, and we have looked to establish our findings through a blend of engagement with Academic Research Experts from both Kings College London and Salford University, led by David Mosey and Peter McDermott respectively. This has given us access to extensive historic research. Specialist insights have been obtained through targeted one-to-one conversations with industry leaders and specialists in multiple areas but particularly on complex subjects such as contracts and insurance. Our broadest reach has been through the workshops we have run via multiple industry partners to reach the widest possible cross section of the supply chain.



## WORKSHOPS

The workshop we have undertaken in the Provoke phase are the basis of this report. We have used quantifiable data collection and workshop debate to draw out insight and conclusions. The workshops have provided a high level introduction to the Toolkit that investigates people's perceptions, hopes and fears of value-based decision making and the level of understanding within the supply chain.

## INTRODUCTION

OCTOBER

High level introduction to the toolkit that investigates people's perceptions and key fears

## EVALUATION AND MEASUREMENT

NOVEMBER - DECEMBER

Workshop to test some of the workings of the toolkit and establish

## CONTRACTS AND INSURANCE

NOVEMBER - DECEMBER

Focused workshops that dive deeper into contracts and insurance

## BESPOKE

AS REQUIRED

Workshops set up at the request of other workstreams to establish a response to a set question(s)

## ASSOCIATIONS REPRESENTED





# Reach



**23**  
QUESTIONS



**3,013**  
RESPONSES



**93**  
ORGANISATIONS



**69**  
BUSINESSES



**13**  
ASSOCIATIONS



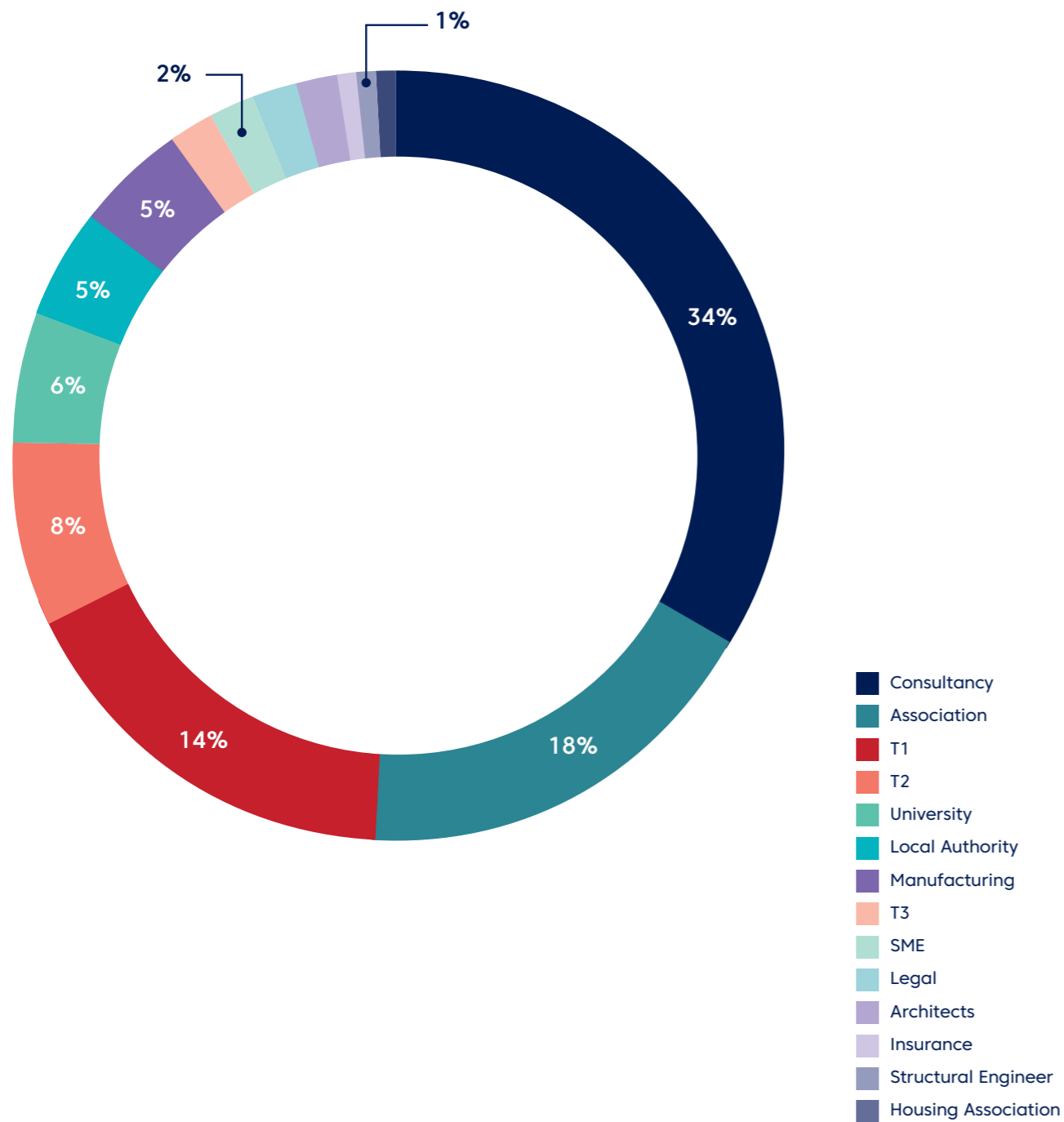
**8**  
UNIVERSITIES



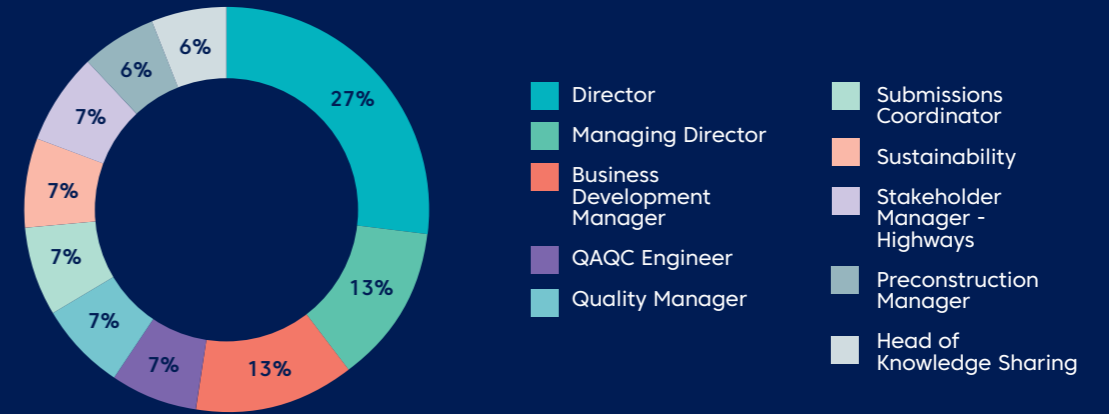
**3**  
LOCAL AUTHORITIES

# Findings

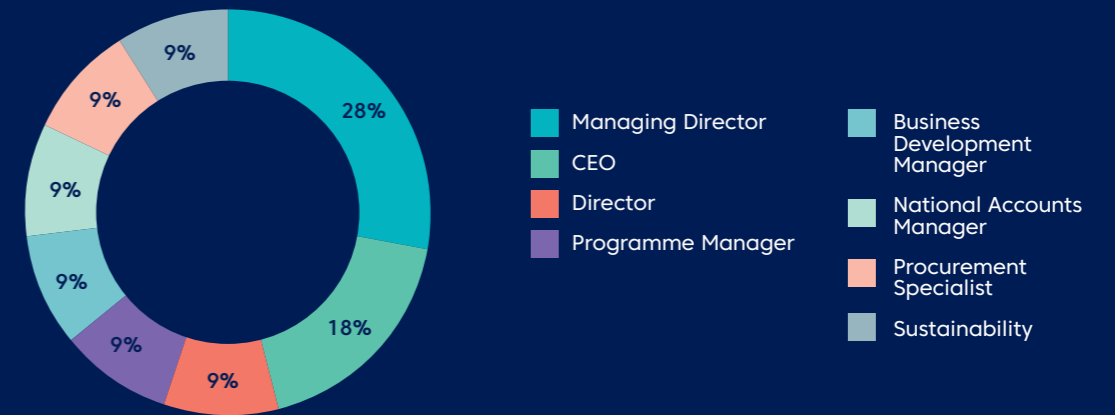
## INDUSTRY COVERAGE



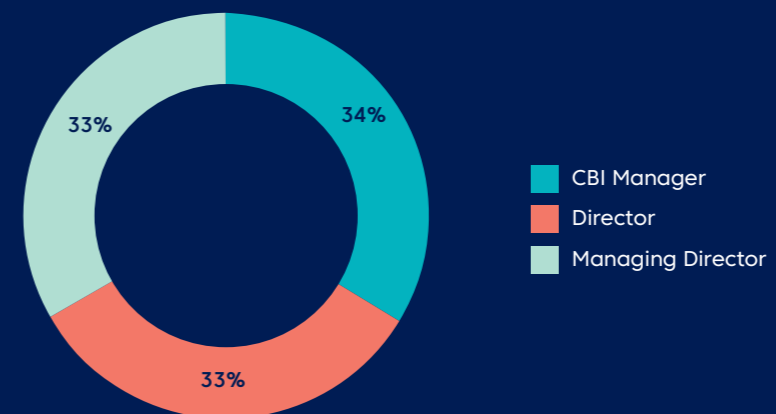
## TIER 1 REPRESENTATION



## TIER 2 REPRESENTATION



## TIER 3 REPRESENTATION



# Understanding the benefits

## WHAT WE OBSERVED

72% of people thought that value-based procurement can bring significant benefits to their business.

We have the ability but we need to change people's mindsets and the standard way of working.

It's not about spending more money but about doing things differently:

*Having clients that understand collaboration*

*We are recognising that it is beginning to change*

*This is a massive opportunity for the entire industry*

We will start to recognise the benefits when we are involving members of the supply chain early on in the procurement but also project outset.

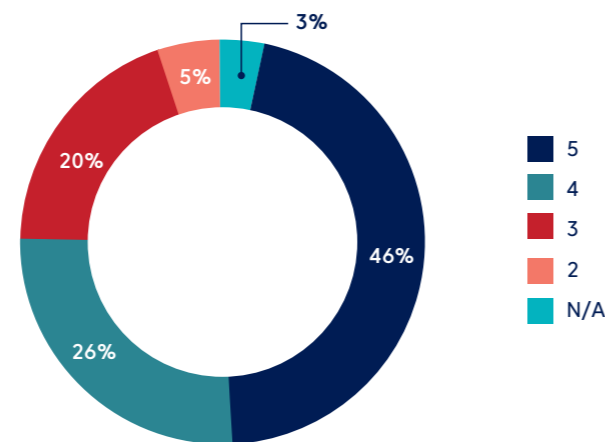
We won't see a change however unless there is a fundamental transformation in the way we procure. We recognise that there is a strong level of service and collaboration available, but we are continually pushed against the wall with the cost aspect.

## WHAT WE ALREADY KNOW

One study that considered how to increase enthusiasm amongst construction students in project-based learning found that persistence of those with management responsibility, formal recognition of achievements, getting colleagues involved to create larger teams, and the setting of ambitious goals is essential to maintaining enthusiasm (Baldissera and Delprete, 2020). However, even when enthusiasm is high, sometimes behavioural factors persist in preventing innovative approaches being successfully adopted. Where this is the case it has been argued that effective communication and accountability amongst professionals are factors that can encourage successful approaches to adopting innovative technology (Ibrahim et al., 2019).

## WHAT THE STATISTICAL ANALYSIS TELLS US

Using the scale 1 to 5 with 5 being high, rate how much benefit value based procurement can bring your business.



## RECOMMENDATIONS

### TOOLKIT

Consider how the toolkit could incorporate emerging and future business models such as integrators.

### ENGAGEMENT

Re-enforce the messaging that this isn't about value engineering but delivering better outcomes and value. Focus on the benefits that value-based decision making will bring right across the sector and why things are different this time.

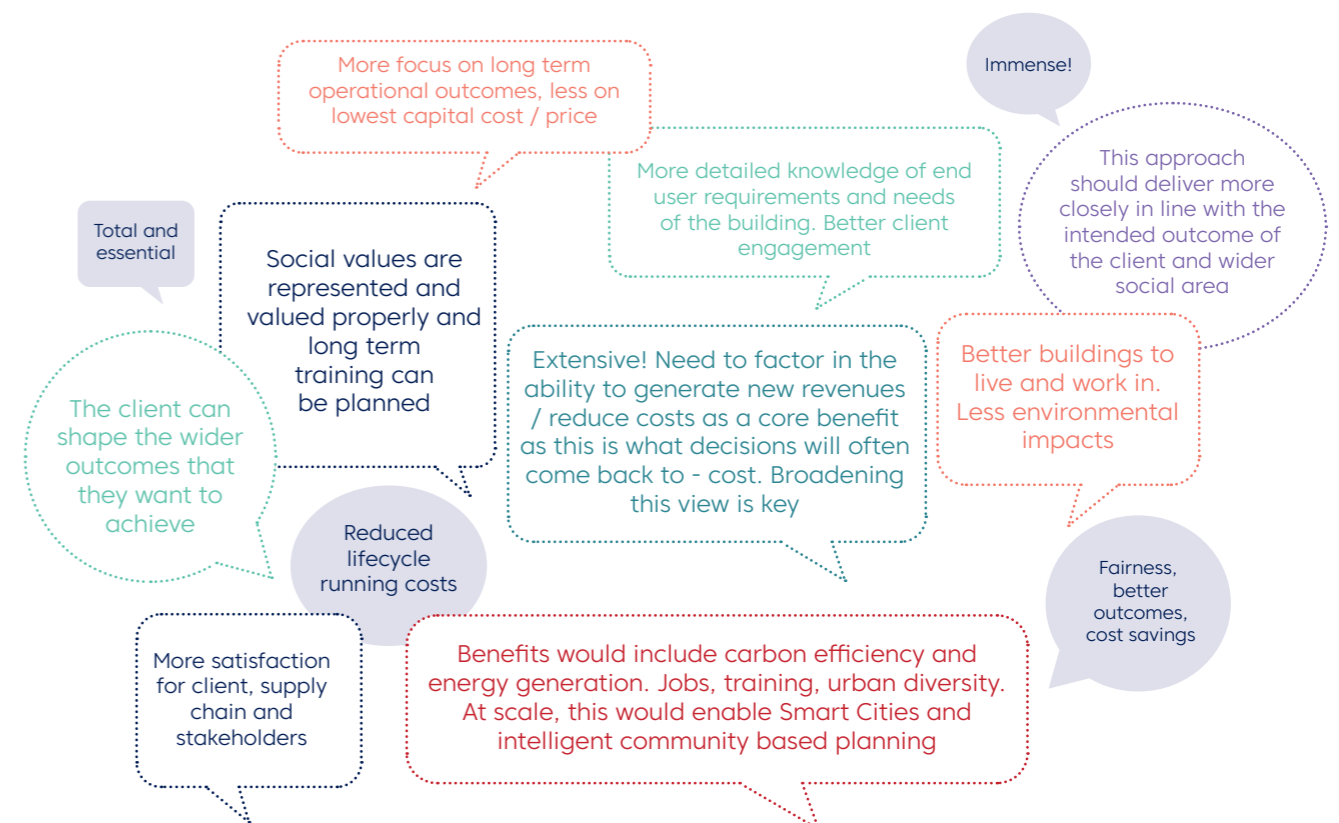
### TRAINING

Produce training content directly aimed at the supply chain so that they have the tools to respond.

It is clear from the workshops that the industry and supply chain understand many of the benefits that the Toolkit can deliver and were excited by its possibilities when asked the question:

**“ What do you consider to be the benefits of a procurement where the assessment of value extends beyond capital costs to wider social, economic and environmental factors across the full investment lifecycle? ”**

Organisations and individuals had a clear view and it's a positive one.



# Supply chain visibility

## WHAT WE OBSERVED

77% of people questioned within the supply chain have little or no visibility of client delivery models or commercial strategy.

We have the ability but we need to change people's mindsets and the standard way of working.

It's not about spending more money but about doing things differently:

*Often the information that a supplier receives depends on the client and how the project is being delivered. Many say it's a lottery and you never know what information you will get and when you do get information there is rarely enough to offer realistic offerings at tender stage.*

*Generally through partnering arrangements and full collaboration projects the information is readily available and fully visible but this changes when we revert to the traditional method of procurement and construction.*

*There is a concern that some clients see their information as commercially sensitive and have a fear of telling the market too much.*

*We run the risk of always doing what we have always done and always getting what we have always got if we don't challenge the stages of the process. We have the ability to build projects in a virtual world and create assets that allow end to end control of value, but we need to make the leap to maximise the benefit.*

*Suppliers often get no information at all or too much information. Frequently smaller companies won't have the time or ability to filter through the rafts of documents sent down from the main contractor.*

*With reference to the delivery model or commercial strategy T2 and T3 suppliers see nothing unless the T1 contractors wish them to see it.*

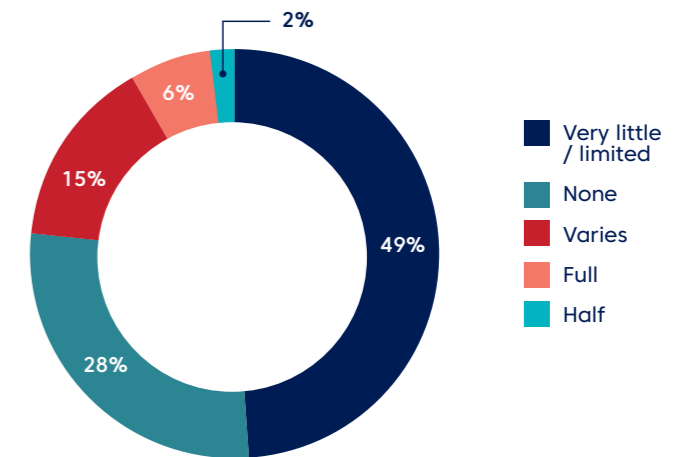
*With this being the way the supply chain is contracting often the smaller T2 suppliers do not know what they are taking on.*

*Unless we can change the way information is shared, we don't see this having an impact on us as T2 suppliers.*

*Highways England and National Rail are examples of good clients where information is readily available from them and the supply chain receives full visibility.*

## WHAT THE STATISTICAL ANALYSIS TELLS US

How much visibility do you have of a client's delivery model vs the commercial strategy they are employing to deliver it?



## RECOMMENDATIONS

### TOOLKIT



Ensure that the delivery models don't inadvertently re-establish the status quo and block out the innovation of the supply chain as many models have done before.

Ensure that the catalogues are inclusive and present opportunities for the parts of the supply chain that don't class themselves as consultants or contractors.

### ENGAGEMENT



Show, prior to launch, how the supply chain can play its part and how and at what points they interact with the delivery models.

### TRAINING



Provide guidance and learning for commissioners to get the best from supply chains, whilst doing the opposite for solution providers.

# Supply chain engagement and recognition

## WHAT WE OBSERVED

The was a general feeling of distrust within the supply chain of consultants and contractors.

*Tier 2 are contributing to someone else's value and the value they bring is not always understood by the Tier 1 and consultants.*

*It suits contractors and consultants to pretend the value we bring is their own.*

*Not looking in supply chain for solutions.*

*Not a one size fits all approach.*

*Clients need to get closer to those who add the value - the value and intent is diluted at each stage of the supply chain as the tender process loses the gold thread of the client's intent.*

## WHAT WE ALREADY KNOW

Increasingly, findings in literature are revealing that effective supply chain management is directly linked to an organisation's reputation (Wolf, 2014). However, greater supply chain recognition is more likely to be influenced by incentives and pressures directed from stakeholders such as competitors, customers and governments (Foerstl et al., 2015). Therefore, despite an organisation's reputation being influenced by how they treat their supply chain, such treatment is more likely to be impacted by external factors.

It is acknowledged that often supply chain literature stops at the relationship between the first and second tier contractors. Research is starting to build upon these gaps identified, with findings suggesting that effective supply chain relationships and management need to extend across the entire supply chain, and not just focus on the relationships between one or two tiers (Zhang and Meng, 2021). However, when considering individual supply chain relationships, a top tiered organisation can improve third tier compliance through collaborative and assessment processes (Grimm et al., 2016).

Grimm et al., (2016) go into further detail and suggest the way to ensure policies and processes are adopted throughout the supply chain is by both direct and indirect management practices including:

- Individually assessing each subcontractor, either through formal audits or allowing self-assessment
- Collaborating with joint action and correction plans as well as increasing awareness through workshops and training events
- Enacting a scoring type mechanism for each contractor's compliance
- An expectation supply chain partners will follow the same rigorous assessment and compliance initiatives with their own supply chain
- Introduction of a code of conduct or code of behaviour in relation to the desired practices

Ultimately, a position of 'value co-creation' wants to be achieved between all members of a supply chain. This is the optimum position to enable all members of the supply chain to work together on an initiative effectively – one where they feel they are all equal partners in the creation of the additional value achieved. Supply chain collaboration is the antecedent to value co-creation (Chakraborty et al., 2014).

Success in supply chain collaboration is ultimately about supply chain recognition and supply chain engagement. All members of the supply chain need to be acknowledged and respected for the value they bring. Any initiative that involves the supply chain needs to be built around the cross sharing of information, across the entire supply chain (Zhang and Meng, 2021) as the adoption of a shared responsibility approach will increase the engagement of all supply chain partners (Jabbour et al., 2019). The findings of Project 13 reinforce this as it argues an 'integration' approach whereby all supply chain members are seen as integral and the same objectives should be shared throughout all the supply chain.

## WHAT THE STATISTICAL ANALYSIS TELLS US

36%

BELIEVE RESISTANCE TO CHANGE, FAILURE TO ADOPT INNOVATION AND MAINTAINING A FOCUS ON COST WILL BE THE BIGGEST BARRIERS

8%

BELIEVE POOR COMMUNICATION WILL BE THE BIGGEST LIMITING FACTOR TO SUCCESSFUL VALUE-LED PROCUREMENT

5%

ARGUE IT IS FEAR OF BEING LEFT TO MANAGE RISKS THAT WILL BE THE BIGGEST BARRIER

18%

OF RESPONDENTS WITH HIGH PROCUREMENT KNOWLEDGE BELIEVE THE SKILLS AND KNOWLEDGE OF THE ENTIRE SUPPLY CHAIN ARE IMPORTANT ENABLERS TO THE INTRODUCTION OF SUCCESSFUL VALUE-LED PROCUREMENT

## RECOMMENDATIONS

### TOOLKIT



In order to ensure the Toolkit filters down to all tiered supply chain partners, there needs to be a sense of joint responsibility and value co-creation across the entire supply chain. This is created by recognising the important part each supply chain member plays and the value they bring, as well as effectively engaging with each regarding the purpose of the Toolkit through a variety of methods.

### ENGAGEMENT



In order to ensure the Toolkit filters down to all tiered supply chain partners, there needs to be a sense of joint responsibility and value co-creation across the entire supply chain. This is created by tailored messaging for each element of the supply chain, explaining how the Toolkit enables them to be recognised and rewarded for the value they bring.

### TRAINING



Training needs to show how the supply chain can demonstrate its value against the metrics and models. Training needs to establish how you assess and get the most from offerings and engagements.

# Cost based decision making

## WHAT WE OBSERVED

Entry cost based procurement is the biggest barrier to value based procurement and a lack of alignment across organisations e.g. commercial team / technical team mixed messages, with pre-engagement versus what is actually in the tender. There is a disconnect between work winning and delivery - organisations promise everything at bid stage in the hope that the client doesn't follow through and demand that it is delivered. Setting the tone - focus on specialists at VE stage - difficult to put forward solutions that deliver better outcomes.

“ If you don't receive value for innovation and people can't measure quality in relation to their requirements, there are only two outcomes. People stop innovating and lowest cost with no definition of quality becomes the measure.”

John Handscomb,  
Partner, Akerlof

Why the industry focusses on 'days' and 'pounds'...

The way people assess value in a tender, and then contract, is very different to how people assess value and quality in their personal lives.

At work, what we deliver is judged by entities that value themselves through accountancy; elements that are easy to quantify and have a simple metric, such as cost and programme. Equally, the world's economy is judged on financial growth and the speed of it (days and pounds).

Creating balanced delivery models that use established metrics to develop a balanced scorecard - giving definition within a tender and then contract to more than just cost and programme - is generally not industry practice, particularly once you get past the big government departments (and even they struggle to understand and administer it).

Industry media focusses on projects being late or over budget, never the fact that they were late but they reduced carbon emissions by 80% and created 1,000 jobs. Social value achievements are only ever reported if a job is completed on time and budget (not fast or slow or cheap or expensive but just on forecast).

## WHAT WE ALREADY KNOW

George Akerlof's seminal paper 'The Market for Lemons: Quality Uncertainty and the Market Mechanism' has many lessons for the construction industry.

Akerlof's paper uses the market for used cars as an example of the problem of quality uncertainty. A used car is one in which ownership is transferred from one person to another, after a period of use by its first owner and its inevitable wear and tear. There are good used cars ('peaches') and defective used cars ('lemons'), normally as a consequence of several not-always-traceable variables, such as the owner's driving style, quality and frequency of maintenance, and accident history. Because many important mechanical parts and other elements are hidden from view and not easily accessible for inspection, the buyer of a car does not know beforehand whether it is a peach or a lemon. So the buyer's best guess for a given car is that the car is of average quality; accordingly, the buyer will be willing to pay the price of a car of known average quality. This means that the owner of a carefully maintained, never-abused, good used car will be unable to get a high enough price to make selling that car worthwhile.

Therefore, owners of good cars will not place their cars on the used car market. The withdrawal of good cars reduces the average quality of cars on the market, causing buyers to revise downward their expectations for any given car. This, in turn, motivates the owners of moderately good cars not to sell, and so on. The result is that a market in which there is asymmetric information with respect to quality shows characteristics similar to those described by Gresham's Law: the bad drives out the good.

The motor industry has dealt with this in ways we take for granted. Registration, service log book, MOT, trusted mileage alongside guarantees and warranties allow people to differentiate between peaches and lemons. On any forecourt in the country you will see the same make and model offered at different prices and we don't think anything of it and quite often make the rational judgment to pay a little more for the car we want.


Yet construction that has many accreditation's from safety to sustainability struggles to consistently use this information during the buying and selling process. Partly because many of the accreditation schemes aren't trusted but also because the buyer struggles to determine which accreditation or solutions are important and so with an inability to define what brings value then relies on the basic principle of lowest price and quickest time. This then leads to the seller having to promise peaches knowing that the market price is for that of a lemon. If nothing else this creates a disingenuous market and suppliers (contractors) that sees no value in investment in creating peaches as it will always be valued as a lemon.

The work of the value tool kit is to both help organisations define value and communicate this to the supply chain but also enable the supply chain to offer value based solutions that better meets the buyers needs knowing that the buyer will value the quality of the offering and not just buy on lowest price. The Value Toolkit will also create a framework for long term gathering of data to enable far greater differentiation between peaches and lemons.

## WHAT THE STATISTICAL ANALYSIS TELLS US



## RECOMMENDATIONS

<p><b>TOOLKIT</b> </p> <p>The work of the Value Toolkit is to give greater definition to what society values and create methods and mechanisms for wider value to be understood and measured. The Toolkit will also need to be accepted emotionally by society. Its metrics will need to carry equal weight in people's minds as a day or a pound, otherwise, it will always be secondary. Align the toolkit with the Green Book and Construction Playbook, whilst gaining government support and adoption.</p>	<p><b>ENGAGEMENT</b> </p> <p>Highlight that when the toolkit is adopted the biggest opportunity will be for those with the ability to innovate to meet better defined need.</p>	<p><b>TRAINING</b> </p> <p>Provide training on the tools that will define value. In the longer term, consider accreditation and linkages to professional bodies and their syllabus and curriculum to drive out cost-based decision making.</p>
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## BLOCKER / ENABLER

# Plain language

Respondents with high procurement knowledge believe a lack of clarity and poor communication are blockers to introducing successful value led procurement.

*“ We are limited in what we can build by what we are able to communicate. Many of the problems we now face are problems of language rather than technology.”*

*Professor Achim Menges,  
Founding Director of Institute for Computational Design and Construction, University of Stuttgart*

Language influences our perception, attention and thought.

Consider this in the context of our industry...

The ever increasing quantity of neologisms - new words and phrases that sit outside mainstream language. The number of synonyms, acronyms and descriptions around terms such as Modern Methods of Construction (MMC) and carbon reducing solutions introduces uncertainty that serve only to distract.

The Building Societies Association (BSA) has historically signalled a need for the construction industry to collaborate to standardise terminology; making it far easier for other sectors, including lenders to quickly understand and underwrite the risk.

<p><b>1</b></p> <p><b>GROUNDING IN IDENTITY CONSTRUCTION</b></p> <p>Grounded in identity construction People make sense of changes based on experience</p>	<p><b>2</b></p> <p><b>RETROSPECTIVE</b></p> <p>People need to reflect to fully understand something</p>	<p><b>3</b></p> <p><b>ENACTIVE OF SENSIBLE</b></p> <p>Sense is made by considering external factors</p>	<p><b>4</b></p> <p><b>SOCIAL</b></p> <p>We understand things better when speaking to others</p>	<p><b>5</b></p> <p><b>CONTINUOUS</b></p> <p>Sensemaking always occurs and never stops</p>	<p><b>6</b></p> <p><b>FOCUSED ON AND BY EXTRACTED CUES</b></p> <p>'Societal cues' increase our understanding</p>	<p><b>7</b></p> <p><b>DRIVEN BY PLAUSIBILITY</b></p> <p>If something seems plausible, we generally accept it as truth</p>
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## WHAT WE OBSERVED

Throughout the workshops we witnessed a deep seated frustration about the ever changing language within the industry and how every new concept seeks to re define language or create new acronyms. Resulting in a shallow knowledge base and general confusion around meaning.

## WHAT WE ALREADY KNOW

Research has shown that when individuals encounter new information or a change to existing information they go through a process of 'sensemaking' - this is how they 'make sense of the new information' and also 'sensegiving' - when individuals have to communicate message onwards to others they try and do so in a way that will make sense (Ericson, 2001; Gioia and Chittipeddi, 1991). Sensemaking has seven stages, that may occur simultaneously, one after the other, in any order, or some stages can even be missed out altogether (Weick, 1995). These are shown in the graphic below.

Individuals all prefer different ways of making sense of information. For example, some may prefer to talk about information informally with colleagues, some may prefer handbooks of information to peruse alone in their own time, whilst some may prefer to be in a formal learning environment. Each person has their own learning and communication preference.

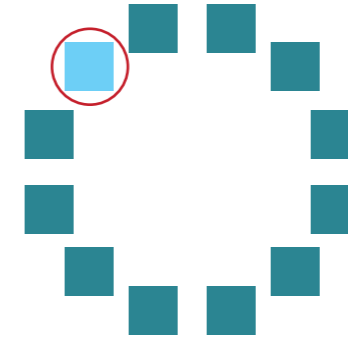
In 2011, BBC Horizon screened an episode entitled 'Do you See What I See', testing the theory that the structure of a language shapes or limits the ways in which a speaker forms conceptions of the world, by studying members of the Himba Tribe of northern Namibia.

Western language has eleven categories of colour, however Himbas only have five, with blue and green grouped together and yet more terms describing different shades of green.

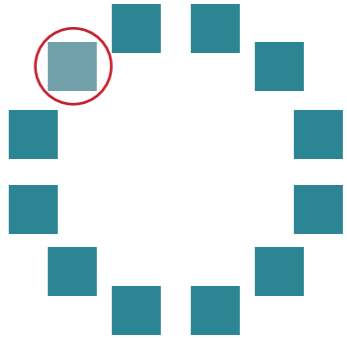
The programme suggested that the structure of their language made it harder for the Himbas to differentiate between blue and green and yet an increased ability to distinguish between small changes in green than we may find difficult to recognise (see image right).

Similar studies of other languages (such as Dani in New Guinea) also support a hypothesis of 'linguistic relativity' - that peoples perceptions are relative to their spoken language.

## DISTINGUISHABLE BY ENGLISH SPEAKERS



## DISTINGUISHABLE BY HIMBA TRIBE



## RECOMMENDATIONS

### TOOLKIT



Communications need to be clear, with simple, straight-forward terms all stakeholders can understand, with terminology taken from traditional terms where possible. This is so that, most importantly, people can relay the information they receive in a way that ensures the key points remain correct.

Tailored to the intended audience based on their background, knowledge and organisational environment - with a multitude of benefits discussed.

### ENGAGEMENT



All communications should be made available in a variety of methods to meet all communication preferences, and tailored to intended audiences.

### TRAINING

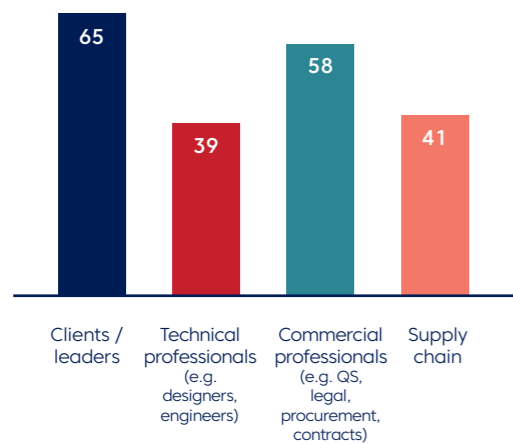


Training should start by establishing common language, terms and establishing its context within the toolkit and in comparison to wider industry language.

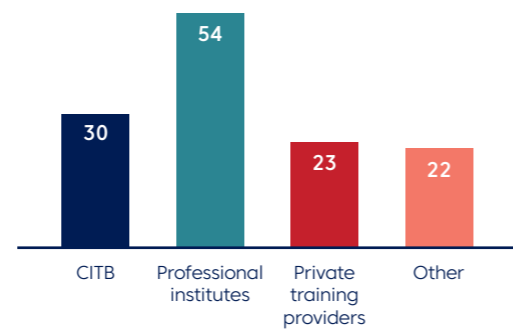


# Training

WHICH AUDIENCES DO YOU THINK WOULD MOST BENEFIT FROM NEW TRAINING IN VALUE-BASED APPROACHES?



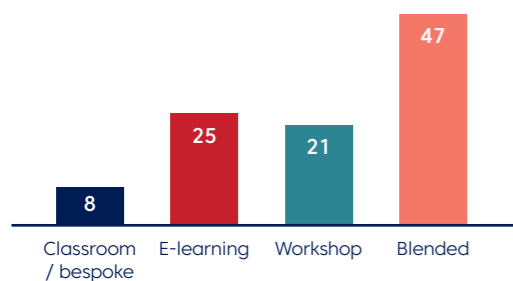
WHO WOULD YOU LIKE TO SEE ADMINISTERING THE DELIVERY OF NEW TRAINING ON VALUE-BASED APPROACHES?



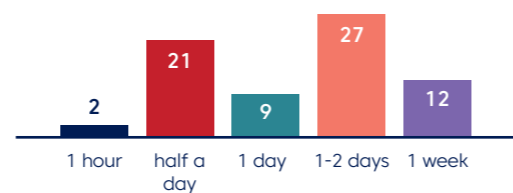
HOW FAR DOES TRAINING NEED TO GO AND HOW FAR WOULD YOU GO?



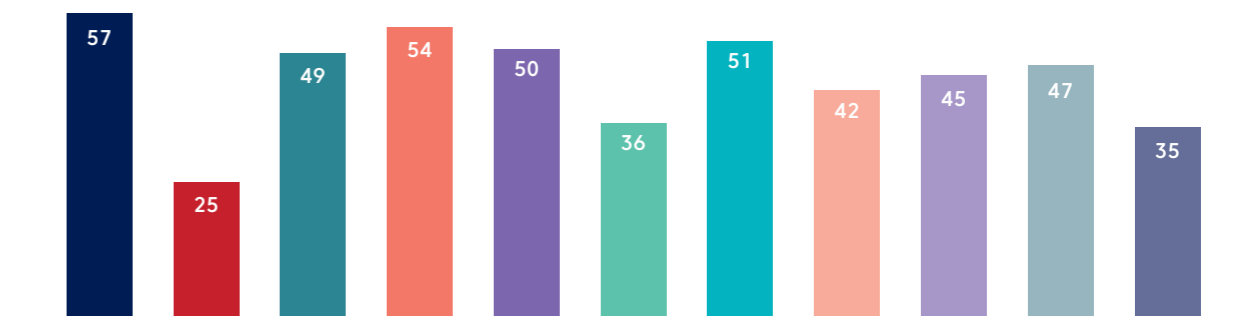
WHAT FORMAT FOR NEW TRAINING WOULD BEST WORK FOR YOU?



HOW MUCH TIME WOULD YOU COMMIT TO TRAINING?



WHICH TOPICS DO YOU THINK NEED TO BE INCLUDED IN NEW TRAINING ON VALUE-BASED APPROACHES?



- Definitions and framework for value (capitals, metrics, benchmarks)
- Deep analysis into each capital and metric
- Using the Value Toolkit software
- Outcome-based thinking and strategy
- Cultural change and embedding concepts
- Links with quality, assurance, collaboration, innovation in construction
- Examples / case studies of value profiles
- How to determine a value profile and win bids
- How to use value in contracts
- How to 'do' value across the project lifecycle
- How to 'do' value in asset management

# Perception of increased risk

## WHAT WE OBSERVED

Whilst two thirds of attendees didn't see an increased risk profile, one third either did or were unsure. However, when we compare this to people's procurement knowledge the higher the knowledge the less likely they are to perceive the additional risk. Fears within the supply chain often related to anecdotal knowledge rather than evidence based fact.

*Procuring for value could make suppliers less competitive meaning a potential loss of work.*

*Is there a risk for suppliers - they do the job, get paid, finish. Who is paying for the additional supplier time. Asking for innovation and input to design, who carries the design risk? Advising clients on procuring for value - will there be an increase in PI?*

*Some suppliers see there being a risk with this approach unless mechanisms are developed / deployed to manage the risk effectively.*

*At the moment there are a lot of factors which are causing uncertainty, meaning diligent procurement is more important than ever.*

*The guidance and training of the toolkit needs to build on the experience and knowledge of existing procurement professionals ensuring it is fully engaged and supported by the both CIPS and RICS whilst seeking to raise the skills and knowledge of others involved in the process.*

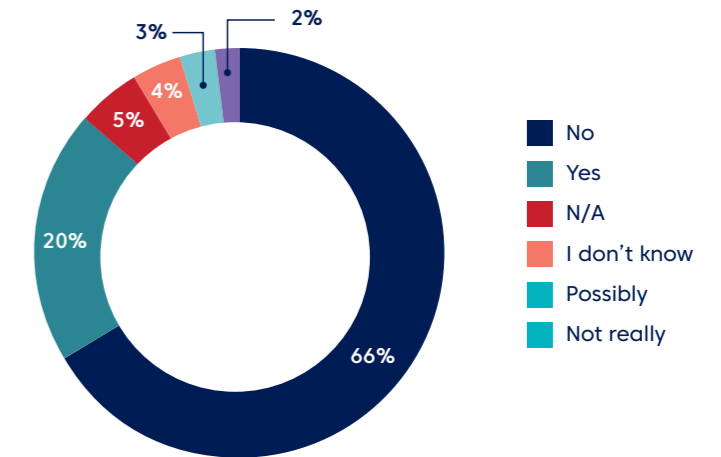
## WHAT WE ALREADY KNOW

All major construction reports including (but not limited to) Rethinking Construction, Constructing the Team, Never Waste a Good Crisis and Modernise or Die have many benefits, and guidance on numerous topics and concepts to improve the industry. Despite the somewhat significant time period between them all, they all share a frustration with the approach to managing risk that is persistent in the construction industry – that is, it is often passed down the supply chain. This is therefore a longstanding issue that is ingrained in industry professionals – that risk is something to be feared and transferred where possible.

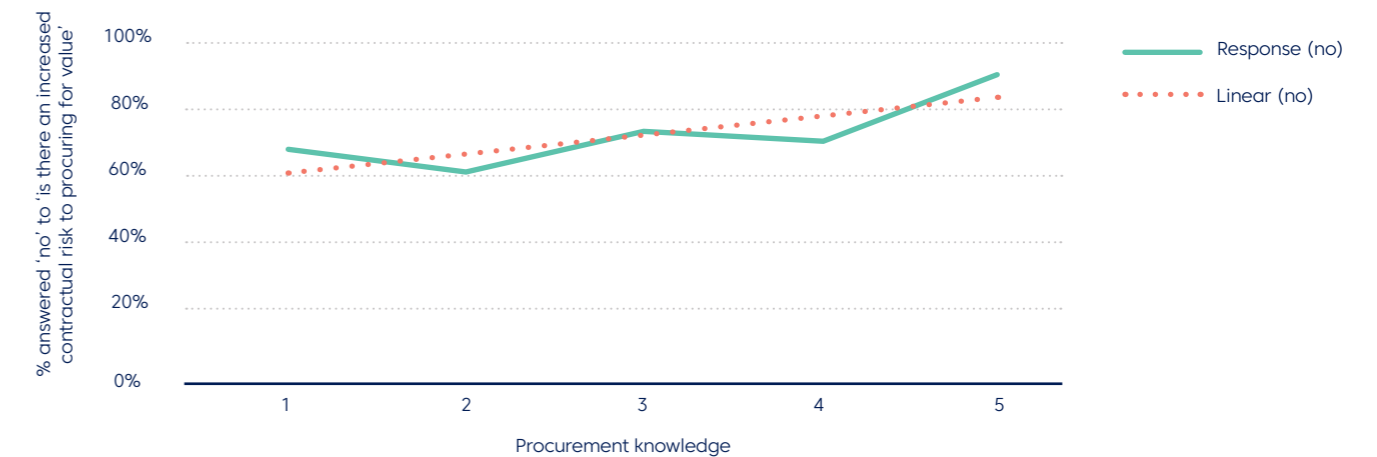
To change the perceptions that industry professionals have towards risk, one study suggests that increased specific risk training and comprehensive support from management is required (Hosseini et al., 2016).

## WHAT THE STATISTICAL ANALYSIS TELLS US

Do you think there is an increased contractual risk to your business in procuring for value?



## PERCEIVED RISK AGAINST PROCUREMENT KNOWLEDGE



## RECOMMENDATIONS

### TOOLKIT



Gain alignment and consensus with already established professionals and representative bodies. Sign posting how it aligns with existing practices, regulation and widely understood processes, whilst ensuring alignment with future industry standards such as the Construction Playbook.

### ENGAGEMENT



The path of least resistance is to promote the Toolkit to existing practitioners of procurement who have an understanding and willingness to engage with value-based processes and procurements.

### TRAINING



Training needs to address all levels of knowledge and experience. Training in the first rollout would be best served for those who have a strong fundamental knowledge of the principles.

# Insurance

## WHAT WE OBSERVED

People didn't see insurance as a blocker to the Value Toolkit but recognised that a more consistent and considered way of working may improve relationships between the construction and insurance industry, as well as lead to better dialogue and the implementation and development of new products or products, such as Insurance Backed Alliancing (IPI). The insurance industry is exasperated by the construction industry and many have turned their backs on construction.

## WHAT WE ALREADY KNOW

It's getting harder to secure cover in the construction sector (Willis Insurance August 2019).

In the midst of various large-scale catastrophes over the past few years in the UK construction industry - including the Grenfell tragedy, Carillion's financial collapse and a range of damaging natural disasters at the hands of climate change - a significant increase in professional indemnity (PI) claims has generated a hardened PI insurance market within the sector.

What's more, insurance experts predict that the construction industry's PI market will continue to deteriorate in the coming months, making it increasingly difficult for construction firms to secure adequate PI cover. As a result, it's crucial for construction employers to take appropriate actions to limit the impact of the hardened PI market on their cover options.

## TOP CAUSES OF THE HARDENED PI MARKET

A hard market is characterised by high demand and lower supply - resulting in higher premiums, more stringent criteria for securing cover and additional restrictions on your policy. There are several factors that led to the industry's hardened PI market:

- **Claims chaos** - more than anything, the overall increase in PI claims throughout the UK construction industry has been a major cause of market deterioration. Especially as construction projects continue to become more large-scale and complex due to the implementation of evolving technologies (e.g. renewable energy features), they are consequently carrying additional risks and expenses. In response, any project-related disputes or losses typically result in costly claim settlements for insurers.
- **Broken supply chains** - following the collapse of Carillion, the resulting supply chain fallout created financial issues for firms across the construction sector. In addition, the destruction of a major company in the industry highlighted the harsh reality that no organisation is immune to the impact of a partner insolvency. Put simply, insurers have become increasingly wary of providing cover to construction firms in response to evidence of lacking supply chain resilience, heightened vicarious liability exposures and sector-wide economic downturn.
- **Contracting concerns** - due to the competitive nature of the construction industry, securing a contractual agreement as quickly as possible with a client has become a vital aspect of obtaining work. However, doing so often leads to a hastily generated contract that aims to please the employer rather than limit the liability of the contractor. Consequently, construction firms have become more likely to make claims resulting from contract disagreements, leaving insurers to pay the hefty price tag.
- **Fire safety fears** - lastly, the Grenfell tragedy has created increased awareness around fire safety and cladding concerns within the industry. Since the government updated cladding regulations earlier this year, insurers are understandably more fearful of the prospect of costly cladding-related claims.

## IMPLICATIONS OF A HARDENED PI MARKET

At a glance, the influx of construction industry PI claims from sector-wide catastrophes has caused a number of insurers to stop selling PI cover altogether. Further, the insurers that have remained in the market have implemented a variety of measures to limit their exposures and reduce their risk of continuously paying out costly claim settlements. These measures include:

- **Extra information** - prior to renewal time, insurers have begun requiring more detailed information from construction firms regarding their business operations, supply chain processes and current risk management methods. Doing so can significantly lengthen the amount of time it takes to generate proper terms and determine an updated policy.
- **Higher premiums** - in order to compensate lost profits from a growing number of claims, many insurers have increased their premium rates - forcing construction firms to pay additional expenses for adequate cover.
- **Cover restrictions** - above all, insurers have implemented serious restrictions upon policy renewals, such as limiting cover to a single aggregate amount, imposing a higher self-insured excess, excluding consequential or economic losses, and eliminating various policy extensions (e.g. cyber-liability cover).

## WHAT INSURERS WANT TO SEE FROM CONSTRUCTION AND WHAT THE TOOLKIT SHOULD ADVOCATE

Despite the harsh implications of the hardening PI market, a change in behaviour from the industry will bring more equitable premiums and greater value to all involved.

- **Invest in risk management** - now more than ever, it's vital organisations invest in robust risk management processes to combat industry concerns and provides documentation of these practices to insurers upon renewal time.

Specifically, risk management documentation should highlight:

- Robust internal practices and standards to mitigate on-site
  - Effective supply chain management (e.g. positive relationships with suppliers, due diligence of supply chain risks and well-distributed liability agreements)
  - Risks proper cashflow processes and healthy profit margins
- **Secure quality contracts** - especially in the current PI market, it's not worth it to rush through a contract agreement. Be sure to communicate effectively with clients to establish seamless, detailed contracts that clearly outline the responsibilities of both parties.

## RECOMMENDATIONS

### TOOLKIT



Advocate value-based decision making that makes the construction process more predictable and more insurable. Provide a tool that allows the parties of a contract to prove they are managing risk and quality in a way that builds confidence within the insurance industry.

### ENGAGEMENT



Engage with the insurance industry to develop the contracting tools, as well as build confidence so that insurers become advocates of its benefits, with the longer term aim of reduced premiums for those that use it.

### TRAINING



Within the risk management training ensure it covers the management of insurable solutions, as well as what is required to delivered high quality assets that are recognised by the insurance industry as lower risk.

# Contracting

## WHAT WE OBSERVED

Since contracts establish the ‘rules of the game’ for the supplier relationship, they are a critical factor in generating value, but it is getting that contract right. The tools are there to procure for value and to work more openly and collaboratively. However, it doesn’t matter what the contract says if we don’t apply it.

The main consensus is that the majority of contracts available have the capability for collaborative working, however a contract is only as good as the knowledge of those who are using the contract. When contracts start to fail, some argue that it is because of a lack of knowledge around how to use them. The further down the supply chain we go, the understanding tends to diminish along with it, as well as an increase in risk that some don’t understand they have taken on. If we turn this the other way, often clients do not understand the contracts and, when it comes to managing a project, if neither party understands what is expected of them in delivery, whether it is the client making available updated designs or contractors highlighting any foreseen issues, then how will the project succeed?

In carrying out initial reviews and interviews, it was also the opinion of some that the industry has a vested interest in contracts going wrong and that litigators make their money picking over the pieces left. That being said, it is also arguable by some that we end up in failing situations because some contracts are drafted in a very adversarial way, to the point where it already places those involved in a project in conflict with each other at the offset.

Whilst many are open to give their opinion on what they feel are contracts that work and those that don’t, it is a fact across the board that the amendment of contracts, by the means of additional clauses, causes many problems for all involved. It is addressing the feeling of those that argue the necessity of these clauses that needs to change. Whilst many accept there are reasonable additional clauses that need to be included, what is being included versus what is reasonable is so far outstretched that it actually starts to upset the integrity of the contract.

A participant agreed that the addition of clauses, in some cases, can be necessary, however he tiered them into three categories:



The respondent is of the opinion that the addition of Z clauses is dependent on who gets there first and what their objective is. Experts have claimed that generally we amend contracts for two reasons, one to transfer the project risk down the supply chain and two for specialist project risk, i.e. airports and Local Authorities which are distinctive projects that carry certain risk in their own right. This in some ways aligns with what the participant has mentioned above but also reiterates a point other responded stated, when she said that not all projects are the same and some amendments might be necessary as no one document can bring all things to all parties. There are good intentions when it comes to working collaboratively using alliance contracts and options available in the standard forms for preconstruction services, however, again a lack of knowledge, the sharing of risk and a change away from the norm could be some of the reasons for a lack of uptake in the contracts.

It was already common knowledge prior to carrying out these workshops and one-to-one interviews that many Tier 2 suppliers and SME’s do not fully understand the contract they have signed or what is being imposed upon them. This is quite worrying considering SME’s make up around 95% of the

industry. One of the participants provided discernment, as he emphasised the disproportionate relationship we see as an industry between a client and a supplier and the money spent at a project offset with lawyers drafting contracts in a way that make them risk adverse for clients. Whilst not all negative, we have seen some suppliers push back on these terms that are being imposed upon them with some often being accepted, along with added encouragement from the client because they appear competent.

Quite often contracts and terms are decided at procurement stage with no room for negotiation and quite often the blame falls on the consultants or the legal professionals drafting the contract. We asked expert participants for their opinions on what should be included within contracts to avoid disputes. Other than reiterating the issue across many within the industry of a severe lack of contract knowledge, they were of the opinion that there are mechanisms which you can enforce to try and avoid disputes. The two examples given were:

- **Mandated early resolution** - we aren’t allowed to stop people adjudicating in construction contracts, but we could try to move away from it.
- **The new Conflict Avoidance Pledge** - The Conflict Avoidance Pledge is driving behaviour change in the land, property and construction industry by encouraging all organisations to consider their working practices and the way they deal with disputes. The pledge is voluntary and self-assessed and can be signed by any organisation or firm regardless of size or location.

Additionally, one of the respondents gave two examples of a client new to the industry carrying out two projects, one of which went well and one that was poor, and the differing mechanisms adopted with the two. The successful project had a charter that clearly detailed the approach, the contract included relationship buildings days, as well as all involved in the project undertaking contract and dispute resolution training, with the training being carried out at regular intervals of the project. She also confirmed that many housing associations are now adopting the use of charters within their projects due to its success. However, there are those sceptics that believe including charters and buildings days into a project is a little too “huggy” and believe that structure is the way forward.

As a final paragraph in this observation section we would like to raise the issue that many in the industry are sceptical of the traditional Design and Build (D&B) model and its conventional use. It was discussed that when using D&B shouldn’t we be encouraging it’s use for the whole life of a project, through capital expenditure and into operational expenditure. Many times we have seen builders unwilling to take on the running costs of a project that they have built using a D&B model because of how they have been constructed, generally with a lowest cost mentality with no consideration taken on the whole life and running costs of a project.

## RECOMMENDATIONS

<p><b>TOOLKIT</b> </p> <p>Delivery models should look to work with all existing forms of contract and show clear steps for integration and delivery through guidance, existing clauses or amendments. Clear guidance should be written for each form of contract for its amendment and adoption. With a clear message of what best practice and behaviour looks like.</p>	<p><b>ENGAGEMENT</b> </p> <p>Engagement should promote the benefits of good contracting and how it can deliver value.</p>	<p><b>TRAINING</b> </p> <p>Training needs to take the guidance through practical steps for success and establish a knowledge bases from client to supplier and everyone in between.</p>
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#ValueToolkit

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