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Module code: ACBA6000
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The client has tended to use traditional procurement but is not satisfied with productivity and the final product. They want information on incentivisation schemes.



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Incentives, which are commonplace in construction projects and tend to be incorporated at contract stage, are related to successful achievement of client goals. Incentivisation must include Objective (client desired outcome i.e. faster project delivery), Measure (units i.e. days/weeks) and Target (level of performance and milestone to which contractor is rewarded).

'At its most basic level, incentivisation is incorporating incentives into an arrangement in order to motivate the parties to it.'
(Pinsent Masons, 2019)

Many incentives are now customary elements of contracts, but newer schemes are incorporating proposed changes to business practices which reflect a more 'responsible' approach.

Contractual Incentives:

As well as contracts for performance (i.e. aligning objectives of both parties through use of performance measures and linking these to financial reward), incentives can be used in other ways to encourage satisfaction of contraction obligations.

Completion dates – bonuses if completed early/penalties if overrunning.

Final price – securing rates for labour/materials and applying these to final quantity of works OR target-cost method i.e. pain share/gain share to distribute risk between buyer and seller.

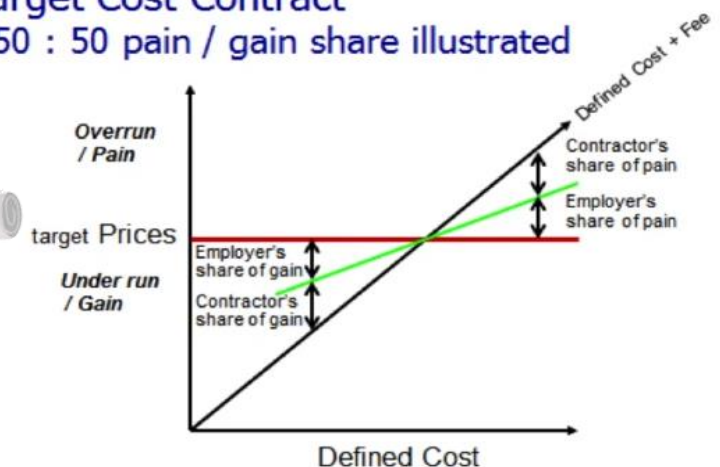
Extra Contractual Incentives:

Contract bundling/partnering arrangements – relies on TRUST as an essential part of the relationship with the intention of it leading to securing additional work and developing long term contractual agreements.

Behaviour change - promotes and encourages more sustainable, safe and responsible methods of design and construction.



Target Cost Contract - 50 : 50 pain / gain share illustrated



The **advantages** of incentives include increased and more accountable communication through more frequent monitoring and reporting; enhanced innovation through use of more creative methods to gain efficiencies; greater sense of ownership through commitment to performance improvements; and benefits to society/environment through behaviour change of those within the construction industry operating more 'responsibly'



Disadvantages of incentives include increased administration costs through additional pressure on communication/reporting; pressure to standardise and/or bespoke incentives so suppliers (and supply chain) are not disadvantaged; and potential for distorted priority working where contractors only focus on elements where bonus payments/incentives are offered.

'Perhaps the most obvious negative incentive in a construction context is liquidated and ascertained damages (LADs) for late completion or failing to achieve some other contractual requirement.'
(Pinsent Masons, 2019)



'Clearly the base measure and targets must be realistic and achievable: For incentivisation to work well, then;

- **average performance by the contractor means it earns average profit**
- **good performance means it earns good profits**
- **excellent performance means it earns excellent profits.'**

(Broome, 2010)

The reliability of each scheme to motivate performance or behaviour change should be evaluated prior to incentivising projects – and consideration should also be given to supply chains to determine how these stated incentives will be passed on. Individuals and businesses will have different agendas/mission statements which may dictate their response to incentive clauses and how this drives their commitment to performance management.

References

Pinsent Masons, 2019. *Using incentives to drive contractor behaviour.* [Online]. Available at: <https://www.pinsentmasons.com/out-law/analysis/using-incentives-to-drive-contractor-behaviour> [Accessed 9th April 2020].
Broome, J., 2010. Incentivisation under NEC3. In: *Procurement routes for partnering: a practical guide.* s.l.:Thomas Telford.