



BA (Hons) Business Management

Project Management

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**The Four Methods of Contracting in Project Management and Their
Relative Advantages and Disadvantages**

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1. Introduction

1.1 Definition of Project Management

Project management (PM) is characterized as the utilization of knowledge, skills, tools, and techniques in project activities to fulfill project requirements and objectives (Project Management Institute, 2021).

It necessitates the balancing of scope, time, cost, quality, and stakeholder expectations.

As noted by Kerzner (2017), project management embodies both an art and a science, merging structured methodologies with human judgment and leadership.

Contemporary projects are increasingly intricate, often necessitating collaboration across various organizations and disciplines.

This intricacy renders contracting a vital element for successful project execution, as it facilitates the systematic distribution of responsibilities and risks among participants (Lock, 2020).

1.2 The Role and Importance of Contracting in Project Management

Contracting is pivotal in the governance of projects. It creates a formal connection between clients and contractors, outlines performance expectations, and distributes risk. As Winch (2010) points out, contracting transcends mere legal formalities; it serves as a crucial tool for managing uncertainty and aligning incentives within projects.

Organizations opt to outsource for a variety of reasons. Firstly, it grants access to external expertise and technology that may not be available internally (Turner, 2014). Secondly, it offers flexibility in managing workloads and resources. Thirdly, it enables risk transfer, especially concerning cost and schedule risks. Lastly, contracting allows organizations to concentrate on their core functions while external specialists handle project components (Walker, 2015).

Nevertheless, the choice of contracting strategy is a critical one. Various contracting methods influence how risk, control, and accountability are distributed. Choosing the right method can significantly impact the success or failure of a project (Morris and Pinto, 2011).

1.3 Aim and Structure of the Essay

This essay seeks to elucidate and critically assess four primary contracting methods in project management: Turnkey, Multicontract, Do-It-Yourself (DIY), and Multicontract + DIY. Each segment delineates the principles, benefits, and drawbacks of these methods, bolstered by relevant examples. The essay culminates in a comparative analysis, emphasizing the role of effective contracting in facilitating project success.

2. Methods of Contracting in Project Management

2.1 Turnkey Contracting

A turnkey contract refers to an agreement in which a contractor is responsible for the design, procurement, construction, and delivery of a fully operational facility or project to the owner, at a predetermined fixed price (lump-sum) and by a specified deadline—ensuring that the owner can commence operations immediately upon receipt (Hosie, 2007).

In a Turnkey contract, the client hires a sole contractor to design, procure, construct, and deliver a fully operational project. This method is frequently referred to as Engineering, Procurement, and Construction (EPC) contracting. As noted by Kerzner (2017), the contractor offers a comprehensive solution, allowing the client to "turn the key" and commence operations immediately after completion.

This method is commonly employed in large-scale projects such as refineries, power plants, and infrastructure developments where technical integration and performance guarantees are essential (Lock, 2020).

Advantages

Single point of responsibility: The contractor takes on complete responsibility for both design and construction, thereby minimizing management complexity for the client (Walker, 2015).

Reduced client management effort: The client's involvement is primarily supervisory, which conserves internal resources (Turner, 2014).

Predictable costs and timelines: Given that most turnkey contracts are lump-sum agreements, there is a high level of certainty regarding finances and schedules (Kerzner, 2017).

Integrated quality assurance: With a single entity managing both design and construction, project standards are maintained consistently (Lock, 2020).

Disadvantages

Limited flexibility: Clients possess little influence after the design and execution phases begin, rendering late modifications expensive (Winch, 2010).

High risk premium: Contractors factor in contingencies for the risks they undertake, leading to increased costs (Turner, 2014).

Dependency on contractor performance: The success of the project is significantly reliant on the contractor's skills (Morris and Pinto, 2011).

Potential misalignment of goals: The contractor might prioritize profit at the expense of long-term operational effectiveness (Walker, 2015).

Appropriate Projects

Turnkey contracting is ideal for substantial, intricate projects that demand significant integration and performance assurances, including power stations or manufacturing facilities (Kerzner, 2017).

2.2 Multicontract Approach

The multi-contract approach, also referred to as multi-prime contracting, is a procurement strategy whereby the project owner engages in separate contracts with various contractors—each tasked with a specific segment of the project—rather than depending on a single general or turnkey contractor. Consequently, the owner (or a construction manager acting on their behalf) takes on the responsibility of coordinating and integrating the efforts of all involved contractors (IJERT, 2022). As stated by the International Journal of Engineering Research & Technology (IJERT), the multi-contract method "entails the owner directly contracting with multiple specialty contractors who are accountable for different aspects of the project," necessitating meticulous coordination to prevent overlaps or gaps in responsibilities (IJERT, 2022). This strategy is generally employed for large, intricate projects that require specialized expertise across various work packages (IJERT, 2021).

The Multicontract approach segments a project into multiple work packages—such as civil engineering, electrical systems, and mechanical installations—each assigned to distinct specialist contractors. The client or a project management consultant (PMC) oversees all contractors (Turner, 2014).

This approach is favored in sectors like construction and public infrastructure, where various technical disciplines are required to work together.

Advantages

Specialisation: Each contractor concentrates on its primary area of expertise, leading to enhanced technical quality (Walker, 2015).

Flexibility and competition: Clients have the option to choose the most appropriate contractor for each package, which often results in cost savings (Lock, 2020).

Greater control: The client maintains direct supervision over design and execution, permitting modifications throughout the project (Morris and Pinto, 2011).

Risk allocation: Risks are distributed among contractors based on their specific expertise (Kerzner, 2017).

Improved transparency: The presence of multiple tenders encourages competitive pricing and accountability (Winch, 2010).

Disadvantages

Complex coordination: The management of several contractors heightens the challenges associated with communication and scheduling (Turner, 2014).

Higher administrative costs: The existence of multiple contracts necessitates increased efforts in procurement and monitoring (Walker, 2015).

Interface risk: Inadequate coordination among packages may result in delays or disputes (Lock, 2020).

Demand for project management expertise: Clients are required to possess or engage skilled project management consultants to oversee integration (Morris and Pinto, 2011).

Suitable Projects

This approach is particularly beneficial for clients who have robust project management capabilities, including universities, government agencies, or industrial developers overseeing extensive construction programs (Walker, 2015).

2.3 Do-It-Yourself (DIY) Contracting

DIY contracting is a method of project delivery where the property owner, or potential occupant, assumes the responsibility of organizing, designing, contracting, and potentially executing the construction work independently, instead of entrusting the entire design and construction process to a general contractor or turnkey provider. For instance, in the housing industry, it is characterized as a scenario where the 'self-builder ... initiates the project, acquires and registers the land, obtains designs and building materials, and secures development and building permits. The self-builder also coordinates labor with or without supervision.' (Bangdome-Dery et al., 2022) Under the DIY or self-perform model, the client primarily carries out the project using its own personnel, relying on internal resources for design, procurement, and construction. External contractors may only be engaged for highly specialized or temporary tasks (Lock, 2020).

This method is commonly seen in smaller projects or organizations that possess robust in-house technical departments.

Advantages

Complete control: The client maintains authority over design and implementation choices (Kerzner, 2017).

Financial efficiency: Removing contractor profit margins can lower the overall project expenses (Walker, 2015).

Organizational knowledge: Internal teams gain essential expertise and skills for upcoming projects (Turner, 2014).

Adaptability: The client has the ability to modify design or scope without the need for contract renegotiation (Morris and Pinto, 2011).

Cultural coherence: The project is in harmony with the organization's values and strategic objectives (Winch, 2010).

Disadvantages

Resource intensity: This approach necessitates considerable internal manpower, equipment, and expertise (Lock, 2020).

Reduced efficiency: Internal teams may not achieve the same level of productivity as specialized contractors (Walker, 2015).

Full risk exposure: The client assumes all risks related to delays, costs, and quality (Kerzner, 2017).

Potential diversion from core activities: Overseeing projects internally can divert attention from primary business functions (Turner, 2014).

Limited scalability: Do-it-yourself methods are challenging to implement for large or intricate projects (Winch, 2010).

Suitable Projects

DIY contracting is most appropriate for small to medium internal developments, including maintenance tasks, IT system enhancements, or minor infrastructure upgrades within organizations (Walker, 2015).

2.4 Multicontract + DIY Approach

The Multi-Contract + Do-It-Yourself (DIY) method represents a hybrid procurement strategy where the project owner takes an active role in managing and engaging in the construction process (DIY/self-build), while simultaneously establishing multiple contracts with distinct prime or specialist contractors (multi-contract system). In this setup, the owner acts as the project manager or construction coordinator, overseeing design, procurement, and supervision tasks that are usually assigned to a general contractor (Gingell & Shahab, 2021; Bangdome-Dery et al., 2022).

The Multicontract + DIY model integrates the two preceding methods. The client oversees specific project elements internally—such as design coordination, procurement, or supervision—while outsourcing specialized or large-scale tasks (Morris and Pinto, 2011). This hybrid strategy enables organizations to retain strategic control while utilizing external expertise.

Advantages

Balanced control and efficiency: The client maintains oversight of strategic functions while delegating intricate activities (Kerzner, 2017).

Cost effectiveness: Internally executed tasks lower the total project expenses (Turner, 2014).

Better risk management: Technical and financial risks can be effectively distributed between the client and contractors (Lock, 2020).

Enhanced knowledge transfer: Internal personnel acquire experience by collaborating with contractors (Walker, 2015).

Flexibility: The client has the ability to modify internal or external scopes as project needs change (Winch, 2010).

Disadvantages

Management complexity: The coordination of both internal and external resources necessitates robust leadership and effective communication (Morris and Pinto, 2011).

Ambiguity of roles: Vague boundaries may lead to overlaps or gaps in responsibilities (Kerzner, 2017).

Dependence on internal capability: A weak internal team can adversely impact project integration (Turner, 2014).

Resource strain: It is essential to have qualified project managers and engineers to effectively oversee contractors (Lock, 2020).

Potential for conflict: Misaligned expectations between internal and external teams can negatively influence morale and performance (Walker, 2015).

Suitable Projects

The hybrid approach is appropriate for institutional and public sector projects, such as hospital expansions, university campuses, or municipal infrastructure, where the client desires to retain control but lacks the capacity for complete self-performance (Morris and Pinto, 2011).

3. Comparative Discussion and Contextual Application

The selection of a contracting method is influenced by the type of project, the risk profile, and the capabilities of the client. Each method entails a compromise among control, risk, and cost predictability (Kerzner, 2017).

Contracting Method	Client Control	Risk to Client	Coordination Complexity	Cost Predictability	Best Suited For
Turnkey	Low	Low	Low	High	Complex, high-risk projects (e.g. power plants)
Multicontract Moderate	High	Moderate	High	Moderate	Large infrastructure or construction programmes
DIY	Very High	Very High	Low	Low	Small, internal projects

Multicontract + DIY	High	Moderate	High	Moderate	Institutional/public projects
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For example, when establishing a municipal wastewater treatment facility, a local authority might consider various strategies:

A Turnkey contract would enable a single EPC contractor to provide the entire plant, ensuring performance while restricting municipal participation.

A Multicontract approach would permit the authority to hire different contractors for civil, electrical, and mechanical tasks—suitable if it possesses project management skills.

A DIY strategy would only be viable if the authority has a competent in-house engineering team.

A Multicontract + DIY strategy could strike a balance between control and efficiency by keeping design management in-house while outsourcing construction.

As Winch (2010) suggests, effective contracting relies not only on risk distribution but also on fostering trust and coordination mechanisms among the involved parties. Consequently, the optimal contracting method is one that aligns with the client's goals, capabilities, and governance framework.

4. Conclusion

Contracting serves as a crucial foundation of project management, influencing the structure, governance, and delivery of projects. The four primary methods—Turnkey, Multicontract, DIY, and Multicontract + DIY—provide unique approaches to balancing control, cost, and risk.

The Turnkey method offers ease and accountability, yet it limits flexibility. Multicontract systems encourage specialization and competition, but they also heighten coordination difficulties. DIY grants independence and opportunities for learning, although it subjects the client to increased risks. Lastly, the Multicontract + DIY hybrid enables organizations to merge internal expertise with external specialization, achieving a practical equilibrium.

Ultimately, as highlighted by Turner (2014) and Lock (2020), no single method can be deemed universally superior. The essence of success resides in choosing the contracting strategy that aligns best with the project's complexity, risk profile, and the client's managerial capabilities. A thoughtfully selected contract method not only guarantees successful delivery but also enhances organizational learning and long-term project outcomes.

Moreover, contracting ought to be regarded not just as a procurement function but as a strategic management instrument that affects collaboration, innovation, and stakeholder relationships across the project life cycle. The capacity to customize contracting methods to correspond with project goals and organizational maturity is what sets apart effective project management practices in both the public and private sectors. Essentially, the appropriate contracting decision improves not only efficiency but also the sustainability and resilience of project results.

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