

Integrated project delivery emphasizes collaboration and mutual benefit

New standard contract aims to move construction industry to a different model of risk allocation



BY NORM STREU AND
CHRISTOPHER HIRST

There is exciting news in the world of standard-form construction contracts. Yes, you read that right. A new standard-form document aims to provide an option for a different model of risk allocation.

The **Canadian Construction Documents Committee (CCDC)** is introducing a new standard-form construction contract, called *CCDC 30: Integrated Project Delivery Contract*, which aims to move the construction industry away from the traditional risk-allocation model and toward integrated project delivery (IPD).

Historically, construction industry contracts have emphasized risk allocation between parties. The result of this risk-allocation model is the legitimate perception that construction contracts are, in essence, a zero-sum game. Some argue that this model actually inhibits productivity, which in turn leads to increased costs on construction projects.

A study conducted by the **U.S. Department of Commerce** found

that the construction industry was the only major American industry that was still actively experiencing declines in productivity. A Canadian study reported that contract prices were impacted by 8% to 20% as a result of contractors placing premiums on exclusion and disclaimer clauses in standard construction agreements.

In recent years, the traditional model's focus on profit and gain has been heavily criticized. Critics have identified four systemic problems with the risk-allocation contract model:

- a lack of innovation and information sharing;
- the placement of artificial limits on co-operation;
- an inability to co-ordinate; and
- the “zero-sum” perception of construction industry participants.

IPD tackles these systemic problems by recrafting the traditional construction contract into one that emphasizes collaboration and mutual benefit. The IPD contract model incorporates two new aspects that starkly contrast the historical risk-allocation model:

- a mechanism by which participants share in both the risks and the gains of the project; and
- a waiver of most claims each party can make against the other.

These mechanisms are designed to erase the zero-sum mindset of traditional construction contracts and encourage contracting parties to collaborate rather than compete.

There are four phases to the IPD contract, each of which emphasizes trust, communication and collaboration:

- (1) a validation phase, during which the contracting parties discuss their objectives, their initial cost target and the “risk pool” that constitutes the profit to be shared by the parties on completion of the project;
- (2) a design/procurement phase, during which the cost target is finalized, a project schedule is created and the necessary pieces are put in place for construction to begin;
- (3) a construction phase, during which construction occurs; and finally
- (4) a warranty phase, during which the parties review the project and distribute the risk pool.

Additionally, this contract model will generally provide for the parties to mutually appoint a project management team, a senior management team and a project implementation team to oversee each phase of the project. These teams create space for collective problem solving and help reduce conflict among parties.

IPD contracts have not been widely used in Canada to date, but the hope is that the *CCDC 30* contract will gain acceptance as a legitimate alternative to the traditional construction contract model.

If the new IPD model gains widespread acceptance, its proponents believe it has the potential to significantly increase the construction industry's productivity, efficiency and cost-effectiveness.

And that is indeed exciting news. ■

Norm Streu is president and chief operating officer of the LMS Reinforcing Steel Group. Christopher Hirst is a partner and the leader of the construction and engineering group at Alexander Holburn Beaudin + Lang LLP. This article was drafted with the assistance of Jayde Jessome, articling student.

Historically, construction industry contracts have emphasized risk allocation between parties

BUSINESS IN VANCOUVER Events

Business in Vancouver produces many events each year that recognize the achievements of top talent in our business community, discuss topics and issues relevant to you and provide opportunities to network and cultivate new business relationships.

SOME OF OUR ANNUAL EVENTS INCLUDE:

- Forty under 40 Awards
- Influential Women in Business Awards
- BC Export Awards
- BC CEO Awards
- BC CFO Awards
- Business Excellence Series

**BUSINESS
VANCOUVER**
magazines

For more information, visit www.biv.com/events

