



*A KCA Construction Industry Article of Interest:*

## **Integrated Project Delivery from the Owner's Perspective**

By Thomas E. Kennedy

Everyone involved in a construction project wants it to be a success: the Owner, the Builder and the Architect. The definition of success certainly is different for each, but typically if the project is completed on time and within budget, the contractor makes a reasonable profit and earns a repeat client, and the Architect's design meets the Owner's needs and they also earn a repeat client, all would likely call it a successful project. If they all enjoyed working with each other and would welcome another project together, it would be an added bonus. The delivery system, or contract type, does not necessarily dictate success on a project, but if the right delivery system is chosen the likelihood can be higher.

The most commonly used delivery systems are design-bid-build, construction manager at risk, and design-build. A relatively new type of contracting is Integrated Project Delivery (IPD).

IPD is fundamentally based on the concept of an Owner/Builder/Architect partnership based on an open collaboration between all three, who have entered a tri-party agreement based on shared risk and reward. The success of the project is everyone's goal, and if done properly success is clearly defined and agreed to by all parties. The Architect and Builder are chosen very early in the process, typically through negotiation or Request for Proposal. The talents of all parties are brought to the table during the planning and design decision-making process when they can have the most impact.

Although there are significant pros and cons to IPD, and some apply as well to all three parties, the Owner's perspective will be addressed here. As a side note, because of policies or procurement restrictions, this delivery system may not be available to some Owners.

The most positive benefit to the Owner is that they build a team, chosen through a qualifications basis, where not only do they select the firms in the venture, but they also choose the individual professionals within the firms who will be team members. The culture of collaboration is committed to by all. The parties typically waive liability against each other, and may even indemnify each other for some acts or omissions. Budget and schedule are established early, and all parties commit to them with risk of over-run, or benefit of under-run, shared by all parties. Lean design and construction methods may be required to maximize collaboration. Fees can be based upon benchmarks of performance.

So, what should an Owner's concerns be?

1. IPD requires an Owner who will provide strong leadership, with clearly defined goals for the project and a detailed knowledge of the construction process. Although these should be requirements in any delivery system, with IPD all budgeting and scheduling are done as a collaborative process that ultimately requires the Owner's thorough understanding, commitment and agreement.
2. IPD requires an Owner who is capable of choosing the team members and their staffs. Again, this is not unique to IPD, but with IPD it is elevated because the tri-party agreement creates a team with whom the Owner will be willing to be very transparent and share risk.
3. Typically, IPD agreements define shared risk and reward. As budget and schedule are developed and agreed upon, all details of cost are shared with all parties and the fees for the Builder and Architect are set. There should be a project contingency, the use of which is governed by a project executive committee. If all goes as planned the contingency will cover any unanticipated costs. If the contingency is depleted, the fees of the Builder and Architect are used. If they are depleted, the Owner is the party typically exposed to cost over-runs. The Builder and Architect don't make a fee, but all of their costs are covered.
4. The three participants in the IPD tri-party agreement become responsible for all that each party is typically responsible individually. Issues like professional liability, general liability, workers' compensation, code compliance, claims from trade contractors and suppliers, etc. must be clearly agreed upon.
5. All of the role responsibilities defined in the more traditional contract forms must be clarified.
6. When roles and responsibilities are defined, they must be reduced to a well-written contract. Standard forms for other types or delivery systems cannot be modified to suit IPD.
7. After all issues referenced above are agreed upon they must be insurable.
8. If payment and performance bonding is desired or required, the contract will have to satisfy the surety market.

All of these concerns can be addressed, although they may be complicated because the industry is still learning about IPD.

The primary consideration for an Owner is their tolerance for risk. An Owner should fix risk where it is most controllable. The unique risk created by IPD is that the Owner becomes exposed to costs and claims due to Builder or Architect failure from which they would have been protected in the more traditional types of contracts. In addition, regardless of collaboration and risk sharing, the Owner is ultimately responsible for cost over-runs.

Although IPD has significant advantages, an Owner should understand its unique exposures and choose it with good guidance and an intent to be fully engaged in the day to day management of the project. They should also know that even the most carefully chosen team members can make mistakes, encounter financial problems, or be subject to the failures of their consultants or subcontractors. On the larger, more complicated projects where IPD may have its greatest advantage, the possibility of unanticipated impacts to the project can increase, and be more significant in cost, with greater risk to the Owner.

Just as they would in any delivery system, the Owner should be fully aware of the risks and rewards, manage for the best, and be prepared for the worst.

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