COMPARATIVE COSTS OF THE COMMERCIAL PROCESS IN DIFFERENT CONSTRUCTION PROCUREMENT METHODS

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Abstract

The commercial process in construction projects is perceived to be an expensive and highly variable overhead. Transaction Cost Economics is a theoretical framework that seeks explanations for why there are firms and how the boundaries of firms are defined through the “make-or-buy” decision. However, it is not a framework that offers explanations for the relative costs of procuring construction projects in different ways. It is hypothesized that different methods of procurement will have characteristically different costs. Empirical data may provide a strong argument for doing business in particular ways; alternatively it may demonstrate that there is no case for systematic changes in the way that construction work is procured. This paper will report the development of arguments about the relevance of transaction cost economics to the study of commercial costs in procurement. This forms the context for reporting the summary and analysis of empirical data from the first phase of data collection in which firms report what proportion of their previous year’s turnover is spent on each of the aspects of the commercial process as well as the proportion of their workload procured by different methods.

Conference theme: New Models of the Construction Industry, Project and Process