

Construction procurement in sweden construction essay



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Sweden is one of Scandinavian countries located between Norway and Finland in North part of Europe. It has a population of 9.2 million people. Swedish climate in summer but winters bring some heavy snow and low temperatures especially in north regions. It is known as one of the best democratic government examples but even more as a successful and modern economic benchmark. Construction sector plays a very important role in Sweden's domestic economy. It is described as a major market or even backbone in terms of importance. According to the Swedish Construction Institute report (1997) and the Swedish Construction Federation data (2008) the construction sector is one of Sweden's largest industries and contributes significantly to national prosperity. Being a member of EU, Sweden's construction legal framework and procurement legislations (Swedish Public Procurement Act, 2008) tend to concentrate on: non discrimination, equal opportunities, transparency, cost efficiency and value for money etc. Due to conservative cultural approach, Sweden has established a distinctive procurement model based on mutual strategic consideration and trust among construction actors. Nevertheless, OECD (Organisation for Economic Co - Operation and Development) in annual reports about Swedish construction industry (2007) and (2009) found that cartels and lack of competition are the main negative features affecting procurement efficiency in Sweden.

In 1990 Swedish construction industry was at its peak followed by government funds mainly for roads, bridges etc. Renovation, repairs and maintenance account for 50% of the total construction output (The Swedish Construction Institute, 1997). In 1991 there was a downturn in the industry

and total construction volume fell by nearly 25% until 1994. In 1995 together with membership in EU Sweden construction sector has joined ISO 9001 quality and responsibility standards, which led industry to much bigger output. As a member of EFTA (European Free Trading Association), Sweden has been participating actively in European standards - making in CEN (European Committee for Standardization) (Atkinson, 1995). Building regulations and control was the main government contribution to growing construction sector. It produced a quality standard - high enough to absorb internal market request. The most noticeable Swedish achievements regarding construction quality by Atkinson (1995, p. 149) are: the delegation of ministerial policies on social and technical matters to professionally staffed executive agencies which carry out tasks assigned under legislations within a financial programme, the delegation of central responsibilities for building regulation and associated arrangements for certification and quality assurance to Boverket (The National Board of Housing, Building and Physical Planning), administration of building regulations by local district authorities, helped by a well - presented system of approved documentation, regulations - the Swedish Building Code - in which requirements, expressed in functional or performance terms, are supported by examples of solutions, recommendations and advisory information.

Unlike many other countries Sweden has no particular legislation concerning contract relationships for building projects by private clients. Even though private procurement can be performed with less complicated regulations, this must be done not offending public principles for contracts, purchase laws and laws regarding competition. Public procurement regulations are

governed by Public Procurement Act directives followed by EU procurement legislation. The Swedish Competition Authority is responsible for supervision of Public Procurement Acts from 2008 (Swedish Competition Authority, Public procurement, 2008). Procurement types available in Sweden are: open, restricted and negotiated (Swedish Competition Authority, Swedish Public Procurement Act, 2007). PPP/PFI has been recently applied in Sweden and this kind of procurement options should gain more attention from private investors. However, according to Osipova (2008) Swedish construction industry has been criticized for high costs which led to lack of competition between contractors as well as low productivity and project delays.

The UK has a benefit of wide range of institutional forms of construction contracts. However, a number of government sponsored reports have also highlighted that this has major disadvantages, indentifying duplication of effort and a wasteful use of resources at almost every level of activity (Ashworth, 2006).

In the nineteenth century a first standard form of construction contract was introduced in the UK. The form was described as the RIBA until 1977, when the term JCT (The Joint Contracts Tribunal) contract was adopted. The present body responsible for drafting the current form includes public and private sector employers, architects, quantity surveyors, contractors and subcontractors. With different contract forms appearing in the U. K. after 1964, JCT forms reflected different interests of construction parties involved into construction business. The selection of particular form of contract depends on various considerations such as: type of work to be conducted, size of the project, public or private sector, status of designer and <https://assignbuster.com/construction-procurement-in-sweden-construction-essay/>

procurement types. According to Contracts in use surveys, JCT 98 is the most popular form of contract for building contracts in the UK. It is the Standard Form of Building Contract (SFBC). Table 1 shows all JCT contract forms available in the UK. The Institution of Civil Engineers (ICE) form remains the most popular among civil engineer contracts. The UK construction industry has attracted a great deal of criticism in recent years for its inability to meet the needs of its clients (Wood et al., 2005). There was a great need of collaborative procurement type such as partnering. Radically different approach to the procurement offered specific objectives through supply chain maximizing the effectiveness and performance of construction activities.

Positive partnering approach in the UK has led Sweden to adopt partnering concept. Hence, partnering procurement type does not have contractual form status. In Sweden, the majority of contracts are based on the general conditions of contracts. New forms of contracting occurring are the performance based contract and partnering. Performance based contracts are improved forms of the design and build contracts. Such contracts tend to provide stimulus for the contractor for development of higher level products. Partnering contracts proved to be successful in the UK are getting more popular in Sweden. Cost reduction and better performance are the main benefits of such contracts. As in Sweden the UK construction industry is strongly fragmented. To improve this many of the 'best' clients use partnering or similar agreements to keep project team together (Sterner, 2002).

Lack of competition in Swedish construction sector has been pointed out by OECD (2007) in 1999 and 2004. Survey held by OECD find out that cartels are common within Swedish construction industry. Also barriers are quite high for new construction companies which cannot compete on the bigger projects. The four largest developers, which account for a large share of the market, do not normally purchase construction services in the market as 75% of apartments are built in - house (OECD, 2007). This results in higher building costs than for smaller developers, who procure projects to a much higher extent. Swedish construction sector is not competitive in terms of supply chain as large companies are dominating this segment. Sweden has one of the highest levels of construction costs among EU.

Swedish construction regulations regarding input materials as well as a lack of EU certified construction codes are preventing new entries into the industry. Some procurement contracts (source does not indicate which) have requirements that disadvantage foreign companies from investment and acts just like protectionism. Other specific indicators creating high costs in constructions are: high construction service prices (over 8% higher, excluding VAT, than the EU average in 2004), labour costs (matter of high taxes), powerful and very influential construction workers' union Byggnads activity in collecting extra charges for non - member companies.

The civil engineering industry is in hands of big societies which also manufacture key materials such as asphalt and ballast. As the import is limited, other companies have to purchase from the market leaders, and the price of building materials is high compared to many other EU countries

(OECD, Sweden: achieving results for sustained growth, 2007)

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Possible solutions

From the data provided by OECD, we can state that Sweden should stress construction sector against culture of cartels. By reducing number of cartels the industry will gain more actors involved into construction procurement procedures and cost efficiency should increase accordingly. Stronger competition within sector could be achieved if smaller companies would act together in order to compete against big firms, but government should encourage such competition through procurement acts. It is obvious that high tax policy has made construction costs far too expensive in Sweden. It might be the barrier which naturally protects industry from foreign investment and keeps Swedish companies busy, but also acts against fair competition. On the 7th of October 2009, Swedish Competition Authority's (Konkurrensverket) official report stated " the construction sector is one example where we observe limited foreign presence in this country" (Konkurrensverket, 2009, p. 1).

In order to satisfy the demands placed on the construction sector in the future, a number of changes must be made to procurement procedures, all of which point to the need of new forms of co-operation among all the actors. The empirical data shows that the currently used procurement procedures involve: specification by the client, open bid invitations, bid evaluations based on lowest tender price, high contract formalisation through standard contracts, fixed price compensation, low usage of collaborative tools and performance evaluation by the client (Eriksson, 2007). Swedish procurement types are focused on price and authority due to lack of social control.

According to conceptual model, trust between construction actors should
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receive bigger attention. Such procedures as: incentive - based compensation, limited bid invitation, bid evaluation based on soft parameters, joint selection of sub contractors and contractor self - control have reduced the traditional focus on price and authority. Therefore, trust and cooperation appeared to play a key role between partners. The benefit of early subcontractor involvement into procurement procedures proved to be important way of partnering concept.