

How does funding private construction with debt influence the allocation of risk?

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The UK construction industry continues to struggle with projects that regularly run late or over budget. The way clients allocate contractual risks has a key role in the success, or failure, of construction projects. Contractors who feel risk allocation is unfair are likely to engage in defensive behaviours to ‘redress the balance’, increasing the likelihood of dispute and poor project performance. Current academic discussion highlights the potential benefits of more collaborative procurement but does not explore the factors influencing the way clients allocate risk. A review was completed of the current literature relevant to construction procurement and risk allocation. This led to this dissertation’s research question: How does using debt to fund construction influence the allocation of risk?

Semi-structured interviews were held with 13 senior professionals who had extensive experience in securing funding for private sector construction projects in the UK. The results were coded, analysed, and compared with the relevant literature. The findings confirmed the widespread use of highly amended contracts that transfer maximum risk, and consequent

opportunistic behaviour. It also revealed disagreement over the influence lenders exert on risk allocation, and that empirical data is essential to encourage more collaborative procurement. Novel findings were that key industry participants do not believe that fixed-price contracts are truly fixed; that their use may be driven by the needs of financiers to have a simple format, rather than an accurate one. The dissertation found that using debt to fund construction creates a resistance to change, and that future research should seek evidence that funding more collaborative procurement results in better outcome.