

# Präqualifikation in der Bauwirtschaft

Erfahrungen und Perspektiven aus Sicht der Beteiligten

## Prequalification of Contractors

Experiences and Prospects in the View of the Building Industry

- English Abstract -

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### English Abstract

of "Präqualifikation in der Bauwirtschaft: Erfahrungen und Perspektiven aus Sicht der Beteiligten"

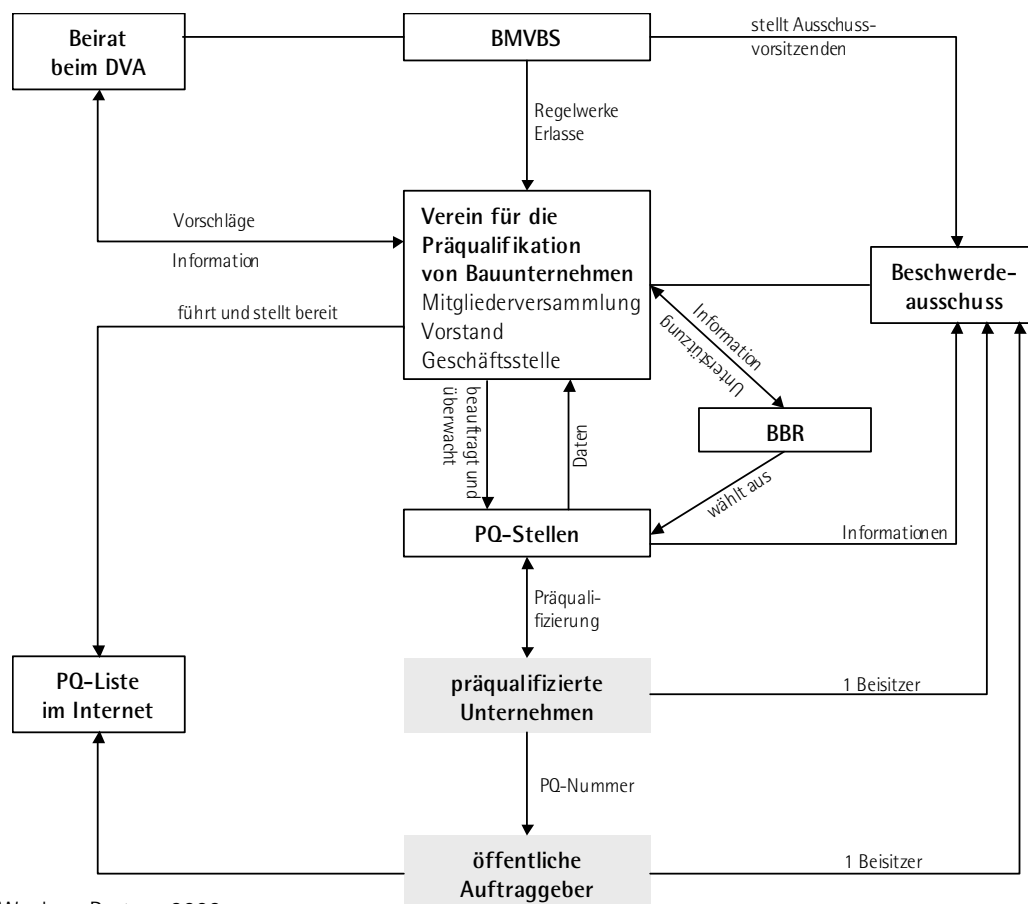
## Prequalification of Contractors

### Experiences and Prospects in the View of the Building Industry

In Germany there had been quite a long discussion about a system for prequalification of enterprises in the building industry. Prequalification is supposed to replace the manifold proofs and documents to be delivered with every bid of a contract. The decision was finally to quite precisely claim the usual requirements as established by the German VOB-A (the first chapter of the official contracting terms for the award of construction performance contracts) from companies applying for public contracts.

As administrator of the system an association named *Verein für die Präqualifikation von Bauleistungen e.V.* was established by the Federal Ministry of Transport, Building and Urban Affairs *BMVBS*. The ministry and the association commissioned six institutions – *PQ-Stellen* – to carry out the prequalification process on demand of the building firms. The pool and relevant data of the prequalified firms are managed by the association, and so are the lists of clients who are admitted to access this database, once they are authorized by the firms having submitted a bid. In the first line public clients – *öffentliche Auftraggeber* – were supposed to use the system, and as time told there is little participation of private clients indeed.

Organigramme:



This study was finished about 30 months after the system for prequalification of enterprises in the building industry was started. The success of the system was very far from what its initiators and operators had expected. So the task of the study was to identify its strengths and weaknesses and to explore opportunities and threats in regard to its future development.

The expectations were based on six assets assigned to prequalification, which had also been the leading arguments brought forward when prequalification was to introduce:

- ▶ High reliableness in terms of the bidder's qualification for a defined contract work
- ▶ Simplification, compliance to regulations and cost savings in the treatment of bids on the part of the public client
- ▶ Simplification, compliance to regulations and cost savings in establishing bids on the part of contractors
- ▶ Better image of firms holding a prequalification
- ▶ Complementary quality-competition along with the usual price-competition
- ▶ Combat illegal practice in acquisition and employment

The study aimed to describe and evaluate on an empirical basis the experiences and opinions of the involved – i.e. initiators, operators, interested and uninterested contractors and clients, experts in organizations etc.. These were qualitative interviews. In addition a short questionnaire was sent to all of the prequalified enterprises, which provided additional representative data.

All of them meanwhile have varied experience in the application and performance of the system. So this seems to be the right moment for an empirical survey along with a analysis of the system's critical factors for success.

The study consists of six parts

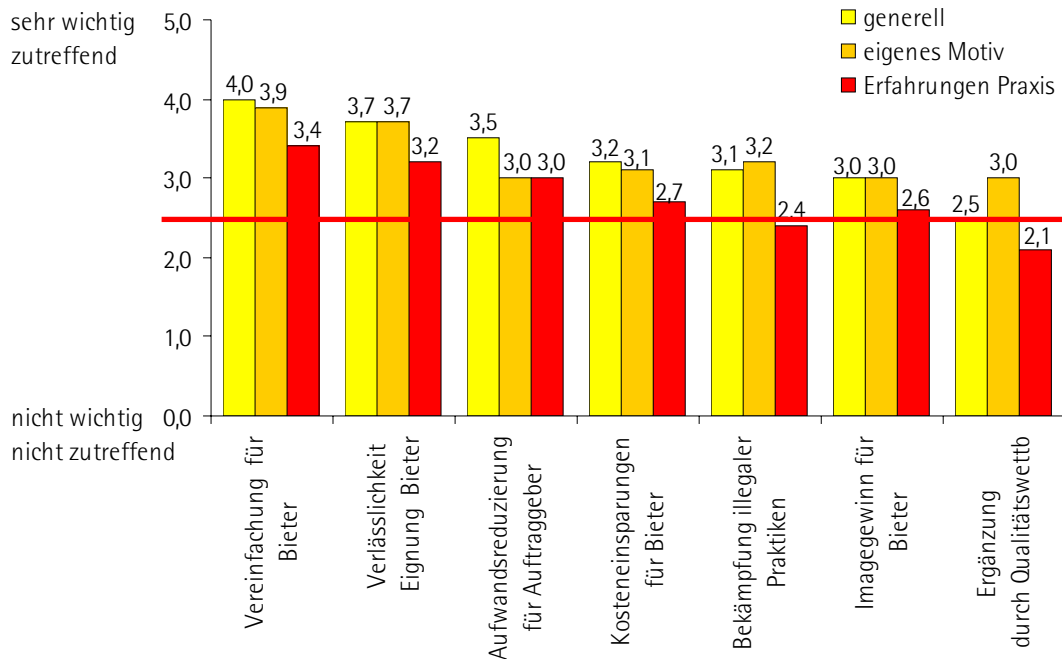
- ▶ Objectives, genesis, basics of prequalification
- ▶ Instruments, data, procedures for prequalification
- ▶ Opinion research and market research
- ▶ Impact research
- ▶ The future of prequalification as seen by the stakeholders
- ▶ Conclusions

The survey of data includes two years of experience after the start of the system. We held expert talks with more than 100 effectively involved as well as potentially concerned market participants. These interviews followed a prepared guideline in order to achieve comparable information. The results were evaluated in a qualitative manner, and in some aspects – as far as reasonable – quantified. In addition we ran a representative written poll with all prequalified enterprises, with a satisfactory response of 64 percent. In the end we held an expert round table discussion for further evaluation of the results.

## Discussing the arguments for introducing prequalification

In the interviews all participants were asked to evaluate first how important they find each of the arguments in general, then in their own case and perspective when making their decisions in the beginning, and finally to review their experiences and observations about how the prequalification system is actually working in practice.

### General importance, own involvement, and practical experience



Quelle: Weeber+Partner 2007, Fachgespräche

Which assets are sufficiently important and able to shore up the prequalification system can best be seen by the choice and degree where evaluations exceed the median value of 2.5.

As relatively important *in general* three assets turn out:

- ▶ Simplification, compliance to regulations and cost savings in establishing bids on the part of contractors
- ▶ High reliableness in terms of the bidder's qualification for a defined contract work
- ▶ Simplification, compliance to regulations and cost savings in the treatment of bids on the part of the public client

As *own motivation* towards prequalification are stated

- ▶ Simplification, compliance to regulations and cost savings in establishing bids on the part of contractors
- ▶ High reliableness in terms of the bidder's qualification for a defined contract work
- ▶ Combat illegal practice in acquisition and employment

In terms of *practical experience* the same three assets seem to perform best to which the highest general importance had been attributed

- ▶ Simplifications on the part of contractors
- ▶ High reliableness in terms of the bidder's qualification
- ▶ Simplification on the part of the public client

As the above graph shows the replies of all respondents, some additional information concerning the different groups of the interviewed should be given.

- ▶ The initially strongest argument – simplifications on the part of contractors – suffers most from their practical experience, their approval diminishes by about one third.
- ▶ Concerning confidence in a prequalified bidder's qualification the hopes of the enterprises prevail the expectations and experiences of the clients. Practical experience shows a lower level on both sides but the difference even increased.
- ▶ Expectations that prequalification could fight illegal practice in acquisition and employment seem to be deceived the most. Special contributions to this judgement came not only from deceived firms but also from the experts.
- ▶ Simplifications on the part of the public client were overestimated especially by the experts, just slightly by registered clients. Non-registered clients even think they have underestimated the potentials.

### **How can prequalification become more important?**

#### *The system of prequalification needs time to establish*

Prequalification is not so much an invention which brings a great deal of innovation and efficiency but it is able to effect some consolidation of circumstantial and fault-prone procedures, mainly by outsourcing them from the contractors to the certifying institutions. The number of potential participants and the amount of bids are really big and may induce the idea of a huge market. But this 'market' of prequalifications is manifold in terms of service types and specific situations and interests of the participants, so that it is adequate to speak of some dozens of markets, which is the reason why there was no general breakthrough and why it will take time and repeated efforts to open and penetrate them.

#### *The system of prequalification needs communication*

Prequalification is not really widely known and knowledge quite often is vague. The actors able to spread the idea and create a demand for prequalification don't forge ahead to do so. To do justice to all who are and have been active: there have been many initiatives and efforts indeed. But what is missing is the broad front and the united powers demonstrating the importance of the concern. This ought to be built up along with a professionally developed strategy of communication.

#### *Involving the rivals*

Clients of all kind want information about contractors willing and able to carry out orders in good quality, to suitable costs and in time. This demand of information is served by many suppliers, varied offers and in most different quality. In the view of the applying firms successful acquisition is what counts, they don't undergo any test or even official prequalification if there is no need.

The question is how to deal with the confidence of the client. As far as for the client not exactly the criteria of the official contracting terms for the award of construction performance contracts are important there are at least the testified references which may make an interesting difference. So between the suppliers of information about building firms the discussion about reliable quality of service must go on. As a first step it should be made conventional, that all suppliers inform about a given prequalification of a contractor and provide suitable information to this item.

#### *The prices of prequalification*

Prequalification may be expensive for a contractor offering many kind of service, as every one has to be proven by tested references. In addition prequalification must be renewed every year. Depending on number and volume of bids per year these costs may keep a considerable part of the industry from prequalification, on the other hand big companies may have enough routine and specialists to do without. Thus we suggest to review the financing and pricing system in order to encourage those standing most to benefit from the prequalification system.

#### *Mandatory prequalification*

Repeatedly and from different sides there have been suggestions that prequalification should be mandatory at least for applicants for public works contracts. Most of these seem to be induced by some deception about a feeble demand for prequalification. Indeed the Federal Ministry of Transport, Building and Urban Affairs have introduced mandatory prequalification for all bidders applying for federal construction contracts. Clients doing so should be sure to have a numerous and diversified pool of enterprises in order to enable proper competition. Unfortunately this point is a common problem even in a completely open market.

#### *Enhanced dynamic for prequalification*

In order to strengthen and spread the system all measures of promotion and reduction of constraints ought to be bundled and synchronized, along with a considerable increase of efforts and resources. For maximum efficiency the most promising among such possible measures should be tested in a reduced scale and controlled context before being applied on a grand scale.

#### *Continuous control of the systems quality and usability*

The study's design is suitable as a base for reruns after improvements have been made or actions have been taken or for a regular biennial rerun.

How to quote:

Weeber+Partner: Präqualifikation in der Bauwirtschaft: Erfahrungen und Perspektiven aus Sicht der Beteiligten. English abstract of the study. Stuttgart 2008.

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The main report contains about 152 pages.

Content:

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