RELATIONSHIP MARKETING TECHNIQUES IN CONSTRUCTION PROJECTS: A CASE STUDY APPROACH

Peter R. Davis

Faculty of the Built Environment Art and Design (BEAD), Curtin University of Technology, PERTH, Western Australia, WA 6854

Relationship Marketing (RM) embodies international, industrial and services marketing and in a business context is superseding traditional marketing theory. It is apparent from initial research into product and process industries that RM has the potential to provide construction organisations with significant benefits. These benefits include: enhanced ability to overcome problems, close coordination, process improvements; reduced risk associated with complex decision making and significant long-term value to prospective and existing clients. A summary of RM thinking is provided and three key variables being; trust, commitment and performance satisfaction are discussed. RM theory is conceptualised into a construction context using alliance procurement literature. The alliance literature gives pertinent insights into factors that afford potential project success. Finally three recent public sector case studies that have been documented are used to determine the validity of the theory using lessons learned reports.

Keywords: Relationship Marketing, Construction Procurement, Alliance, Case study

INTRODUCTION

The first part of the paper reviews relationship marketing. Relationship Marketing (RM) is often perceived as an enhancement of traditional marketing in as much as it focuses on client service and quality issues that links client companies into long term as opposed to short term relationships. Whilst transactional marketing focuses on a single sale RM considers interrelationships and network ties in a supply chain. RM explores these interrelationships using intangible, soft criteria such as commitment, trust and performance satisfaction as key measures or benchmark criteria. The benefits in the supply chain that accrue from RM are many and include reductions in transaction costs and decision effort. Innovation is encouraged established and enhanced in a RM environment largely due to close collaboration and implicit trust generated in early activities in the project’s life. There are some drawbacks to be recognised in a RM endeavour that include the cost of quitting from long term relationships or the potential from missing alternative opportunities from outside of the relationship network. To place RM in a construction context the concept of relationship contracting (RC) needs to be viewed, as there are many concepts that

1 Senior Lecturer in Construction and Project Management
p.davis@curtin.edu.au
exist in RC that can be explained given an understanding of RM. The second part of the paper explores these concepts in the context of RC and endeavours to provide a deeper understanding of the concept. In much the same way as RM is seen to be an enhancement of traditional marketing RC is becoming recognised as an improvement over traditional procurement contracting strategies. Transactional construction procurement is known to provide insignificant supply chain interdependence for example. Poor relationships are generated in a transactional procurement environment and those relationships that do exist are characterised with adversarial episodes (Australian Constructors Association (ACA) 1999). RC generates shared stakeholder commitment to project delivery via an integrated team working with the project owner. A RC philosophy assists project participants to achieve pre-determined performance indicators by enabling relationships that overcome problems, allow close coordination and process improvements. Organisational interrelationships reduce inherent risks associated with complex decision making. Overall RC provides significant long-term value creation to the parties associated with the project. The final part of the paper uses several recent projects as case studies to develop the proposal that RC provides significant benefits to construction organisations.

RELATIONSHIP MARKETING

Historically the service industry has centred its marketing on getting clients, which is referred to as transaction marketing (Christopher, Payne and Ballantyne 1991). An alternative, and somewhat opposed model, known as Relationship Marketing (RM) focuses primarily on quality and client service to enhance the transaction model. It should be emphasised that marketing and RM are not mutually exclusive, they form a continuum (relationship to transaction) that is dependent on an organisations marketing orientation (Grönroos 1995). RM links client companies into long term as opposed to short term relationships (Grönroos 1994). RM considers ‘relationships, networks and interaction’ in a supply chain (Gummesson 1999). Additionally, in RM client service is carried out with clients; creating value with them, not just for them (Gordon 1998). RM explores interrelationships using intangible, ‘soft criteria’ such as trust, commitment, and performance satisfaction as key measures or benchmark criteria; it has a lessened emphasis on price (Grönroos 1994). The benefits in the supply chain that accrue from RM are many. They are addressed later in the paper. RM provides useful additional dimensions to transaction marketing that ensure marketing success (Kotler and Armstrong 1993). A comparison from (Nickels and Wood 1997, Christopher, Payne and Ballantyne 1991) indicates the different focus of transaction marketing as compared to RM. The key issues gleaned from these writers pertinent to RM are; client retention, additional value to the client arising from service, commitment and contact; the time scale and the team focus on quality. These factors serve to identify several relationship benefits.

Relationship benefits

By their very nature projects are unique and complex with finite time frames that require judicious decision making. Problems and conflict will always emerge on projects. With this in mind a relationship that displays high levels of trust and commitment can overcome problems far more easily than one that does not (Hennig-Thurau and Klee 1997). Close cooperation and organisational interrelationships enable
coordination of schedules, process improvements and reduction in the risk associated with control of cost and quality (Leavy 1994). Project participants are able to minimise decision effort and reduce risk in decision processes (Kubal 1994). They are able to obtain optimum satisfaction from a relationship partner who is permitted to gain a better understanding of their needs and preferences. Han (1993) and Wilson (1986) cite examples where relationships between long-term buyer-suppliers’ save inspection costs and consequently provide benefits in quality and reduced lead-in times. The trust developed enables organisations to reduce the number of suppliers and assists in solving development and production problems in many recognised procurement scenarios (Zeithaml and Bitner 1996). Projects typically require a fast rate of learning to meet production and process requirements. By maintaining relationships the learning costs associated with switching providers is reduced (Gwinner, Gremler and Bitner 1998). Other objectives that can be better accomplished through a RM program include: the retention of the most desirable clients, the enhancement of the construction organisation’s image and the ability to attract desirable prospective clients (Connor and Davidson 1990). Non-core benefits result from cultivating long-term relationships and include feelings of familiarity, recognition, friendship, rapport, and social support (Gwinner, Gremler and Bitner 1998).

**Relationship drawbacks**
The cost of quitting from the relationship is a significant drawback, as is the potential for lost opportunities with better relationships that might become available in the future (Tomer 1998, Han, Wilson and Dant 1993). A further problem is the possibility of becoming over dependant on the relationship and losing flexibility (Morris, Brunyee and Page 1998). Examples of over dependency are: having no alternatives to provide occasional comparisons on the downstream side, or cushion against the loss of a key customer on the upstream side (Evans and Laskin 1994). Becoming locked in a relationship with a partner for example; that lacks drive in technological developments may change the direction of a once mutually fruitful relationship. Das (1998) considers the opportunity for particular firms to attempt to learn a skill or steal the resources possessed by another firm through forming a relationship. Trust in the form of confidential information sharing mitigates this behaviour (Das and Teng 1998).

**KEY VARIABLES OF RELATIONSHIP MARKETING**
Wilson (1995) provides an extensive list of relationship variables established from theoretical and empirical research. This research is balanced against a critical examination of the satisfaction-retention relationship and the development of a customers quality perception (Hennig-Thurau and Klee 1997). There are many variables to consider in developing a RM approach within a construction organisation. The relationship variables relevant to the scope of this paper are conceptualised as a three dimensional variable that incorporates a customer’s service related quality perception (performance satisfaction), trust and commitment (Hennig-Thurau, Gwinner and Gremler 2002, Hennig-Thurau and Klee 1997).

**Trust**
Trust is a belief that the word or promise of another is reliable and that person will fulfil their obligations in a relationship (Dwyer, Schurr and Oh 1987). It overcomes the intangible concept of construction services, building interpersonal and group
behaviours of project teams (Morris, Brunyee and Page 1998). Walker and Hampson (2003e) indicate that trust comes from negotiation, the everyday interrelationships that happen through decisions planning and communication. In a trusting relationship stakeholders are able to focus on long-term benefits such as enhanced competitiveness and process/ product cost reductions. Trusting teams perform in an effective and wholly reliable/ credible way, and they are interested in associates welfare showing benevolence (Hennig-Thurau and Klee 1997). These are important considerations that differentiate the service. In construction it enables the contract document to be less burdensome for example, freeing up time for innovation, value-adding and overall mutual goal attainment (Dorsch, Swanson and Kelley 1998). Trust is bound to past experience, past ventures are used in many tender evaluation exercises to assess those associates in the supply chain that impacts upon ones own organisation. Trust leads to the physical manifestation of commitment (Walker and Hampson).

**Commitment**

Commitment is the desire to continue the relationship and to ensure its continuance (Wilson 1995). Commitment is the proof of trust (Walker and Hampson 2003b). A definition of commitment shows that it is a long term orientation toward a relationship based on a conviction that remaining in it will be better than quitting from it Hennig-Thurau (1997). Commitment is the critical variable in measuring the future of a relationship (Wilson 1995). So it seems that for a construction manager to meet project objectives it must engender commitment in stakeholders (Verma 1995). Walker (2003) explains that to gain this commitment the construction manager must become a ‘coordinator of organisational infrastructure’ and use normative power bases to persuade stakeholders of the value in making commitment.

**Performance satisfaction**

In order to be successful in a relationship it is necessary to analyse clients’ needs, and determine satisfaction. Satisfaction is the net sum of benefits minus the cost of maintaining the relationship (Duyshart et al. 2003). Customer satisfaction is positively associated with repeat purchase intentions. Considerable evidence suggests relationships remain intact if the parties are continually satisfied, receiving added value (Patterson, Johnson and Spreng 1997). The main reasons for client satisfaction fall into categories including; a demonstrated understanding of the client’s problems, needs or interests; an interactive and communicative relationship, consistency in time and budget (additional costs providing value), meeting expectations, and matching previous favourable experience, together with process predictability (Doney and Cannon 1997). Whilst it may seem simple, many firms have trouble identifying a client’s expectations (Lovelylock, Patterson and Walker 1998). Mistakenly, they think that they already know what their client’s want.

**CONSTRUCTION RELATIONSHIP PROCUREMENT**

Relationship Contracting (RC) focuses on generating and maintaining relationships. However it should not be assumed that RC is without commercial boundaries or pecuniary interests. RC provides a flexible management framework between stakeholders appropriately underpinned with a form of governance designed to align their commercial interests with particular project outcomes (Ross 2003, Australian Constructors Association (ACA) 1999). The contract documents associated with an
alliance project are very different from those designed for transactional procurement. RC research is punctuated with phrases that include; ‘win-win outlook’, ‘common goal attainment’ and a ‘search for synergy’; these terms whilst not explicit terms in RC contract documents do form an implicit underlying theme (Hutchinson and Gallagher 2003, Hollingsworth 1988). This language is at odds with transactional procurement thinking. Benchmark documents that seemingly have captured a change in contracting strategies use these terms; for example consider ‘Constructing the Team’ (Latham 1994) and ‘Rethinking Construction’ (Egan 1998). Balance these documents with more recent texts that propose relationship based procurement (Walker 2003) and the reader will be able to relate to significant long-term value creation accruing to project participants in a RC environment.

**CASE STUDIES**

To exemplify the foregoing issues several case study projects have been chosen. A brief synopsis of the projects is provided followed by an analysis of the ‘lessons learned’ as an outcome of the project. Lessons learned are important to target in an alliance as they are a critical project output (Walker and Hampson 2003a).

**Case study one: Woodman Point Environmental Enhancement Project (WA21)**

The Woodman Point Environmental Enhancement Project (WA21) had a primary objective to upgrade an existing waste water treatment plant and pumping station so that it would be able to meet long term needs of the community south of Perth, Western Australia (Whiteley 2004). The project was completed on time, being developed and delivered between 1998 and 2002 showing significant capital and operating cost savings (Water Corporation 2003a, b). It was a complex project costing A$150 million involving breakthrough engineering design and innovation in difficult ground conditions (Whiteley 2004). The project represented the first major construction alliance in public works in Western Australia (WA) (Water Corporation 2003a). The team that represented the WA21 alliance were Clough Engineering Ltd, Kellogg Brown and Root (formerly Kinhill) and the Water Corporation operating through an Alliance Board (Whiteley 2004, Water Corporation 2003a).

**Case study two: Beenyup WWTP Odour Control and Upgrade Project (stage 2) Alliance (Beenyup)**

The Water authority decided that Beenyup should be an alliance very early in the conception stage of the project for detailed design, procurement and construction. The decision was supported on the basis of the following points; the delivery date was critical, community relations were important, evolving requirements of the project were a consideration and there was a need to carefully manage the multiple interfaces with numerous contractors on site (Water Corporation 2003b). The project budget was significant. The scope of works encompassed process improvements in preliminary, secondary treatment and sludge handling areas, and odour control for secondary treatment and sludge handling areas. The Beenyup Plant's design capacity was increased. Main process improvements in preliminary treatment included replacing screens and refurbishing grit removal system. Process improvements in the secondary treatment area included refurbishment of all existing aeration tanks and equipping of two new aeration tanks. Sludge handling area works included refurbishing five digesters and replacing filter belt presses with centrifuges. Odour control works included all aeration tanks, ducts for these tanks and sludge handling area, odour
scrubbers and a 50m high stack (Andric 2004). The principles of the alliance were established as; safety first, minimise whole life costs, best for project decisions, open and honest communication, stretch thinking – challenge the past, integrated team approach, accept responsibility with a no-blame culture, respect local community values, commitment, timely decision making and enjoy the alliance experience (Water Corporation 2003b). The team that represented the Beenyup alliance were Black & Veatch Australia Pty Ltd, Leighton Contractors Pty Ltd, GHD Pty Ltd and the Water Corporation operating through an Alliance Board (Water Corporation 2003b).

Case study three: The Acton Peninsular Project (National Museum) in Canberra
The National Museum project opened on 11 March 2003. It was a design and construct project delivered using an alliance arrangement. The Commonwealth Government were looking for quality of performance in project delivery as opposed to price in a project that shares a unique setting in a large lakeside precinct that includes the Australian Parliament House, the National Gallery and the High Court of Australia. The National Museum is a landmark project that houses many thousand items and priceless documents that relate to three Australian and Cultural heritage themes. The design was required to be distinctive and unique, reflecting the cultural heritage of approximately 50000 years of indigenous peoples. The budget for the project was just over A$155 million and considered to be a cornerstone for Australia’s centenary of federation celebrations in 2003 (Walker and Hampson 2003c). The team that represented the National Museum project may be found with reference to (Walker and Hampson 2003c).

Analysis of lessons learned
In a collection of case studies Lendrum (2003) identifies amongst other things that an alliance promotes interaction between participating organisations, indicating that where ‘them and us’ attitudes have existed they are converted into ‘we’ with participants learning and performing together to solve problems. Much of the following exemplifies this point.

In the case of the WA21 alliance the lessons learned are found to be many and subtle (Water Corporation 2003a). The following is gleaned from the Lessons (Water Corporation 2003a). Alliance contracting was selected carefully; there was analysis and comparison of alternative procurement options. The contractor was selected without submitting a price after a rigorous process that looked at contracting organisations and inevitably choosing individual people. Establishing the alliance was seen as an important stage where individual team member commitment is gained. It was important to provide training opportunities to assist in understanding alliance contracting and alliance management processes. It was however, necessary to continue the training throughout to give newcomers the same opportunity. A team lead by well regarded persons from the client organisation was critical to gain trust and support from the client. Understanding the full scope of work was important and time should been spent to fully understand and ‘challenge’. The alliance philosophy of seeking breakthrough innovation had an adverse impact on schedule, design cost and morale. To most people a breakthrough meant delay and rework. Further discussion on this point is set out in the museum project below. In the WA21 project better integration may provide the solution to this dilemma. The role of the project manager was noted as critical, great care should be taken in selecting people for the role and articulating the requirements of the role. The role requires excellent leadership qualities and the

ability to take an overview, ‘managing’ rather than ‘doing’, not getting involved in too much detail. A feature of success was the excellent relationship (and effective communication) between the Water Corporation and operational and maintenance staff. Finally there many lessons learnt in ‘managing’ the alliance. Many focus on the importance of planning. However, a significant lesson has also been learnt through the distinction that has been drawn between the style of leadership required for an alliance and the style of leadership expected in a BAU project.

At Beenyup the writer attended a ‘Lesson Learned’ session (Beenyup Water Solutions 2004). The following represents a synthesis of discussion presented by twenty-one participants in a facilitated workshop environment that took approximately four hours. The purpose of the meeting was to benchmark achievements against the original alliance principles and objectives. The ‘virtual organisation’ created by the stakeholders was discussed as a strength in terms of a teamwork structure that generated a communicative environment where people were ‘addicted to succeed’. There were high levels of pride and passion associated with project involvement and it was found that alliance partners ‘contributed knowledge from outside alliance’. Indeed, learning was an important issue; not just from a technical perspective but from a process perspective where individuals with alliance experience were sourced by the team for specific advice. Close interaction in a committed and cooperative atmosphere followed the discussion on teams and was found to arise from the original agreement that set the scope of the project and its governance. This governance model ‘rubbed off’ onto subcontractors associated with the project. Cost of the project was raised with ‘everyone being driven by dollars; however people were thinking solutions not claims’ (sic). ‘Stretch targets’ were part of innovation built into the project. It was indicated that this philosophy was utilised well. However the targets did impact upon relationships between the stakeholders and came close to ‘causing issues’. Further discussion on this point is set out in the museum project below.

On the Museum project the alliance partners were selected on their expertise and ability prior to any price consideration (Walker and Hampson 2003d), trust and commitment was encouraged whilst at the same time manipulation was discouraged. This point is elaborated upon in a survey of project participants where it is described that ‘goodwill’ is used expeditiously to enable solution development and innovation (Walker and Loosemore 2003). A survey reported later in this section indicates better than business as usual (BAU) information and knowledge sharing was evident on the museum project (Walker and Loosemore 2003). There was a true democratic management team. An unpublished survey by Walker (2003c) shows several examples; when considering the sharing of technical and commercial information; respondents returned a response rate of double the confidence measure than anticipated in a BAU environment. In another instance when a question was posed that considered participants involvement a double score rating over BAU was once again shown. Enthusiasm and commitment are seen as drivers for change (Walker 2003). There is a downside to commitment, which is referred to as a ‘time trap’ (Walker 2003). This develops through a combination of flexibility of time and availability of time that leads to dampened enthusiasm and commitment. On the museum project participants felt that there was a time cost borne by them that acted as a barrier to positive change. Walker (2003) also refers to a ‘trust trap’ that is controlled by clarity and credibility of management values. If poorly handled, commitment is reduced. On the museum project ‘amazing’ results were achieved
indicating a willingness to share ideas through high levels of individual empowerment. Risk and reward arrangements also encouraged a team approach. The project participants were keen to share knowledge and had the best interests of the project at heart (Walker 2003), working as they did from their ‘virtual organisation’. A key desirable result set at the outset was ‘outstanding’ quality. This was described as innovative, rigorous and intelligent (Keniger and Walker 2003). The fact that the quality benchmarks were achieved is likely to be due to the team that included a specialist adviser with direct experience of developing quality measures for another significant alliance project (Walker and Hampson 2003c). The creation of an alliance leadership team encouraged motivation as all alliance partners were represented. Devolved dispute resolution identifying best for project solutions virtually banned litigation (Walker and Hampson 2003c). Negotiations were not without heated discussion and debate but they were always managed on the ‘best for project’ outcome. Keniger and Walker (2003) surveyed participants on the museum project to compare negotiating styles with their approach to negotiation on BAU projects. The results indicated a more open and project focus with high levels of sophistication. There was strong evidence that collaborative attitudes and effective communication skills driving sound decision making were at the forefront. In the same survey project participants were willing to make sacrifice to ensure the long term viability of the relationship. Walker (2003) compared negotiation tactics on the museum project and interesting points were raised with regard to negotiating style, in as much as a significant number of those interviewed believed that their style and impact of negotiating had significantly changed (for the better) from BAU.

The case studies show similarities of lessons learned in many areas, in combination they show that the literature that forms the body of RM knowledge is appropriate to construction and engineering projects. Relationship benefits and drawbacks are identified in the case studies and strategies to manage them are rationalised. The relationship variables of trust, commitment and performance satisfaction whilst not tested in a quantitative analysis are shown to be robust from a qualitative perspective, with examples cited in each of the cases. Limited quantitative research in the museum project study supports this.

CONCLUSION

RM has been introduced as a concept that is more powerful and appropriate to construction than marketing. A distinction was drawn between RM and marketing and benefits that accrue from a corporate strategy that includes RM are shown. Three key variables; trust, commitment and performance satisfaction, being important facets of RM were outlined with construction examples. To contextualise this, current literature on RC and alliance procurement is reviewed. Finally three Australian case studies are used to operationalise the research by amplifying the lessons learned reported by the participants.

RC seems to work because people typically prefer to work together rather than constantly endeavour to get ‘one-up’ on the other party. This may not be true in all cases but the upsurge in research that forms the grounding for this paper seems to indicate an exponential increase in, not only literature related to relationship based
contracting, but also projects that use RC philosophies known to the writer in addition to the case studies reported.

REFERENCES


