RELATIONSHIP DEVELOPMENT IN CONSTRUCTION PARTNER SELECTION

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ABSTRACT

Relationships between actors in organizations are incrementally refined evolving strategies that change the context in which partner organizations act. The development of relationships is an iterative and evolutionary learning process that has many implicit characteristics. Three important characteristics are commitment, trust and cooperation. These become increasingly active or sometimes latent throughout the relationship development process. Relationship development encompasses partner selection, when the purpose of the relationship is defined, boundaries establishment and finally value creation and maintenance. These stages are the learning phases of the relationship contract and represent the incubator of the characteristics mentioned earlier. Relationship contracting is described using significant research investigating marketing and its transition to relationship marketing. A relationship development process is explored in this environment. Three recent public sector projects are set out as exemplars where relationship development theory is seen to be in operation in a construction context. These case studies anchor the relationship marketing theory into construction practice. The implications of relationship marketing for construction include forging stronger ties that encompass technical knowledge and learning and affect the social capital of the industry. Evidence from the example projects, illustrates how relationship development process can deliver advantages to stakeholders in the supply chain.

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

INTRODUCTION

The relationship development process is a core driver if a successful relationship contract or alliance is to follow. Relationship contracting is becoming widely accepted as a suitable alternative to transactional orientated forms of procurement. The relationship aspect overcomes the ‘business as usual’ adversarial nature that a price imperative approach typical of transactional contracting engenders. Relationship contracting also provides additional intangible but important benefits to the project

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team. These additional benefits accrue from trust, commitment and mutual goals that are developed for the long term in the relationship development process. The structure of the paper is such that it introduces relationship contracting (RC) using the body of knowledge that is current in the business arena of marketing, known as relationship marketing (RM). Following this the relationship development process is catalogued in RM terms identifying the partner selection, purpose definition, setting boundaries, creating value and relationship maintenance stages. These stages are the learning phases of the relationship contract and represent the incubator of the three variables mentioned earlier. To validate the theory above, several recent public sector case studies are described. In the discussion examples are displayed where an increased understanding of technical, knowledge and social areas founded on trust and commitment support the variables underpinning RC.

RELATIONSHIP CONTRACTING

This section introduces relationship contracting (RC) using the body of knowledge that is current in the business arena of marketing. The body of knowledge is known as relationship marketing (RM).

RC focuses on generating and maintaining relationships. However it should not be assumed that RC is without commercial boundaries or financial interests. RC provides a flexible management framework underpinned with a form of governance that aligns commercial interests with predetermined project outcomes (Ross 2003, Australian Constructors Association (ACA) 1999). The governance documents in this context are very different from those drafted 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, do form an implicit underlying theme of RC (Hutchinson and Gallagher 2003, Hollingsworth 1988). This language is at odds with transactional procurement thinking, although benchmark documents that have captured a change in contracting strategies do use these terms (Egan 1998, Latham 1994). These reports when compared with more recent texts that discuss relationship based procurement show where enhanced value is provided to project participants in a RC environment (Walker 2003).

Generally speaking an alliance is a group of organisations working together in a cooperative arrangement with an aim to reduce overall costs, share project risk and reward and increase profits (Das and Teng 1998, KPMG Legal 1998, Allen 1995). The parties have a focus on relationships (Pascale and Sanders 1997) that build on trust in construction business agreements (Kubal 1994). An alliance goes further than transactional procurement, or indeed partnering. The entities involved seek to align objectives and collectively develop an appropriate project scope from an early stage. An alliance links organisational performance of participating firms within the framework of a legally enforceable agreement (KPMG Legal 1998). Antagonistic issues such as price and change are accounted for in the earliest stages of the project (Walker, Hampson and Peters 2000, Pascale and Sanders 1997, Allen 1995, Haimes 1995, Kubal 1994). Successful alliances are not based on low-bid tendering (KPMG Legal 1998). There are three factors that must be present if an alliance is to be successful. The first is alignment of objectives (Boyd and Browning 1998, Pascale and Sanders 1997, Allen 1995, Haimes 1995, Kubal 1994). The second is win-win attitudes (Tomer 1998, Hampson and Kwok 1997, Kubal 1994). The final factor for a successful alliance is risk allocation/ commercial incentives (Fellows 1998, KPMG
Legal 1998, Scott 1993). These factors are founded on several attributes that include; trust, cooperative rather than adversarial relations, collaboration rather than competition, problem solving and innovation rather than sanctions or contractual penalties (Boyd and Browning 1998). Most importantly an understanding of alliance project culture is an imperative (KPMG Legal 1998, Thompson and Sanders 1998). This culture is largely developed in the relationship development process.

THE RELATIONSHIP DEVELOPMENT PROCESS

Employee behaviour cannot be wholly governed by contract, to fill gaps in the employee-employer relationship a body of knowledge known as ‘The Psychological Contract’ (PC) has evolved that deals with unwritten expectations as opposed to conscious expectations (Argyris 1990 cited in Anderson and Schalk (1998). This premise is confusing and problematic, intimating that an organization can have uniform expectations, or ‘feelings’. A better concept is provided by Rousseau who narrows the PC definition to an individual’s belief concerning mutual obligations in the context of a relationship between an employer and employee (Rousseau 1990). By using this definition in the arguments below that concerns the development of the relationship process, the perspective shifts from a relationship between individuals and organisations to the singular level of individuals.

Many activities fall into distinct phases. Overall relationships are evolving, incrementally redefined strategies that change the context in which people in organisations act. Relationship development (RD) is an iterative and evolutionary learning process (Boddy, Macbeth and Wagner 2000, Dwyer, Schurr and Oh 1987). Significant variables in RD are experience; uncertainty, adaptations, commitment and distance (Ford 1982). These variables appear to some degree in all RD phases.

Initially the process relies on one party identifying a need. Dwyer, Schurr and Oh (1987) refer to this as ‘awareness’ whilst Ford, Hakansson and Johanson (1985) consider ‘capability’ as an appropriate adjective to describe the first phase in RD. In essence this first phase is one of strategy with potential partners looking for alignment (Johnson and Scholes 1999). In particular actors are looking to determine goals and objectives at a project level (Thompson and Sanders 1998). An organisation must be able to analyse itself and describe itself in terms that the prospective partner can comprehend and relate to (Ford, Hakansson and Johanson 1985). In this initial stage the scope of the relationship is ill-defined. Many requirements and benefits are unclear (Ford 1982). There may be ‘positioning’ to enhance attractiveness (Dwyer, Schurr and Oh 1987). This first phase in RD will often happen without commitment either through design, or the fact that it is difficult to assess commitment (Ford 1998, Wilson 1995, Ford 1982). However, consideration is given to several aspects including managerial expertise. To move away from competing objectives the relationship driven entity (RDE) must improve communication thereby increasing trust and respect (Thompson and Sanders 1998). Due to difficulties in analysing partners, uncertainty is high and any judgements will be made on perceived reputation as a substitute for experience (Ford 1982). Discussion with multiple partners is a typical risk reduction strategy (Wilson 1995). Sometimes partners will move slowly, minimising commitment (Ford 1998), or enact limited exchanges (Donaldson and O’Toole 2001). Even in this first phase mutual trust will begin to develop as the cultural distance as described by Ford (1982) decreases. This aspect mitigates the high levels of
uncertainty more quickly with some potential partners than others, accordingly some potential partners will be quickly lost or disqualified (Ford 1998).

Choosing the right partner and positioning your organisation in the relationship web are crucial issues (Donaldson and O’Toole 2001). Reviewing potential relationships the actors will ask which relationship warrants development, how should the organisation structure be developed to manage these relationships and importantly should a collaborative approach be pursued at all (Donaldson and O’Toole 2001)?

To summarise phase one of RD reference is made to Thompson and Sanders (1998) who highlight several characteristics of development in a cooperative environment. Characteristics they describe include common project-specific objectives, improving interpersonal relationships and team membership not exclusively committed to the RDE, who portray guarded information and exhibit limited trust.

The second phase is more intensive and described as either the ‘definition’ (Wilson 1995), ‘lock-in’ (Donaldson and O’Toole 2001) or ‘exploratory’ phase (Ford 1998, Dwyer, Schurr and Oh 1987). Serious negotiation takes place with overt exchange of information and mutual learning (Ford 1998, Dwyer, Schurr and Oh 1987). The negotiation entails bilateral communication of wants, issues, inputs and priorities (Dwyer, Schurr and Oh 1987). Ford, Hakansson and Johanson (1985) use a term ‘mutuality’ to describe this phase as it rests on the importance of common goals. Trust is not yet principally in play and there are mutual concerns about commitment, however the parties must display serious interest and consider relationship obligations to overcome a propensity to depart (Ford 1998, Dwyer, Schurr and Oh 1987). It is a circular process as additional commitment builds trust. Adopting this premise Dwyer, Schurr and Oh (1987) indicate that trust is fundamental to the relationship interaction, helping parties understand expectations for cooperation and planning in a relational contract (Wilson 1995, Dwyer, Schurr and Oh 1987). Trust affects buyers’ behaviour and attitude impacting on negotiation and bargaining. This is supported by Wilson (1995) who indicates social bonding and trust development are “ideal outcomes”. If they are not obtained “lack of personal trust” or “incompatible personal chemistry” are blamed for the failure. At this stage the relationship needs to reach a business friendship level (Wilson 1995). Due to the apparent absence of common culture and understanding, scope and goal definition are critical decisions for the relationship partners (Wilson 1995). In the second phase norms, that dictate standards of conduct, are adopted (Ford 1982). In effect regulations of exchange are created and become ‘ground rules’ for future exchanges. These generalised expectations guide perceptions of social exchange and accordingly exert powerful influences upon behaviour. This is a concept supported by Boddy, Macbeth and Wagner (2000) who indicate that dealings become more direct as norms are developed.

As we have seen in the earlier phase of RD risk is prevalent due to a lack of understanding. As trust and the desire to work together increase the potential partners increase ‘risk-moves’. Examples of risk moves may take the form of a large concession that requires reciprocation, a proposal for a compromise that reduces tension or a candid statement about one’s motives and priorities (Dwyer, Schurr and Oh 1987). The trade off between risk and reward is of great concern to all parties. Thompson and Sanders (1998) provide several important examples, two of particular relevance relate to future conditions that may be contrary to expectations or unethical behaviour in the relationship.
In conclusion to this phase the relationship remains fragile with limited commitment. It can end relatively easily, however dissonance will not dissolve the RD. It is common for firms to have overall mutual interest, whilst simultaneously being in conflict over what they should be doing for mutual achievement (Ford, Hakansson and Johanson 1985). The parties to the relationship will still make comparisons and measurement against strategic benchmarks, however, performance satisfaction will reduce this trait (Wilson 1995).

In the third phase the relationship is close to becoming in place. Indistinct boundaries forming the operational parameters of each organisation in the RD are loosely defined (Wilson 1995). Despite the fact that the relationship may not be a contractually bound joint venture it is growing largely through a voluntary elimination of barriers that builds on the process improvements (Thompson and Sanders 1998). These boundaries may change with individual contractors and are dependent on activities undertaken in the supply chain. Indeed Araujo, Dubois and Gadde (1999) propose four interfaces from standardised, through specified and translational to interactive, that serve to balance the costs and benefits of establishing and maintaining supplier interfaces. Heide and John (1990) refer to this as boundary penetration. As the actors within the RD process become more particular the outcome begins to impact more significantly on other organisational interactions (Ford, Hakansson and Johanson 1985). The RDE is coming to fruition as they commence to acquire assets (Wilson 1995). They begin to become more interdependent and organisational lines disappear (Thompson and Sanders 1998, Dwyer, Schurr and Oh 1987). Conflict for resources between the RDE and other colleagues ensue as is typical in a project environment. However in this instance it is functioning on the basis of mutual goals, trust and social bonding that were established in the earlier phases of the now strong relationship. Knowledge of norms and values of associated actors is acquired (Ford 1982). Dwyer, Schurr and Oh (1987) indicate that when exemplary exchange takes place surpassing expectations, attractiveness increases thereby enhancing goal congruence and cooperativeness. Informal rules created in the RD team establish governance within the structure of the relationship (Wilson 1995). All parties will alter their procedures and may make ‘informal’ adaptations (Ford 1982). Reciprocal adaptation will involve cost as asset specific resources will be difficult to transfer to other uses; these actions tend to bind the RDE strongly together.

**Summary of RD process**

The process of developing relationships draws together many facets from initial strategy through commitment to durability and finally enduring relationship quality. These three phases are not mutually exclusive and each represents a collection of iterative macro processes that finally lead to the next phase through fuzzy seamless boundaries that are punctuated with incremental investments. In the first of the three phases, the assessment phase, mutual investment leads to adaptations designed particularly for the RDE. In turn this careful adaptation leads to further committed investment that may be either economic or socially driven. Subsets of these drivers in both cases are either related to the product/ organisation or they may be person related (Wilson and Mummelaneni 1986). In either case the commitments lead to the development of trust to greater degrees as increased interactions take place. At this point comparison with prior exchanges reinforces or reduces commitment within the RDE. The commitment phase, the second phase, is measured by many factors such as satisfaction and comparison between the qualities of acceptable alternatives. Stronger
ties are forged that may encompass technical, social, or knowledge areas. These are once again tested against benchmarks of credibility and trust. In the last phase, enduring relationship quality and regular evaluations take place in an environment of a strong relationship.

CASE STUDIES

To validate the empirical body of knowledge three recent public sector projects are described (Yin 2003). These projects are representative as they enabled detailed analysis of relationship development that took place in a controlled environment. The period of focus was the two day development process that typically happens in project alliance procurement. Analysis of available documents together with transcribed personal accounts showed particularly where trust and commitment was developed supporting the propositions made concerning RD. An increased understanding of relationships that encompasses technical, knowledge and social areas was also found in the development stage of the case studies. Once again this appears to accord with the literature.

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

The Woodman Point Environmental Enhancement Project (WA21) had a primary objective to upgrade the capacity of 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 (WA) treating and disposing up to 160Ml of effluent per day (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 patented control technology, breakthrough engineering design and innovation in difficult ground conditions (Whiteley 2004). An alliance was formed as the delivery vehicle and the project represented the first major public works construction alliance in 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 Corporation decided that Beenyup should be an alliance very early in the conception stage of the project. The decision was supported on the basis of delivery date, community relations, evolving requirements of the project and the 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 (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
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 50K 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 2003). The team that represented the National Museum project may be found with reference to (Walker and Hampson 2003).

DISCUSSION

In all the above contracts the RD process happened in participant selection workshops. The selection workshops were typically of two days duration and enabled determination of trust, leadership, and commitment to the project, from those contractors being considered (KPMG Legal 1998). The parties were endeavouring to understand what it was like to work together and at the same time build relationships (Hutchinson and Gallagher 2003, Ross 2003). This is exemplified at Beenyup where at the foundations workshop participants were asked to convey their expectations of the workshop/ RD process. Several themes were observed from the twenty three participants including; commitment, relationship building (new and existing), eliminate misalignment (of goals), deepened understanding and clarity (of process, participants and product) and (organisational) learning and consistency (SRD Consulting 2002). These themes were built upon through the duration of the RD process when the discussion considered behaviours and commitments and observations recorded included; focus on objectives, best for project decisions with no blame, working hard in tough times, challenging boundaries and risk taking, and a respect for background skills (SRD Consulting 2002). In the evaluation of the RD process highlights were observed that included; exchange of ideas, stretch thinking, good listening and balanced contribution; and the ability to work together was recognised (SRD Consulting 2002). WA21 was no different to Beenyup with the RD process soliciting and gaining team member commitment (Water Corporation 2003b). Feedback from the participants at the WA21 RD workshop displayed a desire to work together; solicit technical excellence, and an inherent fit with the alliance culture. It was recorded that “There was a great deal of ‘bonding’ achieved as part of the selection process”. In establishing the evaluation process the steering team was aware that alliances are about people and relationships (Water Corporation 2003a). The museum project evaluation team made selection from four short listed national and international companies, three of which went forward to a two day RD workshop (Walker and Hampson 2003). The purpose of the RD workshop was inherently similar to the two described earlier being principally to establish a pattern of relationship development that would enable outstanding project success. Walker and Hampson
(2003) indicate that the RD process ‘effectively revealed true intentions, vulnerabilities and strengths of all the proponents.’ An unpublished survey by Walker (2003) showed 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 business as usual (BAU) environment. In another instance when a question was posed that considered participants involvement a double score rating over BAU was once again shown.

CONCLUSION

It has been argued that the relationship development process is crucial to a successful relationship contract/alliance. It is also argued that there is a definite structure that is underpinned with specific themes that should be considered when managing the RD process. Trust and commitment whilst not explicitly addressed in the paper are recognised as important implicit elements. It is also indicated that relationship based procurement is dependent upon and is reinforced by joint learning from joint problem-solving activities.

Evidence from case studies that are prominent examples of relationship based procurement projects illustrate how the RD process can deliver a win-win situation for project participants throughout the project supply chain. While the limitations of the paper are recognised, in as much as it is exploratory it does provide a framework for understanding the principal processes that lead to project success using a relationship based procurement approach. Clearly, an understanding of RD processes and its positive impact upon supply chain management did influence the outcome of the projects and the argument that this lies at the core of understanding how this may occur has value.

Future research is currently being designed to consider how this success may be replicated on other projects.

REFERENCES


