

# Partnering In The Construction Industry - Is It The Answer?

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## 1. INTRODUCTION

The concept of the project management process called Partnering has gained a great deal of momentum over recent years within the construction industry in Australia.

Advocates of the Partnering process have pointed to the early results from firms within the United States where applying the concept has resulted in a range of benefits for all participants such as:

- reductions in overhead project management costs;
- project completions ahead of schedule;
- project completions on or under budget;
- reductions in claims and litigation.

This paper will briefly review the principles of the Partnering concept, examine the process and results achieved on a project undertaken by the Northern Territory University using Partnering and then provide a statement on the likely role that partnering can have in the construction industry in future based not on a theoretical analysis of the concept of partnering but on a practical evaluation of where benefits are likely to occur and where problems could be encountered.

## 2. PARTNERING OVERVIEW

### 2.1 Definition

Partnering has been described as:

*“a long term commitment between two or more organisations for the purpose of achieving specific business objectives by maximising the effectiveness of each participant’s resources. The relationship is based on trust, dedication to common goals, and an understanding of each other’s individual expectations and values”.*<sup>1</sup>

In this paper the concept of partnering is referred to at a project specific level and only after the contract has

been signed. A more relevant definition would therefore be:

*“a process of establishing a moral agreement or charter between the project team members along with a moral framework to assist in its successful implementation”.*<sup>2</sup>

### 2.1.1 The key elements of Partnering are:<sup>3</sup>

#### (a) Commitment

Genuine commitment to partnering needs to exist at all levels, in each participant’s organisation. The project team must perceive that top management is absolutely committed to partnering, and is prepared to remove from the team anyone who does not demonstrate compliance with the partnering philosophy.

#### (b) Equity

All stakeholders’ interests are considered in creating mutual goals and there is commitment to satisfying each stakeholder’s requirements for a successful project by continually searching for solutions that meet these goals.

#### (c) Trust

Embarking on a partnering venture involves a major shift in attitude from seeking to maximise individual gain at the expense of others, to continually searching for solutions that benefit all project participants. Creating these relationships begins with respect for others, from which trust and in turn a team approach emerges.

#### (d) Development of mutual goals/objectives

In a Partnering process, each stakeholder’s interests are considered by creating a set of goals that satisfies their requirements for a successful project.

At a Partnering workshop the stakeholders identify all respective goals for the project in which their interest overlap.

**(e) Implementation**

Stakeholders together develop strategies for implementing their mutual goals and the mechanisms for solving problems.

**(f) Continuous Evaluation**

In order to ensure successful implementation of Partnering on a project, a method of evaluating the effectiveness of the Partnering team is developed by the stakeholders to ensure “*follow through*” on the Partnering agreement and the successful implementation of the project goals.

**(g) Conflicts Avoidance**

In the workshop the players define a procedure for rapid resolution of disputes at the lowest management level possible, with an escalation of unresolved disputes to successive management levels up to CEO level before resort is had to litigation.

**2.1.2 Types of Partnering<sup>4</sup>**

Partnering in the construction industry can exist at a number of levels:

- (a) long-term relationships between contractors and their clients that endure through a number of projects;
- (b) long-term relationships between contractors and sub-contractors/suppliers also enduring through a series of projects; and
- (c) one-off, project specific partnering, starting at the concept stage, or after the construction/design and construction contract has been awarded.

It is the latter part of this third level which has been the principal focus of efforts in the construction industry in Australia.

**2.2 Partnering Process**

Because every project is unique and the particular stakeholders for each project will vary, the process should be tailored by and for these stakeholders for their project. The Partnering process can be developed for any type and size of project.

**2.2.1 Educate your organisation<sup>5</sup>**

Whether you are an owner or a contractor, you must educate your own organisation about Partnering before attempting a project using the concept. Understanding and commitment is essential.

**2.2.2 Make Partnering Intentions Clear<sup>5</sup>**

The owner’s intention to encourage Partnering should be stated at the earliest possible point. The statement should emphasise the voluntary nature of Partnering and that the costs associated with implementing it would be shared equally but with no associated change in the contract price. Typically a letter can be sent to the Chief Executive of relevant organisations indicating the

desire to utilise the Partnering concept on a project.

It may be that a pre-tender conference could be convened and include a presentation on Partnering. Alternatively, consultants, contractors or subcontractors can propose and initiate a Partnering agreement before or after the letting of the commission, contract or subcontract. The timing is independent of these more formal processes.

**2.2.3 Commitment from Top Management at the Start<sup>5</sup>**

Following the award, the owner, consultant, contractor or subcontractor can request a meeting at the Chief Executive Officer level to discuss the Partnering approach to managing the project. Commitment at this level is absolutely essential for Partnering to achieve its potential goal. Upon agreement, each party will designate a Partnering leader. These leaders will meet at a neutral venue to get to know one another as individuals and to plan a Partnering workshop.

Visible top management commitment sends the vital message that Partnering is acceptable and will be supported. Management support, instilling enthusiasm and overcoming obstacles, empowers people to act. Top managers can most visibly show their support by attending the Partnering workshop and introducing the concept in person.

**2.2.4 Partnering Workshop**

As soon as possible after the award of the contract, players from each stakeholder actually involved in the project and with decision making authority should attend a partnering workshop, which typically last 2 to 3 days. This should be managed by a neutral facilitator who guides the participants to discover for themselves the benefits of co-operative action. The workshop should address the development of:

- (a) the Partnering Charter;
- (b) an issue resolution process;
- (c) a joint evaluation process;
- (d) a conflicts avoidance strategy.

**(a) The Partnering Charter**

The stakeholders:

- identify all objectives for the project in which their interest overlap;
- jointly develop a set of mutually agreed objectives and a mission statement, which are incorporated in the Partnering Charter signed by all stakeholders. The “*partnering objectives*” may include:
  - stakeholders value management savings;
  - meeting the financial goals of each party;
  - limiting cost growth;
  - limiting review periods for contact submittals;
  - early completion;
  - no lost time because of injuries;
  - minimising paperwork;
  - no litigation.

There is a strong common element among the goals of all the parties. For example, constructing authorities wish to complete quality projects, safely, on time and within budget. Contractors want to maximise profit and satisfy their clients to enhance future business opportunities. Customers desire a quality product as quickly as possible, at minimal cost.

The usual project management barriers between contractors and designers may need to be broken down in this process. For example, contractors need to address design choices as well as construction materials. All players need to feel able to comment on every aspect of project performance.

**(b) Communication framework**

The stakeholders work out together a communication structure, roles for on and off-site management, and a timetable for partnering meetings.

**(c) Continuous joint evaluation**

The stakeholders also arrive at a procedure for meeting regularly to evaluate how well the partnering objectives are being achieved. Of course some of the objectives, such as safety or quality can readily be measured - by severity/number of injuries or defects, for example. However, others, while less tangible, may be every bit as essential to the ultimate success of the project.

**(d) Conflicts Avoidance**

In the workshop the players define a procedure for rapid resolution of disputes at the lowest management level possible, with an escalation of unresolved disputes to successive management levels up to CEO level before resort is had to litigation.

**2.2.5 Further Partnering Meetings**

Throughout the project the parties meet to jointly evaluate the implementation of the partnering objectives, and raise and deal with requests for clarification and potential disputes on a face to face basis. The project should conclude with a close-out review session.

**3. A CASE STUDY - N.T. UNIVERSITY FACULTY OF BUSINESS, TOURISM AND HOSPITALITY TRAINING FACULTY**

**3.1 Project Information**

The \$6 million Tourism and Hospitality building at the NT University Palmerston Campus is a unique and complex building for the practical training of students in commercial cookery, food and beverage and accommodation services and control systems. The facility includes teaching kitchens, training bars, restaurants, computerised booking facilities and motel rooms.

The project was the first to use the partnering concept within the Northern Territory and was successful in receiving an award at the 1994 Master Builders Australia Partnering Excellence awards.

**3.2 Key Dates**

- Contract awarded 17 December 1993
- Partnering workshop 28 January 1994
- Construction started 17 February 1994
- Original contract completion date 21 October 1994
- Revised contract completion date 17 December 1994
- (Due to Value Management Study)
- Completion achieved 17 October 1994
- Building fully occupied First Semester 1995

**3.3 Partnering Process**

**3.3.1 Background**

Tenders for the Tourism and Hospitality Training Facility Project were called by the NTU's Construction agent for the project the Northern Territory Department of Transport and Works on 22nd October, 1993. The single storey building was originally designed to be a precast concrete structure with a steel framed roof.

Tenders were called on the basis of the standard NPWC Edition 3 Contract Conditions and following tender close on 1st December, 1993 John Holland Construction & Engineering Pty Ltd were advised they were lowest price.

At the pre-award meeting with the Northern Territory University (the Principal) and the Department of Transport and Works (the Superintendent), John Holland (the Contractor) proposed a "Value Management" Study which was seen as a natural progression from the alternatives offered in the Tender and the Northern Territory University's desire to investigate further savings to the overall project.

It was agreed at the above meeting to use the four weeks following the Tender close (over the Christmas period) to investigate and develop design alternatives in-house by John Holland. Following confirmation of reasonable savings being achieved a Redesign process would proceed. During this period it was agreed by all parties that the project be delivered using the Partnering Principles. The initial Partnering Workshop took place on 28th and 29th January, 1994. This was opened by the Chief Minister, Hon. Marshall Perron MLA, in the presence of the Vice Chancellor of the University, Professor Malcolm Nairn.

The design exercise performed by John Holland showed that savings of at least five hundred thousand dollars (\$500,000) were achievable on the project overall and on this basis the team set about investigating changes to most areas of the building without altering the building's functionality. The major areas were structure (roof, floor slab, walls), services (mainly mechanical and electrical) and plumbing/stormwater.

The Value Management Study which included input from the end users, also resulted in the Team agreeing to add extra value into the project by incorporating additional items into the project as well as upgrading some services.

### 3.3.2 Workshop

The initial workshop took place over two days on 27th and 28th January 1994 followed by a review on 1st July 1994. It involved a representative of all known project participants at the time including the Principal (both Building User as well as FMD representative), Contractor, Construction Agent, Sub-contractors and suppliers. It was facilitated by a member of the local Master Builder's Association.

The main outcomes of the workshop were:

- (a) The development of a statement of the group's goals and objectives of the project referred to as the Partnering Charter.

This was developed through the agreement of project performance objectives after consideration of each individual's values and project requirements.

- (b) The development of a performance objectives evaluation process.

A joint evaluation of the project performance objectives was undertaken through periodic meeting of key players using the performance measures. A rating form was used to assist the process.

- (c) The development of a problem identification and resolution process.

A very crucial component of Partnering is the development of a process to deal with problems and ensure effective communication. This was undertaken in two stages:

- (i) the identification of potential obstacles and a statement of actions to be undertaken to avoid the obstacles realising their full potential;
- (ii) the agreement by all partners of those in their organisations who would deal with issues as they arose, the length of time allowed to deal with each issue and how problems would move to the next level of management to attempt to find a solution. This is called the issue escalation framework.

#### (d) Appointment of Partnering Leaders

To ensure the follow up of all actions agreed to at the workshop a small team of leaders was formed to act as a steering group for implementation of the Partnering strategy.

### 3.3.3 A follow up workshop was held on 1st July 1994 to:

- (a) Review the progress of the Project and the success of the partnering process.
- (b) Identify and resolve issues and concerns that

have arisen over the final few months of the project.

- (c) Look forward to the challenges of the next stage of the project.
- (d) Introduce new project staff and new subcontractors to the Partnering process.

## 3.4 Results

### 3.4.1 Qualitative

The "Partnering" approach on this project resulted in numerous benefits to both participants and the project generally.

Benefits in the following areas came about due to an increased pride in the project itself, direct ownership of decisions taken, the positive commitment to the achievement of the project objectives and goodwill in general.

#### (a) Improvement in quality of the Project

This was achieved due to increased pride and commitment to a quality end product.

Decisions relating to end quality of the product were made without delay and by the people who could effect the result.

#### (b) Innovation

Sub-contractors, consultants and generally all participants took a very positive approach to incorporating innovative solutions.

Any ideas related to achieving a better result for the project overall were enthusiastically adopted by the Superintendent and Principal. Some of these ideas resulted in cost savings and time saving while some simplified details and co-ordination.

By eradicating some of the traditional demarcation lines that are normally evident on projects ideas came forward from people who became used to just "doing their job". For example, by involving the Transport and Works inspectors in problem solving the amount of paperwork was significantly reduced. The number of "requests for information" to the Superintendent on this project numbered less than 20 compared with in excess of 250 or more on similar recent jobs.

Numerous innovative solutions were adopted during the design phase which resulted in over \$400,000 worth of savings. This enabled some additional "added value" items to be incorporated.

#### (c) Goodwill

One of the overriding benefits which resulted from the "Partnering" approach adopted on this project was the genuine goodwill which was generated within the team. The team approach to solving problems and involvement of others in issues gave rise to some excellent results. For example during the structural phase of the project a local block layer who had given a commitment to do the blockwork package withdrew. An attempt by

John Holland to secure more block laying teams were fruitless. Normally this would be seen as the Contractor's problem but it was discussed with the Superintendent and the Department's inspector who were instrumental in sourcing some labour immediately. The quality of work produced by these block layers was excellent and John Holland secured them for subsequent work also.

**(d) Morale**

All team members were able to rely on each other to assist with finding solutions to the inevitable problems encountered in the building industry and as a result of this and the open lines of communication no serious conflict occurred.

This project provided a challenge but also provided all participants with the tools to make sure they could achieve success and this in turn resulted in excellent morale on the job.

**(e) Communication**

Communication was open and direct on this project with a minimum of paperwork. Most paperwork generated was in confirmation of decisions made collectively. Formal site meetings were held weekly but were almost a formality only, as all issues were discussed and resolved when and where they were raised where possible.

All subcontractors were involved in programming and strategic site issues and had direct input into sequencing of the works.

The project's general foreman received full support in all of these areas.

**(f) Problem Solving and Decision Making**

As previously stated, decision making was carried out at the most appropriate level, where possible, with the people who actually did the work. Where clarification or further information was required to resolve a problem the people involved reacted immediately in all cases. The response times stipulated at the time of request were realistic and this was respected in all cases.

**(g) Project Participants Satisfaction**

The true success of the Project was measured by the achievement of the individual and collective objectives of all participants. The evaluation process resulted in a high level of satisfaction being expressed by project participants.

**3.4.2 Quantitative**

**(a) Safety Goals**

No lost time for injury or incident since project commencement was achieved. This met the agreed performance objective and was an excellent result. This was recognised by John Holland management nationally.

**(b) Time**

The completion date achieved for the project was

17th October, 1994. This was two months ahead of the contract completion date of 17 December 1994 and four days ahead of the original contract completion date of 21st October 1994. The completion date was extended to allow for the value management exercise.

This was a tremendous achievement for all involved particularly as it resulted in minimised risk and cost for every participant.

**(c) Budget**

The value management exercise resulted in savings of over \$400,000 being identified without having a detrimental effect on functionality and aesthetics.

The project was delivered within the agreed budget figure and apart from the single variation resulting from the value management exercise no other variation to the contract was required.

**4. IS PARTNERING THE ANSWER?**

**4.1 Benefits**

There is no doubt that when it works well partnering provides perceived benefits to all the stakeholders. The United States Construction Industry Institute Task Force identified the following potential benefits:<sup>6</sup>

- (a) improved ability to respond to changing business conditions;
- (b) improved quality and safety;
- (c) reduced cost and project time and improved profit and value;
- (d) more effective utilisation of resources.

Other benefits have been claimed:<sup>6</sup>

1. Better project documentation, due to involvement of the contractor and sub-contractors in the design process.
2. Improved site management methods and project co-ordination, leading to improvements in safety, design, and purchasing.
3. The substantial reduction of conflict as a cost factor by the solving of problems as they arise, and the sharing rather than secretive hoarding of information.
4. Increased potential for developing more effective performance measures, stemming from the commitment to continuous improvement.

Further benefits observed throughout the NTU's Tourism and Hospitality Training Facility project were:

- reduction of litigation and claims;
- increased potential to achieve innovative solutions;
- support from all participants due to the goodwill generated;
- the co-operative spirit resulting in a meaningful work environment and excellent morale;

- improved communication - this is one of the most effective outcomes of the Partnering Process. Traditional forms of building delivery don't allow for such extensive consultation between project stakeholders;
- improved image of the construction industry.

## 4.2 Pitfalls

### **Lack of commitment**

A lack of real commitment from the any of the stakeholders will lead to a breakdown in the partnering relationship. Suspicion associated with the offending stakeholder's motives and an unwillingness to trust that party to act in the best interest of the Partnership is likely to result. A breakdown of trust within the team can be devastating and will show up mostly by a breakdown in communication and the implementation of individual contingency plans by stakeholders to ensure their own objectives are protected.

### **Over reliance/complacency**

On the other end of the scale, there is a pitfall associated with the complacency that can develop as a result of relying too heavily on the key components of Partnering to automatically solve all problems. Partnering as with any relationship requires effort to maintain it at an effective level. Over reliance on the mechanics of the process to deal with all problems is a danger. It requires constant surveillance at all levels.

### **Panic**

One of the biggest dangers associated with the Partnering process is the panic that can set in when problems do arise. It is all very well to agree to a process that relies on trust and respect, however it takes quite a bit of nerve to adhere to the process when things appear that they could go off the rails.

### **Perceived Conflict**

Subcontractors may be seen to be too closely tied to a particular contractor whose competitors may then exclude them from their own tender list due to a perceived conflict of interest.

### **Cost of Involvement<sup>7</sup>**

Successful partnering requires the investment of significant management and staff time, effort and money. For many players this is accentuated, because partnering represents a major change in mind set, for benefits which are primarily intangible. In projects of smaller value or duration, the relative cost could outweigh the benefit.

### **Mistiming<sup>7</sup>**

A frequently heard complaint is that project partnering is introduced too late in the process and not

sufficiently far down the contractor-subcontractor-supplier-union-worker chain. Subcontractors supply over 80% of the input of construction projects but typically have next to no say in risk allocation in their subcontracts.

### **Union/Worker Involvement<sup>7</sup>**

Usually omitted from the lists of partnering stakeholders, unions will become increasingly important in an upturn in construction activity, when they will have an increase in bargaining power. The human value of commitment, equity and trust are critical to the effective involvement of workers on projects. Although enterprise agreements are assisting the process, it may be another generation before unions are properly included.

### **The Legal Interface**

Some lawyers become nervous when they hear of concepts such as the partnering stakeholders "*working together*" and "*owning errors*". These notions don't fit readily into any legal contract. Although consensus suggest that the actions applicable to partnering are of a moral nature and do not give rise to legal implication, some partnering arrangements may well be binding contracts and could well have legal implications.

It does appear therefore that legal input is essential to ensure that there is an appropriate interface between the partnering process and the contract documentation.

A pitfall could therefore be that the increased involvement of lawyers could work against what partnering is attempting to achieve i.e. eliminate disputes. For the success of the project the lawyer's role must focus on how to make partnering work effectively by advising on the framework of legal and working relationship between project participants.

## 5. CONCLUSION

This paper explores the question of whether the concept of Project Management called Partnering is the answer to consistently avoiding the problems that are encountered within the construction industry.

The answer to that question is a qualified yes. The qualification is related to the effectiveness of the partnership with effectiveness being dependent on the following key attributes required of the participants:

1. commitment;
2. trust;
3. courage.

*"I am occasionally asked if partnering works. My answer is, even if there were to be no financial or performance advantages, it is clearly the ethical way of doing business."*<sup>8</sup>

## POSTSCRIPT

The Northern Territory University has, since 1989, constructed sixteen (16) new buildings and refurbished six (6) old buildings at project costs of between \$0.1m and \$12m. Total construction cost for the period ending June 1996 has been approximately \$100m. Since 1994, commencing with the Tourism and Hospitality building, the University has completed four new buildings using the Partnering process. It is fair to say that the successful results achieved on these projects whilst not entirely due to the Partnering process - the competence of the project management team will always be the primary influencing factor - have been certainly enhanced significantly by the Partnering process in place. Many difficulties associated with budget adjustments, documentation discrepancies and risk sharing were dealt with most adequately through the excellent open communication framework established by the Partnership.

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