

# Relationship Contracting –

## Findings from a study of perceptions within the Australian Construction Industry

by Chris J. Clifton, David M. Young and Colin F. Duffield

### Disclaimer:

The views expressed in this paper are those of the authors and do not necessarily represent the views of Multiplex Constructions (Vic) Pty Ltd, The University of Melbourne or the Australian Centre for Public Infrastructure.

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### ABSTRACT:

This paper presents findings from a survey of major Australian contractors in the building and construction industry, which investigates their current perceptions of Relationship Contracting. Whilst these procurement strategies have been utilised in Australia for

over 10 years, they are still something of an unknown, or misunderstood, quantity within the industry. This study involves investigating building and construction projects in both the public and private sector to develop an understanding of this project delivery method. The study involves a state-of-the-art review of current practice and a detailed survey of major building and construction contractors. Findings suggest that whilst the prevalence of Relationship Contracting has not increased significantly, its techniques have become more commonplace in other delivery methods.

**Key Words:** Alliance Contracts, Relationship Contracting, Industry perceptions, Australian Construction

### INTRODUCTION:

Despite the growing interest in Relationship Contracting in the building and construction industry during the past decade, there has been comparatively little research that has specifically set out to gain an understanding of perceptions of these contracts within the Australian building and construction industry. This paper reports the findings of a study that recently investigated the current practice and perceptions of Relationship Contracting.

Relationship Contracting is an umbrella term for many different procurement strategies including: alliance contracting, partnering and other performance incentive contracts, which all have the common thread of aiming to optimise project outcomes. Specifically;

“Relationship contracting is a process to establish and manage the relationships between the parties that aims to remove barriers, encourage maximum contribution, and allow all parties to achieve success” (Australian Constructors Association (ACA) 1999).

There still seems to be strong sceptical views towards the appropriateness of specific forms of Relationship Contracting. Many accept that there is the potential for exceptional project outcomes, but without wanting to go the next step and actually implement a relationship style contract. The Austin Hospital in Melbourne, Australia, is a good example of this. The project was touted as an alliance contract, yet failed to be implemented in this style and has reverted to a more traditional contract.

The industry is still very slow to take up any relationship style contracts, apart from the outstandingly successful National Museum of Australia in Canberra, which has become a benchmark project for alliance contracts in Australia. Other alliance projects however, have not been as successful, specifically the Northside Storage Tunnel in New South Wales, Australia, which incurred large time and cost overruns.

This paper details the findings of a study that has investigated the industry's perceptions of the benefits of partnership contracts. The study has developed a consistent set of definitions for relationship contracts, critiqued the current state-of-the-art and undertaken a detailed survey of major building and construction contractors to assist in the identification of projects that are suitable for relationship contracts.

**DEFINITION OF TERMS:**

This paper seeks to provide consistent definitions of terminology in the Australian industry: it is our observation that the terms currently in use have different meanings to various industry stakeholders. The definitions below are employed in this paper.

**Alliance:**

An alliance is simply a long-term relationship between two or more entities pursuing mutual goals. See also “Strategic Alliance”.

**Alliance Contract:**

The specific contract that binds the alliance partners in a Project Alliance.

**Alliance Contracting:**

Another term for a “Project Alliance”, this is the highest order of Relationship Contracting (refer to Project Alliance for specific definition).

**Partnering:**

Partnering is a management philosophy that entails 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. It supplements contractual relationships and is based upon trust, dedication to common goals, and an understanding of each other’s individual expectations and values, but does not address contractual issues of risk allocation and remuneration (after Conley and Gregory 1999).

**Project Alliance:**

A Project alliance contract is an agreement between parties to work cooperatively to achieve agreed outcomes on the basis of sharing risks and rewards. “Alliance contracts have the potential to deliver substantial cost and quality benefits without the adversarial relationships common in more traditional contracts. It involves an integrated, high-performance team, sharing all project risks and opportunities, selected on a best-for-project basis, incentivised to achieve outstanding performance in pre-aligned project objectives with uncompromising commitments to trust, collaboration, innovation and mutual support in order to achieve breakthrough results” (Gallagher 2002).

**Relationship Contracting:**

“Relationship Contracting is a process to establish and manage the relationships between the parties that aims to remove barriers, encourage maximum contribution, and allow all parties to achieve success” (ACA 1999). It incorporates all specific forms of alliances and partnerships listed in this term list.

**Strategic Alliance:**

A Strategic Alliance is “a business relationship between organisations in which they share risks, pool strengths, or integrate business functions for mutual benefit” (Wood and Chew 1998). Sometimes the term is used interchangeably with Alliance Contracting, which does indicate that a strategic alliance exists, but a strategic alliance doesn’t necessarily indicate Alliance Contracting.

**RELATIONSHIP CONTRACTING**

**A review of previous literature:**

All forms of relationship contracting are now well established forms of project delivery in not only Australia, but also the United States and United Kingdom. As such, there is substantial literature that sets out to demonstrate its main practices and benefits, along with its pitfalls. Notably, Macneil developed a quantum shift in the approach to contract law through the development of the Relational Theory of Contract (Campbell 2004). Publications such as “Relationship Contracting - Optimising Project Outcomes” (ACA 1999), and more

recently “Procurement Strategies - A relationship based approach” (Walker and Hampson 2003) have sought to lift the profile and encourage greater understanding of relationship style contracts.

The ACA suggested a way forward through a series of client actions, summarised at Table 1.

<b>Requirement for Improving Project Outcomes</b>	<b>Client Actions</b>
1. <i>Prequalification of contractors</i>	<i>Clients to develop criteria using contractor input as required and pre-qualify contractors at earliest appropriate time based in nominated criteria</i>
2. <i>Improved project scope definition</i>	<i>Clients to improve detail of scope definition, increasing up-front resources to ensure scope definition is appropriate</i>
3. <i>Terms sheet of fundamental issues in the contract</i>	<i>Clients to initiate and develop in conjunction with the short listed contractors, as considered necessary either separately or collectively.</i>
4. <i>Risk allocation matrix</i>	<i>Clients to initiate and develop in discussion with contractors - either separately or collectively.</i>
5. <i>Procurement strategy eg. Lump sum, schedule of rates, alliancing etc.</i>	<i>Clients to select the procurement strategy, following input from contractors as necessary to optimise project.</i>
6. <i>Acceptable contract rewards</i>	<i>Clients to nominate, following discussions with contractors,</i> <ul style="list-style-type: none"> <li>• <i>Base level return for industry standard result</i></li> <li>• <i>Gain/Loss sharing for superior/inferior project result</i></li> </ul>
7. <i>Contract documentation</i>	<i>Clients to document based on previously agreed Terms Sheet and other criteria. Standard documentation to be used wherever feasible.</i>
8. <i>Trust and openness in dealings</i>	<i>Clients to work to develop improved openness and trust in contract dealings</i>
9. <i>Appropriate behaviour</i>	<i>Clients to educate and train their staff and third parties in appropriate behaviour in relationship contracting. Third parties would include lawyers, contractors or project managers.</i>

**Table 1: Requirements for Improving Project Outcomes**  
(adapted from ACA, 1999, pg 27)

In Europe, an extensive guide titled “Partnering in Europe - Incentive Based alliancing for projects” (Scott 2001) was released, which included a “toolkit” for anyone considering implementing an alliance. It is interesting and important to note the differing use of terminology by commentators; here Scott uses partnering and alliancing almost interchangeably, whereas in Australia these are two distinctly differing project delivery methods; (refer Definition of Terms).

In Australia, the major difference between the two methods is that with alliancing, the parties either win or lose together, whereas with a partnering method, one can reap rewards while other parties lose.

Walker and Hampson (2003) studied the National Museum of Australia project in Canberra to gain valuable empirical data on alliance contracts in action. This work enhanced previous anecdotal information that comprised a large amount of cautionary tales from legal commentators (Clayton Utz 1996; Abrahams and Cullen 1998; Clayton Utz 1998; Wood and Chew 1998; Armessen 1999; Clayton Utz 2000; Clayton Utz 2002). These commentaries outlined

possible benefits of alliance contracts, but generally retained a level of caution, recommending clients not take on additional risk.

### Essential Features of an Alliance Contract

Without launching into a detailed description of Alliance Contracts, it is worth describing some of their key features. Ross (2001) believed for a Project Alliance to be successful, it should contain all of the following features:

- Apart from certain obligations (e.g. the requirement for the owner to reimburse project costs) that inherently must rest with one party, performance obligations are stated to be collective.
- All parties win or lose together. Reimbursement to the non-owner participants (“NOPs”) is 100% open book and structured so that the NOPs receive an equitable sharing of gain/pain depending on how actual outcomes compare with pre-agreed targets in cost and non-cost performance areas.
- All decisions made by the Project Alliance Board (“PAB”) are to be unanimous. The PAB comprises one or two senior representatives from each participant.
- All members of the integrated project team are selected on a “best for project” basis, headed by a Project Manager.
- There is an express commitment to resolve issues within the alliance with no recourse to litigation, except in the very limited class of prescribed “Events of Default”.
- All aspects of project delivery are focused on high performance teamwork and “breakthrough” outcomes founded on an Alliance Charter that sets out the mission, objectives and behavioural commitments of the participants.

### Potential Cost Savings under an Alliance

As shown in the left hand column of Figure 1, under a traditional lump sum contract price has three components; an amount the contractor charges to cover direct costs, an additional contingency to cover the contractors additional costs for risks which may materialise, and the contractors profit margin and contribution to overheads, (Clayton Utz 2002).

Under a project alliance contract, as shown in the right hand column of Figure 1:

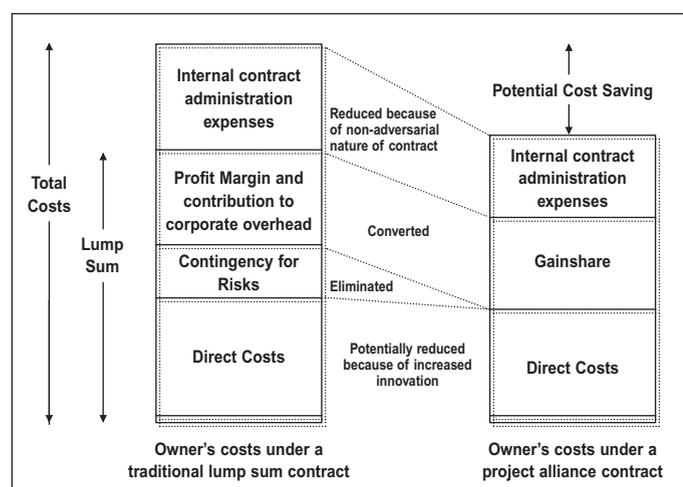


Figure 1 – Owners Potential Cost Savings (Clayton Utz 2002)

- There is potential for, but no guarantee of, a reduction in the project costs through the gainshare KPI (Key Performance Indicator) incentives which contain costs and other performance targets, and the no blame no dispute clause, which essentially allows the participants to innovate and take risks in the pursuit of enhanced project performance without fear of legal claims if they fail;
- As the owner has already committed to pay all the costs incurred by the contractor even if the target cost is exceeded, contingency is eliminated.

- The contractor’s normal profit margin and contribution to overhead is converted to the gainshare payment, with the maximum possible payment being agreed upfront; and
- The owner’s internal contract administration expenses are generally reduced, because the non-adversarial nature of the relationship reduces the resources required for managing and defending disputes.

### INDUSTRY SURVEY

#### The Australian Construction Industry

The Australian Construction Industry is a strong and diverse market which contributes greatly to the Australian economy.

The Australian Constructors Association (ACA 2004) is a representative body of contractors in Australia, and is dedicated to making the construction industry safer, more efficient, more competitive and better able to contribute to the development of Australia. ACA member companies have a combined annual revenue in excess of AUD 15 billion and collectively employ over 49,000 people in their Australian and international operations.

Admission to membership is open to construction contractors that carry out business in two or more Australian states and have an annual turnover in excess of AUD 200 million. A precondition of membership is that the Chief Executive must represent the member on the Association’s Board of Directors.

Members of the ACA were chosen as the survey sample as they represent companies in varied sectors and countries, and therefore have a significant influence over use and perceptions of project delivery methods.

#### Survey focus and structure:

This study and associated survey sought to:

- Investigate the perceptions of Relationship Contracting by the Australian market and the prevalence of Relationship Contracting as a project delivery method;
- Establish current practice and preferences for project delivery methods; and
- Understand why different contractual arrangements are implemented.

The survey was prepared and forwarded to the 15 ACA members in the building and construction industry, all of whom are experienced contractors across a wide range of sectors.

The participants were chosen because they comprise a group that delivers large scale construction and engineering projects, and therefore would have the greatest influence over the perception and use of Relationship Contracting.

A structured questionnaire approach was adopted to gather raw data and this data was complemented with semi-structured follow-up interviews to clarify certain issues raised in the questionnaires.

The questionnaire posed questions regarding company size, type, regions, turnover, existing contractual arrangements and tendering methods. A series of open-ended questions followed regarding how respondents saw Relationship Contracting, both now and in the future; how they thought it could be improved; how often they would implement Relationship Contracting techniques (on any project, not just a relationship style contract); how much control they had over what contractual method and project delivery was used; what risks they felt were most important and whether they were being addressed adequately. (Refer Table 2 for further detail).

No.	Question
1.	Which type of construction does your organisation undertake?
2.	What is your organisational annual sales (in millions of dollars (AUD))?
3.	What is your organisational annual capital works turnover?
4.	What is the approximate number of staff in your organisation?
5.	In which regions does your organisation operate? (Please tick all that apply)
6.	Please indicate the size and number of capital projects your organisation undertakes annually.  (If the project spans more than one year, please list the project in the year they commenced)
7.	What form(s) of project delivery have you been engaged in with Public Sector projects? (Please Circle)
8.	What form(s) of project delivery have you been engaged in with Private Sector projects? (Please Circle)
9.	What method of tendering have you been engaged in with Public Sector projects?
10.	What method of tendering have you been engaged in with Private Sector projects?
11.	At what stage in the development of a Design and Construct contract would you be invited to tender? (Please Circle)
12.	How often would you implement the following techniques:
13.	Please outline what experience you may have had with Relationship Contracts (heard of them, tried to implement, have implemented etc)
14.	Please outline any projects that have utilised any forms of Relationship Contracts; (Brief Description, Client, Consultants, Project Value, Project Outcomes)
15.	Would you utilise any forms of Relationship Contracting again? Why/Why not?
16.	Can you suggest any ways Relationship Contracting could be improved?
17.	Does your organisation have any influence over what type of contractual arrangement is chosen? (Please Circle)
18.	Do you believe clients/owners could be more informed or improve in any areas of Project Delivery?
19.	Please list the most important risks that you feel need to be adequately addressed within the contract, and are they being adequately addressed?
20.	Do you think the principles involved in Relationship Contracting could be applied to a Public Private Partnership style project delivery? Why/Why not?

**Table 2 – Summary of Survey Questions**

### Metrics adopted

A 5-point survey technique was implemented (5-always, 4-often, 3-sometimes, 2-rarely, 1-never) as this was seen to give the respondent the easiest possible method for answering the questions quickly and accurately.

The respondents' answers were consolidated and coded to facilitate comparison of answers and identification of trends across industry groups or with participant size or experience. While it is difficult to justify any conclusions statistically, given the small sample size and style of the survey, a number of trends and common findings emerged and these are indicated in the findings.

Some trends and findings relate to respondents generally while others relate to respondent categories. However, because of the small sample sizes, particular caution should be used in drawing conclusions as to the relative predominance of a view across that sector of the industry where there was not unanimity among respondents.

Additional comments made on the survey make up an important part of the results. They highlight specific issues or point to areas of concern to that organisation that may not otherwise have been considered.

### SURVEY FINDINGS

Comments provided in this section of the paper are based on survey distributed to 15 leading construction companies in Australia. The survey included a detailed glossary and definition of terms to assist in consistency of the data captured. Responses were received from 11 of the 15 participants (73% response rate). However, one of these respondents provided insufficient data to be included in the analysis of the results, so data is listed for ten firms only. The high response rate indicates a significant level of awareness within the industry. It also suggests recognition that, since Relationship Contracting is still something of an unknown quantity, any research leading to further dissemination of knowledge in this area can only be of advantage for the industry.

While it is not possible to draw statistically significant results from such a small sample size, trends in data which lend themselves to some conclusions have been identified.

The survey took in contractors that generally operate throughout Australia; however, some had operations stretching to South East Asia, the Pacific, United Kingdom, New Zealand, Africa and the Middle East. The majority had capital works turnover in excess of AUD 500 million, along with more than five hundred staff employed. The construction undertaken by the organisations covered civil engineering (including, highways, bridges, heavy civil etc), building, industrial facilities (power plants, refineries, water treatment plants etc) and mining.

The size and number of capital projects undertaken by the contractors varied widely, mainly due to the varied types of construction undertaken, as well as the specific business strategies. Larger numbers of projects do not necessarily equate to greater profits. Likewise, with larger dollar value projects; it comes down to what the organisation is best at implementing as well as what projects are on offer at the time.

#### Project Delivery Methods:

Generally, project delivery methods on public sector projects were biased towards more traditional contract types, with lump sum and design and construct contracts being most common. This was also true for the private sector; however Construction Management and Guaranteed Maximum Price (GMP) contracts were more prevalent than in the public sector. Whilst there has been limited application of Alliancing and Partnering agreements, they were more common in the private sector than the public sector.

#### Tendering Methods:

Methods of tendering for public sector projects were a mixture of open competitive and prequalified, whereas the private sector tended to use invited and negotiated tenders more often. In terms of when contractors are being invited to tender, the most common stages were concept and design development, with very few being involved from inception, feasibility and qualification, or project definition. This is one area where, by involving contractors earlier in the process, clients could potentially create innovations through the design process and save themselves cost and time issues later down the track. This is a tenet of Relationship Contracting, yet seemingly clients have not embraced the concept to date.

#### Project techniques:

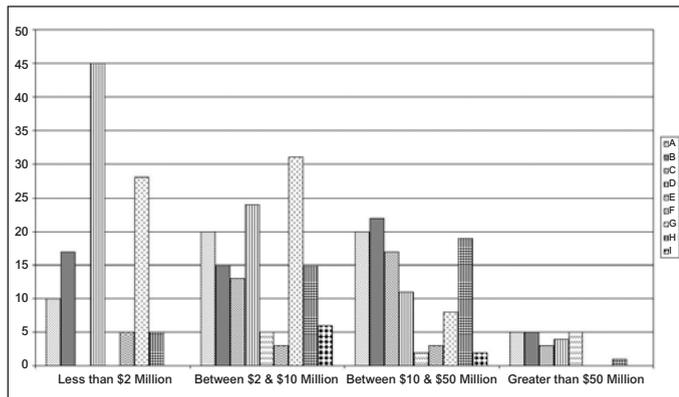
In terms of project techniques utilised throughout the project lifecycle, it was found that many techniques initially developed for a Relationship Contracting style delivery are being utilised in other project delivery methods. Hence, even though Relationship Contracting may not be the actual "delivery method" stated on the project brief, its techniques and philosophies have permeated through to other methods.

All contractors surveyed had some experience with Relationship Contracting. However, there was a mixture of positive and negative

responses. All seemed in favour of the concept, though the major stumbling blocks were where all parties were not committed to the approach, where the project was not suitable for a relationship style contract, and where there was inappropriate risk allocation.

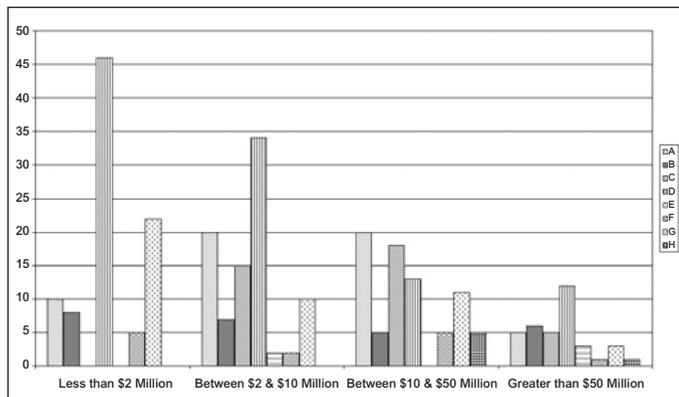
Most contractors indicated they have little control over what contractual arrangement is chosen, and that clients are often uninformed when it comes to innovative contractual and risk allocation mechanisms. It was also stated that Relationship Contracting was much more likely to be utilised by companies who had senior executives “championing” the method.

Findings from the contractor survey are presented as figures 2 to 10 for ease of comparison. Firms have been given random letter values A through J to maintain confidentiality, and are represented by this letter allocation throughout the figures. Incomplete responses to specific questions were excluded from the analysis.



**Figure 2 – Number and Value of Projects (2001)**

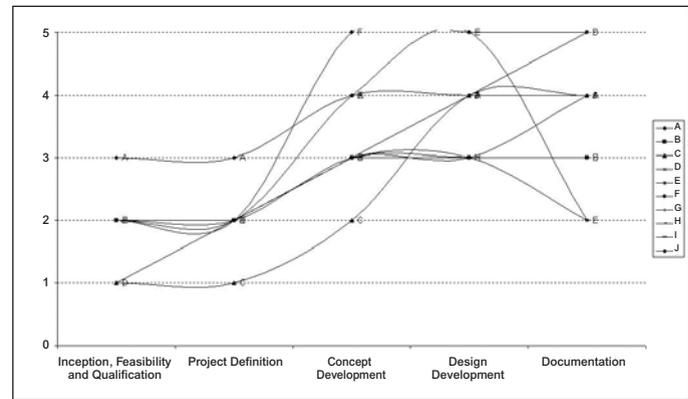
Figure 2: Number and value of projects (2001) and Figure 3: Number and value of projects (2002) refer to the number and Australian dollar value of projects undertaken over the years 2001 to 2003. Only a small percentage of organisations returned values for 2003 so those figures don't lend any significant conclusions and therefore have been left out.



**Figure 3 – Number and Value of Projects (2002)**

Whilst there is some variation in the number and value of projects undertaken between the results for 2001 and 2002; there are no significant trends to be viewed.

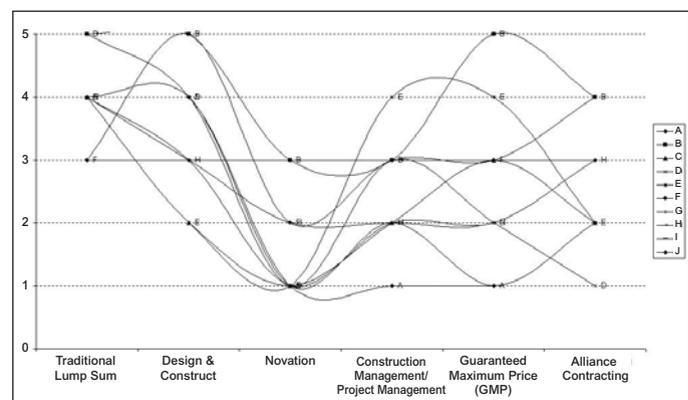
Figure 4 provides an insight into when contractors are invited to come on board in a typical Design and Construct Tender, and as expected, the majority are contracted from design development and documentation, with few involved at inception, feasibility and qualification. It should be noted that there is some ambiguity in the results, whereby some firms have responded that they “always” become involved at a certain stage, and then have also responded as “often” to the same question. It is our interpretation that “always” in this case would be better interpreted as “quite often” for correctness. This applies for Figures 4 -9.



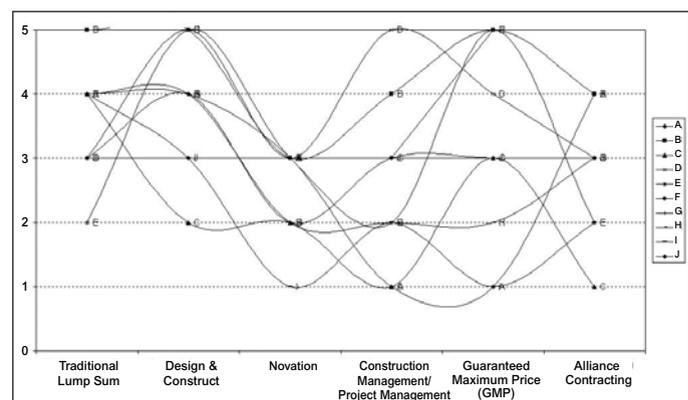
**Figure 4 – Design & Construct Tender – When do participants become involved?**

(Note: Legend 5- Always, 4- Often, 3- Sometimes, 2- Rarely, 1- Never)

Figures 5 and 6 have been used to compare the type of Project Delivery Method undertaken with Public and Private sector clients.



**Figure 5 – Project Delivery Methods with the Public Sector**



**Figure 6 – Project Delivery Methods with the Private Sector**

Public Sector clients are traditionally more risk averse and would therefore choose contracts that passed as much of the risk on to the contractor. This is emphasised by Figure 5 where the majority of contracts undertaken were either traditional lump sum or design and construct contracts which are typically risk biased away from the clients (though it should be noted this is not always in their best interest).

A surprising result is that although Alliance Contracting was not being undertaken in numerous projects, it was being undertaken in equal amounts between public and private sector clients. As mentioned above, public sector clients are traditionally risk averse which would explain the low frequency of use, but the private sector still has reservations about the use of Alliance Contracting and has not, as yet, adopted it as a major project delivery method.

Figures 7 and 8 present the methods of tendering adopted within both the public and private sectors.

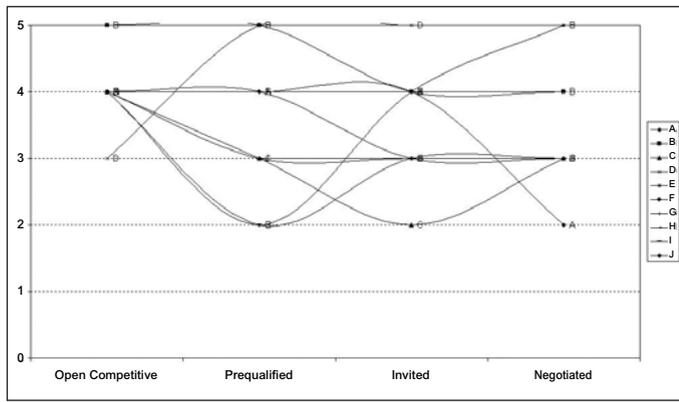


Figure 7 – Tender Methods – when involved with Private Sector

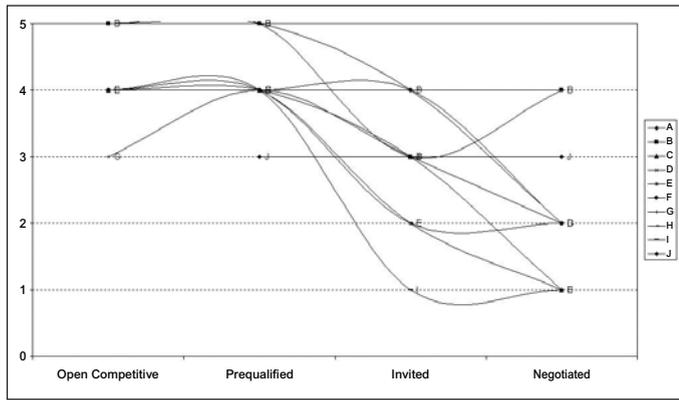


Figure 8 – Tender Methods – when involved with Public Sector

These results of tendering methods, refer Figures 7 and 8, are largely to be expected, with the majority of public sector contracts awarded in an open competitive environment to ensure probity concerns are met, with the private sector utilising more negotiated and invited tenders (often to contractors who have secured work with them previously).

Figure 9 shows the frequency of use of project techniques that underpin Relationship Contracting. Significantly, it can be seen that the majority of techniques are being used often or always.

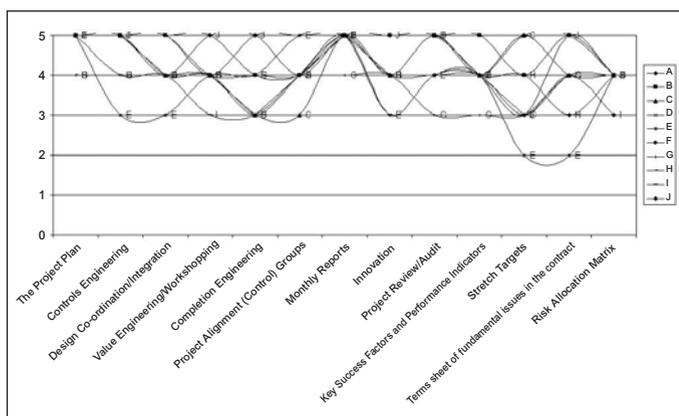


Figure 9 – Frequency of Project Techniques use (refer Table 3 for specific definitions)

The final graph, Figure 10, provides an insight into how much influence contractors feel they have over what type of contract or delivery method is undertaken.

The results presented in Figure 10 demonstrate that contractors consider they had an average to small amount of influence over what contract type is chosen, which is to be expected with clients legal advisers often the ones who influence contract type the most.

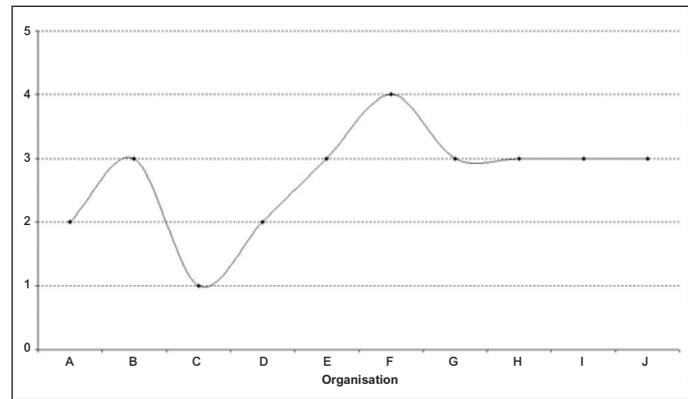


Figure 10 – Contractor Influence over contract chosen (5-Great Influence, 1-No Influence)

#### Comments on additional findings from the survey:

Other findings from the survey show that Relationship Contracting was much more likely to be utilised by companies who had senior executives “championing” the method. A champion is someone who could break down previous barriers and philosophies to this approach.

The major construction firms involved in this study are still to be convinced of the benefits of these methods. A transfer of knowledge is required to demonstrate the tangible benefits brought to both client and contractor by Relationship Contracts. Note, however, that it is difficult to quantify benefits because predicting what the project outcome would have been under a different delivery method is extremely difficult. Risk allocation is still viewed as the largest “hurdle” to overcome in creating proper Relationship Contracting, especially from within the public sector. Where the public sector has implemented partnering principles, on occasions where contract conditions were subsequently enforced the partnerships were seen to crumble.

#### Recent comments from industry experts

In recent interviews with industry experts (Duffield, Baldwin et al. 2003), it is their view that there appears to be a great deal of scope to implement alliance style contracts (i.e. share pain and gain) but such arrangements require genuine changes to past culture, which concurs with the industry survey findings.

#### GENERAL FINDINGS

In feedback from industry experts consulted for the survey, some very interesting results have been obtained. Specifically, they indicate that many of the requirements or techniques utilised in forms of Relationship Contracting (refer Table 3) are actually being widely utilised in other project delivery methods. Hence, even though Relationship Contracting may not be the actual “delivery method” stated on the project brief, its techniques and philosophies have permeated through to other methods.

All parties agreed that shortcomings, some serious, existed in contractual relationships between clients and contractors and these had a negative effect on project outcomes. Many existing contractual relationships, particularly traditional forms, lead to adversarial behaviour between parties that has a negative effect on project outcomes.

In a review of clients perceptions within the Australian construction industry towards Relationship Contracting (Beer 2000), it was found that there is a clear need for improved contract structures, given the inability of current contracts to consistently meet clients demands and expectations. An overwhelming proportion of clients expressed the attitude that they were prepared to consider different contractual arrangements if they could be demonstrated to have real benefits. Again however, it is quite difficult to demonstrate tangibility.

Project Techniques	
<i>The Project Plan</i>	<i>Sound planning to provide a structured, documented and monitorable approach to manage the design, procurement, construction and completion of project/facility to meet defined operational, time, cost, quality, safety, industrial and environmental requirements.</i>
<i>Controls Engineering</i>	<i>The tools and systems developed and implemented to monitor, review and report on project/facility performance to achieve improvements, based on agreed deliverables and key performance indicators.</i>
<i>Design Co-ordination/Integration</i>	<i>Co-ordination/Integration of all design activities for the project/facility to meet defined operational, time, cost, quality, safety and environmental requirements</i>
<i>Value Engineering/Workshopping</i>	<i>An Integrated Team workshop that identifies/defines and provides value solutions for project elements or addresses significant issues arising during any stage of the project.</i>
<i>Completion Engineering</i>	<i>A planned, structured, documented and monitorable approach to manage all outstanding construction works, design consultants and statutory authority approvals, interfaces with all parties, maintenance and operation manuals, and inspections and commissioning tasks to meet the requirements agreed with the client and to other defined contract requirements.</i>
<i>Project Alignment (Control) Groups</i>	<i>Regular meeting of all parties to the project agreement. "Empowered" senior management forum for technical and commercial interaction to ensure leadership and timely decision making.</i>
<i>Monthly Reports</i>	<i>Reports specifically designed for each project/facility to provide concise and accurate reporting to the Project Alignment Group, focusing on critical issues, priorities for action and performance against key performance indicators.</i>
<i>Innovation</i>	<i>Provision of incentive forums and adequate time for all the parties to be innovative in their organisation and management of people, markets, monies, materials and technology. This can result in new or improved design, practices, processes, products, systems and techniques which will provide improved project/facility outcomes.</i>
<i>Project Review/Audit</i>	<i>Project Review/Audit provides an independent, structured review of project/facility performance. The review/audit is carried out by an independent party to review operational, cost, time, quality, safety, environmental and reporting performance against agreed/contract requirements.</i>
<i>Key Success Factors and Performance Indicators</i>	<i>Key Success Factors and Performance Indicators would include performance operating standards, environmental, health and safety, time, cost, quality, industrial relations and other factors/indicators.</i>
<i>Stretch Targets</i>	<i>Very ambitious targets that are committed to without the parties quite knowing how they can be achieved. Achieving a Stretch Target requires a change in the previous way of doing things, high levels of performance and problem solving, and being innovative and using the latest technology</i>
<b>Contractual Issues</b>	
<i>Terms sheet of fundamental issues in the contract</i>	<i>In any contractual relationship, there are a small number of issues that are fundamental to the establishment of the relationship. Issues that could be discussed and agreed between the clients and the pre-qualified contractors and included in the Terms Sheet are as follows:</i> <ul style="list-style-type: none"> <li>• <i>Delivery system and scope of project</i></li> <li>• <i>Warranties to be provided,</i></li> <li>• <i>Securities, retentions and performance requirements</i></li> <li>• <i>Client representative/powers and duties,</i></li> <li>• <i>Management regimes/forums/reporting requirements/project communication,</i></li> <li>• <i>nsurance requirements</i></li> <li>• <i>Time aspects – risks, extensions of time, cost and responsibilities</i></li> <li>• <i>Payment terms, certainty of payment,</i></li> <li>• <i>Variations – cost responsibilities,</i></li> <li>• <i>Default, suspension, termination,</i></li> <li>• <i>Force majeure, and</i></li> <li>• <i>Existing conditions/latent conditions,</i></li> <li>• <i>Risk identification/allocation - capping of contractors risk acceptance/reward/loss if appropriate as in alliance contract,</i></li> <li>• <i>Dispute resolution procedures,</i></li> <li>• <i>Quality requirements, and</i></li> <li>• <i>Environmental standards</i></li> </ul>
<i>Risk Allocation Matrix</i>	<i>It is important that all the risks that are likely to be encountered in the contract and that will require management are identified. Following identification, discussion between client and contractor will allocate the responsibility for the management of these risks to the party best equipped to manage them.</i>

**Table 3 – Relationship Contracting Techniques (adapted from ACA, 1999)**

Numerous public sector clients agreed with the concepts in theory, but felt that it was difficult to prove that it was in the “public interest”, and impeded by many probity issues.

General attitudes towards the adequacy of current contracting were that contracts were far too complex and need to be made simpler. It was felt by many that standard conditions of contract were too adversarial and that the risks are weighted against the contractors. Whilst many agreed there is a better understanding of major issues such as risk allocation and understanding, there was still much room for improvement. The industry is still accused of being overly litigious, which is the result of the competitiveness caused by contractors accepting lower margins.

Clients understood the excessive costs of inappropriate risk allocation. Nevertheless, there is a degree of cynicism that must be overcome before Alliancing or other forms of Relationship Contracting will be entertained by clients. Most clients are prepared to consider forms of risk sharing if it can be demonstrated that it will benefit the project outcomes.

In general, clients are supportive of sharing risks and rewards/losses; however some remain sceptical about the contractor’s willingness to share in any losses, as they believed the contractors tended to become adversarial in such circumstances. Clients were open-minded about what form the procurement strategy would take, whether it be a traditional contract, some form of Relationship Contracting or another form. However, clients believed that before entering into any form of Relationship Contract, all parties involved needed to ensure the contracting parties were compatible and appropriate for the procurement strategy and scope.

The Egan/Latham agenda’s in the United Kingdom, suggest a similar strategy to the Relationship Contracting approach suggested in this paper. Specifically they are calling for (Egan 1998):

- “Commitment from major clients to fulfil their responsibility to lead the implementation of our agenda for dramatically improving the efficiency and quality of construction;
- Commitment from the construction industry to work with major clients to deliver the significant performance improvements that are possible, and offer these to the occasional and inexperienced clients; and
- Commitment from Government to create and sustain the environment that is needed to enable dramatic improvements in construction performance, and encourage the public sector to become best practice clients.”

**CONCLUSIONS:**

It is evident that Relationship Contracting is here to stay and its use within industry will increase as the benefits flowing from the techniques and philosophies are better understood. It has become an efficient and viable project delivery method for large, complex, time-constrained projects, but requires more effort on the participant’s part than in traditional contracts to ensure success.

The specific view of clients and their representatives is the focus of another study. However, initial findings indicate that they are still cautious about implementing processes that increase their risk exposure, even if it may increase project success. This is understandable due to the largely innovative practices that alliance contracts utilise and the risk averseness of clients and their representatives. Only one building project, the National Museum of Australia, has been completed in Australia. Although this project was successful, there remains a sentiment that the method remains “untested” in the building industry. The concept has been far more widely accepted by the engineering construction industry. If it is rigorous enough to stand up to numerous demanding projects, with few significant failures, then it will gain respect, and more use in the Australian market.

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