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Focuses on strategic partnerships in the construction industry of Australia. Problems besetting the industry before the implementation of the Construction Industry Reform Initiative; Improvement in the industry brought by the new practices such as quality assurance, multitasking and empowerment; Key elements of partnering; Objectives of Australia's T40 project; Benefits of partnering.

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## **CURRENT PRACTICES IN STRATEGIC PARTNERSHIPS**

### **Partnering as reform**

The current interest in partnering follows hard on the heels of, and complements, a wide range of initiatives which began just three years ago to introduce much needed changes into the Australian construction industry. The foundation for those changes is an agreement between all major players -- industry, unions and government -- to implement what is known as the Construction Industry Reform Strategy which set out to achieve improvement in four key areas:

- industry development;
- industrial relations;
- contracts; and
- skills formation.

The keyword in that major strategy is reform! For anyone who has been in the construction industry for any length of time (I have been in it for some 30 years!), it was obvious that many of the traditional, virtually craft-based practices of the past were no longer good enough if the industry was to remain competitive and to provide services and products to meet the quality requirements and customer expectations of the 1990s.

As you know, dinosaurs are very much in vogue at the moment. The attitudes and work practices of the construction industry in the not so distant past would make "Jurassic Park" look like something out of the space age!

It would be fair to say that the inflexibility of the systems, the intransigence and sheer bloody-mindedness of people within those systems, plus attitudes virtually unchanged since the days of building the pyramids, all contributed to a scenario ripe for continuous guerilla warfare. But, like the dinosaur, time and tide have caught up with most of those negative influences and they have largely disappeared in the environment of change that we have today.

We are in an environment of change and if we are to succeed we must respond to new types of demands and pressures that just did not exist even one decade ago, let alone 20 years ago. Those businesses which respond to change and set new courses to the year 2,000 and beyond are the ones which will be winners. Those which do not feel and respond to the changing windshifts will sink and disappear like the dinosaur!

### **Partnering in the construction industry**

My greatest wish is that the Australian construction industry -- now going through hard times -- will survive and learn to prosper again. I am pleased to report that much progress has been achieved in implementing change through reform initiatives. Work processes and work organisation are changing for the better. New attitudes and environments are being created on construction sites where workers -those with concrete on their boots -- are being encouraged to take an ownership position on the project on which they are working. Instead of just doing their little bit and not giving a damn about the next tradesperson or process, as was the practice in the past, they are now making sure that everything they do contributes to the total success of the overall project

The influences of new practices such as quality assurance, multiskilling, empowerment, and improved training and career paths for construction workers are making a tangible, positive contribution to the improvement and future success of the Australian construction industry and those who work in it. The results are already starting to show as the following two recent cases involving my own company indicate.

We have just completed a multistorey building in Newcastle for TAFE. The fact that the building was completed with zero defects was a tribute to the Fletcher Construction team and the contractors who worked on the project. We are, in fact, trying to change the rules by calling our subcontractors "associates". Our industry is so used to what we call "rework" fixing things up that were not done properly in the first place -- that having zero-fault projects is just a little bit spooky. No doubt, we will get used to it.

Another Fletcher project, the fit-out of Mercantile Mutuals' national headquarters in Sydney, saw the team of workers on the job decide to forgo taking their fostered days off so that the rate of progress on the job would be maintained. This new type of responsible thinking would have been unthinkable a very short time ago when the construction industry was largely governed by polarised, adversarial positions with customers, contractors, suppliers and subcontractors continually locked in battles with one party trying to gain advantage over the other and no one doing more than he had to outside of the requirements of a legal contract.

The outcome of those unrewarding relationships and sorry times was an escalation of onerous documentation focused on punitive measures to enforce performance and an increase in expensive and counterproductive litigation. It was an environment which worked on the principle that, in order for someone to win, someone had to lose. This was a waste of effort that otherwise could have contributed to maximising mutual success.

Those times are behind us. Australia has been experiencing the worst recession since the 1930s. As a result, demand for construction has decreased, so there is fierce competition for any work that is available. It is in this tough environment that the need to change, the need for more cost-efficient work practices and processes thrive --because these improvements are required to make the difference between being a winner or being a loser like the dinosaur.

The recession has had a beneficial effect at least in one way. It has forced the construction industry, traditionally resistant to fast change, to do a lot of navel-gazing and to accept the new directions and strategies that have been launched by bodies such as the Construction Industry Development Agency established by the Australian government late in 1991 to introduce badly needed reform.

### **So what is partnering?**

Today, reform and change is all around us -- it is central to survival if you really want to be blunt and to-the-point. And the concept of partnering, which we are looking at in this symposium, is one of those reforms which is setting in place entirely new relationships focused on making winners of all parties in the delivery of construction projects.

So what is partnering? It is not a tangible product such as a cubic metre of concrete or a metre of steel RSJ that you can touch and feel. It is, in fact, a process. In some ways it is not unlike the concept of marriage. That is, it should not be undertaken until you know what is really involved, and exactly what you want to put into it and what you want out of it. Just as marriage is about a change in relationships, so is partnering. Actor and comedian Woody Allen had this to say about change:

My father worked for the same firm for twelve years. Then they fired him. They replaced him with a tiny gadget this big. It does everything that my father does, only much better. The depressing thing is my mother ran out and bought one !

Partnering is also about change, but change for the better that will boost the reforms happening in the Australian construction industry and ultimately benefit every Australian in every walk of life. We are putting what we have been talking about into action. Our strategic approach to partnering is lateral. We have extended it further than just a contractor-client relationship. We have applied it also to subcontractors and other contributors in the supply chain. We call this approach "Teaming the Fletcher".

If partnering is doing business the old-fashioned way, with a handshake and smile founded in mutual trust, respect and the sharing of objectives, then it is a concept as old as Methuselah. What is new, and exciting, is that this concept is being applied to what some observers might say has been the last bastion of the knucklemen -- the construction industry -where conflict has been for such a long time accepted as a normal, and indeed even perversely comfortable, element in our way of doing business.

The days of the knucklemen are gone, but the fighting still goes on, at least in the courts. Whether it is more civilised or not than the old fashioned punch-up is a matter for conjecture! We know that settling contractor-building differences through legal process is definitely expensive, and adds unplanned costs to the project. In this respect I was hugely heartened by an article in the American industry journal Equipment World (1991) which had a short, but perceptive editorial on partnering. The title of the editorial said it all: "Partnering: One Way to Starve Your Lawyer".

We owe a lot to American experience in initiating partnering. They have already had considerable success with application of the concept on a number of significant construction projects. One of those spearheading partnering approaches is Charles Cowan of the Associated General Contractors of America and formerly of the United States Corps of Engineers which, in fact, was one of the first public agencies to embrace the partnering process. He had it pretty right when he stated:

Construction is not an individual endeavour like long distance running but rather a business of team building. One fabric of the industry depends on strong weaving of owner, architect, engineer and contractor into a team. Successful teams are built on the strengths of each member, while successful lawsuits are founded on capitalising on the weaknesses of team members (Cowan 1991).

It is already happening in the United States, New Zealand, parts of Europe and, of course, in Australia. To be more specific, partnering can have a number of

verbose and grandiose definitions, but it is something quite simple in nature, although a little more complex in its implementation.

### Key elements

In partnering we are talking about the process and cultural shift in the manner in which we do business. Its role is to establish working relationships between parties through a mutually developed, formal strategy of commitment and communication. It attempts to create an environment where trust and teamwork encourage three things:

- a cooperative bond for everyone's benefit;
- prevention of disputes; and
- the completion of a successful project on time and within budget.

The key elements of partnering have to be understood and applied with vigour and honesty if partnering is to work as it should, rather than being a cynical exercise in lip-service to yet another buzz word that will be the salvation of the construction industry.

Those key elements are:

Commitment	which must come from top management.
Equity	where all parties' interests are taken into consideration.
Trust	which evolves from understanding each other's objectives and positions.
Development	through commitment and of mutual goals improved communication it is possible to identify and work to the achievement of mutual goals. These might include, for example, introducing engineering value savings; meeting the financial goals of each party; limiting cost additions; early completion; no lost time injuries; no litigation, and so on, including other goals specific to the project.
Implementation	stakeholders together develop strategies for implementing their mutual goals and mechanisms for solving problems.
Continuous evaluation	evaluation on an agreed basis: this procedure is absolutely vital for the success of the partnering

process.

And finally, the last in our list of key elements is:

Timely responsiveness	this is the procedure for decision-making and resolution of issues, including the aim of resolving differences at the very lowest level of authority possible
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If these elements had to be ranked in order of importance, commitment would be at the top of the list. There is no contractual power to enforce the principles of partnering; rather it is a recognition that every contract includes an implied covenant of good faith. Good faith comes from commitment -- the partnering process can only be a success, and benefit all concerned, when there is total commitment to make it work by all parties. There is no room for tokenism or lip-service in the implementation of partnering. It has to be total commitment from the top down by all parties, not just the builder and the owner, but also subcontractors and material suppliers whose performance has a profound effect on project outcomes and cannot be excluded from partnering agreements if benefits are to be maximised.

### **Forming a partnership**

Fletcher has been exposed to the concept and experiences in partnering for some time because it is part of an international group of construction companies, including operations in the United States. Fletcher Construction Australia has already entered into a number of partnering agreements which, at this early stage, are working well in encouraging a spirit of cooperation and teamwork on the projects involved.

The first step in partnering is for all parties to sit down in a conference to identify mutual objectives and philosophies which will provide the foundation for the partnering relationship. But what happens further down the track? Will the relationship last? Will it change? Will we need marriage counsellors and, heaven forbid, divorce lawyers? We will not need any of the latter if the implementation phase is carried out thoroughly.

These are the phases for a successful arrangement:

1. Put a mutually acceptable agreement in place. This is a document setting out the framework of the relationship. This is symbolic in nature and not a legal document. The signing of the agreement can be a pleasant and positive occasion. As someone said, "It's the start of putting a smile back into construction", and we certainly could do with a few more of those!
2. Jointly develop an implementation plan, budget and schedule. The plan should reflect the partnering concepts the organisations are adopting and should address structure, define roles of participants, technical resources and procedures, as well as the needs and concerns of all who will be

affected. Budget is an important issue. There are developmental costs in setting up partnering arrangements. It has to be agreed at the beginning who will be responsible for what costs. The initial set-up costs will more than likely be borne by the parent organisations involved and subsequent costs charged against the project.

In the atmosphere of trust and agreement being nurtured, there should also be a "no surprises" objective in relation to costs and charges. It is a matter of thinking through all the matters which can cause negative reactions and to redefine them into positives which work for the partnering concept.

- 3. Develop a culture of teamship using shared visions, goals and objectives as the mortar to bring together and unify the stakeholders so that they share a common purpose in a nonadversarial environment.
- 4. Agree upon operating procedures and systems so that approvals are easy and quick and management systems set up which are designed to help rather than hinder project progress.

Systems should be set in place for engineering standards and design procedures which allow for the integration of input from the best qualified people from both sides so that excellence and innovation are encouraged.

5. In this environment continuous improvement opportunities abound. In our own experience there is a snowballing effect and enthusiasm for continuous improvement that exceeded our expectations.

What has to be established now is the all critical evaluation process to measure how well the partnering arrangement is working, and to iron out any bugs which might have arisen along the way.

Importantly, there might be opportunities for the partners to share costs and rewards associated with improvements. And, of course, it is vital to monitor the relationship continually. Like a marriage, it may have its rocky patches but the shared commitment to make it work for mutual success will overcome any problems and keep implementation on track.

### **The T40 project**

No two partnering agreements and situations are alike. They all have their special qualities and characteristics which make each agreement --and the people and environment of the partnership -- unique. The higher the quality of the planning and thoughtfulness that goes in at the beginning, the more effective the partnering arrangement will be in its implementation and generation of dividends.

On that note of dividends from change, and particularly from changing construction processes, it is timely to mention the Australian industry's T40 project. The objective of the project is to find ways and means of reducing the time of the construction process by 40%. We do not need calculators to get a feel for the immense economic benefits which will be generated from such time-savings -- they will be enormous, and benefit the industry as a whole, if not the nation.

It goes without saying that, to achieve this very worthwhile objective, considerable change will be required to existing processes of all parties who play a role on a construction project.

The partners on the T40 project comprise Fletcher Construction Australia, BHP Steel, CSR, Environ, the publicly owned CSIRO and others. The project is being funded by the partners, also by funding from the Australian Building Research Grants Committee, with the Motorola Corporation of the United States acting as facilitator. The results of this study are to be made public, for the benefit of the whole community.

There have been some spectacular results in process time reduction, which T40 is about, particularly in the manufacturing sector. For example, it once took 360 days to make one Harley Davidson motorcycle --now it is down to three days, a 99% reduction. It took the Matsushita company 360 hours to make a washing machine -- now it is down to 2 hours, another 99% saving; and with the T40 project facilitators, Motorola, where it once took that company 60 days to manufacture one of their pagers, now it takes only one hour, again a 99% saving. While it is not strictly fair to compare manufacturing processes, such as producing goods in a factory in a controlled climate, with more rugged processes in the construction industry so often affected by uncertainties of the weather, we are excited at the prospects of initiating beneficial change in process-time reduction through the T40 study.

This study itself is another form of partnering. We have a number of participants joined together by a mutual objective and by commitment to work with each other to make the project succeed and a commitment to implement the findings of the project. As with partnering itself, the key to success is in the implementation, which I am confident will be realised. The point about T40 is that, in partnering, we do not have to limit the experience to a specific construction or engineering project, which is the custom. There are limitless possibilities for partnering arrangements around processes and systems, such as the T40 project.

### **Benefits**

Other examples of the benefits to be gained from partnering include the potential for providing construction materials and construction services to China.



We can competitively produce a superior product in medium-density housing. With Australian materials, Australian-built system, Australian design, Australian construction and Australian training, we can provide a superior article, one that is more competitive on the world market and one that exceeds the existing quality in China by a huge margin. That is partnering in an export sense.

At the domestic level, we have a Victorian Accelerated Infrastructure Program, which is developing police stations and court houses around Victoria, that involves a partnership with the public sector with a government-backed bond issue. The net cost-saving against the original estimate after Project Number 13, has been 35%. For example, Dandenong police station, which is part of the project, set a target of zero waste, so the design had to allow for standard size and standard components of construction. They did not achieve zero waste, but the waste was 2.5%, probably a quarter of what might normally be expected.

Partnering is a dynamic process about process dynamics with virtually unlimited potential to produce benefits that have for too long been denied by systems of the past. Partnering is very much about today and the future.

Returning to the implementation phase of partnering, the final phase or requirement is to document and communicate milestones and success from the very beginning. In partnering, success definitely breeds success. If partnering reduces costs, if it increases efficiency and reduces delays and lost time, if it leads to improved operational efficiency of the project so that the owner's return on investment is increased and, importantly, increases the happiness and safety of people working on the project, then we will have achieved what partnering is all about.

But there is more to partnering than the list of very business-oriented benefits couched in managerially correct terms that so gladden the hearts of the bean counters, and that is the human element. I have been reminded of this by Scott Mackellar of Fletcher General Construction in Seattle, whose company has been at the forefront of the partnering experience. Through partnering with the Washington Department of Transport, they introduced increased efficiencies in building the new \$US90 million Lacey V. Murrow floating bridge across Lake Washington. There has been the occasional hiccup that they have had to overcome, such as participants on both sides temporarily slipping back into the old ways, but the end result has been outstandingly successful.

In addition to the bookkeeping benefits of partnering, Scott Mackellar makes the point that this new way of doing business should "put the smile and handshake back into construction", and he is even brave enough to say that it can even put some fun and enjoyment into the working lives of people in our industry (Mackellar 1992)! Well, what a change! Partnering provides the opportunity for people to enjoy their work more through meeting basic human needs such as the

good feeling of working in a team; of sharing mutual objectives; of having something in common so that work is carried out in a positive environment which also fosters good feelings such as trust and creativity; and of realising that the potential power of the new relationship is greater than the sum of the parts. Partnering has a role to play in making the working day a more rewarding one for the participants, and this should never be overlooked.

For the construction industry, partnering offers opportunities to improve our performance and thus our competitive advantage. It would be beneficial if the logical outcome of long-term partnering relationships would be the allocation of work to the constructor partner without the calling of tenders.

The cost of preparing submissions and proposals in response to tenders has escalated out of all proportion to the value of the job. We are getting to the ridiculous point where, on some projects, the cost of proposals submitted by selected tenderers is pushing their overheads to ridiculous levels. This has a compounding effect that ultimately impacts negatively on the job security of people in our industry. If partnering can help to remedy this situation, it will certainly be a multiple-win result.

While it is early days yet in partnering in Australia, the American experiences are proving most successful. Fletcher General in Seattle has had major victories in partnering. One I have already mentioned: the link with the Washington Department of Transportation in the construction of a new floating bridge across Lake Washington. Another is on a major wharf redevelopment for the Port of Oakland.

The Port of Oakland project could have been a real loser for the constructor because of problems of unexpected subsoil conditions which required considerable extra work to overcome. It was a prime case for litigation in determining who should have known that there was poisoned ground conditions metres under the earth. It could have been a lawyer's Christmas bonus but instead the partnering arrangement and relationship was so strong that a mutually acceptable engineering and financial solution was found. That was a partnering case-study which showed what can be achieved in the most tangible sense to produce win-win outcomes.

Other constructors -- and their customers -- are also enjoying the benefits of this new way of working. Closer to home, my own company has a partnering relationship in progress with the Department of Primary Industries and Energy for the construction of a new regional head-quarters in Townsville. The conference was held; the document signed and now the proof of the pudding is about to be tasted. My project people tell me that it is all going well, with their first evaluation meeting to be held in a week's time.

Partnering is not platitudes about doing things differently. it is about doing a good job better so that all parties are winners. Partnering is here to stay. It is about action and commitment rather than fine words. It is about improving everyone's bottom-line performance and increasing customer and worker satisfaction. It has a lot to offer and I commend it wholeheartedly.

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