

# RELATIONSHIP MANAGEMENT IN THE AUSTRALIAN CONSTRUCTION INDUSTRY: A CATALYST FOR CULTURAL CHANGE

M.C. Jefferies<sup>1</sup>, S. Rowlinson<sup>2</sup>, Y.K.F. Cheung<sup>3</sup>

*marcus.jefferies@newcastle.edu.au<sup>1</sup>, steverowlinson@hku.hk<sup>2</sup>, y.cheung@qut.edu.au<sup>3</sup>*

*School of Architecture and Built Environment, Faculty of Engineering and Built Environment, University of Newcastle, New South Wales, Australia<sup>1</sup>*

*The University of Hong Kong, Hong Kong<sup>2</sup>*

*Faculty of Built Environment and Engineering, Queensland University of Technology, Queensland, Australia<sup>3</sup>.*

## ABSTRACT

Numerous studies have been undertaken in the area of construction procurement methods. Recent evidence shows that the construction industry requires cultural change in order to move away from traditional adversarial relationships into cooperative and collaborative relationships. There is also increasing concern and discussion on alternative procurement methods, drifting away from traditional procurement systems to those which are relationship-based. Relational contracting approaches have become more popular in recent years, and have appeared in common forms such as partnering, alliancing and relationship management contracts. This paper reports on a study of relationship management approaches in two public sector organisations in Queensland, Australia. The paper also presents the findings of a survey undertaken with a private organisation based on a no-dispute alliance contract which identifies the critical factors that influence the success of the alliance project.

**Keywords** Alliance contracts; Culture; Public sector projects; Relationship Management and Trust.

## 1. INTRODUCTION

Relationship based approaches are seen as the way forward for the construction industry towards cooperative and collaborative working and true teamwork. Business systems and strategies need to be redefined and move from a short-term project to project culture to a more strategic, long-term perspective (Walker, et al, 2000). The concept of these relationships is centred on the development of greater customer focus. Organisations seek relationships with companies to form a complementary value chain and hence, greater business agility (Walker and Hampson, 2003).

However, such approaches require a culture change and cannot be brought about merely by adopting a different set of conditions of contract. The problem addressed in this research is the implementation of relationship management through a range of Government projects in Queensland, Australia with a focus on client body staff.

Empowerment, regional development and promotion of a sustainable industry are key goals of the Queensland government and relationship management is seen as a

mechanism for helping to achieve these goals. The participating organisations have experience of partnering and alliancing and success has been proven on large projects. Unfortunately, performance has been variable and it is recognised that an improved system of implementation is necessary in order to achieve political, industry and project goals. Thus, a need has been identified to examine individual skill sets, contractual obligations, organisational structuring and leadership needed for the successful implementation of relationship management.

The research has been conducted within participating organisations, analysed, rationalised and the results generalised and the team then moved on to produce generic deliverables and “participating organisation specific” deliverables. This paper sets out the work undertaken and the links between the various elements.

The rationale behind this research is that Relationship management approaches in general require a change of mindset, i.e. a culture change; both the client and the Contractor must change; greater integration is required between project delivery strategy, organisation structures and organisation culture; and conditions of contract must facilitate these processes.

## **2. RESEARCH METHOD**

The research methodology used is a grounded, triangulated approach. A grounded theory is one which is discovered, developed and provisionally verified through statistical data collection and analysis of data pertaining to that phenomenon. Therefore, data collection analysis and theory stand in reciprocal relationships with each other. One does not begin with a theory, then prove it, rather one begins with an area of study and what is relevant to that is allowed to emerge (Strauss and Corbin 1990). According to Love (2001) triangulation is an appropriate research approach for extending the scope of theory in Construction Management research. If researchers are to effectively solve the problems that industry faces then they need to adopt a robust research method in order to better understand phenomena that influence organizational and project performance in construction procurement.

This paper presents findings from two recent research studies. It begins by reporting the relationship management approaches in two public sector organisations in Queensland, Australia. It presents the findings of a series of interviews within public sector case studies. Seven case studies were collected from two public sector organisations. A total of 34 interviews were conducted with key project team members who had experiences on partnering, relationship management and/or alliancing. Interviewees included project manager, project director, client’s principal, consultant, superintendent, superintendent representative, engineer, foreman and site inspector. The second half of this paper presents the findings of a survey undertaken with an alliance team (public/private organisations) based on a no-dispute alliance contract and a series of interviews within public sector case studies. The response rate for the questionnaire survey was 32 of a total of 50 staff members, representing 64% of the whole alliance team. Eleven one hour interviews were conducted with key members from a variety of positions including Design, Services, Alliance Management, Construction, an external Facilitator and a Project Alliance Board Member.

### **3. TRUST**

Trust is defined as the willingness to rely upon the actions of others, to be dependent upon them and thus be vulnerable to their actions (Wood and McDermott 1999a). Where there is no vulnerability, there is no need for trust. Trust is also perceived as a result of effective collaborative relationships and leading to higher levels of partner/customer satisfaction (Zineldin and Jonsson 2000; Mohamed 2003). Moorman, Deshpandè and Zaltman (1993) believe that trust is built up over a series of interpersonal encounters, in which the parties establish reciprocal obligations. Yet, Gambetta (1998) sees trust as a precondition of cooperation because partners need some assurance that the other parties will not defect. Thus, trust is a necessary pre-requisite for relationship management which goes beyond the letter of the conditions of contract.

### **4. IMPLICATIONS AND NATURE OF TRUST**

The implication of high trust is that one would feel confident and psychologically secure. One is more relaxed, less suspicious and defensive towards the organisation that one is entrusted to (Westwood 1993). High trust between parties not only reduces transaction costs, making possible the sharing of sensitive information, permitting joint projects of various kinds, but also provides a basis for expanded moral relations in business (Brenkert 1998).

Trust is said to have a direct effect on work group process and performance, and Dirks' (1999) findings show that better coordination and greater efficiency are found in a high-trust group and hence better performance. Barney and Hansen (1994) believe that a firm characterised by a culture of trustworthy values and beliefs will often behave with a relationship based on a strong trust in exchange.

McAllister (1995) and Das and Teng (1998) refer to trust as the expectation of positive motives (behaviour) of the trustee. Trust also has a social meaning concerning both individual and organisation. Social trust is described by Earle and Cvetkovich (1995) as a bridge from State A (disequilibrium or non-normal) to State B (equilibrium or normal). It constitutes the in-group and out-group theory where people will behave differently in groups, and is culture specific (Earle and Cvetkovich 1995, Fukuyama 1995).

Trust is particularly important when a relationship contains the following elements:

- Entering into any form of contract;
- Exchanging information;
- Uncertainty arising from unforeseeable future contingencies;
- Risk sharing;
- A degree of interdependence between agents;
- The threat of missed opportunities;
- The need to enhance the effectiveness of a relationship which depends upon extensive cooperation at both inter-organisational and intra-organisational levels;
- Developing the business relationship to a higher level;

- Reaching alternative goals by group members;
- Negotiation to avoid confrontation.

Such a set of conditions are likely to exist in partnering, alliancing and relationship management contracts and so providing mechanisms to build trust within the bounds of the conditions of contract are essential transactions costs in this process.

## **5. TRUST IN THE CONSTRUCTION INDUSTRY**

Construction project teams are unique entities, created through a complex integration of factors, with inter-disciplinary players, varying roles, responsibilities, goals and objectives (Goodman and Chinowsky 1996). Collaboration and teamwork are therefore crucial since sharing up-to-date information between participants leads to minimisation of errors, reduction of time delays and breaking the widespread rework cycle. Benefits of collaborative, rather than adversarial, working relationships within construction organisations are well documented (Walker and Hampson 2003).

Successful collaborative relationships rely on relational forms of exchange characterised by high levels of trust. However, the construction industry has a stronger preference for distrust rather than the full benefits of cooperation (Wood and McDermott 1999a). There is a need for culture change to bring about increased cooperation between parties on a long-term basis. With relationship contracting, based on long-term relationship and trust, a win-win situation can be created for both the client and contractor. The development of trust between organisations is seen as a function of the length of the relationship between them (Bresnen and Marshall 2000). The construction industry is one which requires trust due to the high levels of uncertainty in the industry.

Partnering has been criticised as benefiting the clients' side only (Green 1999). Bresnen and Marshall's work (2000) shows that contractors may absorb extra costs in the interest of maintaining good relationships with the client and increasing chances of gaining future work. Yet, one may ask why contractors are still involved if they do not gain; the reason behind this may be the global pressure for change. Partnering has become a pre-qualification requirement in recent years.

However, relationship management benefits not just the clients but also the contractors because of the prospect of future work. Maintaining a good working relationship to sustain a long-term business relationship leads to reduced tendering costs, by means of reduction in transaction costs, which benefits both the client and the contractor.

Various authors have suggested that a relational approach to contractual governance entails long-term social exchange between parties, mutual trust, interpersonal attachment, commitment to specific partners, altruism and cooperative problem solving (MacNeil 1978; Darwin 1994; Darwin et al, 2000). Partnering, Alliancing, Public Private Partnerships (PPPs) and Joint-Ventures are examples of relationship contracting approaches that were introduced to the Australian construction industry in the 1990s (Construction Industry Institute 1991, Construction Industry Board 1997, Construction Clients' Forum 1998).

## **6. CASE STUDY AND SURVEY FINDINGS**

The findings of a series of public sector case studies and survey undertaken with a private organisation based on a no-dispute alliance contract are presented below. Information collection included conducting a questionnaire survey, face-to-face interviews, collection of archival data, and observation of a number of team meetings. Critical factors and challenges that influence the success of the alliance project are also highlighted.

## **7. PROJECT DELIVERY SYSTEM SELECTION IN THE PUBLIC SECTOR**

Like most public sector organisations, open or select methods of tendering are generally called for building and construction projects managed by Australian State public works and highway departments. Both government departments have established methodologies for determining when to use alternative project delivery systems and how to determine which delivery system to use. The highway department is very structured (see QDMR 2005) whereas public works department's approach is based on expertise. The choice of project delivery system relies mainly on a risk assessment, rule of thumb based on staff expertise (see QDPW 2006), and further consideration of the client basis (e.g. different government agencies), risk profile and scale of project. Major projects would normally be carried out with non-traditional contracts, and traditional lump sum contracts for other and minor projects.

## **8. RELATIONSHIP MANAGEMENT APPROACHES IN HIGHWAY AND PUBLIC WORKS DEPARTMENTS**

The highway department has a policy of including the supplementary specification for "Relationship Management" in contracts with a value of \$10M or greater and a period of construction of 12 months or more. Some districts adopt a partnering arrangement by agreement after contract award for projects of lesser value and shorter construction periods. The Metropolitan District has a section on Relationship Management in the "Infrastructure Delivery: Metropolitan District Supplementary Specifications".

The specification is intended to establish and maintain good relationships between the parties within the contract. However, it does not replace requirements detailed elsewhere within the contract such as the provision of notices, information exchange and dispute resolution. The specification details work operations including:

- Relationship Management Workshop (held at the beginning of the project with duration of 1.5 days).
- Team and Relationship Skill Building Activities (some are carried out during the workshop, dinners and/or barbeques are also held to stimulate use of informal communication channels).
- Relationship Management Meetings (relationship objectives are rated individually).

Under the current system, relationship management projects are tendered on a lump sum basis and payment for this item is made progressively, on a monthly pro-rata basis.

Projects using standard forms of contract such as AS2124, AS4300, AS4000 or other special forms such as Managing Contractor and Cost Reimbursable Performance Incentive often have an additional degree of complexity and unknowns despite attempts to manage them during the brief and design phases. As the degree of uncertainty and complexity increases, the need for collaboration and good relationships also increases. Adopting a formal relationship management process in the project encourages positive collaboration in the project team and development of good relationships.

Traditional project delivery systems (e.g. traditional lump sum contract, design and construct lump sum contract) often lead to time and cost over-runs upon project completion, as well as creating an adversarial environment for the project team. Knowing relationship elements should be injected into the project documents, both state highway and public works departments are using more relationship-based contracts. The most commonly used relationship-based procurement methods are relationship management, partnering and alliancing; this ordering reflects a progression from somewhat informal procedures to the formalised collaboration adopted in alliance projects.

Both departments see partnering as an add-on to some forms of contract, an additional contract document. It is seen as a business strategy, not a procurement strategy; relationship management is an agreement and obligation which binds the contract, making sure the parties in the project team are working closely together. Alliancing is defined as an alliance with a team of companies, without a fixed price or a maximum price, but a target cost which also includes a protocol on profit margins. A pain/gain arrangement is often involved to ensure all participants have an equitable share with the owner, whether the actual performance is better or worse than the pre-agreed targets (Ross 2003).

There is an increasing use of relationship management procurement methods in both departments' projects. Most projects have been carried out using traditional hard dollar type of contract as a basis, such as AS2124, with relationship management detailed in Supplementary Conditions of Contract. For example, in the state motorway and highway upgrade and duplication projects, the Supplementary Conditions of Contract included a "Relationship Management" section, which detailed relationship management activities in the projects such as the relationship management workshop and monthly relationship management meetings.

## **9. ALLIANCE CONTRACTS AND TEAMWORK**

An alliance contract does focus attention on performance and not on documentation. Team members are encouraged to deal with performance and the process of documenting problems, disputes and errors is put to one side. The alliance also provides an environment within which free and open communication takes place. This is part of the focus on performance and breaks down defensive barriers, which slow

down the whole of the process and which force the participants to resort to documentation. An outcome of this open communication and focus on performance is the naturally occurring move to value managing all aspects of the project which takes place continuously throughout the project. Innovation starts to become a natural event and participants are encouraged to look at problems from different angles, in new ways and brainstorm and generate new and innovative solutions. This climate facilitates career and skill development as participants are exposed to problems, issues and solutions that develop their skills. Many of the issues, both positive and negative, which arose whilst working in and managing alliances are very similar to those identified in Matrix organisation (Knight 1967).

## **10. HOW DOES AN ALLIANCE WORK?**

In order to ensure that an alliance will work effectively it is necessary to provide more money up front. There are extra transaction costs within an alliance contract due to the number of meetings which have to take place and the constantly evolving nature of the project. These extra transaction costs are of course very similar to those engendered in the Matrix organisation. In the cases studied there were a number of instances where people were employed to undertake specialist roles in the alliance such as coach, innovation manager and alliance psychologist. These people played a maintenance role in ensuring that the spirit and ideas embodied in the philosophy of the alliance actually took place in practice. Another interesting phenomenon was the severing of authority ties from the parent organisation. Individuals in the alliance from different organisations undertook a new way of working where they were a new team and did not show allegiance specifically to their parent organisation but to the project instead. This was, of course, often a source of contention between the line managers in the parent organisation and the independent bodies in the alliance. Indeed, the alliance team tends to develop a language and social life of its own, it develops its own social infrastructure. By working in close proximity and adopting the same philosophies the participants become very much a new body separate from the parent organisation and this can be quite disconcerting for senior management based back in the parent organisation. The concept of alliance players being type B contractors as opposed to the hard-nosed type A contractor has emerged. However, all participants recognised that the alliance had a finite life and the fact they needed to go back to another home at the end of the project. This is one of the most difficult issues to address and rehabilitating alliance members into the parent organisation is a serious issue. In order for such an approach to work effectively it is necessary to address these issues in the conditions of contract in some way in order to legitimise the transaction costs and the distancing of the parent organisation.

## **11. PROJECT TEAM PERFORMANCE**

There are many issues which arise during an alliance which could impede performance. However, with the relationship management philosophy of open communication and blame free communication these challenges can be faced and dealt with during the duration of the project. These can be summarised as:

- Barriers between design and construction participants which, although having their roots in the professional divisions which are characteristic of the industry, can result in frustration and miscommunication. Initiatives to address this issue are team building workshops, being located in the same offices, and effective dispute resolution procedures which are not multi-levelled.
- The existence of a host of companies and procedures which lead to time consuming work to comply with standardised systems and procedures developed for each project and which result in a steep learning curve for members.
- The decision making process must be effectively stream-lined to make it compatible with the fast paced nature of the project; this is a serious challenge in an alliance project where many companies legitimately wish to have their say and protect their position;
- All parties to the alliance take collective ownership of all risks associated with the project delivery with equitable pain/gain sharing; this underlying commercial alignment goes hand in hand with a “no-blame, best for project” philosophy and all participants must focus on achieving common objectives. If the “common” view is not adopted by all then the alliance philosophy fails.

## **12. THE FUTURE**

Interviewees also discussed future challenges for alliances. Four issues were identified as major concerns:

- Maintaining the momentum of the project and the project team;
- Commitment of parent organisations;
- Assimilation of members back into their own organisation; and
- Flexibility of existing contracts to enable effective alliances.

The final point is crucial. Existing conditions of contract are based upon documentation, procedures and defined roles and relationships and the concepts of open, blame-free communication and effective collaboration do not feature in the contracts. The clauses relating to dispute resolution and claims in existing contracts run counter to the ethos behind these principles and the challenge is to encapsulate the philosophy of relationship management into the wording of future contracts. The examples discussed previously illustrate that wording and actions must be in unison in order to be effective. This underlines the need for an industry-wide culture change in order to make this goal a reality.

## **13. CONCLUSION AND RECOMMENDATIONS**

Relationship management cannot be legislated for by contract. As it concerns managing relationships, roles and procedures need to be explicitly documented, understood and reinforced on a daily basis. This can be contained in a contract but it must be proactively managed and maintained. Financial components in relationship management must be specifically laid out in the contract conditions as it is common to employ alliance coaches, innovation managers and alliance psychologists. These all

involve a transaction cost and the purpose of such roles is to maintain the social infrastructure and enhance collaboration in the project team.

Relationship management needs to be measured and referred to in the contract conditions. Incentives for relationship management uptake and maintenance must be included in the contract conditions with both pain and gain consequences for all participants. Clauses in contract documents must be flexibly developed and evolved through experience where the supply chain is included. Ensuring consistency of clauses is vital in relationship management arrangements and the contracts must be seen to be fair to and by all parties.

In conclusion, relationship management cannot be legislated, but its development depends on a solid underpinning in the contract. According to the project participants, the selection process and the project delivery system chosen are more important than the clauses in the contract and setting off on the right foot is vital. Additionally, the contract must be consistent and clearly support the open, frank communication necessary for relationship management.

## 14. REFERENCES

- Barney, J. B. and Hansen, M. H. (1994) Trustworthiness as a source of competitive advantage. *Strategic Management Journal*, 7, 175-90.
- Brenkert, G. G. (1998) Trust, morality and international business. *Business Ethics Quarterly*, 8(no. 2), 293-317.
- Bresnen, M. and Marshall, N. (2000) Partnering in construction: A critical review of issues, problems and dilemmas. *Construction Management and Economics*, 18(no. 5), 229-37.
- Construction Clients' Forum (1998) *Construction improvement*, London: Construction Clients' Forum.
- Construction Industry Board (1997) *Partnering in the team* Report by Working Group 12 of the Construction Industry Board, London: Thomas Telford.
- Construction Industry Institute (1991) *In search of partnering excellence*, Austin, TX: Construction Industry Institute.
- Darwin, J. (1994) *Networks, partnerships and strategic alliances*, Sheffield Hallam University: Sheffield Business School.
- Darwin, J. Duberley, J. and Johnson, P. (2000) Contracting in ten English local authorities: Preferences and practice. *The international Journal of Public Sector Management*, 13(no. 1), 38-57.
- Das, T. K. and Teng, B. S. (1998) Resource and risk management in the strategic alliance making process. *Journal of Management*, 24(no. 1), 21-42.
- Dirks, K. T. (1999) The effects of interpersonal trust on work group performance. *Journal of Applied Psychology*, 84, 445-55.
- Earle, T. C. and Cvetkovich, G. (1995) *Social trust: Towards a cosmopolitan society*. Praeger: Westport.
- Fukuyama, F. (1995) *Trust: The social virtues and the creation of prosperity*. Harmondsworth: Penguin Books.
- Gambetta, D. (1998) *Trust: Making and breaking cooperative relations*. Basil Blackwell.

- Goodman, R. and Chinowsky, P. (1996) Managing interdisciplinary project teams through the web. *Journal of Universal Science*, 2(no. 9), 597-609.
- Green, S. D. (1999) Partnering: The propaganda of corporatism? *Journal of Construction Procurement*, 5(no. 2), 177-86.
- Love, P E D (2001) *Determinants of rework in Australian construction projects*, Unpublished PhD Thesis, Monash University.
- MacNeil, I. R. (1978) Contracts: Adjustment of long-term economic relations under classical, neoclassical and relation contract law. *Northwestern University Law Review*, 854-905.
- McAllister, D. J. (1995) Affect and cognition based trust as a foundation for interpersonal cooperation in organizations. *Academy of Management Review*, 38(no. 1), 24-59.
- Mohamed, S. (2003) *Determinants of trust and relationship commitment in supply chain partnerships*,
- Moorman, C. Deshandè, R. and Zaltman, G. (1993) Factors affecting trust in market research relationships. *Journal of Marketing*, 57(January), 81-101.
- Queensland Department of Main Roads (QDMR) (2005) *Main roads project delivery system: Volume 1 selection of delivery division*. 2nd ed. Queensland, Australia: Capability and Delivery Division, Road System and Engineering, QDMR.
- Queensland Department of Public Works (QDPW) (2006) *Procurement selection and generic contracts*. Queensland, Australia: Works Division, QDPW.
- Ross, J. *Introduction to alliancing: On engineering and construction projects*. [Available online from <http://www.pci.d2g.com/>, accessed on 29/3/06].
- Strauss, A and Corbin, J (1990) *Basics of qualitative research: Grounded theory procedures and techniques*. London: Sage.
- Walker, D. Hampson, K. and Peters, R. (2000) *Relationship-Based Procurement Strategies for the 21<sup>st</sup> Century*, AusInfo, Canberra.
- Walker, D. and Hampson, K. (2003) Enterprise networks, partnering and alliancing. In: Walker, D. and Hampson, K. (Eds.), *Procurement strategies: A relationship-based approach*, pp. 30-70. UK: Blackwell Science Ltd.
- Westwood, R. I. (1993) *Organisational behaviour: South East Asian perspectives*. Hong Kong: Longmans Asia.
- Wood, G. and McDermott, P. (1999a) Searching for trust in the UK construction industry: An interim view. In: Ogunlana, S O (Ed.), *CIB W92/TG23 Symposium, Profitable Partnering in Construction Procurement*, E&FN Spon.
- Zineldin, M. and Jonsson, P. (2000) An examination of the main factors affecting trust/commitment in supplier-dealer relationships: An empirical study of the Swedish wood industry. *The TQM Magazine*, 12(no. 4), 245-65.