What are the important differences between partnering and alliance procurement models and why are the terms so seldom confused?

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Summary
In recent years the engineering and construction industries have coined the term 'relationship contracting' to describe new (and some not so new!) procurement models which attempt to achieve outcomes acceptable to all parties using a collaborative approach.

In fact, there is a relatively broad spectrum of relationship contracting models including various forms of partnering and different styles of alliances. Unfortunately the terms partnering and alliancing are often used interchangeably when they really describe procurement approaches which are quite different, particularly in the manner in which they address the distribution of both risk and reward.

This paper will seek to overcome this confusion by providing some clear definitions of partnering and alliancing and carefully explaining the differences between them.

Whilst the definitions used will be those generally adopted by the construction industry the key differences that will be identified are considered to be equally applicable to other industrial sectors.

1.0 Introduction

Over the last twenty years, there has been an increasing level of dissatisfaction amongst many of those involved within the Australian construction industry regarding the adversarial and inefficient environment in which construction projects are often undertaken. This problem is not unique to Australia and such concerns are widely reported in relation to construction contracts in a number of other countries including the UK and the USA.

There is deep concern that the construction industry as a whole is under-achieving. It has low profitability and invests too little into capital research and development and training. Importantly, too many of the industry's clients are dissatisfied with its overall performance.

During a period when other industries have experienced radical change and improvement the construction industry remains a victim of the conflict inherent in many of the procurement models used to deliver construction works.

This raises the obvious question – Is there a procurement model which does address these shortcomings? And if the answer to this question is yes – is this model widely used and if not why not?

There is a procurement model which, it is claimed, addresses the shortcomings identified above and this is 'relationship contracting'. This form of procurement has emerged over the last twenty years and has been quite widely used in its various forms in a number of countries around the world. It has achieved some spectacular success and whilst there have been some notable failures these are relatively few in number.

If this is the case one might well ask 'why has such a successful model not been more widely or even universally accepted by the industry? The answer appears to be that relationship contracting requires the adoption of a different philosophical approach on the part of the project participants. It necessarily involves the development of mutual trust, open and honest communication and free sharing of information. Such conduct is quite contrary to the pattern of behaviour that is associated with and normally determined by the 'traditional' models of construction procurement. No wonder, therefore, that it is not easy for people who have been involved in the industry in the past to suddenly change their mind set and embrace the brave new world of relationship contracting.

Despite these hurdles an increasing number of clients and contractors have shown interest in the model. Furthermore, it appears that in the vast majority of cases once parties have used such models they are keen to use them again albeit that they may view them as only being appropriate to particular types of projects.

As is often the case with emergency fields there are a variety of definitions in use which often lead to misunderstandings and this problem seems to particularly plague the field on relationship contracting. Consequently it is important to precisely establish what is being described by the terms used.

2.0 Definitions

2.1 Relationship Contracting

Some very useful definitions of the terms used in relationship contracting have been provided by Gunn, 2002 [1] who has described relationship contracting as:

A term broadly adopted to describe new styles of contract that attempt to achieve outcomes that are acceptable to all parties involved in the delivery of construction projects.

The Australian Constructors Association (ACA), 1999 [2] has defined relationship contracting as:

… a process to establish and manage the relationships between the parties that aims to "remove all barriers; encourage maximum contribution and allow all parties to achieve success.

There is a wide range of possible arrangements within the spectrum of relationship contracting. At one end there is a basic preliminary charter in which parties commit their best endeavours to creating a cooperative working relationship. At the other end of the spectrum is a formal alliance agreement. In between there are a variety of contracts which involve some form of incentive and direct cost reimbursement.

2.2 Partnering

Partnering is generally understood to mean:
a commitment by those involved in a project or outsourcing to work closely or cooperatively, rather than competitively and adversarial. [1]

It has also been described as:
a process of establishing a moral agreement or charter between the project team members along with a moral framework to assist in its successful implementation - NSW Governments Partnering Guidelines [3].

Partnering, at least in a formal sense, is generally seen as having its origins in the United States although most of the processes adopted in partnering come from the Japanese construction industry and they are, in turn, the application of total quality management and lean manufacturing concepts from manufacturing industries.

Partnering is a method which allows people to minimise or avoid conflict when they are engaged in a complex project. It is a way of unifying all the parties as stakeholders in a project into a team. Partnering has also been described as *putting the handshake back into business* and involving *a return to the old way of doing business based on trust, respect and good faith rather than suspicion, contempt and scepticism* [3] and *when a person's word was their bond and people accepted responsibility* - The Associated Contractors of America, 1992 [4].

It is important to understand that partnering is in fact a code of conduct and has been stressed by the Construction Industry Institute Australia (CIIA), there is no partnering contract as such, rather an agreed partnering 'charter' forms the basis of a working agreement that is intended to shape a non-adversarial culture to promote a 'win-win' relationship between the parties.

Partnering arrangements can range from short-term one-off arrangements associated with a single project to long term commitments between two or more organisations for the purpose of achieving specific business objectives by maximising the effectiveness of each participant's resources. The relationship is based on trust, dedication to common goals and an understanding of each others individual expectations and values - US Construction Industry Institute (CII), 1987 [5]. This longer term arrangement is sometimes referred to as a strategic alliance which leads to some considerable confusion in the literature and makes a discussion between the relative merits and disadvantages of partnering and alliancing difficult given the interchangeable way in which the terms are often used. Strategic Alliances and strategic partnering are discussed in further detail later in this paper.

Partnering on a one-off project specific basis starts at the concept stage or more often after the contract has been awarded. Project based partnering was initially championed by Colonel Charles Cowan, then of the US Army Corps of Engineers, with significant success. Partnering is now used by the Corps of agencies in all construction contracts and has been widely embraced in the US in public sector procurement.

Partnering, particularly project-specific partnering has also been widely embraced in the UK following the Latham Report, 1994 [6], which advocated the development of a team approach to construction. This movement was then given even further impetus by Egan Report, 1998 [7] which identified integrated processes and teams as key drivers needed to set an agenda of change for the construction industry as a whole.

Table 1 below describes various forms of partnering that have been adopted. It identifies the differences between forms as they relate to relationship duration, basis of selection and the most appropriate conditions for application.

Table 1. Different forms of Partnering

Forms of partnering	**Relationship duration**	**Basis of partner selection**	**Condition for use**
Project	One-off	Competition/negotiation	All projects. Best for high value
Strategic/full	Long-term	Competition/negotiation	Where good business case, part of medium-long term strategy
Post-award	One-off	Competition	Public projects, including series of small projects
Preselection	One-off/long-term	Negotiation	Any project, Advanced selection of contractors
Coordination agreement	One-off/long-term	Competition/negotiation	Any project, Agreement overlaid on standard contract
Semi project	One-off	Limited competition	All projects where scope of negotiation is limited

Source: Institution of Civil Engineering Surveyors, 1997 [8]

2.3 Alliancing

Alliance contracting is generally understood to describe an arrangement where parties enter into an agreement to work cooperatively and to **share risk and reward**, measured against the performance indicators. The owner and service providers work as a single integrated team to deliver a specific project under a contractual framework where their commercial interests are aligned with actual project objectives.

Alliancing involves a formal contract in which the parties undertake to act in the best interests of the project and this is a key difference from partnering where the undertaking to act in such a manner is purely voluntary.

It is generally understood that, although perhaps not universally recognised, that a contactor must a make a profit from a contract in order to survive commercially. It also needs to be recognised that the client has a direct influence on the way in which the contractor makes a profit, through the selection of the procurement strategy. The key philosophical principle in the selection of an alliance approach is the recognition that the contractor’s profit should be earned through performance and not on the contractor’s ability to make and win claims - Bower, 2003 [9].

The essential components of a project alliance are as follows - Ross, 2003 [10]:

- Participants are selected on capability approaches and systems plus some subjective criteria such as enthusiasm, commitment, chemistry with the sponsor team and likelihood of the combined tea delivering outstanding results. Price is not normally part of the selection process although in recent years a “competitive price” model has developed in which two parties develop a target cost before the alliance is formulated with a selection being made on the lowest price. Advocates of the ‘pure’ alliance approach argue that this amounts to more than a regular design and construct contract in practice.

- A commercial framework is created that drives “best for project” decisions that are consistent with and create an environment of exceptional performance and enhanced reward for all participants.

- There is a commercial framework that shares the rewards of outstanding performance and shares the pain of poor performance. This is sometimes referred to as a gainshare/painshare regime.

- **All risks are shared** by all the members of the alliance.

- The only way to increase “profit” is by performance which exceeds “business as usual” outcomes – sometimes referred to as minimum conditions of satisfaction.

- An integrated team is formed and personnel are selected on a “best for project” basis.

- All decisions at the most senior/Project Board level must be unanimous.

- A ‘no blame’ culture in which there can be no formal disputes.

2.4 Strategic Alliance

A strategic alliance is one in which an agreement or contract has been reached between a client and contractor and consultant to undertake projects of a similar nature over an extended period, usually a number of years - Broome, 2002 [11]. However, the exact requirements of the work concerned are not known at the outset of the alliance.

Strategic Alliances can be delivered under a ‘framework agreement’ or a framework contract’ as described below. Under a ‘framework agreement’ each project is let as a separate contract but governed by the terms of the alliance agreement. Alternatively, under a ‘framework contract’ each project is a separate task or scheme governed by the original contract for the duration of the alliance.

The advantage of the ‘framework agreement’ is that it offers increased flexibility and, it has been argued, that from a public sector procurement perspective, only ‘framework agreements’ would satisfy statutory auditing guidelines. However, in reality such arguments are generally spurious and both procurement arrangements are seen to be legitimate as long as the appropriate probity processes are in place.

Table 2. Levels of Partnering and Alternative Dispute Resolution (ADR)

Level 1 – Traditional[1] *Adversarial Arms-length Contractual*	**Level 2 – Basic Partnering[1]** *Collaborative Team Oriented*	**Level 3 - Full Partnering[1]** *Value added Integrating Team*	**Level 4 – Alliancing[1]** *Synergistic Strategic Partnership*
Competition	Cooperation	Collaboration	Coalescence
• Each side has clearly established responsibilities • Client 'monitors and inspects' contractor • Little or no trust	• Each side knows and commits to the goals of the project and to each other's goals – requires a degree of trust	• One integrated team consisting of both client and contractors personnel is created – requires a high degree of trust • This team has one set of goals for a successful project • Team often creates a separate organisational entity for the life of the project	• Elements of shared risk also defined • Joint sharing of liabilities for project failure • Joint sharing of gains • Both sides share their goals and cost – requires extremely high trust
• Often adversarial • Often creates disputes, sometimes litigation	• Significant energy in communications and 'win-win' conflict resolution • Disputes typically resolved in some degree of compromise and harmony	• Accountability is collective among the integrated team • Both client and contractor provided senior level 'sponsors' to remove barriers and support the project	• Curve on benefits is logarithmic – based on meeting and then exceeding project goals • The essence of the relationship is to increase the mutual profitability of both parties • Neither at the expense of the other • Both at creating new and synergistic solutions
• Both sides are plagued by schedule slips and cost overruns	• Established for early positive intervention • Projects often accomplished on schedule and within budget	• Typically included some incentive for exceeding project goals	• Requires extensive communication, collaboration and organisational commitment and sponsorship • Creates the opportunities for major breakthrough

Levels of 'Partnering' and associated ADR (Source Walker & Hampson [12, p49] as adapted from Ellison and Miller [13, p46]

[1] Term proposed by the Author

2.5 Strategic Partnering

In contrast to the term 'strategic alliancing' the term 'strategic partnering' is seldom used at least in the construction field. In a similar manner to the use of the word in alliancing, the term strategic in the partnering context refers to the longer term in which there is a broader development of a relationship

As indicated earlier partnering can take many forms and as with alliancing there is a spectrum of relationships that fall under the definition of partnering. The context of the strategic partnering is described in this Table 1 above.

It should be noted that many of the arrangements described in the literature as strategic alliances are, in fact, strategic partnerships because they do not provide for the full sharing of risk between parties and often maintain arrangements where one party can take action against the other if they consider that the other party has failed to perform in some regard. For that reason they fail to meet the most critical test of a true alliancing arrangement,

3.0 Essential Differences between Partnerships and Alliances

As alluded to earlier, the important distinction between partnering and alliancing is that with partnering aims and goals are agreed upon and dispute resolution and escalation plans are established but partners still retain their independence and may individually suffer or gain from the relationship. However, in an alliance the parties form a cohesive entity that jointly shares all risks and rewards based on an agreed formula. Consequently if the project fails to meet pre-agreed performance indicators then all parties jointly share the agreed penalty. Alternatively, if the project exceeds the stated performance criteria all parties share the rewards. This creates a true 'win-win', 'lose-lose' environment which is the primary driver of behaviour in an alliance – Walker & Hampson, 2003 [12].

The primary disadvantage of partnering, certainly as experienced in Australia is that all the undertakings given by the parties, whilst invariably well intended and genuine, tend to be overtaken by the formal contractual relationship when significant problems arise. If problems of a minor nature arise the partnering 'charter' instrument used to record the intentions of the parties usually provides a mechanism for settling matters at whatever level is appropriate and thus the arrangement can be very successful. However, if a more serious dispute arises which cannot be readily resolved by the procedures described in the charter the parties invariably 'reach to the bottom drawer' and draw out the contract document. Once that stage is reached parties revert to their formal position as prescribed in the adversarial language of the contract. Under these circumstances the situation can actually become more poisonous than in a project where partnering has not been adopted in the first place. Having developed a closer sense of trust between the parties the reversion to the adversarial conduct associated with strict enforcement of a traditional contract can generate a sense of great disappointment and even betrayal.

It is, therefore, instructive to examine the spectrum of relationship contract arrangements through the lens of dispute resolution to clearly understand the critical differences between the relationships that exist in 'traditional', 'partnering' and 'alliance' models.

Table 2 presents a four-level typology that addresses the issue of dispute resolution methods for different types of, so termed, 'partnering' arrangements. Whilst the author is conscious of the danger of confusing the reader, given the differences in the definition of partnering adopted by Ellison and Miller, 1995 [13] and those developed earlier in the paper, it is believed that this table succinctly illustrates the clear distinctions in behaviour that are required from parties involved in the range of procurement models described.

4.0 Conclusion

It is clear that project alliancing and, to a lesser extent at this stage, strategic alliancing have been accepted as providing a viable option for the delivery of those projects which have a relatively high level of uncertainty in their project definition, complexity in form or have very tight delivery timetables.

If these procurement models are to become more common place it is important that the terminology they employ is clearly understood and that confusion between partnering and alliancing is avoided.

Whilst partnering enjoyed some success in the Australian construction industry following its introduction in the late eighties an early nineties it fell largely into disrepute when the lack of alignment between the contractual framework being used and the behaviour required for success, became apparent. Alliancing seeks to address this issue by ensuring that all the parties genuinely ‘win’ or ‘lose’ together.

The success or failure of alliancing should be judged on its merits as the use of the model matures. It would be most unfortunate for the fate of alliancing to be blighted simply by confusion with the terminology of another model that proved to be flawed in practice.

5.0 References

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