

4

Maintaining Relationship Based Procurement

Peter R Davis (Department of Construction Management, Curtin University of Technology, Perth, Australia)

ABSTRACT

Alliance and relationship projects are increasing in number and represent a large pool of work. To be successful relationship style contracts depend on soft-dollar factors, particularly the participants' ability to work together within an agreed framework, generally they are not based on low bid tendering. Participants should be prepared to do business in an open environment based on trust and mutually agreed governance. The research evaluates relationship maintenance in the implementation phase of construction alliances – a particular derivative of relationship style contracts. To determine the factors that contribute to relationship maintenance forty-nine experienced Australian alliance project managers were interviewed. The main findings were; the development of relationships early in the project form building blocks of success from which relationships are maintained and project value added; quality facilitation plays an important part in relationship maintenance and a hybrid organisation created as a result of alliance development overcomes destructive organisational boundaries. Relationship maintenance is integral to alliance project control and failure to formalise it and pay attention to process and past outcomes will undermine an alliance project's potential for success.

Keywords: Relationship Contracting/
Maintenance, Procurement, Alliance

RELATIONSHIP CONTRACTING

Alliance and relationship projects are increasing in number and represent a large pool of work, for example Davis (2005) catalogued thirty-four Australian relationship style projects with an average value of \$150 million. Specific noteworthy examples are the National Museum of Australia project with a total budget of A\$155.4 million (Walker and Hampson 2003), the WA21 Alliance project in Western Australia with a total budget of A\$150 million (Whiteley 2004; Whiteley 2004) and Sydney's Northside Storage Tunnel project having a total budget exceeding A\$460 million.

The differences between relationship and traditional procurement is well documented (Davis and Walker 2003) and highlights three factors that should be present for a relationship style contract to be successful (Hutchinson and Knisely 1999; Hutchinson and Gallagher 2003; Ross 2003; Davis 2005). The first is alignment of objectives through scope development, targeted relationships and trust building (Kubal 1994; Pascale and Sanders 1997) (Kubal 1994; Allen 1995; Pascale and Sanders 1997; Boyd and Browning 1998). Contemporary research on relationship procurement suggests a focus on win-win solutions, that drive the team toward collaboration rather than adversarial behaviours and a view toward shared and mutually agreed goals that provides underpinning synergies. These terms, whilst not explicit in contract documents developed for alliance projects for example, do form an implicit underpinning theme (Hollingsworth 1988; Hutchinson and Gallagher 2003). Benchmark documents that have captured a change in contracting strategies advocate the use of relationship type strategies (Latham 1994; Egan 1998). These documents, when compared with more recent texts that discuss relationship based procurement, show where enhanced value is provided to project participants in a RC environment (Keniger and Walker 2003). The third factor for a successful alliance is risk allocation and allotted commercial incentives (Scott 1993; Fellows 1998; KPMG Legal 1998). By cooperating, the participants aim to reduce overall project costs, share project risk and reward and increase mutual profits (Allen 1995; Das and Teng 1998; KPMG Legal 1998; Hutchinson and Gallagher 2003; Ross 2003; Whiteley 2004). Research and practice has shown that relationship style projects are not based on low-bid tendering. Awkward issues such as price and change to the scope are accounted for by participants at the earliest opportunity (Kubal 1994; Allen 1995; Pascale and Sanders 1997; KPMG Legal 1998; Walker, Hampson et al. 2000).

These three factors are founded on; trust, cooperative rather than adversarial relationships, collaboration rather than competition, problem solving and innovation rather than sanctions or

contractual penalties (Boyd and Browning 1998; Davis 2005). Most importantly, an understanding of relationship maintenance is required.

RELATIONSHIP DEVELOPMENT/ MAINTENANCE

Relationship maintenance is an outcome of an evolving, incrementally redefined relationship development (RD) strategy that changes the context in which people act (Ford, Hakansson et al. 1985; Dwyer, Schurr et al. 1987; Wilson 1995; Pascale and Sanders 1997; Ford 1998; Thompson and Sanders 1998; Donaldson and O'Toole 2001; Walker and Hampson 2003).

Table 1 identifies several authors who have endeavoured to capture RD in a sequential manner within (up to) five phases. For expediency three phases are captured in a conceptual model and represented under generic headings; Assessment, Commitment (both low-lighted) and Enduring (highlighted). The three phases in are founded on the literature abstracted in Table 1. The focus of the paper is Relationship Maintenance, accordingly a brief discussion on Assessment and Commitment follows. This is supported by further comprehensive review of the Maintenance phase of relationship development.

Author	Sector	Phase 1	2	3	4	5
Wilson (1995)	Business markets	Partner selection	Purpose definition	Boundary setting	Value creation	Relationship maintenance
Pascale (1997)	Outsourcing services	Internal alignment	Partner selection	Relationship alignment	Project alignment	Work process alignment
Thompson & Sanders (1998)	Construct-ion industry	Cooperation	Collabora-tion	Coales-cence		
Donaldson <i>et al.</i> (2001)	Strategic business perspective	Initial contact	Lock-in	Institutionali-sation	Dissolution	
Ford (1998)	Business interdep-endencies	Awareness	Exploration	Expansion	Commitment	
Boddy, Macbeth and Wagner (2000)	Manufact-uring supply chains	Emerge	Evolve	Grow	Dissolve	
Dwyer, Schurr and oh (1987)	Marketing exchange	Awareness	Exploration	Expansion	Commitment	Dissolution

Table 1 Foundation of Relationship Development/ Maintenance

ASSESSMENT AND COMMITMENT PHASES

In the assessment phase individual parties are not exclusively committed to one another and guarded exchanges of information take place that exhibit limited degrees of trust. Trust will increase as a consequence of perceived investments of an economic or social nature.

They may be product or person related, designed to add project value. Comparison with alternative potential relationships may take place, but eventually a decision based on limited information available will allow continuation to the commitment phase. From these phases a focus on the enduring or maintenance phase will develop a successful outcome.

ENDURING/ MAINTENANCE PHASE

As the participants within the proposed relationship become more particular, their outcome begins to impact more significantly on other organisational interactions (Ford, Hakansson et al. 1985). Wilson (1995) refers to a 'hybrid team' to describe the participants in the RD process that commence to acquire communal assets. They begin to become more interdependent (Dwyer, Schurr et al. 1987) and organisational lines disappear (Thompson and Sanders 1998). Knowledge of norms and values of associated participants is acquired (Ford 1982). Dwyer, Schurr and Oh (1987) indicate that when exemplary exchange takes place surpassing expectations, attractiveness

increases thereby enhancing goal congruence and cooperativeness. Informal rules created in the team establish governance within the structure of the relationship (Wilson 1995). Organisations alter their procedures and make informal adaptations (Ford 1982). These reciprocal adaptations often involve cost and bind the participants together, as asset specific resources are difficult to transfer to other uses.

A theoretical model of relationship development is proposed using relationship marketing literature from various industry sectors other than construction. The model is founded on analysis of similarities between the various phases proposed by particular writers (Table 1). These writers argue that relationships emerge incrementally in phases and define learning that will subsequently emerge in the maintenance phase of a relationship type of contract (Wilson 1995; Pascale and Sanders 1997; Ford 1998; Thompson and Sanders 1998; Donaldson and O'Toole 2001).

The process of developing relationships draws together many facets from initial strategy, through commitment to durability and finally enduring relationship quality. These three phases are not mutually exclusive and each represents a collection of iterative macro processes. The boundaries referred to in the phases of relationship development are indistinct and dependent on supply chain activities; they may change with individual relationships, for example Araujo, Dubois & Gadde (1999) propose four interfaces from standardised, through specified and translational to interactive. These four categories of interfaces balance the costs and benefits of establishing and maintaining relationships. A further aspect known as boundary penetration (the degree each partner organisation overlaps the other in a joint action), serves to reduce a silo effect or participant partitioning in the supply chain (Heide and John 1990). Accordingly each phase interacts with subsequent phases through seamless boundaries that are punctuated with incremental relationship investments.

The balance of this paper will: test the enduring (maintenance) phase of a theoretical model described within alliance projects; and show a conceptual fit of relationship maintenance appropriate for complex construction procurement.

METHOD AND RESEARCH DESIGN

To test the theoretical RD model a snowball sample of forty-nine project managers experienced with alliance projects were interviewed using a semi-structured instrument

(Sarantakos 1993; 1996; Burns 2000; Collis and Hussey 2003). The stratification of respondents was typical of parties involved with alliance projects. It was balanced across the construction sector comprising; consulting engineers, consulting project managers, contractors, and client representatives. The focus of the data collection was directed toward individual construction managers and how their relationships were maintained within an alliance setting.

The context and content of the interview instrument were founded on two independent surveys; a quantitative mail survey to 898 construction personnel in WA that sought to determine the influence of; trust, commitment and mutual goals with regard to RD; and a case based study that evaluated the development workshops of four contemporary Australian alliance projects (Davis 2005).

The interview instrument was designed to assess processes and interactions that support relationship maintenance. It also assessed the affect that key variables found associated with relationship building had on alliance projects participants. It was analysed using four-stage typology analysis, (transcribing, analysing; generalisation and control). In addition other unstructured methods were used to reduce the expansive data to meaningful content (Stewart and Shamdasani 1990; Tesch 1990; Robson 1993).

THREE-STAGE ALLIANCE RELATIONSHIP MODEL

A three-stage alliance relationship model drawing on key papers and forty-nine interviews focusing on relationship maintenance is shown (Ford, Hakansson et al. 1985; Dwyer, Schurr et al. 1987; Wilson 1995; Pascale and Sanders 1997; Ford 1998; Thompson and Sanders 1998; Donaldson and O'Toole 2001; Walker and Hampson 2003).

From the interviews that covered relationship development it is apparent that the assessment and commitment phase are the building blocks from which an enduring (maintenance) phase is forged. These building blocks are identified in as low lighted phases of the relationship maintenance model.

In the maintenance stage of a relationship, enduring strong ties are founded upon commitment (technical, social and knowledge bonds). These bonds are manifest in an alliance as: process (of the workshops), attributes (of relationship development i.e. trust building),

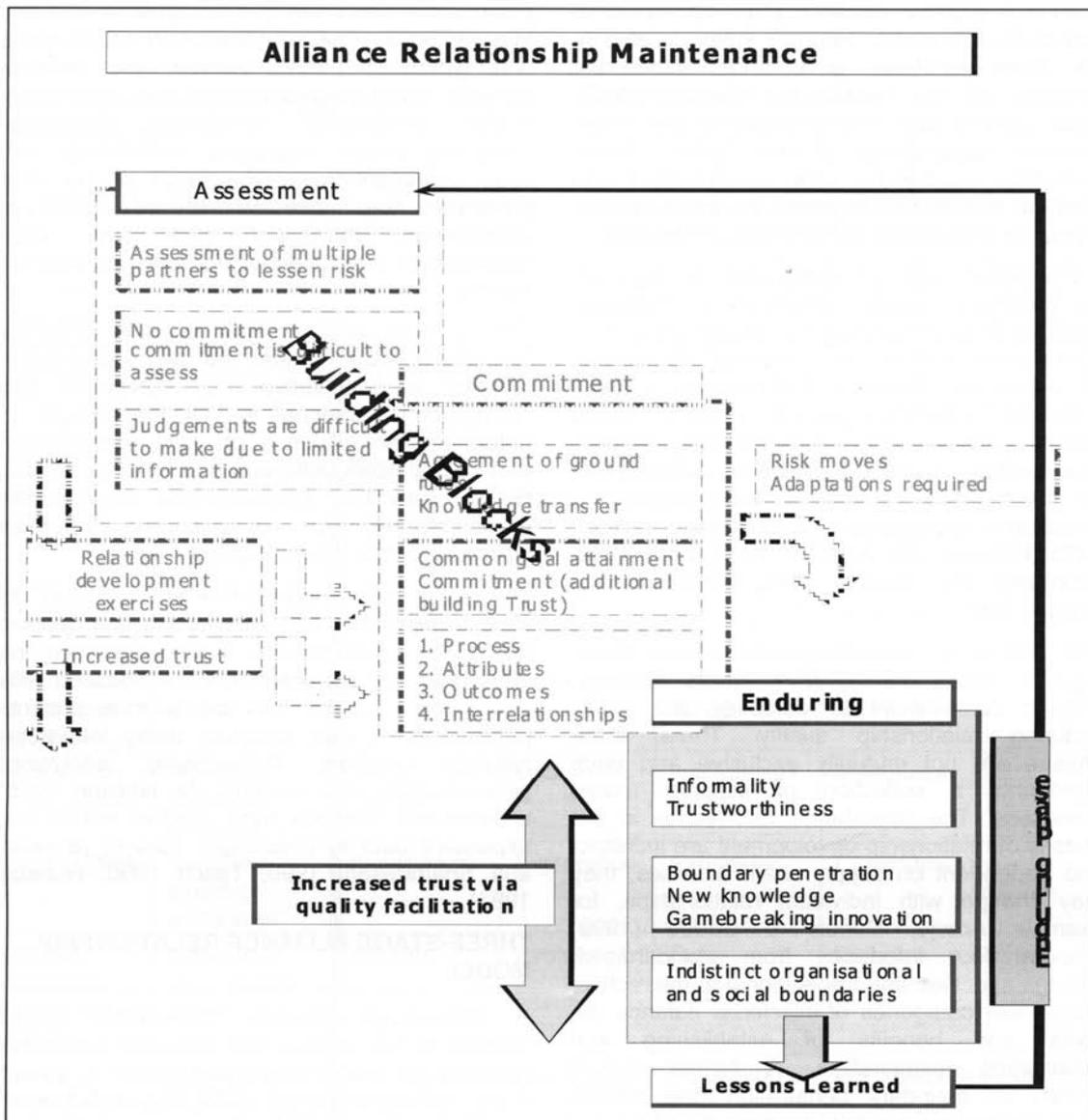


Figure 3 Three stage alliance relationship model

outcome (that leads to the enduring phase of the relationship) and interrelationships (both individual and organisational) (Davis 2005). Regular evaluations, often facilitated, are in place to ensure maintenance of the relationship quality. Reliability, informality and trustworthiness are the outcome of these bonds and are described as relationship quality (RQ) (Ariño, Torre et al. 2005). RQ cannot be bought and is not readily available to competition in the market place; however it augments the competitiveness of an organisation through its continual reuse in the enduring relationship.

Respondents placed a good deal of responsibility on facilitators to help develop and analyse behaviors in the early phases of the relationship. The respondents suggested that all

alliance projects benefit from somebody with people skills able to provide facilitation, initiate particular interventions and sense "Where the heat [disagreement/ misalignment] is coming into some of the relationships [and enabling it to be dissipated]." (R20). Clients expect their facilitators to put the non client participants to "the test" and ensure correct behaviors in accord with their alliance principles. They seemingly had no desire to revert to adversarial relationships.

Particular activities also assisted in the early phases. Several mentioned a social function, as an example; "After a long hard day of considerable pressure there was the opportunity to build on connections that were touched on in the activities through the day." It was suggested that any reserve that may have been in place

due to perceived competition would disappear as participants were carefully brought out of their 'business as usual' mindset. Experienced facilitators would use examples and draw on participants' experience and expertise on other projects to do this. Facilitators were said to have an enormous impact on relationship development processes and were used to deliver a fair workshop outcome that was balanced and objective. All respondents made use of facilitators. It was apparent that the sample recognized their own particular shortcomings and used facilitation to overcome them.

Absorptive capacity is a term to describe the acceptance of new knowledge which includes a propensity toward openness and tolerance of mistakes (Cohen and Levinthal 1990). A history of gamebreaking ideas suggests absorptive capacity is important to the maintenance stage of an alliance. People that have an ability to note an opportunity of an idea transferred from one discipline to another are useful to the relationship at his stage. For example, in one of the projects discussed by the respondents several were able to cite an example of technology transfer of a significant nature that was indeed gamebreaking.

Interviewees spoke of commitment to particular project benchmarks as lead indicators. There was a conscious effort not to utilize lagging indicators based on past effort. They referred to knowledge management and knowledge transfer that is typical in an alliance project as indicators of relationship maintenance. It was said that the alliance creates a "knowledge bank" that is held by their joint venture. For example, particular problems that have occurred elsewhere can be revisited and avoided on a current project. In this stage of the relationship organisational learning comes to a peak and there is no reluctance to provide information in the relationship.

The third stage of relationship development was referred to in the literature as *enduring*. As indicated, the relationship would be in a stage of maturity. Indistinct organisational and social boundaries would become less evident as boundary penetration of participants creates a hybrid team that is to be in place for the duration of the project (Wilson 1995). In the interviews over twenty percent of the respondents referred to the integrated nature of the team and the fact that in the maintenance phase of the alliance process individual corporate identities were replaced with an alliance team. Several describe the nature of the team as "a dynamic team with a life of its own". Others would simply indicate "we work for the alliance" and we are not interested in the fact that a colleague came from another firm. The culture of the team put in place and generated in the relationship building phase of

the alliance was an important aspect monitored throughout the maintenance phase. It was enhanced in three areas; the team's identity, its relationships and physical location. Individuals found that they were prepared to put the project ahead of their own firms' interests and this was supported by the alliance leadership team (ALT). The culture of the ALT was such that the overall team was treated equally with regard to reprimands and accolades; there was no evidence of blame in any situation. Individuals cared for the well-being of one another and "created a feeling of empathy". Physical location enabled the team to operate as a "hybrid organisation" communicating effectively and share information; knowledge was created as a consequence and individuals collaborated to "think outside the square" and productively solve problems.

DISCUSSION / CONCLUSIONS

It is proposed that the relationship development process is crucial to a successful relationship contract/ alliance. It is also argued that there is a recognisable structure to RD that is underpinned with specific attributes, whether organisational or individual. These attributes should be considered when managing the RD process. It is suggested that relationship based procurement is dependent upon and is reinforced by joint learning from joint problem-solving activities established in the relationship development workshops.

It is accepted there are some differences between a pure (traditional) alliance model and what has become known as a Target Outturn Cost (TOC) or Cost Competitive Alliance. The latter is said to provide better cost and time certainty to public sector clients. The key elements of the project delivery phase are the same in both variants and represent similar risk patterns and project management structures (Cowan and Davis 2005). However it is the tension associated with delivery of price where a departure lies.

In a pure alliance the tension occurs between the client and a single non-client consortium after the preferred consortium selection has been made and work proceeds to develop a TOC. It is said that this can lead to time and cost uncertainty. In the private sector this uncertainty may be overcome by commercial drivers and business hurdles that stop a project from proceeding if determined parameters are exceeded. In the public sector a business case may dictate that a project is almost certain to proceed; there are several examples of this in Australia (Cowan and Davis 2005). This actuality may instil a lack of confidence in the commerciality or

competitiveness of the TOC in a pure alliance scenario.

Indeed it is suggested that a cost competitive selection process is regularly used to overcome a perception that unless there is market tension the target price will be inflated (Whiteley and Henneveld 2006).

In the study, when asked about relationship maintenance associated with alliance projects, the respondents were positive. Essentially they believed that the selection process that included relationship development workshops added significantly to the benefits that they all accrued in the maintenance period. The benefits were not limited to process benefits but flowed into product or relationship benefits. The alliance development provided a context for building personnel connections; effectively a framework or scaffolding that supported the relationship based contract. The actual process of the relationship development/ maintenance would provide value to the project. Often, however, value created in the process would not be conceptualised in a tangible way; through reporting for example. This failure caused several respondents, mainly clients, to underrate the value and presume that the relationship afforded little gain to the overall project.

There were some difficulties for the respondents to articulate tangible benefits of RC. These difficulties manifest due to the fact that key principles of procurement, such as the term value for money, were not clearly defined in their minds. Without a clear definition the project managers were unable to articulate some benefits to their line managers. The process of alliance procurement is different enough from more traditional procurement approaches to warrant some articulation of VFM in its particular context. Tangible VFM (price) identified in the model may preclude less tangible but equal and mutually favourable VFM outcomes being set.

Finally the benefits from the literature were wholly supported; for example Han (1993) and Wilson (1986) cite examples where relationships between long-term buyer-suppliers save inspection costs and consequently provide benefits in quality and reduced lead-in times. The primary benefits that all the respondents in the study spoke about were trust, commitment and the development of mutual goals that were engendered at an early opportunity and reinforced throughout the project maintenance stage.

REFERENCES

- Allen, A. L. (1995). Oil and Gas Greenfield Project Alliances Theory and Practice. Report Presented as Part of the Requirements of the Award for the Degree of Master of Project Management. Perth, Curtin University of Technology.
- Araujo, L., A. Dubois, et al. (1999). "Managing Interfaces with Suppliers." *Industrial marketing management* 28(5): 497-506.
- Ariño, A., J. d. I. Torre, et al. (2005). "Relational quality and inter-personal trust in strategic alliances." *European Management Review* 2(1): 15.
- Boddy, D., D. Macbeth, et al. (2000). "Implementing collaboration between organisations: An empirical study of supply chain partnering." *Journal of Management studies* 37(7): 1003-1017.
- Boyd, L. and P. Browning (1998). "Facilitating partnering in local government." *Local Government Management: LGM* 32(3): 10-13.
- Burns, R. B. (2000). *Introduction to Research Method*. Frenchs Forest, NSW, Longman.
- Cohen, W. M. and D. Levinthal (1990). "Absorptive Capacity: A New Perspective on Learning and Innovation." *Administrative Science Quarterly* 35(1): 128-152.
- Collis, J. and R. Hussey (2003). *Business Research*. Basingstoke, Palgrave MacMillan.
- Cowan, B. and J. Davis. (2005). "Development of the 'Competitive TOC' Alliance - A Client Initiative." Retrieved 08.12.2006, 2006, from <http://www.alliancenetWORK.com.au/pdfs/Paper%20on%20Competitive%20Alliances%20Ver%204.pdf>.
- Das, T. K. and B.-S. Teng (1998). "Resource and Risk Management in the Strategic Alliance Making Process." *Journal of Management* 24(1): 21-41.
- Davis, P. R. (2005). *The Application of Relationship Marketing to Construction*. School of Economics, Finance and Marketing. Melbourne, Royal Melbourne Institute of Technology. Doctor of Philosophy: 374.
- Davis, P. R. and D. H. T. Walker (2003). "Relationship Marketing: Providing opportunities and benefits for the Construction Industry." *The International Journal of Construction Management* 3(2): 69-78.
- Donaldson, B. and T. O'Toole (2001). *Strategic market relationships: from strategy to implementation*. Sussex, Wiley.

- Dwyer, F. R., P. H. Schurr, et al. (1987). "Developing Buyer-Seller Relationships." *Journal of Marketing* 51(April): 11-27.
- Egan, J. (1998). "Rethinking Construction: The report of the Construction Task Force to the Deputy Prime Minister, John Prescott, on the scope for improving the quality and efficiency of UK construction." Retrieved 7.5.99, 1999, from <http://www.construction.detr.gov.uk/cis/rethink/12.htm#chap3>.
- Fellows, R. (1998). *The Culture of Partnering. Procurement-A Key to Innovation*. CIB W92 Procurement, CIB W92.
- Ford, D. (1982). *The Development of Buyer Seller Relationships in Industrial Markets. International Marketing and Purchasing of Industrial Goods: An interaction approach*. H. Hakansson. Uppsala, John Wiley & Sons.
- Ford, D. (1998). *Managing business relationships*. Chichester [England]; New York, J. Wiley.
- Ford, D., H. Hakansson, et al. (1985). "How do Companies Interact?" *Industrial Marketing and Purchasing* 1(1): 26-40.
- Han, S.-L., D. Wilson, et al. (1993). "Buyer-Supplier Relationships Today." *International Marketing Management* 22: 331-338.
- Heide, J. B. and G. John (1990). "Alliances in Industrial Purchasing: The Determinants of Joint Action in Buyer-Supplier Relationships." *Journal of Marketing Research* 27(1): 24-36.
- Hollingsworth, D. S. (1988). "Building Successful Global Partnerships." *The Journal of Business Strategy* 9(5): 12-15.
- Hutchinson, A. and J. Gallagher (2003). *Project Alliances: An Overview*. Melbourne, Alchimie Pty Ltd, Phillips Fox Lawyers, 33.
- Hutchinson, A. and S. Knisely (1999). *Creating successful collaboration - selecting the right partner*. AIPM National Conference, Melbourne, AIPM.
- Keniger, M. and D. H. T. Walker (2003). *Developing a quality culture - Project Alliancing versus Business as Usual. Procurement strategies: a relationship based approach*. D. H. T. Walker and K. Hampson. Oxford, UK, Blackwell Science: 297.
- KPMG Legal (1998). *Project Alliances in the Construction Industry*. Sydney, NSW Department of Public Works and Services: 1-55.
- Kubal, M. (1994). *Engineered quality in construction: partnering and TQM*, McGraw-Hill.
- Kumar, R. (1996). *Research Methodology: A Step By Step Guide for Beginners*, Longman.
- Latham, M. (1994). *Constructing the team: Joint Review of Procurement and Contractual Arrangements in the United Kingdom Construction Industry: Final report*. [London], H.M.S.O.
- Pascale, S. and S. Sanders (1997). *Supplier Selection and Partnering Alignment: A Prerequisite for Project Management Success for the Year 2000*. The 28th Annual Project Management Institute 1997 Seminars and Symposium, Project Management Institute.
- Robson, C. (1993). *Real world research: a resource for social scientists and practitioner-researchers*. Oxford, UK, Blackwell.
- Ross, J. (2003). *Introduction to project alliancing*. Alliance Contracting Conference, Sydney, Project Control International Pty Ltd.
- Sarantakos, S. (1993). *Social Research*. South Melbourne, Macmillan Education Australia.
- Scott, B. (1993). *Partnering and Alliance Contracts - A Company Viewpoint*. Master of project management. Procurement management 642 - paper. Collaborative arrangements - partnering. D. J. Baccarini. Perth, Unpublished.
- Stewart, D. W. and P. N. Shamdasani (1990). *Focus Groups Theory and Practice*. California, Sage Publications, Inc.
- Tesch, R. (1990). *Qualitative research: analysis types and software tools*. New York, Falmer Press.
- Thompson, P. J. and S. R. Sanders (1998). "Partnering Continuum." *Journal of Management in Engineering* 14(5): 73-78.
- Walker, D. H. T. and K. Hampson, Eds. (2003). *Procurement strategies: a relationship based approach*. Oxford, UK, Blackwell Science.
- Walker, D. H. T. and K. Hampson (2003). *Project Alliance Member Organisation Selection. Procurement strategies: a relationship based approach*. D. H. T. Walker and K. Hampson. Oxford, UK, Blackwell Science: 297.
- Walker, D. H. T., K. Hampson, et al. (2000). *Relationship-Based Procurement Strategies for the 21st Century*. Melbourne, RMIT.
- Whiteley, D. (2004). *Project Alliancing, An investigation into the benefits and attributes of the project alliance contracting strategy: Report Presented as Part of the Requirements of the Award for the Degree of Master of Science; Project Management*. Perth, Curtin University of

Technology Faculty of the Built Environment Art and Design.

Whiteley, D. and M. Henneveld (2006). *A Practical Guide to Achieving Outstanding Performance from Alliance Contracting*. LexisNexis Commercial Litigation & Construction Law WA Hyatt Regency Perth WA, LexisNexis Professional Development.

Whiteley, R. (2004). "Floating new ideas in construction." *Construct: The National Magazine of the Australian Institute of Building* 2(February): 37-38.

Wilson, D. (1995). "An Integrated Model of Buyer-Seller relationships." *Journal of the Academy of Marketing Science* 23(4): 335-345.

Wilson, D. and V. Mummalaneni (1986). "Bonding and Commitment in Buyer-Seller relationships: a preliminary conceptualisation." *Industrial Marketing and Purchasing* 1(3): 44-58.