Partnering

There has been a significant growth in interest in partnering in construction lately. Some of the interest follows the success and of partnering in non-construction fields ranging from pharmaceuticals to professional services firms.
Hong Kong has followed this trend and partnering arrangements can be found among some of the major local players and authorities. This first part of a two-part article looks at some of the general considerations involved in and when to use partnering. Next month in part two the management framework for partnering and some of the legal issues will be looked at and a sample partnership charter will be set out.

Definition

Partnering is a means to achieve teamwork *across* rather than *along* contractual lines. Thus partnering is a form of non-binding agreement that amounts to a joint declaration of party or project goals. The partnering agreements can be 'project specific' or 'strategic' over many projects. There are many definitions of partnering. However almost all of the definitions bring out certain essential features. Typical of these is the definition given to partnering by the Reading Construction Forum:

Partnering is a management approach used by two or more organisations to achieve business objectives by maximising the effectiveness of each participantís resources. The approach is based on mutual objectives, an agreed method of problem resolution, and an active search for continuous improvement.[1]

From this definition the essential features of partnering can be seen to be: common or mutual objectives; problem solving or resolution; and continuous improvement. Each of these features may be expanded upon.

Common or Mutual Objectives

Parties to partnering agreements share common or mutual objectives. In the construction context these are best found in parties' projects. The intention is to foster 'win-win' solutions to everyday problems; to overcome adversarial attitudes and encourage co-operative solutions. Typical of the common objectives that parties will agree to assume are the following: cost savings; profitability; quality; risk sharing; and communications. To be successful the parties should set their goals at the outset of the project and maintain them under continuous review. The review process is best facilitated by transparent management procedures on the project carried out in an atmosphere of mutual trust or confidence.

Problem Solving or Resolution

Construction projects throw up an array of problems. A partnering arrangement should provide an efficient means of resolving these problems. Experience has shown that problems addressed quickly in the process improve the likelihood of a successful outcome on the project. Thus partners will work together to achieve this through a variety of means that may include: regular meetings; early warnings; decision-making and timelimits; referrals up the management chain; objective reference criteria; and alternative dispute resolution methods. The essence of these features is equality within a co-operative relationship.

Continuous Improvement

Competition today drives companies toward continuous improved performance to say abreast and ahead of others in their industry. Partnering is one means to achieve this. Continuous improvement is also a feature of quality assurance, total quality management and even benchmarking. Some of the areas that lend themselves to continuous improvement thus include: improved quality; zero defects; faster completion times; higher productivity; lower costs; improved profitability; increased efficiency; added value; and greater certainty in outcomes. Continuous improvement is also synonymous with customer focus. It can readily be seen that these three features and some of the elements are not mutually exclusive.

Who Can Benefit from Partnering

One of the central aims in partnering is to reduce costs. Sir Michael Latham in his recent report[2] on the United Kingdom construction industry held the prospect of increasing productivity or reducing costs 30% largely through partnering. If such a goal can be reached then the parties are put in an excellent position to pursue their other common objectives. However, partnering is not necessarily suitable for every construction project. Research has shown that partnering is most likely to be successful in projects where the clientís procurement strategy accepts that the project or construction programme is high value and high risk; and the contractorsí interest is fueled by the prospect of a high value/high attractiveness account core to their business.[3] Likely procurement strategies may be summarised according to the risk, value and attractiveness of the project or construction programme as follows:[4]

Clients Assessment of Supplier Risk

High Risk Low Value
* Ensures supplies
* Cost insensitivity
* Frequent review

High Risk High Value
* Ensure supplies
* Apply close value management
* Continuous review

Low Risk Low Value
* Automatic
* Delegate
* Low attention

Low Risk High Value
* Seeks opportunities
* Takes risks
* Wheel and deal

The above table illustrates the risks associated with reliance upon suppliers. On the above chart value moves on the left to right from low to high while risk moves on an axis bottom to top from low to high. Partnering is most appropriate in the High Risk High Value Box.

Suppliers' Assessment of Client Risk

Development
* Nurture client
* Expand business
* Seek new opportunities

Core
* Pamper customer
* Defend vigorously
* High level of service
* High responsiveness

Nuisance
* Give low attention
* Lose without pain

Exploitable
* Drive premium price
* Seek short term advantage
* Risk losing customer

Where the project or construction programme is considered high value high risk then the parties should carefully consider the suppliersí reliance on the client as in the above chart. Here once again value could be considered on an axis moving from left to right and from low to high. Partnering is more appropriate in the Development and Core Boxes and most appropriate in the Core Box.

Clients Responses for High Risk, High Value Areas

Development
* Potential match
* Work closely with
* supplier to expand
* business

Core
* Good match
* Potential for partnering or strategic alliance

Nuisance
* Very high risk
* Seek competition, raise attraction

Exploitable
* Great caution
* Seek competition, raise mutual dependency

In this chart value could be represented on an axis running from left to right and from low to high. Partnering would be most appropriate if both parties conclude they are positioned in the Core Box.

Summary

Partnering should be considered as a business strategy in cases where it is perceived by everyone in the organisation that it affords a competitive advantage. The time, cost, and quality objectives are important. Strategic considerations are understood by clients and suppliers, or employers and contractors. All parties understand the true costs of the project. Both parties are willing to work transparently and efficiently in co-operative fashion.

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1. Reading Construction Forum, *Trusting the Team: the Best Practice Guide to Partnering in Construction*, Centre for Strategic Studies in Construction, Reading, 1995.
2. Sir Michael Latham, *Constructing the Team*, 1994.
3. Construction Industry Board, *Partnering in the Team*, A Report by Working Group 12 of the Construction Industry Board, 1997.
4. Construction Industry Board, *Partnering in the Team*, A Report by Working Group 12 of the Construction Industry Board, 1997 p 4.