

# **PROJECT PARTNERING - ALTERNATIVE WAY OF DOING BUSINESS**

**ING. HARRY LÖWIT<sup>1</sup>**

<sup>1</sup>*CTU in Prague Fac. of Civil Engineering, Thákurova 7, Praha 6, 166 29, Czech Republic,  
harry.lowit@fsv.cvut.cz*

## **Abstract**

There is a plenty of alternative procurement systems on today's construction market. These procurement systems have currently received a lot of attention, especially on the Czech construction market. The whole process of the selection of the contractor is affected by the needs of the owner and the abilities of the potential contractor. In many cases, the owner is deprived of the possibility to elect the optimal contractor system losing its potential advantages and possibly accepting more risks than necessary. Consequently it may result in growing costs and time of the realization. The project partnering is not a new way of doing business in civil engineering, but an alternative procurement system. Project partnering procurement system is based on establishing a climate of goodwill and fair dealing between the parties. It builds a relationship of trust and teamwork over the project that result into everyone's benefit and successful completion of the project. If project partnering works properly, it could be very useful procurement system on the Czech construction market.

## **Keywords**

Construction project; procurement systems; project partnering

## Introduction

Projects in civil engineering are very specific, because every project is original and affected by many subjects and situations on the construction market. There is a wide range of participants, whether it is the owner, designer, general contractor and subcontractors or the final users of the construction project. All the relationships, rights and duties between all the parties of the construction project are properly defined in each type of contractor systems and in the agreements. In big part of the contractor systems one or more agreements are made and these contracts define the way, the construction project will be realized.

Partnering concept is an alternative way of doing business, not only in civil engineering, that could bring better project results and provide more benefits to involved parties. Partnering can be described as the conducting of a cooperative enterprise between two or more parties dedicated toward achieving a common goal for their benefit with a minimum of conflict and dispute. On the construction market, partnering involves all members of the team practicing the same philosophy of communication, cooperation and accepting full responsibility for their actions. This communication is not based as a contract that establishes the legal relationship, but as recognition that every contract includes an implied covenant of good faith. The partnering process attempts to establish working relationships among the stakeholders through a mutually-developed, formal strategy of commitment and communication. It attempts to create an environment where trust and teamwork prevent disputes, foster a cooperative bond to everyone's benefit, and facilitate the completion of a successful project [1]. Experience with partnering shows that relationship between owner and contractor could be based on the on the cooperation and goodwill of all members of the team. It should work to minimize potential risk, save costs and project realization time.

According to the country and culture, partnering in construction project could have different meaning and attitude. In the United States the term partnering in civil engineering is also known as a multi-project commitment between two constructions parties [2]. On the other side, for example in Australia it has different meaning and generally partnering means project partnering arrangement or one-off project cooperation.

Nowadays, partnering is growing system among the construction market in USA and Western Europe in both, private and public sector. It is applied by many companies, among owners, contractors and suppliers. In the Central Europe, it's still quite new way of doing business, and usage of partnering on the construction projects should be improved. There are still problems to transform the traditional adversarial relationship client – contractor to more collaborative atmosphere. It is more change of the attitude than formal rules and legal regulations.

## Research methodology

There is not only one way to pick the most suitable method. There is a possibility to choose a mixed method, combining the advantages of each individual approach while eliminating their weak points. This work only chose to apply qualitative research that is used when the research requires a deeper understanding of the topic. This type of research can deal with the description of processes, relations, situations, assumption verification, theories or generalization.

There are possible two research methods for this work, positivist and phenomenological. The Positivist method has a more philosophical approach and the type of knowledge is based on statistical logic [3]. Interviews and surveys are used for data collecting, but if it is presented incorrectly, this method may not bring a complete and correct view. The Phenomenological method is characteristic as a study of phenomena and the assumption of empirical knowledge. Its task is to

detect mistakes in phenomena, get to the core of it and get at the truth. The phenomenological research method seems more suitable for this work.

A deductive type of research and a case study are used. The deductive approach is chosen because the work goes from a broad spectrum of knowledge to much more specific conclusions. The deductive approach is about understanding the partnering process. The research aim of this work is to demonstrate possible advantages of the partnering system. Multiple case studies are used for this research. A case study is the best way to approach qualitative research. In general the case studies are described as a detailed study of one or a few cases [4].

## **Partnering Principles**

Partnering is growing practice to improve relationships between owner, designer, contractor and suppliers. It is presently applied to both public and private construction sector. As was introduced, construction projects are specific and could be very complicated. Nowadays, the lowest bid usually wins. Too many parties are involved in the project which causes adversarial relationship and brings contractual unfairness. All these aspects lead to need of partnering, which could create better atmosphere collaboration between parties. In a partnering relationship, the parties seek to transform the traditional adversarial relationship to a more collaborative and productive atmosphere. It is more than set of goals and procedures. It is a change of attitude, a state of mind and philosophy rather than a formally structured contractual agreement. Partnering represents commitment to respect, trust, cooperation and excellence for all stakeholders in partners' organizations. The key elements of partnering are:

- Commitment
- Equity
- Trust
- Mutual goals and objectives
- Helpful systems and procedures
- Continuous joint evaluation
- Timely responsiveness

There is a necessity to distinguish two basic terms – partnering and partnership. While partnering is a way of managing contracts through a collaborative approach not legally enforceable, partnership is a legal entity which creates an alternative legal structure to a company which can make legally binding agreements.

## **Partnering processes**

Partnering process and partnering principles are different all over the world according to the local legal and social habits. In the Australia were partnering and its procedure were defined as a management process employed to overcome the traditional adversarial and litigious nature of the construction industry. Partnering uses structured procedures involving all project participants to: define mutual goals, improve communication and develop formal problem solving and dispute avoidance strategies [5].

There are different partnering processes, etc., but the main goal is quite similar – to establish working relationship among stakeholders. Also the key elements of the partnering process are included [1]:

- Create partnership charter
- Start at the top

- Create mutual objective, goals and win/win solution
- Develop trust and teamwork
- Implement joint strategies and problem solving mechanism
- Empower personnel
- Joint review and evaluation
- Create rapid response and problem resolution

In any case, difference in USA, Australia or Continental Europe, partnering should commence with project workshops everywhere, because it is the most important part of the partnering process. At the beginning of the partnering, stakeholders should organize a workshop to achieve the most effective results. The impulse for the workshop must come from the top management. During the workshop, the whole partnering process implementation is created. Stakeholders define suspected goals of the project and interest overlap. Potential problems are defined, programs and methods of design are discussed, dispute resolution is created and finally project partnering concept is defined. This mutually agreed partnering process also has to include achieving each party financial goals, cost control and savings, contractual arrangement, early completion, etc. To ensure partnering implementation control, a plan for periodic evaluation should be agreed. The partial goals execution is controlled on this evaluation. The main result of the workshop is creating a partnering charter. In summary basic partnering steps are:

- Parties top management seminar
- Identify problems, potential barriers, objectives
- Develop & sign Charter, non-binding agreement of how contract will be managed
- Charter contains: communications plan, issue resolution process, performance evaluation, improvement plan

Then the whole project partnering continues according to this charter. The partnering process progress is on the Figure 1: The Partnering Process.

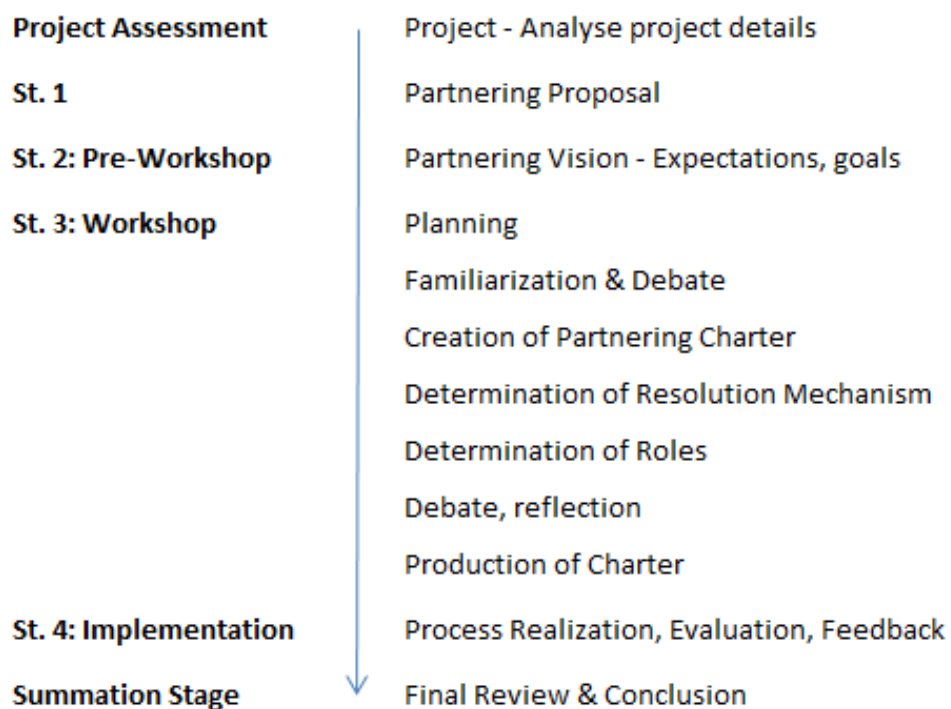


Figure 1: The Partnering Process, adapted from Public Works Annual Repot

## Benefits of Partnering

The main potential of partnering in the civil engineering for the future is in the partnering philosophy. The philosophy is to persuade all parties on the project – client, designer, contractors and suppliers – to understand their objectives and share the same goal which is successful project completion. The willingness of the parties for the partnering is from the knowledge that conflict is expensive and nobody gains from it. Survey in the USA founded that partnered construction projects on average cost contractors 12% less and principals 10% less in legal fees [2]. Therefore, the principal benefits of partnering are [6]:

- reduced exposure to litigation
- improved project outcomes in terms of cost, time and quality
- lower administrative and legal cost
- increased opportunity for innovation and value engineering
- increased chances of financial success.

The benefits on the construction projects can be globally divided into following main areas [6]:

- Time
  - Certainty of project time
  - Reduced project delivery time
- Cost
  - Optimum life cycle costs
  - Reduced capital expenditure
  - Improved operating performance
  - Ability to influence costs early without penalty
- Risks
  - Better management of inherent risks
  - Clearly defined risk allocation/sharing at outset
- Relationships
  - Enhanced relationships
  - Establishment & achievement of common goals
  - Improved behavior of the parties to the Contract (No Blame)
- Flexibility
  - Increased flexibility to match changing project requirements
  - Cost of change curve will be flatter
- Technology/Innovation
  - Greater incentive to be innovative
  - Greater incentive to apply latest technology

## Choice of procurement system & contracting

Contracting is a process to establish and manage the relationships between the parties that aims to remove barrier, encourage maximum contribution and allow all parties to achieve success. The risk is involved in contract and it depends very much on the types of used procurement system and contract. There are a lot of types of procurement systems. From the traditional systems like Design – bid- build to the alternative systems like a Design – build. According to the case studies, traditional procurement systems don't seem suitable for the partnering because of the low system flexibility. Alternative Design – build procurement system had been evaluated as very suitable on the projects.

Traditional approach often fails, creating an adversarial climate, a high level of commercial disputation, time and cost overruns and overall poor performance.

Generally for the contracting there are following fundamental points:

- Form of Contract
- Risk Allocation
- Use of Facilitator
- Alignment of Goals through workshops
- Integrated Project Team
- Open & Honest Communication

## **Types of Partnering**

In practice there are two types of partnering, project partnering and alliance mostly used. In the case where partnering formal structure is created on the traditional based system, it is called project partnering. Long term partnering bringing benefits to all parties on the different projects is called Alliance.

### **Project Partnering**

Project partnering was primary used in private sector, but now it is commonly used in public sector as well. This type of partnering is non contractual, it is based on shake hand approach and working in good faith to fulfill global goal of the project. A leading promoter of the partnering concept in USA Charles Cowan defines project partnering as a structured method of transforming contracted relationships into a cohesive, co-operative project team with a single set of goals and established procedures for resolving disputes in a timely and effective manner. Basic characteristic of the project partnering is:

- From beginning create non-conflict relationships between parties
- Try to define and prevent possible problems
- Minimize time loss and cost increasing during the project
- Prevent disputes and create dispute resolution mechanism

Ideal approach for the project partnering could be project management. Partnering is set from the beginning of the project and there is clear owner's effort to prevent disputes during the project realization. Project manager should be the one, who creates and controls the partnering approach of the designer, contractor and subcontractors. But project partnering is not a guarantee of the success generally. There are potential causes of partnering failure:

- Partnering is no longer supported from the main parties
- Partnering charter was broken by one of the partners
- One or more partners broke the dispute resolution mechanism

In this type of structure project manager's support of the partnering process is absolutely necessary. He has to determine possible risk and try to prevent this risk. In the situation when project manager is not able to fulfill basic needs for successful partnering, he has to be replaced by somebody else.

## Alliance

Alliance is a title for general business structure based on the long term cooperation. It could be define as a long term commitment of a mutual cooperation between two or more parties to maximize usage of the sources and achieve determined goal. It is contractual cooperation and there is need to overstep classic company organization. The possible organization concept of the alliance is shown on the Figure 2: Alliance owner, designer, general contractor.

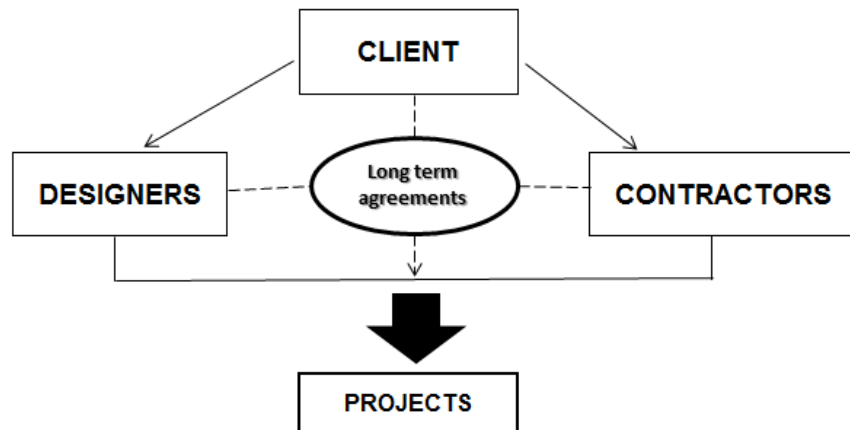


Figure 2: Alliance owner, designer, general contractor

Both parties work at costs rates and share profit & risk – this is so called Gain share & Pain share which is displayed on Figure 3: Gain Share % Pain Share. Mostly Alliance is used in private sector and this partnering concept could be applied between all possible parties of the construction project. Some of them work like a division systems or hybrid systems. Some of the possible alliance systems are:

- Syndicate
- Trust
- Consortium
- Group
- Joint ventures
- Holding, etc.

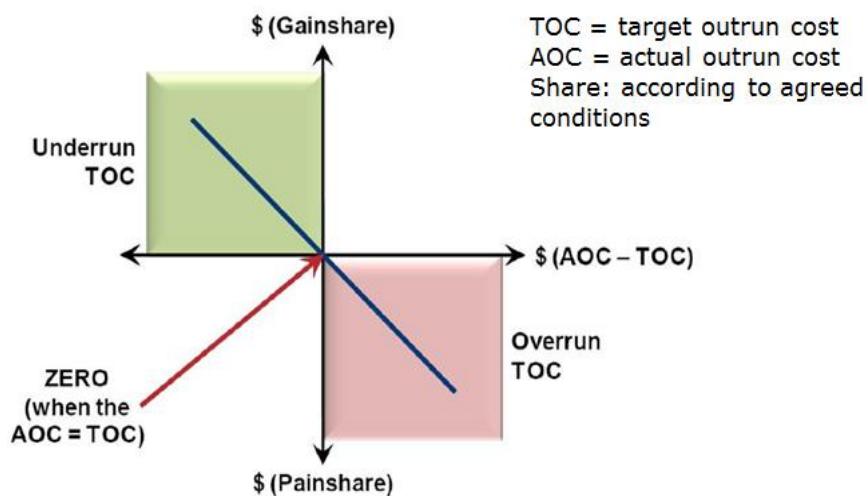


Figure 3: Gain Share % Pain Share, adapted from UniSa

Alliance system should be used especially when good quality or time saves are more important than total costs of the project. Nevertheless some clients are still convinced to save costs as well in the alliance. Sometimes it is named preferred contractor system instead of alliance on the Czech construction market but it is still the same system.

## Case Studies of Partnering

Two case studies, one from the USA construction market and one from the Australia, were chosen.

### USA Partnering – Olympia West Campus project

The West Campus project in Olympia USA is a great example of advantages of the project partnering. Construction project for university campus realization was finished from 40% and became into serious problems with completion. The project was in 3 months delay, budget was overcome for 2,000.000 USD and there were poor quality of the work, lot of claims and bad work productivity.

In this phase, project was temporary stopped and partnering concept was applied. During the introduction meeting arguing between parties were abnormal. Thanks to the mediator, parties were persuaded to cooperate on the project realization, thus it was necessary for project completion. It was the main goal for the both parties as well, but there was need to discover the way how to cooperate. The conditions for cooperation on the project were set and the project was immediately finished with following results. Total budget save was 500.000 USD a project was finished one month earlier than it was supposed in the schedule [7]

On this construction project potential of project partnering was clearly shown. The owner had to make a hard decision to stop works, but in fact it was the only way how to save the project. Thanks to this project system change, campus was finished in time with budget saves. It is obvious that partnering is valuable system for some kind of project.

### Partnering in Australia

Partnering in Australia has over twenty years of usage in private or public sector. After that period of evidence and monitoring the partnering projects, government is able to public that benefits from partnering are increasing during this period. *The Department of Public Works and Services has adopted a flexible approach to partnering, tailoring it to suit the needs of individual projects. Partnering was adopted on a trial basis on 20% of projects valued at over \$5 million in 1994/95 [5].*

There is a substantial and growing body of reliable evidence to suggest that the benefits of partnering in Australia are maturing. The experience of Public Works is illustrative of the evidence to date on the benefits of partnering with infrastructure projects comprising different values and delivery system, including hospitals, universities, TAFE colleges, schools and civil projects [2]. *An assessment of partnering on these projects indicated that improved project outcomes have been achieved ..... The results have encouraged the Department to consider extending the use of partnering [5].*

In 1994, the Construction Industry Institute formed a group to investigate ways in which partnering arrangement could enhance the construction process. There were all together 16 projects studied as partnered projects. These projects were e.g. Sydney Airport Fire Sprinkler Project, Sydney Hospital and Sydney Eye Hospital Project, Sydney Water – Bulk Water Maintenance Contract, Third, Department of Foreign Affairs and Trading Building, Tindal Air Force Base Extension. It is obvious that the range of the project was very various and investigation complex. In results from above mentioned projects partnering was perceived as successful system. From the research 85% of



respondents said they would have used partnering on another project. For above mentioned project Tindal Airforce Base was awarded by Master Builder Association Partnering Excellence Award 1995.

On the projects numbers of various procurement systems were used. As mentioned in previous chapter, each system and contract involved partnering and risk on project. Traditional procurement systems for public works were not so suitable for partnering arrangement as not flexible enough to encourage win – win results. On the Eastern Area Health Services alternative Design – build was used and P. Mizza said, Design – build is the best contract for partnering because contractor is in project from the beginning.

According to W. Hooper, NSW public Works & Services Project Manager, *generally there is need to more equality in risk sharing for partnering proper.*

Partnering was adopted on a trial basis on 20% of projects valued at over \$5 million in 1994/95. An assessment of partnering on these projects indicated that improved project outcomes have been achieved. The results have encouraged the Department to consider extending the use of partnering.

## Conclusion

Construction industry has been notorious for its adversarial relationship among contracting parties. In order to maintain the harmony there must be a level of mutual trust and project commitment. Partnering offers many opportunities to participants on the construction market to improve the quality and profitability of construction projects, while developing an atmosphere more conducive to innovation, team work, trust and commitment. During the partnering process, constant monitoring of performance is absolutely necessary, because it is one of the most critical factors in achieving partnering success.

Partnering process requires a long term process both in its development and its implementation. It requires a cultural change by all parties involved. It will work only to the extent that all parties want it to work. But if every party wants it to work, it is very useful and effective system.

## References

- [1] HELLARD, B. R. *Project Partnering: principle and Practice*. London: Thomas Telford Ltd, 1995. ISBN 0-7277-2043-0.
- [2] HALL, R. E., JONES, CH. I., *The Productivity of Nations*. NBER Working Paper 8512 , 1996. Available online at: <https://ideas.repec.org/p/nbr/nberwo/5812.html> (accessed 17 Oct 2014)
- [3] SILVERMAN, D. *Qualitative Methodology & Sociology*. Aldershot: Gover Publishing, 1985.
- [4] YIN, R. K. *Case Study Research: Design and Methods*. Thousand Oaks, USA: Sage Publications, 2009.
- [5] NSW Department of Public works and Services, *Annual report 1994/95*. Sydney: NSW Department of Public works and Services, 1995. ISSN 1325-2402.
- [6] MA, T., LEE, Y. S. Case studies of Public Private Partnership in Australia and Malaysia, *Proceedings of 37th Annual Conference of the Australasian Universities Building Educators Association (AUBEA)*, 2012.
- [7] HROMADA, E., LOWIT, H., PICHA, J., TOMEK, A., ZALESK, J. *Optimalizace metodiky přípravy nabídky do veřejné obchodní soutěže*. Praha: FinEco, 2011. ISBN 978-80-86590-08-0