



**CRC Construction Innovation**  
**B U I L D I N G   O U R   F U T U R E**

# Report on Client Management

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# Executive Summary

1. There can be many interpretations of relationship management. In this short report, we are concerned with relationships arising under an alliance project and in managing stakeholders under a more traditional approach to procurement. Each aspect is supported by an example project.
2. Relationship management is more than a characteristic of project management; it is one of its key features upon which the successful accomplishment of the project is likely to depend. Projects are about people – this is not meant as a cliché – and people have to be engaged in the process of design, construction and facilities management. Each step of the way, there is the potential for conflict, disruption and added cost, any of which can be exacerbated by a failure to manage relationships with the care they deserve.
3. Alliance projects (or simply alliancing) are newcomers to the procurement scene. Whilst the concept may be widely understood, comprehension of its practical implications for clients and contractors is vested in relatively few organisations and individuals. There is much learning to be had, not only in respect of behaviour and teambuilding, but also in achieving the right balance between competition and partnership. Projects must deliver best value, but they must fairly reward those who accept risk in return. Openness at the beginning of the process and thorough planning throughout cannot be over-emphasised and will help bind team members.
4. Alliancing has a particular strength when projects are complex or multi-sited and where design requirements (i.e. performance criteria) are known, but where the best way of translating them into a working solution is uncertain or unknown. Alliances are implicitly about flexibility and the ‘ability to change one’s mind’ through working collaboratively on design. In these ways, it is possible to maximise performance for the client whilst minimising whole life costs.
5. Other motivations for alliancing include the desire for a conflict-free working environment, with all parties working to the same client objectives, and job satisfaction from a project that comes to its natural end instead of suffering a lingering death. Problems tend to be resolved when encountered, rather than being left until last.
6. The evidence collected suggests that alliancing works, and works well, but is capable of improvement, not least in ensuring that scope definition and design are rigorous. If there were a weakness in alliancing, it is during this stage, where every effort must be made to pinpoint the ‘best-for-project’ solution in terms of fulfilling the client’s requirements and expectations. The means that sufficient time has to be allowed – more than for other methods of procurement.
7. There is anecdotal evidence to suggest that the current search for best value from a design proposal may not reveal all areas where unnecessary cost can be eliminated (without suffering a loss of performance). A corollary to this assertion is that further cost savings may reveal themselves only when the project is on site. At this point, any savings have to be shared, unlike at the design stage when the client benefits entirely. Designs and their associated costs must be scrutinised before contracts are signed if clients are to have the full confidence of their alliance partners. Attention must also extend to non-financial items, such as health and safety, which can, in fact, have a monetary dimension where performance exceeding an agreed threshold is rewarded by the client.

8. Outturn costs of projects delivered by alliancing are believed to be less than under alternative methods of procurement. However, this has to be seen in the context of the nature of the project: alliancing cannot be good for all situations. Performance (i.e. quality) is judged to be comparable with alternative 'best methods'.
9. Alliancing also has the potential to deliver benefits for major clients, whose project portfolios might gain from a more strategic review of options and priorities. Put another way, a supply-side perspective may reveal a different (and better) way of delivering projects than that existing within the client organisation.
10. The proper engagement of stakeholders, both internal and external to the client organisation and project team, is another key feature of project management. Stakeholder management draws on different skills to those normally associated with managing manpower and machines. Tact, diplomacy and, above all, sensitivity for others' needs is vital. Effective stakeholder management is about taking multiple and, often, conflicting needs into account when acting in the best interests of the client.
11. Key to success in stakeholder management derives from a structured approach to handling the multiplicity of interests that affect a single project. An approach that is ad hoc is unlikely to succeed, primarily because of the complexity of the problems encountered. Efficient organisational skills and procedures, which ensure that all who want to have a say have their say, will go a long way to providing the client with a result that takes proper account of stakeholders' interests. This is likely, in some cases, to require a considerable time-commitment by the project manager. It may even require that the project manager's role be split into two: responsibility for managing contracts and responsibility for managing stakeholders.
12. There are cost implications from providing stakeholder management that clients may be unable to meet. Worse, they may be unwilling to recognise it. Nonetheless, it is incumbent upon project managers to ensure that clients are made aware of the need for stakeholder management, its benefits and the shortcomings that can stem from ignoring it.
13. Effective stakeholder management requires clarity of purpose in communication and a carefully prepared and executed plan for engaging multiple stakeholders. Implicit in this requirement is the use of the most appropriate tools. A communications strategy and plan, in which stakeholders are brought together so that their concerns and other interests can be taken into account, can be followed by formal measurement of their respective influence/impact on the project. A methodology and tools exist to support this activity.

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# Alliancing – Summary of findings

## **General**

Alliances are best suited to large projects (including multi-site projects) and can provide greater certainty of outcome than alternative procurement methods. However, the client (and, indeed, the entire alliance) must invest time 'upfront'. In particular, this means thoroughness in scope definition and design and the resources necessary to achieve a high level of certainty for the project.

Confidence levels for the successful delivery of a project tend to be higher with alliancing than other methods of procurement, such as design and construct. So long as the project remains within scope it should not cost any more than agreed. With committed teams and informed clients, alliancing is considered to lead to fewer time and cost overruns whilst quality, in terms of the performance of the resultant facility, is at least equivalent to those procured under other preferred methods.

There are advantages in the alliancing model, although competitive alliancing may be more attractive to the client than the pure alliancing model. Even so, pure alliancing offers the chance to re-consider options before final commitment, i.e. finding better solutions by changing the design. Whilst the arguments in favour are powerful, they are not entirely without risk to the client.

Overall, alliances have much to offer, but a lack of practical experience of managing them can present problems for new players – it is possible to be more alert to the 'dos and don'ts' second time around. A high commitment across the board is needed to make an alliance work. Moreover, an internal culture change within the client organisation may be needed before personnel are accepting of the different responsibilities and behaviour demanded from everyone in an alliance, when compared with more traditional approaches.

## **Teamwork and Behaviour**

The focus for everyone's attention is a project that reflects the client's needs, not the interests of individual parties. With alliances, differences tend to be resolved 'earlier in the day', because people want to get on with the job – everyone is on the same side. However, should a problem arise – perhaps affecting the schedule and thus individual partners in the alliance – strong management is needed to ensure that defensive behaviour is avoided and personnel focus on the joint resolution of the problem. When successfully managed, an alliance can have the added benefit of an absence of claims and disputes at the end.

When differences of opinion do arise, it is important that strong management is exercised to resolve problems before they have a chance to escalate and without having to refer upwards, although this is sometimes necessary. Resolving conflict within the team, by the team, is fundamental to relationship management.

There is some apprehension (even mistrust) of alliancing, but there is also realisation that relationships will have to be built and managed and these aspects will take time. Alliancing is, after all, a fairly new practice even if the concept has been in circulation for many years. Team formation and progression towards productive teamwork can thus take longer than under other methods of procurement. This is probably not surprising since the basis of alliancing is trust and this is not something that can develop overnight. Additionally, an alliance provides (potentially) a larger pool of resources from which to

recruit good people to the team, although it may also mean that manning levels are higher than for other methods of procurement.

## ***Financial Engineering***

The cost of borrowing is a key factor in the financing decision on a project. Typically, state-sourced finance is cheaper than that sourced from the financial markets and so it remains the adopted approach for all projects. It is possible, but by no means certain, that innovative financing arrangements could lead to lower overall costs for projects. However, this would mean involving contractors – in this case, alliance partners – far earlier in the process, perhaps when master plans and multi-year investment plans are drawn up or individual projects are aggregated. A perceived risk here for the client is that its priorities might not necessarily remain the same.

Modifications to the procurement process to gain from innovative financing arrangements should, however, be explored. Under the present arrangement, where the merits of private finance are considered on a project-by-project basis, there is little likelihood of any new arrangement out-performing the traditional approach. By re-bundling projects and programmes, it is conceivable that the private sector might apply its corporate minds to deliver worthwhile cost savings over the longer term without compromising priorities, political or social.

## ***Scope Definition and Design***

Significant effort has to be put into the early stages of a project by the client: it is not enough to leave it to the alliance partners. Expectations and preferences of the client have to be spelt out – failure to do so will adversely impact on the project and its chances of success. Key design parameters, i.e. performance, have to be specified too. However, an alliance project cannot rely upon performance specifications (outputs) alone. Some inputs must be specified, e.g. design and other criteria for plant and equipment, if expected performance is to be achieved. Some design criteria are ‘must haves’ and those that allow selection from a range of possibilities. Imprecise or broadly-based performance criteria can lead to delay in contract formalisation as the team is unable to agree on what is ‘best-for-project’. The question of what is ‘best-for-project’ has to be based on whole life costs and the process of evaluation has to be transparent. Value engineering can provide the framework and discipline for extracting best value from a design proposal and should be employed.

Changes to design are generally easy to accommodate under alliance. However, there is the suspicion that some changes might be deferred until after the target cost estimate (TCE) has been agreed. These changes result in cost savings, but they are savings that have to be shared according to an agreed formula. If changes are applied before the TCE has been agreed, the client will receive the full benefit. During the contract, changes to design can lead to substitution of less desirable materials and components being selected which, whilst remaining compliant with the specification, will yield cost savings, some of which could be significant. The specification should be regarded as non-negotiable once the contract has been signed and the project is running. This would avoid clients having to pay a premium for ‘scope stripping’.

## **Cost Accountability**

Another concern for clients during the design stage is ensuring that there is no 'double-counting' in the TCE. For example, a wet weather allowance might be made when fixing productivity levels, yet might not be stated explicitly. Wet weather might also be considered a risk item, with the effect that such an incidence was doubly allowed for in the TCE. Some contractors show items of equipment within their direct costs, for example power tools, whereas others include them as part of their overheads. At the very least, confusion and uncertainty can easily prevail leading to dispute later over what is and is not included in the contract. Alliance partners are capable of forecasting productivity accurately, so they can only gain additional payment for scope and design changes. The remedy is rigorous auditing of cost estimates and their underlying assumptions.

Overheads and profit are fixed. The question of what is reasonable can prove worrisome and may require third party audit to make that judgement. Guidance at the outset from the client as to what is acceptable seems to be a way of pre-empting later dispute over the level of overheads and profit applied to a project.

Contract negotiation is an activity where, traditionally, contractors have been able to make assumptions, allowances and adjustments that would later enhance their returns from the project. The skill and experience of client representatives in the area of contractual negotiations has, therefore, to be equal to that of the alliance partners, primarily those drawn from the contracting sphere. If these skills are not available within the organisation they should be acquired in one way or another.

## **Project Performance and Delivery**

Performance of the alliance is an integral part of project management. Key performance indicators are the primary means for measuring progress and achievement. Since they are so important commercially to the alliance partners, it can take a long time to develop and agree KPIs. This is especially the case where the major responsibility for performance is shouldered by the alliance partners. Accuracy of estimating and the avoidance of specifying low quality capital items initially can however reduce concern over the setting of KPIs.

Non-financial requirements, such as health and safety and neighbourhood relations, can be used to 'incentivise' the alliance partners, with the prospect of rewards for exceeding a certain level of performance. This demands transparency in terms of the levels of performance included within the TCE and how deviations from them are treated. Without this information it could be very difficult for the client and alliance partners to agree on the threshold at which rewards accrue.

The successful transition from construction to operation of a facility relies on, amongst other things, the availability of manuals, drawings and other operational information. Planning that ensures their availability is a matter of good practice.

# **Stakeholder Management – Summary of findings**

## ***Generally***

Most, if not all, sizeable projects have a multiplicity of stakeholders. Their interest in a project must be taken fully into account as an integral part of the design, construction and facility management process. Managing the relationship with and between stakeholders is performed every day of the week in the normal course of business. Yet, the extent to which it is treated as a recognisable activity in practice is variable. In the context examined here, stakeholder management represents a particular type of relationship. The former has both an internal and external dimension.

Internal stakeholder management is essential for dealing with peer-to-peer relationships in the client organisation, where the possibility of role ambiguity is real. In other words, the process of engaging pluralistic clients needs careful management and cannot be handled in an ad hoc fashion. This situation will occur where, for example, different departments are acting as customers or where the distinction between purchaser and provider is not well defined or regulated. Co-location of purchaser and provider groups can exacerbate an already challenging situation in which competing objectives can lead to conflict.

The success of relationship management in general and stakeholder management in particular is contingent upon a well-defined communications strategy and plan, supported by scheduled meetings. The latter are used to bring people together to state positions, exchange views and negotiate outcomes. Dealing with the ensuing conflict is a part of the process of moving a project forward and need not become a contest between competing factions so long as a structured approach is adopted. Indeed, the approach should become the norm and not seen as something reserved for exceptional projects. All projects have the potential to descend into acrimony if multiple stakeholder interests are not properly addressed.

Another key factor in the success of a project is having a ‘good client’, meaning that the client engages in the process, is well-informed and decisive when required. Developing awareness within client circles of the need for stakeholder management is necessary and this can be demonstrated through a well-developed communications strategy.

Stakeholder analysis is a part of what should be done routinely on a project. However, it requires particular skills and an effective communications consultant is probably needed to facilitate stakeholder engagement.

This kind of consultation can be very time consuming and costly, and probably warrants two project managers on major projects – one to manage contracts and the other to manage stakeholders. In the example case, the additional cost was recovered from a relatively conflict-free project, with no lingering disputes or claims. Unfortunately, clients would likely contend that a conflict-free project is what they should be getting in any event and so there is no need to pay extra for that entitlement. Perversely, many clients know that the construction sector is inclined towards conflict and litigation, yet they avoid taking steps to minimise the discomfort and time lost on disputes.

Once clients recognise the value of stakeholder management they might be willing to pay for this service. It would be necessary, however, to present evidence (perhaps in the form of a body of knowledge) to the client in order to see how successful it could be or how problematic project management would be without it. Additionally, project managers could include the cost of the extra resources in their fees, although this would make them less competitive in a bid situation.

## ***Example project***

One particular project has exemplified the approach to stakeholder management. To set it in context, some 300 variations amounting to AU\$5m arose on this campus development project, yet all were settled by practical completion. The project was seen as a prime example of how one can succeed without entering into contractual arguments, avoiding conflicts which might otherwise prove damaging. Here, stakeholder management was actively at work – there was a real sense of working with people and their different interests.

The project had a detailed ‘project implementation plan’ and a communications management file. Meetings to identify who should be involved (e.g. industry, government, non-government and education) were held and then workshops were conducted to make sure that all stakeholder interests were taken into account. Dealing with the public can be difficult because of a lack of trust and understanding. For this reasons, ‘door-knocking’ was undertaken to ensure that everyone who could possibly have a say did just that. Schedules were prepared covering issues raised, the stakeholder group impacted, key messages and the response/recommended activities.

Stakeholders were grouped into three categories: project participants (e.g. land owner), secondary stakeholders (e.g. the BCC, central Departments and agencies) and tertiary stakeholders (e.g. local residents, aboriginal groups and others).

There was a large difference between the original group and the final group for consultation. It expanded as awareness of other interest groups grew. All meetings were recorded in writing. In addition, open meetings were held where anyone could voice an opinion without worry of records being kept. Free and frank comments were made.

An interesting feature of the example case was that there had been no envisaged role for the contractor in dealing directly with the community (external stakeholders). Yet, the contractor developed a sense of obligation and this led to a change in its work practices. A sense of pride in the project developed from this willingness to involve the community.

Despite the rigorous, detailed and documented approach evident on the project, relationship management was still seen as a personal matter, whose success comes down to the personality of the people involved. Good facilitation of workshops – in dealing with their inherent dynamics – was an essential requirement: people relate to people. At the end of workshops, common charters could be produced. These embody on one page the expectations and aspirations of the stakeholders. For facilitators and the project manager (who may also be acting in that role) the whole process can become stressful. Dealing with everyone’s concerns can be a drain emotionally as well as physically.

## **Tools and techniques**

Formal methods for measuring stakeholder influences and impacts are available to support the project manager. Bourne and Walker<sup>1</sup> describe a technique for visualising and mapping stakeholder influence. Central to this development is a tool – the stakeholder circle – which helps in prioritising stakeholders and then develops an engagement strategy to build and maintain relationships with those stakeholders. This development has been tested in Australia and so represents the same context as that reflected in this report. Bourne and Walker begin by identifying stakeholders and progress to the point where vested interests are recorded. The influence of each stakeholder (or representative group) is then mapped and used to construct a stakeholder circle in which the positioning of different stakeholders enables the project manager to adopt different response strategies. In other words, it allows attention to be given to where the greatest influences (mostly negative) are likely to be on the project.

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<sup>1</sup> Bourne, L. and Walker, D.H.T. (2005) Visualising and mapping stakeholder influence. *Management Decision*. **43**(5), 649-660.



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