

# RELATIONAL CONTRACTING: THE WAY FORWARD OR JUST A BRAND NAME?

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**ABSTRACT:** Accounts of the development of a successful construction project often stress the importance of team relationship, project environment and senior management commitment. Numbers of studies carried out in the past decades indicate there needs to be a change of culture and attitude in the construction industry. In order for a turn around in the industry, relational contracting approaches have become more popular in recent years. However, not all relational contracting projects were successful. This paper details the fundamental principles of relational contracting. It further reports findings of a research currently taking place in Australia, how effective is relational contracting in practice.

The problem addressed in this research is the implementation of relational contracting:

- Throughout a range of projects
- With a focus on client body staff

The context within which the research was undertaken is:

- Empowerment, regional development and promotion of a sustainable industry
- The participating organisations have experience of partnering and alliancing
- Success has been proven on large projects but performance is variable
- Need has been identified to examine skill sets needed for successful partnering/alliancing

The practical rationale behind this research is that:

- Partnering and alliancing require a change of mind set – a culture change
- The Client side must change along with contracting side
- A fit is required between organisation structure and organisation culture

Research Rationale:

The rationale behind this project has been to conduct research within participating organisations, analyse, rationalise and generalise results and then move on to produce generic deliverables and “participating organisation specific” deliverables. This paper sets out the work so far, the links between the various elements and a plan for turning the research output into industry deliverables.

*Keywords : Relational Contracting, Culture, Australia*

## 1. INTRODUCTION

In today’s world with increasing emphasis on value, performance and probity, old systems of procuring construction – which are adversarial and rooted in conflict – are no longer acceptable, and a new approach based upon relationship management is becoming increasingly popular and successful. This research project is investigating how culture change can be managed in such a situation.

## 2. THE CALL FOR CHANGE

Successful implementation of relationship management requires strong commitment and continuous understanding at all levels. The trend towards consideration of non-price criteria and the advent of relationship management and alliance-type contracts has encouraged increased focus on the collaborative elements of project team management.

Industry accepts that a cultural shift is required to maximise the outcomes from such projects. However fostering the right culture is not a challenge for the project team alone. The client organisation must also develop an appropriate culture to be able to propose and manage relationship contracts. Both government and industry have identified needs for “revaluing construction” and engineering a better process and procedures in order to deliver value to all participants and stakeholders. Continuous, open and honest communication is the key to the success of this process, moving away from adversarial approaches towards a more cooperative and collaborative environment. Having identified the significance of the issue on a global scale, this *CRC for Construction Innovation* research project is investing *Value in Project Delivery Systems: Facilitating a Change in Culture*.

### 3. PARTNERING, ALLIANCING AND RELATIONSHIP MANAGEMENT

Partnering, alliancing and relationship management require a change of mind set – a culture change – and the client side must change along with the contracting side. A fit is required between organisational structure and culture. Relationship contracting has the potential benefits of achieving stakeholder empowerment, facilitating regional development and delivering a sustainable industry. A change based on a sound understanding of underlying culture and attitudes is required for successful implementation of relationship management approaches. The change must be directed towards developing attitudes and a culture that are supportive of relationship management.

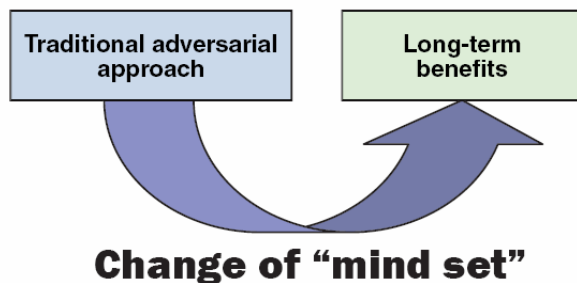


Figure 1. Change of “mind set”

### 4. PROJECT OUTCOMES

To assist the move away from traditional adversarial approaches to contract administration, towards a more collaborative cooperative working environment, this research provides a solid foundation on better understanding of team and organisational culture. Based on the research findings, a process for selection of a collaborative team to fit with an appropriate contract strategy is currently under development. Having selected the right team members and established a relationship management process in the project team, to maintain relationship management throughout the project, this project also develops a set of roles, procedures and protocols is developed to assist the management. This

project is aimed to trigger a change of “mind set”, a change of culture in the construction industry. Such change does not limit to the project delivery team only, but the client side must also change along with the contractor side. In order to apply relationship management effectively, there needs to be an industry-wide education and training initiative. A relationship management unit for continuous professional development is currently being developed; results generated from the research will also be used in university courses, establishing a strong collaboration between the three parties – industry, university/institutions and client organisation. The research is aiming to trigger a change of attitude; a change of culture.

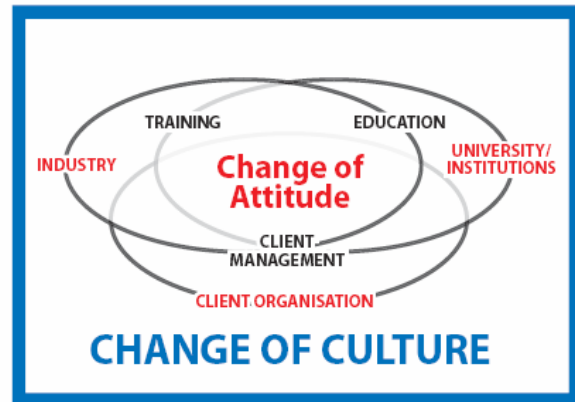


Figure 2. Project outcomes

### 5. PROJECT FINDINGS

Relationship management is multi-layered. In Australia there are four levels at which relationship management needs to operate:

- At the Principal/Director level, the issue in the relationship is strategy and claims management;
- At the Superintendent/Project Manager level, the issue is all performance measures and claims and contract administration;
- At the Superintendent Representative/Engineer level, the issue is performance and methods. One of the major focus for the individual is actually the quality of work life and the opportunity to act in a professional manner;
- At the Inspector/Foreman level, the issue in the relationship is to get the job done.

Hence, the relationships within the team are focused on very different issues. They are expected to be smooth and seamless but the objectives at different levels are very different. Buy-in is needed at all levels to achieve effective relationship management.

Project delivery systems (PSD) are seen differently by different organisations but can be categorised by a set of PDS variables. A procedure for selecting appropriate PDS and relationship management components is under

development. Relationship management is viewed differently by different organisations but can be applied to any project delivery system. A PDS and relationship management terminology and set of definitions would aid understanding and communication, particularly for client organisations. However, many participants are not used to or familiar with PDS and relationship management in practice. A fallacy has become apparent – contractors may mistakenly conceive relationship management as leading to a “mates rates” approach. In some instances the authors came across an attitude embodied in the phrase – “you are my mate, you should give me the variation”; this is a misconception of the nature of partnering as a relationship management strategy. The hard dollar contract still underlies the partnering approach but the role of relationship management is to proactively manage the project in order to maximise progress (and quality) whilst minimising disputes amongst project team members due to the existence of “us and them” attitudes: partnering seeks to build team relationships whilst tacitly accepting that the tendered contract may inevitably lead to a claim. There is an industry wide issue of education and the reinforcement of a recognition that there are a number forms of relationship management, partnering and alliancing for example, which operate under different parameters and which are appropriate for different circumstances.

Relationship management is about stimulating communication and breaking down barriers. The role of facilitator is crucial in this process; by facilitating at the outset the establishment of an atmosphere that promotes open communication, willing cooperation and a brainstorming approach to problem solving, a value engineering approach can be brought to bear any project issues and solutions, traditionally or innovatively, can be invoked. These “channels” need to be kept open and the use of relationship management workshops throughout the life of a project are an important mechanism to maintain these changed, non-adversarial attitudes.

Relationship management is about opening up communication, getting discussions going and overcoming problems or issues faster, but not focussing on the money aspect of the project. Top managers tend to carry out relationship management in their own way; they do this because they have seen different benefits coming from relationship management such as future job opportunities and benefits for the organisation. However different levels in the project team see the principles and objectives of relationship management differently. Relationship management must be filtered all the way down the system to operate effectively.

Relationship management is often seen as a longer term marketing “tool” in which the contractor has the opportunity to enhance its reputation and future work prospects. It should not be seen as a one-off approach which can be switched on and off as necessary. It is in fact an overriding philosophy and a sea-change in the industry’s culture leading

to changed attitudes and collaborative, proactive project management. Clients must be educated to recognise the benefits of and their role in relationship management. They must be weaned away from an expectation to let projects to the lowest tender. The client side needs to change along with the contractor side.

Relationship management can achieve project, personal and political objectives. To promote the concept of relationship management as “business as usual”, this is an issue that needs to be addressed at an institutional and educational level. Current tertiary and professional institutions need to drive the culture change by incorporating relationship management more fully into their curricula. A continuous professional training course on relationship management is currently being developed based on the research findings.

## **6. MAJOR ISSUES EMERGING**

Relationship management is not a panacea; it is not suitable for all kinds of project. However it should be a major consideration in choosing project delivery process. Resistance to alliance contracting exists through the industry due to “it isn’t the way we do things” and a lack of trust – there is an industry wide issue on change of culture and development of real team. Relationship management is a sustainable approach to the industry in terms of people, environment and economics, help to satisfy client and stakeholder interests. Communication is a key issue; integrated communication technology (ICT) can be a facilitator for these changes.

### **6.1 Projects**

Relationship management must be implemented at all levels in the project. As pointed out earlier, relationship management must be continuously facilitated and maintained; it is NOT a one off process. There are certain projects which do not require relationship management, but it should be considered while choosing project delivery process. The question on whether relationship management should be applied to smaller projects has been a concern. The concept of relationship management should be promoted and certain relationship management components can still be applied in smaller projects such as a half day foundation workshop instead of a one to two days workshop and a shorter list of items for scoring during monthly meetings. Also, one should bear in mind that there are many examples of relationship management leading to successful projects, but it is not necessarily dispute free.

### **6.2 People**

Relationship management is all about people. Individuals need to be educated and trained to provide essential skills for relationship management. Facilitation is essential to break down barriers and to enable blame-free and open communication. Facilitation should be a continuous process. Relationship management and novel PDS lead to new roles which must be recognised and

defined – people must be empowered to play these roles. Informal communication is essential for relationship management but needs to be undertaken in an appropriately structure environment with appropriate procedures. Not everyone is suited to relationship management – this is a human resources issue which needs to address when employing and choosing the right team members: should relationship management be part of job specification?

## 7. CONCLUSION

Australian culture suits relationship management very well. People are not afraid of confrontation and express disagreement. Relationship management is multi-layered; the relationships within the team are focused on very different issues which need to be recognised for relationships management to be carried out effectively. Relationship management should be seriously considered during the choice of PDS.

Facilitator plays a crucial role in relationship management. Relationship management is about opening up communication and breaking down barriers. Relationship management is not a one-off process and should be continuously maintained and facilitated.

People matter. A process for selection of a collaborative team to fit with an appropriate contract strategy is currently being developed. A set of roles, procedures and protocols is also under development to assist the management. Through training and education, this research project is aimed to trigger a change of mind set, a change of culture in the construction industry; promoting the concept of relationship management as “business as usual”.

Further details of this research can be found in Rowlinson and Cheung [1], Cheung, Rowlinson and Jefferies [2], Rowlinson and Cheung [3], [4], Cheung *et al.* [5] and Rowlinson and Cheung [6].

## ACKNOWLEDGMENT

The research was carried out by the Australian Cooperative Research Centre for Construction Innovation.

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