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# **Generating opportunities for SMEs to develop partnerships and improve performance**

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# **Generating opportunities for SMEs to develop partnerships and improve performance**

## **Abstract**

This research aimed to generate opportunities for UK construction companies, particularly contractors and consultancies with 50 to 150 employees to improve relationships with clients and to increase effectiveness through the exploitation of communication procedures and technologies. The research team used an action learning approach to work with managers from construction companies and housing associations to design and deliver support mechanisms, such as industry workshops, specific to the needs of SMEs. Analysis of the results showed how, as a result of interacting with other groups within a non-adversarial environment and benefiting from the process, partnering and performance improvement came to be seen as both desirable and possible. The trust and confidence generated from working together successfully also led construction SMEs to share good practice with others from the industry, including local competitors. The authors propose that SMEs should be treated as 'leaders' and 'full partners' within the programme for UK industry improvement being championed by Sir John Egan (1998), rather than simply recipients. It is also suggested that governments provide further support to ensure participation from small and micro firms.

**Keywords:** partnering, communication, culture change, non-adversarial, SMEs, action learning, action research, industry improvement, UK

## **Introduction**

Increasingly, the UK government and private clients are putting pressure on construction

companies to produce higher standards of building, meet the needs of the social infrastructure *and* reduce costs (The Housing Corporation, 1997; West, 1997). Housing associations<sup>1</sup> and local authorities are two of the groups of clients demanding better performance from the construction industry.

Identifying and responding to these pressures requires construction companies to increase their sensitivity to the environment, offer innovative solutions to problems and develop collaborative styles of working (BRE Garston, 1997; The Housing Corporation, 1996; Weaver, 1997). 'Partnering' is a recognized method of improving communication mechanisms and technologies, responding to innovative construction projects and reducing transaction costs resulting from uncertainty, competition and information asymmetry (European Construction Institute, 1997; Loraine, 1994; CIB, 1997). The partnering approach is essential for 'added value' projects offered by housing associations and local authorities where contractors are expected to achieve a range of client objectives including equality, training and employment for local people and services for tenants (Davey *et al.*, 1998a).

Partnering is one of the methods advocated by Sir John Egan (1998) to generally improve the performance of the UK construction industry. However, it is large construction companies which are expected to enter into such arrangements and be at the forefront of changes to improve productivity. Within this discourse, construction SMEs (small to medium enterprises) are expected to join partnering relationships instigated by large main contractors (Matthews *et al.*, 1996). As a result, research to identify and develop opportunities for partnering has mainly targeted large construction companies and clients involved in large-scale projects e.g. the redesign of bank branches for NatWest Bank (Barlow *et al.*, 1997).

Many construction SMEs, however, work directly with public and private sector clients as

main contractors, rather than sub-contractors. In addition, construction SMEs comprise the bulk of the construction industry and are well positioned to take advantage of new market opportunities arising from collaborative building programmes (Davey *et al.*, 1998a).

The Department of Building Engineering, UMIST, was commissioned by the European Regional Development Fund and the Manchester Federal School of Business and Management to conduct an 8-month project, called 'Building Partnerships'. The primary aim of our research was to assist medium-sized construction companies establish and work in partnership with public and private sector clients based in the north west of England and diversify into new business opportunities. The project also sought to encourage companies to increase competitiveness through more effective exploitation of communication procedures and technologies.

## **Background**

Partnering draws heavily upon lessons learned from Japanese manufacturing (Cook and Hancher, 1990). It is defined by the Reading Construction Forum (1995) (cited in CIB, 1997: 3) as:

*... a management approach used by two or more organizations to achieve specific business objectives by maximising the effectiveness of both parties. The approach is based upon mutual objectives, an agreed method of problem resolution, and an active search for continuous measurable improvements.*

There are basically two types of partnering: project partnering, where the parties come together for the duration of the project; and strategic partnering where the parties develop a longer term relationship over a series of projects for which contracts are usually negotiated. Up until the end of 1999, the former was recommended for public sector clients

who had to use market testing in order to comply with EC procurement regulations, usually through the competitive tendering process.<sup>2</sup> Although partnering began after the contract was awarded, public sector organizations were permitted to use partnering criteria to select and award contracts (Loraine, 1994; European Construction Institute, 1997).

The partnering process involves allocating time to agree objectives, establishing an open style of communication, developing a mechanism for problem resolution and identifying measures designed to monitor and help improve performance. The process may be undertaken with the assistance of a trained facilitator or consultant, though a senior manager is expected to 'champion the cause'. Although perhaps expensive initially, partnering offers companies the chance to generate better relationships, cost savings and reduced litigation over the longer-term (Barlow *et al.*, 1997; Bennett, 1995; CIB, 1997) as well as 'added value' benefits such as innovation and organizational learning (Barlow *et al.*, 1998).

Partnerships are difficult to implement and maintain, however, in a system characterized by indirect linkages between clients, contractors, subcontractors, consultants, suppliers, employees and end-users. Partnering relationships are also potentially undermined by the construction industry's existing 'macho' and adversarial culture and its widespread use of short-term, legalistic approaches to procurement and contracting (Abudayyeh, 1994; Davey *et al.*, 1998a). If this does happen, and it leads to a break down in the relationship with the client, this can seriously damage a construction company's profits and reputation (Larson and Drexler, 1997). In light of potential difficulties, partnering is only recommended where the management teams of all parties involved display a fundamental commitment to partnering and the creation of a partnering culture (CIB, 1997).

Without positive experiences of partnering relationships and cultures, however, construction companies are unlikely to be fully committed to the approach, especially at

the outset of a project. Also, unless the process is adapted to the needs of construction SMEs (Bates, 1994) any commitment to partnering is likely to be undermined by the potentially time consuming, resource intensive and risky nature of the partnering process (Barlow *et al.*, 1997). Our project attempted to overcome these problems by helping to generate the commitment and trust required for a partnering style relationship as well as provide practical support specific to the needs of construction SMEs in the north west of England. As such, it is one of only a few research projects explicitly designed to encourage medium-sized construction companies and clients in the UK to consider forming partnering style relationships (Davey *et al.*, 1998a; Gardiner and Simmons, 1998).

## **Methodology**

The project team used an action research methodology where researchers and participants work together to identify and define problems within the industry, develop solutions and bring about improvements through the implementation of good practice (Reinhardt, 1981). The approach was supplemented, and made more effective, through the project team's involvement in an action learning set run by the University of Salford. An action learning set is a group of people who band together to solve real problems or difficulties. To function effectively, subtle and careful nurturing of the set is required in order to create a supportive, but challenging environment. This is achieved with the help of a set advisor who encourages participants to question ideas, test possible answers to problems through action and reflect upon experiences (Powell, 1998).

The project team held 19 in-depth semi-structured interviews with managers from construction companies and client organizations. The interviews were designed to identify opportunities for improving relationships and diversifying in to new business and covered topics such as: choice of clients/suppliers and projects; methods of gaining business; successes and problems; future plans; methods of assessing performance; good practise;

relationships; views on partnering; and details of partnering projects. The format was adapted to the specific interests and needs of the participants, and action was taken following the interview to help participants address areas of concern or interest. Along with industry-based colleagues, the project team also attended nine seminars on new initiatives in housing and construction. The comments from the interviews and seminars were classified into categories and moulded into an account, which encapsulated participants' comments and reflected our personal experiences of working with the industry (Marshall, 1981).

Our insights into the research process and outcomes were discussed and developed in collaboration with three academics, six managers from housing associations and two from a medium sized construction company, who were all part of an action learning set. The set meetings also provided an opportunity for the housing and construction managers to pursue their own interests. A manager from a medium-sized construction firm, for example, produced a report on the management of the defect liability period (McDonald, 1998), and a housing association manager followed up opportunities to learn about communication technologies and viewed maintenance software developed at Cranfield University. The action taken by set members directed the researchers towards issues of specific interest to medium-sized construction companies and housing associations.

A series of three workshops on maintenance defects and communications technologies were held - each attended by over 20 people. The workshops began with presentations by the project team and/or outside speakers, which formed the basis of discussion groups in which participants were asked to address specific issues related to construction. Suggestions for working together to improve the management of maintenance defects were summarized in good practice guidelines, which were distributed to 150 people (Davey *et al.*, 1998b). The impact of the project was evaluated using feedback questionnaires, personal observation/reflection, written correspondence and conversations with participants.



## **Results**

The project attracted over 60 participants from 16 medium-sized construction companies (mainly employing between 50–150 employees) seven large contractors, six consultancy firms, 20 clients (including 12 medium-sized housing associations) and eight organizations connected with the industry including the Training and Enterprise Council.<sup>3</sup> The results of the project show that construction SMEs are keen to work with public and private sector clients, but not with main-contractors. To this end, they welcomed *Building Partnerships* workshops designed to help them gain contact with managers from housing associations and learn more about how to provide a better service. The results also show that, within the right environment, construction SMEs and housing associations will share information about good practice, take action to improve the industry and address wider issues affecting the region in which companies operate. The formation of formal partnering relationships requires further assistance for construction companies and discussions about appropriate methods of procurement and accountability. The findings from the project activities are detailed below:

### **SMEs welcomed opportunities for partnering style relationships with public sector clients and blue chip companies, but were reluctant to work as subcontractors**

A survey of construction managers by Walter (1998) showed that all the large contractors in the UK obtained at least some of their work from partnering relationships and the majority forecasted increases in revenue from these types of relationships. The amount of work obtained by individual companies from partnering relationships varied between 10% and 70%, depending upon the company's preferred style of contract and whether the amount of work from partnering was

measured in relation to its turnover or number of contracts. Despite the apparent popularity of partnering, some construction SMEs who participated in our study expressed reluctance to partner, or even work with, main contractors. Their reluctance was due, in part, to the fact that subcontractors are unable to increase their profit margins by negotiating favourable rates from suppliers, but mainly due to fear of litigation and non-payment. A marketing executive said his company's last contract with a large construction company had resulted in litigation due to arguments over performance, responsibility for additional piling costs and payment terms. Even a manager from a large construction company acknowledged that large firms delayed payment to increase profit, with the unscrupulous failing to pay within the time agreed in the contract, or not paying at all:

*Cash management is the way that [large contractors] make money. SMEs get hammered... Certain contractors are unscrupulous because they delay or don't pay at all. (Business development manager, large construction company)*

While reluctant to work as a subcontractor for a main contractor, contractors were keen to work with blue chip companies and willing to consider partnering style relationships. Blue chip companies were perceived to offer large contracts, reliable payment and high rates of quality work completed within a short period of time. Companies such as Marks and Spencer were also perceived as professional in their conduct and experienced at partnering relationships. In addition, a strategic alliance with a blue chip company appeared to enhance a contractor's standing amongst its clients. A development director from a housing association believed such an alliance demonstrated a company's professionalism and trustworthiness (Davey *et al.*, 1999).

Although profit margins from work offered by public sector clients was generally relatively

low, the contractors welcomed opportunities to work on projects run by housing associations and local authorities. These clients provided a steady source of income, which maintained turnover, along with reliable payment. Indeed, a housing association had introduced a payment scheme that guaranteed payment within one week of receiving the invoice in order to attract contractors and obtain value for money. The work was also likely to be local; a point made by a contractor in relation to business from local authorities:

*The outcry over education has led to money in building schools. Money is spread fairly thinly amongst local authorities. Some of the work is of interest. It's below average in value, but local [to the company's offices]. The work keeps staff and teams together and keeps management on site. (Marketing manager, construction SME)*

Construction SMEs were also keen to adopt a partnering style relationship with housing association clients, especially in relation to 'added value' projects where a contractor is expected to consult with tenants, provide training for local people and/or promote equality. A construction manager with experience of a strategic partnership with a housing association said that partnering improved the quality of the relationship. It also enabled his firm to meet the needs of the client in terms of the quality of the product and budget, whilst still making a profit.

Some managers were sceptical about the benefits of collaborating on projects which required contractors to provide training and employment for local people, however. Several construction managers complained about lack of help from clients with the recruitment of local labour, and the tendency for the contractor to be blamed for failing to meet recruitment targets. In addition, a director of a construction SME, which took on several apprentices as part of a local labour agreement, said that the client failed to honour its side of the bargain regarding forthcoming work.

## **SMEs wanted help getting onto public sector clients' approved lists and being invited to tender**

While construction companies generally wanted to work for public sector clients, they sometimes find it difficult to take advantage of specific opportunities. The public sector clients generally restrict opportunities to tender to contractors from their approved lists that complied with their specific criteria (Commission for Racial Equality, 1995; Nicholson, 1998). The construction companies are able to gain membership of approved lists by either applying directly to the client or to an independent body responsible for assessing applications. Several managers from housing associations and universities admitted that they were reluctant to consider applications from new contractors because they were happy with existing companies and the process of evaluation for initial applications and annual review was time-consuming and costly. Nevertheless, managers were prepared to consider applications from companies who presented a professional image and/or offered something special (Davey *et al.*, 1999).

The housing associations and university clients said they offered opportunities to tender to contractors with whom they had established good working relationships, developed an understanding of the standards required and were likely to get value for money. A development officer from a housing association said that he considered contractors who had successfully completed construction projects in the past for the company, but that only a limited number of construction companies were eligible for contracts involving the provision of training and employment opportunities for local people. A university maintenance manager offered opportunities to contractors approved by the manufacturers to use certain materials. Other contractors had simply stopped undertaking work for the university. He believed that this meant that the contractors working for the university all understood the quality required and could therefore price accordingly. Thus, opportunities

to pursue new business opportunities were again restricted (Davey *et al.*, 1999).

The contractors attempted to increase their chances of being invited to tender by ensuring that they performed well on current projects. They also used marketing techniques such as networking. A marketing manager of a medium-sized company said he placed advertisements in trade magazines, though he complained that this was costly and the frequent calls from trade magazines were disruptive. The majority attempted to establish personal links with clients and thus welcomed opportunities to participate in events involving clients. Indeed, this was one of the main reasons why workshops and action learning sets initially proved popular amongst construction SMEs, especially during the earlier stages of the process.

One of the reasons why construction SMEs wanted to work with housing associations was that they were a significant client group in the North West of England spending over one billion pound in the last five years (Davey *et al.*, 1998a; Lunney, 1997). A marketing manager from a medium-sized construction company pointed out, however, that companies only bid for projects within their capabilities in terms of size and often specialized in certain types of work (e.g. new build, refurbishment or maintenance) or contracts (e.g. design and build or standard contracts). He found it difficult to determine funds available for refurbishment work from capital spending figures for public sector clients. In his view, the clients were unwilling or unable to share information with contractors, perhaps due to lack of knowledge.

### **SMEs proposed strategies for improving relationships and performance**

Large companies usually appoint a business or marketing manager to establish new contacts. Smaller companies, on the other hand, were more likely to rely upon directors to gain business. Several directors found it difficult to commit time to establishing and

maintaining new contacts. As a result, construction SMEs were only prepared to commit time to workshops that provided good contacts, gave them some insight into clients' needs and were specifically related to the performance of SMEs.

Workshops on communication technologies proved popular with contractors, consultants and, to a lesser extent, clients. Technology was considered useful not only for improving communication, but also reducing travelling time and cost. The participants suggested that video-telephone equipment and e-mail could be used to transmit digital pictures of buildings and site plans to architects and clients. This would reduce the need for architects to visit the site to attend to problems, as well as increase control over the building process.

Workshops dealing specifically with the management of maintenance defects proved popular with construction companies, but also with clients. Construction managers wanted to improve performance in relation to quality, as it costs at least £50 every time a trades person has to deal with a defect, which, in turn, reduces company profits. In addition, failure to provide a quality service potentially jeopardizes future contracts with a client. A marketing manager stated:

*My role is marketing manager, but I am very conscious that our reputation does not stop at 'winning the job'. Many a relationship has been dented at the resultant finishes of the building and their persistence to give problems after the project is completed. (Medium-sized construction company)*

Once they had moved off site, however, contractors found it difficult to give priority to the management of defects and the maintenance of good communications. It was proposed that a manager specifically dedicated to defects would improve the reliability of the service offered by contractors during the defects liability period. This manager needs to ensure that any instructions communicated between clients, contractors and subcontractors are

confirmed in writing and that, once a fault has been rectified, the tenant is asked to sign a form indicating that the work has been completed to their satisfaction. This form should then be returned to the client, thus completing the feedback loop.

It was proposed that construction companies could give the defects liability period greater priority by placing the topic on the agenda for pre-contract meetings, and subsequent site meetings. Managers from the maintenance division of the client organization should then be invited to site meetings, thus improving communication with the development side of the organization.

It was apparent from the workshops that it is not only contractors who need to improve their performance. Clients sometimes ask construction companies to deal with problems assumed to be defects, but actually arising from lack of tenant knowledge. Contractors can help tackle this problem, and demonstrate their commitment to service quality, by, for example, providing tenants with an information pack. Construction companies can further improve the quality of service offered to tenants by helping with the provision of DIY training, apprenticeships and job opportunities for tenants and local people.

In the longer-term, however, clients need to be encouraged to filter calls from tenants and specify user-friendly central heating systems and household appliances, thus reducing unnecessary calls. They also need to investigate the possibility of using maintenance software and appropriate communication technologies to increase efficiency. Construction managers believed that such activities clearly required a partnering approach, and that such an approach was potentially beneficial to the company.

### **Construction SMEs gained access to specialist advice**

One advantage of the workshops was that they brought construction SMEs into contact with

universities and training providers (e.g. Training and Enterprise Council), many of whom could provide assistance free of charge or at reduced rates. Construction SMEs and their clients asked for assistance with a whole range of activities including maintenance software, computerized manuals, web pages, legal disputes, changes to tax laws, equal opportunities, performance measurement and partnering.

Assistance was especially important to firms looking to establish partnerships when partnering criteria were used by public sector clients in order to select potential partners and award contracts (European Construction Institute, 1997; Loraine, 1994). Thus, a marketing manager of a medium sized company had received a letter from a local authority informing contractors of its intention to enter into a partnership arrangement. The letter stated:

*This initiative is intended to enable a co-operative style of management for the execution of the works, whereby all the parties to the contract can work together without affecting the contractual requirements and obligations... it will include establishing a forum at the post tender stage for identifying possible cost savings and solving areas of potential difficulty or conflict before they impinge on the programme and/or cost of executing the works. (Technical services director, local authority)*

The company had not yet formally established a partnering relationship, and therefore wanted help in responding to the selection process. He pointed out in a letter to us that the company's 'experience of the partnering process is very much on a learning curve' and that a 'contribution towards understanding the procedures is much appreciated' (marketing manager, SME).

The opportunity to contact people through a workshop was also welcomed by universities



and training providers. For example, an academic interested in adapting software developed for manufacturing to construction said that:

*The Building Partnerships workshop has highlighted the need for standards in building maintenance documentation. I am hoping to collaborate with one of the construction companies in the development of a demonstration manual.*

(Consultant, university)

### **Construction companies and clients followed up advice, learning and contacts, but required long-term support**

The project activities encouraged individuals to change management practices. For example, a director of a construction company discussed the implementation of the recommendations with his maintenance manager and a housing association amended its form used for communication. It also helped establish a number of new alliances. Several managers reported having followed up contacts made during workshops, and a consultant keen to promote his maintenance software programme is confident that this will lead to new business opportunities.

The major changes in company practices, however, were amongst individuals/firms who contributed to the project through the action learning sets. The manager from the medium-sized construction company who produced the report on the maintenance defects liability period (McDonald, 1998) was able to discuss defects with repeat clients and consultants as well as put the topic on the agenda for pre-contracts meetings. Over a six-month period, the company experienced a significant increase in business from housing associations, which was attributed, in part, to the quality of the service it provided during the post-construction phase:

*With the release of stock transfers, there are a lot more opportunities to work for housing associations and local authorities. Companies like ourselves, who pay attention to maintenance defects, provide a quality service and have introduced 'Considerate Builders' schemes are getting more work. I have never known it so busy. Quite frankly, I am rushed off my feet. There is never a spare moment in the day. We have had to take on more staff. Obviously this is good. (Contracts manager, construction SME)*

This medium-sized contractor and one of the housing associations from the action learning set are about to start a partnering contract, which they hope will draw upon their experiences of action learning. For example, the contracts manager suggests that action learning style meetings (which usually last for about three hours, do not have an agenda and encourage individuals to develop solutions in collaboration with others) could be used to generate the right environment within project meetings:

*I think that action learning would link in with partnering. Generally, we don't allow enough time in meetings. Given more time in action learning and we could understand the client. (Construction manager, SME)*

Not all managers received a positive response from their superiors to new ideas, however. Having attended a technology demonstration, a manager responsible for marketing a medium-sized construction company felt that video conferencing could be used to reduce the amount of time he spent travelling between his division and the head office, which was about three hours drive away. Senior management dismissed his idea, however, as too expensive. Without mechanisms in place for pursuing other ideas, the manager was left feeling disappointed that his suggestion was not given greater consideration. Indeed, the lack of on-going support from inside and outside of the company for the implementation of new management practices, technologies and pilot projects, especially with regard to

performance measurement was a general concern amongst participants.

**Construction SMEs thought that the process of competitive tendering would undermine the benefits of project partnerships**

Construction SMEs were concerned that the use of competitive tendering for project partnerships would undermine the potential benefits. They pointed out that awarding contracts to the company who offered the lowest price encouraged firms to submit a low bid, but then claw back profit by claiming for items not specified in the contract or specifying overpriced materials. An interviewee explains how the process works:

*If I give a low bid. I then have to get it back. I say I want to know the colour of the curtains required. They go on holiday. [because of the delay] I charge extra. I then offer gold braid curtains. [which also means that I can charge extra].* (Construction manager, SME)

The process of clawing back money was perceived to increase the likelihood of litigation and break down trust, thus undermining the principles of partnering. The lack of trust was symbolized by the client's appointment of a quantity surveyor to oversee the project and ensure budgetary control:

*Everyone is suspicious of everyone's motives. The client appoints a surveyor because he does not want to get ripped off. He has to protect his price margins.*  
(Contracts manager, SME)

In addition, a business development manager pointed out the design and price for the building have already been fixed in project partnerships which, in turn, reduces opportunities for innovation and cost saving. He would like the contractor to be given an

opportunity to negotiate contracts during the early stage of the design process:

*We want the opportunity to negotiate on what they want to achieve. We don't want to be given a fixed project with a given price. If they bring this to the table, it's too late. Where is the innovation? Partnering means discussing the site layout, subcontractors and suppliers. (Business development manager, large contractor)*

The process of compulsory competitive tendering also prevented contractors from working with clients with whom they have developed a strong relationship, understand the service required and had already overcome initial problems. A contracts manager complained about a random system of selecting contractors to tender used by a local authority, even though it guaranteed work and had previously enabled him to diversify into building schools, because it did not reward good performance and relationships:

*It's a lottery [the tendering process]. It's perceived as fair, but isn't. The local authority has 20 contractors and randomly selects 6. The client wanted us, but couldn't have us because we weren't selected. What's the incentive to be good? At least we are still on the list! Partnering then goes. (Contracts manager, SME)*

The desire to continue working with valued clients meant that construction companies welcomed opportunities offered by public sector clients to circumvent the competitive tendering process. A contracts manager from a medium-sized firm extended his contract with a local authority by, for example, remaining on site to complete further work and thus being able to provide better value for money:

*The number of return clients we have is substantial, but we still have to tender. We built a [public building] for the - Authority. We had already shown our ability. We*

*said that if we could do the two together, we could do it cheaper. (Contracts manager, SME)*

When Compulsory Competitive Tendering was in the use, housing associations felt under pressure from their regulatory body to ensure work was evenly spread amongst contractors, minimize risk by avoiding over reliance on a small number of contractors and demonstrate value for money. Consequently, housing associations sometimes found it difficult to continue successful relationships or establish 'partnerships' based on quality of service, rather than simply price. They also believed that the housing Regulator preferred associations to use competitive tendering, rather than negotiated contracts. Again, this was perceived to limit the ability of housing associations to 'chase' preferred contractors.

### **Construction SMEs worried about the impact of strategic partnerships on business opportunities**

Despite being discouraged from relying upon a small number of contractors and negotiating contracts by regulatory or governing bodies in the 1990s, several public sector organizations had established a minimum number of contractors with whom they did business and/or regularly negotiated contracts. Several housing associations at the forefront of the move towards partnering had formally selected partners (both contractors and consultants). Alternatively, a university simply relied upon a select list of companies which met its requirements. Choosing only a small number of partners enabled a housing association with a relatively small construction budget to offer a significant amount of business to those construction companies and thus increase its likelihood of being considered a valued client. A development director from a housing association said that using mainly small and medium-sized contractors enabled the association to deal directly with the managing director, guarantee the availability and commitment of senior management to its projects and influence the contractor's strategies and practices. The use

of preferred contractors was intended to reduce costs, maintain strong relationships and improve the quality of service provided, especially during the post-construction phase of the project.

Although welcoming the opportunity to form strategic partnerships, construction companies were concerned about the consequences of strategic partnerships for the industry over the longer-term. Several construction managers were concerned that partnering would prevent new companies from entering closed markets, and reduce potential business opportunities. A construction manager claimed that his firm had not been considered as a potential partner, despite the pride its staff placed on skill and product quality. Further opportunities to work with the client had therefore been lost.

The allocation of work to partners also had some negative consequences for clients. Some clients experienced problems getting work done during periods of high demand. Others found that construction companies appeared unwilling to bring new business opportunities to them. Clients could put pressure on their construction partners to find new sites, but not all construction SMEs are equipped for such a task. One construction SME said that, even though speculative work potentially yields higher profit margins and enables companies to increase their control over the building process by employing more staff on permanent contracts, identifying new business opportunities is difficult, and the risks too great:

*If a Local Authority has land, but no money our organisation could come in and develop the land. It is very complicated for tax, rebates and grants. Often need something special – commercial input. For example, shops or housing for sale, rather than just social renting... I can come up with a site and take it to a housing association. I lose money by chasing sites. (Marketing manager, construction SME)*

As a result, some clients considered paying a fee to companies who identify new

opportunities. The difficulties faced by clients were compounded by pressure from the regulatory body to demonstrate the effectiveness and fairness of partnering relationships compared to standard relationships with contractors, selected through competitive tendering. A manager from a housing association predicted that one case of impropriety and the focus upon partnering would come to an end. In his view:

*Compulsory competitive tendering may not be the best system, but any other methods make us vulnerable to accusations of impropriety or unfairness. It is also very difficult to measure factors other than price. (Development manager, housing association)*

The comments from housing association managers suggest that they were waiting for support from the Regulator before adopting partnering relationships. They also wanted guidance on the use of non-price criteria for selecting contractors and performance measurement techniques. Without the latter, clients were not confident of being able to demonstrate the value of strategic partnerships with contractors and consultants.

## **Conclusion**

Our research showed that construction companies are keen to work with housing associations and local authorities, but needed practical help with regard to the process of getting work, which involved getting onto approved lists and making personal contacts. It is this practical help with gaining business, and the associated financial rewards, that enable busy senior managers to dedicate time to developing strategies for improving company and industry performance. Our project confirms previous studies suggesting that clients encourage participation from contractors in new initiatives and that it is therefore essential for them to act as the 'leaders for change' (Davey *et al.*, 1998a).

Once brought together in a workshop, construction SMEs will work with clients, consultants and even competitors to devise solutions to current problems such as maintenance defects and poor communication. The advantage of the process of collaboration is that it illustrates the way in which the different groups contribute to problems during the post-construction phase. For example, contractors sometimes provide a poor service once they have move off-site, but clients may also wrongly ascribe responsibility for dealing with faults to the contractor. The process also demonstrates the need to work together in the development of solutions, as, for example, communication procedures and technologies need to be compatible. In addition, investment in new technologies and ‘added value’ projects involving local labour agreements, DIY training and equal opportunities often have to be specified in the contract and pre-contract meetings (Davey *et al.*, 1998a).

Interestingly, our findings show that it is possible to generate understanding, commitment and ultimately trust by getting potential parties together in order to tackle problems of concern to the industry. A director of a medium-sized construction company stated that:

*... the project has managed to prompt, develop and lay the foundation for meaningful liaison, discussion and debate between Contractor, Clients and other associated parties who need to be working far more together in partnership within the industry.*

Contrary to the suggestions contained within the guidelines produced by the CIB (1997), partnering is not simply about ‘choosing the right partner’ (i.e. one with the right attitudes and culture) or ensuring commitment from top management. Rather, it is about creating the conditions in which potential partners, that is individuals with potentially compatible interests and aims, can come forward, make themselves understood and potentially develop collaborative projects. It would appear that the creation of a partnering culture is about setting up opportunities for working together and trying out mechanisms such as



workshops and action learning which can potentially be used within specific partnering relationships. These activities give people a 'taster' of how things could be, if they were to do things differently. In other words, with the right mix of people and the right environment, the trust necessary for a successful partnering relationship will emerge (Barlow and Jashapara, 1998).

Our research suggested that partnerships should encompass the relevant parties, which may mean extending them to consultants and product manufacturers. A partnership with a manufacturer would potentially help the manufacturer respond better to the needs of the public sector housing market and the construction industry with regard to products like central heating systems (Davey *et al.*, 1999). However, construction SMEs in Britain are not currently keen to work in partnership with main contractors due to arguments over payment terms, responsibilities and performance sometimes having to be resolved through litigation. The situation may change following the introduction of legislation to ensure that main-contractors pay for work when it is done, rather than when payment is received from the client; though SME contractors remain sceptical. In practice, of course, many subcontracting, and some main contracting, companies will feel unable to ignore business opportunities offered by large construction companies wanting to partner, even if there are perceived risks. Only profitable companies will really be able to 'choose' whether to partner with high-risk clients.

Although senior managers are held up as potential 'champions of change' (e.g. CIB, 1997), sometimes senior management acts as a barrier to new relationships and business. Furthermore, it is sometimes marketing managers responsible for seeking out new opportunities that recognize the need to establish partnering relationships. These managers would therefore benefit from mechanisms within the company to help them develop new opportunities in collaboration with other managers. Our research, and the monitoring of other sets (Powell, 1999), suggests that action learning is an excellent method for

developing new ways of interacting and taking action as well as developing business contacts (Davey *et al.*, 1999).

When combined with project funding obtained by a university, action learning sets also make it much easier to take collaborative action of benefit to the whole industry. Within the right environment, construction managers become willing to share information about good practice (as long as it is not commercially sensitive)<sup>4</sup> not only with clients, but also with competitors invited to workshops. This is due in part to the development of trust, but also to the fact that individuals and organizations benefit from participation in project activities. Organizations certainly enhance their reputation and individuals gain prestige, knowledge and self-confidence. On-going participation in action learning sets suggest that over time, and with success, construction managers become more ambitious and outward looking in terms of their goals. They will want to be part of the movement towards industry change, and will recognise their own role in championing the process, rather than looking to senior management and industry experts for leadership (Davey *et al.*, in press).<sup>5</sup>

Furthermore, the process of managers asking for assistance helps service providers understand the industry and respond to its needs. Our research shows that individuals who participate in projects designed to improve industry performance start to challenge the attitudes and practices of organizations responsible for 'leading the way' or facilitating change. In a project designed to promote equal opportunities in construction, for example, contractors, contrary to expectations, complained that housing associations only paid 'lip-service' to equality (Davey *et al.*, 1998a). In the current project, construction managers highlight the limitations and dangers of project and strategic partnering, as well as tensions between the partnering philosophy and procurement methods used by housing association in the 1990s.

With regard to the issue of procurement, researchers might draw attention to a study of 291

construction projects which showed that partnering produced superior results to traditional methods regardless of whether the contract was awarded on a low-bid or non-low bid basis (Larson, 1995, 1997). In addition, pilot projects have tackled the problems of accountability, value for money and transparency by forming longer-term relationship, combined with an element of competition, and open-book accounting and fixed profits for contractors (High, 1999). However, such views are unlikely to be accepted unless people are involved in the process of research and implementation. Thus, it would seem appropriate that longer-scale, government funded projects should be used to provide a forum for clients, consultants, contractors and suppliers to use their different experiences and interests to create appropriate partnering arrangements and procurement methods.

Most importantly, our project illustrates the fact that managers from construction SMEs, many of whom care passionately about the industry, want to be given the opportunity to contribute to the process of industry improvement. Smaller companies are unable to commit large amounts of time and money to such initiatives without damaging their ability to serve the customer. Thus, initiatives require adequate government funding and companies should see potential rewards arising from the process of participation. However, construction SMEs recognize that without their participation, any changes to procurement and management practices arising from best practice programmes will reflect the ideas and ultimately the interests of only the large companies. Indeed, this has been one of the main criticisms of the programme for industry improvement being championed by Sir John Egan (1998) (Nunn *et al.*, 1998).

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## **Endnotes**

1 Housing associations are charities (i.e. not for profit organizations) funded by grants/loans from central government and are responsible for providing housing for people in social need, for rent or sometimes for sale (Council of Mortgage Lenders Research, 1997).

2 The replacement of Compulsory Competitive Tendering with Best Value in 2000 will open up opportunities for partnering.

3 The Training and Enterprise Councils (TECs) provide training and support for construction companies, especially SMEs.

4 Davey *et al.* (1999) found that construction SMEs, some locally-based, would share information about the industry and its improvement, but not their own organizations, where this was considered commercially sensitive.

5 Construction SMEs might contribute to the UK '*Construction Good Practice Programme*', which is publishing a series of best practice case studies (BRE Garston, 1999) and can accessed via the internet: [www.cbpp.org.uk](http://www.cbpp.org.uk)