Strategic Partnership – An Imperative for Project Management in Multiplayer Setting
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Abstract

Success or failure of projects depends on factors ranging from technical complexities, environment, stakeholders, client-contractor and contractor-subcontractor contracting strategies. Over the years, Project Management has expended a lot of effort on monitoring and controlling outcomes at the expense of strategic implementation of structures required for integration of the different project players.

This paper looks at the use of strategic partnership in realising organisations’ project objectives through reduction of interfaces and improved coordination of dependencies. The issues around project performance improvement and challenges are further reviewed from Project Management functional and Relational Contracting perspectives.

The paper concludes that there are potentials for better performance results if project contributors are integrated into a team with a common focus on delivery. To achieve this, the contracting strategy will need to focus maximization of individual expertise through Relational Contracting and ensure ab initio equitable distribution and assumption of risk by the one who ultimately bears them – the client.

**Keywords:** Project Partnering, Strategic Partnering, Relational Contracting, Trust, Transfer of Burden, Transaction Cost

Introduction

The majority of factors that have precluded successful project delivery can be linked to inharmonious objectives, multiple interfaces, pursuit of self preservation and self interest, litigious and adversarial attitudes, and perception of contracting relationships as a zero-sum game by the different contributors to a project.

The resultant effect on project delivery has been, delayed completion, escalation of project cost, poor quality and poor customer satisfaction, thinning of contractor and sub-contractor margins, unwholesome relationships at contract end and poor transfer of lessons to engender continuous improvements. These have led to repeated project failures despite huge investment in project management research by both industry and the academia.

In a multiplayer setting made up of multiple subcontractors and suppliers the challenges are further exacerbated, even when the major contract from the client is with a single
contractor, which is often the case in large-scale projects. This stems from the complexity introduced through multiple interfaces, communication or information management, inequitable allocation of risks and multiplicity of interest that usually is in pursuance of profit maximisation at the expense of project success.

Numerous researches and literature have espoused the benefits of partnership arrangements as a panacea to these problems. It is also very obvious that the term “Partnership” has been variously defined in these literatures with sometimes varying conclusion on what it should include.

Kerzner H. defines partnership as “a group of two or more individuals (companies) working together to achieve a common objective” [Ref 1]. This definition implies existence of cooperation and common purpose between all parties involved. As defined by Lendrum T. “Partnering is the development of successful, long term, strategic relationships between customers and suppliers, based on achieving best practice and sustainable competitive advantage’ [Ref 2]. This definition introduces strategic relationship as a precursor for partnerships to work; the concept of strategic partnership however shall be explored in detail later in this paper.

According to the US Army Corps of Engineers partnership is “… a management approach used by two or more organizations to achieve specific business objectives by maximizing the effectiveness of each participant’s resources. The approach is based on mutual objectives, an agreed method of problem resolution and an active search for continuous measurable improvement.” [Ref 1]. This definition draws close similarity to that given by Sir Egan who defined partnership as “involving two or more organizations working together to improve performance through agreeing mutual objectives, devising a way for resolving disputes and committing themselves to continuous improvement, measuring progress and sharing the gains” [Ref 3]. These two definitions give a more detailed insight and establish the prerequisites for partnership to exist and progress toward continuous improvement of processes with shared gains (or pains).

What is evident in all these definitions is the reliance on shared objectives, cooperation and trust (soft issues) as bases for working together contrary to the contracting basis or documented guidelines (hard issues) which have often led to adversarial relationships and opportunistic tendencies to maximize individual gains.
Partnership has over the years evolved from a concept to fully established project management practice with a rich body of knowledge. This paper shall review and contribute to this body of knowledge and identify some value drivers for successful implementation of partnership in multiplayer settings.

Project Management Origin and Maturation

Azzopardi S. opines that project management can be said to have evolved through four distinct phases - Craft system to human relations, Application of Management Science, Production Centre Human Resources, and Creating a New Environment [Ref 4].

Craft system to human relations phase (before 1958) was a result of the impact the industrial revolution had on project performance and also on the possible scale and complexity of challenges. The invention of automobile, heavy equipment and telecommunication broke down boundaries and everything was now possible. The Manhattan Project (1942-1945) is largely considered as it centred on the use of organizational and integration designs to meet the peculiar challenges of time, cost, quality and confidentiality necessary for a project of that importance.

Between 1958 and 1979, the application of management science played an important role in the development of project management concepts and methodologies. This period heralded a gradual shift, albeit reasonably, from organizational focus to operational process improvement and predictability. The Polaris missile project initiated to deliver Fleet Ballistic Missiles for the U.S Navy introduced the Program Evaluation and Review Technique, which was developed for probabilistic estimation based on optimistic, pessimistic and most likely estimates.

E.I du Pont de Nemour's chemical plant project which commenced in 1958, came on the heels of PERT. As a private concern, there was greater requirement for accuracies in cost and schedule that could not be realized through PERT; this led to the development of the Critical Path Method (CPM).

The rapid development and deployment of affordable project management software between 1980-1990 further increased focus on the areas of controls. Although these softwares provide tools for project planning, their major use in the project life cycle has predominantly been in the control and monitoring domain in project execution phase.
Production Centre Human Resources phase therefore showed an increase in the effort to control project outcomes through the use of technology particularly information communication technology.

In his article, Azzopardi S. identifies the period from 1995-Present as the current phase of project management evolution and centres the period on the impact of internet on project management leading to web-based project management tools and virtual team structures. This may however not be the case as Internet and web-based tools precede this period. The present phase is thus taken in this paper as the period from the year 2000 and tagged the era of Organizational Integration. This period has been replete with research on alternative approaches to project management at the organizational level.

Morris W.G. argues that project management should be separated from the management of project in that project management has essentially evolved into a toolbox approach to project delivery rather than first focusing on the organization needed to deliver project objectives. He further stated, “Project management is essentially an organizational innovation – the identification of a person or small team responsible for ensuring the effective delivery of the project missions for the client”. [Ref 5]

The evolution of project management must therefore progress to the intended purpose, which is the strategic design and development of project organization with adoption of the right tools and technology for desired optimization.

**Project Management Functions**

Project management can be divided into two key functional groupings – Strategic and Operational functions. The strategic function of project management deals with the identification and development of the project’s objectives, stakeholders, environment, and resources required to attain established success criteria at least cost and maximum gain to all project contributors.

The strategic function therefore is focused on the organizational design taking into cognizance the peculiarities of the project environment and dependencies. This is where the nature, structure and competencies of the project team are determined both from the client’s and contractors’ side of the divide to ensure that all contributors are aligned with the project objectives.
It is evident though that project success criteria must be closely monitored and controlled to assure deviations are eliminated or at least minimized; this falls within the realm of project management operational function. The intent of the operational function is therefore derived from a desire to ensure that the strategic plans laid out within the strategic function are tactically guarded and managed throughout the project life cycle using various controlling and monitoring tools and techniques.

While one function may not be said to be more important than the other, the import of the strategic function cannot be overemphasized as it sets the tone for the entire project and lays the foundation upon which operational tools are selected and deployed. The Heathrow Terminal 5 project (T5) is a classical example of a project that effectively harmonized these two functions.

The organizational structure, which was based on products delivery and expertise within the different suppliers, provided a platform for true integration of all contributors and clear alignment with project objectives. This integrated team working strategy was further enhanced through the use of collaborative project management software that made information sharing easy and transparent to the integrated project team [Ref 6].

**Challenges of Multiplayer Settings**

The typical project is made up of numerous contributors including direct contractors to the client and subcontractors to the contractors, and in some cases sub-subcontractors also. As the project technical complexities increase, the number of specialist suppliers increase equally and this increase in the project players introduces organizational, commercial, cultural and technical risks with attendant interface issue to manage throughout the projects’ and sometimes products’ life. The drive by some major contractors to carry out almost all functions has led to loss of efficiencies that come with specialization. On the other hand the outsourcing of several specialist functions under traditional contractual arrangements has led to an organizational nightmare in most cases.

The organisational challenge to management in a multiplayer project environment is the harmonisation of interests and alignment with project objectives. Every contractor or supplier is in business to make profit and their interest in the project objective is only to the extent that their profit is not threatened. Contractual mechanisms, which have been employed to ensure the project objectives are not compromised, include the use of
maximum price cap, liquidated damages, retentions and warranties to respectively protect
the project targets for cost, schedule and quality requirements. These mechanisms have
largely led to adversarial relationships and costly litigations since at the time of enforcing
these mechanisms the deed has been done and they therefore manage the effect and not
the causes or events that lead to them.

It can be deduced that even the contractor with the project interest at heart, will use best
endeavour to meet the minimum expected requirements within the confines of the
contractual stipulations in order to maximise their profits. Therefore the client is exposed to
huge variations if any change to initial scope is to be realised. The major factors that lead to
such opportunistic tendencies are uncertainty in profitability and loss of trust. In a
multiplayer setting the client is exposed to these kinds of opportunism and exploitation from
the multifarious players.

The problem is further compounded by the fact that changes to scope and schedule are
inevitable due to interfaces and concurrent activities of the different contributors. The
consequential impact of these changes is a major contributor to the large cost escalations
prevalent with mega projects.

There is also the problem of cultural differentiation as every company is an entity with
peculiar attributes that separate them from the rest. Added to this, most companies that
play in the international project arena bring along the cultural predispositions of their
various countries and this has a very big impact on communication, attitudes to work, and
common understanding of objectives.

The multiple interfaces that exist in multiplayer settings are also difficult to manage
because of the varied contractual arrangements and rules of engagement between the
parties - clients, contractors and subcontractors. In traditional contracting strategies, a party
tries to maximise opportunities by engaging others through different contractual vehicles
depending on the nature of work that they need to execute. This approach further increases
the interface management issues as all players cannot be placed on a common pedestal.

The overriding impact of the organisational and technical complexities resident in
multiplayer settings is the final cost of project execution paid by the client. The major cost
element here is the transaction cost (TC) by the client, the different contractors and
subcontractors. TCs include costs of negotiation, preparing contracts, costs of monitoring
contractual performance, costs of enforcing contractual promises, and costs associated
with breaches of contractual promises - including the costs of acquiring and processing of information, in all these cases [Ref 7].

The ultimate recipient of these cost (and risks) is the client as the experienced contractors and subcontractors would find a way to build this into their bid or cover up later through variations, while the unfortunate ones would end up eating into their margins or outright bankruptcy, this sort of zero-sum game is one of those factors that contribute to the opportunistic attitudes of project players.

**Partnerships**

Project challenges have been there since the Egyptians set-out to build the pyramids, the difference though is that they are now complicated by the increased complexities and need to do more in good time at less cost. This demand on the different project contributors has resulted in the need for self-preservation and opportunism particularly as projects dynamics are managed using rigid contractual instrumentations.

A look back at the early project management approaches, like the Manhattan Project, would reveal that the intent of “Project Management” as a management concept is to eliminate (or reduce) the impact of these challenges by breaking down the boundaries between the various players; in other words the overarching philosophy was that of integrated team working or partnering [Ref 8].

**Types of Partnerships**

Basically there are two types of partnerships - Project or Strategic partnering. Project Partnering “involves the integrated supply team and the client organization working together on a single project, usually following a competitive procurement”, while Strategic Partnering “involves the integrated supply team and the client organization working together on a series of projects to promote continuous improvement”. [Ref 9]

Although the two approaches offer same basic benefits and are premised on the same fundamental principles, it can be argued that Strategic Partnering has the potential to bring to bare the full condiments particularly as it offers opportunity for continuous improvements and an incentive for sacrifice required to truly trust and cooperate with other parties.
In his work on trust between contracting parties, Smyth H. describes “Self Interested Trust” as that where parties are willing to trust each other until they are proved wrong and then begin to exhibits opportunism, and “Socially Oriented Trust” as that where parties are willing to sacrifice and trust others even when there are evidence of opportunism. Socially Oriented Trust therefore is sacrificial in nature [Ref 10].

In this sense parties would reside in a state of self-interested trust and will only transit to a state of socially oriented trust if there are incentives to remain trustworthy and mature the relationship. In fact Smyth H. argues that “Project Partnering is largely tactical and short-term, hence is still largely based on self-interested trust whereas Strategic Partnering across projects offers opportunity to develop socially oriented trust” [Ref 10].

Partnerships can also be viewed from the perspective of cohesion between the different parties and the level of maturity in the partnership. A partnership can be said to be fully matured when all boundaries of differentiation has been eliminated between the partnering parties, such that one cannot tell one party from the other and thus all are seen as truly one team. The figure 1 below describes this progression as illustrated in Thompson and Sanders (1998) [Ref 11].

![Figure 1- Partnership Maturity](image)

Again it is quite unlikely for coalescence to occur at the level of Project Partnering basically for the questions of time needed to form such bonding, thus true coalescence can be argued to be possible only in Strategic Partnering.
Benefits of Partnering

Although the overarching benefit of partnering can be summarized as cost reduction and increased satisfaction of project participants some general gains are as follows:

**Shared Ownership of Project Objectives** – This is one fundamental benefit of partnership and the absence of which can be argued is the cause of most project failures. Often time project contributors are completely removed from the true intent of the project and are therefore not able to challenge or add true value to the project objective. In partnership arrangements, project objectives are jointly defined and agreed to by all partners; this way they all have a stake in it not only to the extent their margin is affected but their reputation and membership of the partnership.

**Shared Resources** – True partnerships usually will include some level of co-location and joint utilization of resources, thus leading to efficiency in resource usage, elimination of resource duplication, and opportunity for implementation of “lean” ideology.

**Ease of Communication Flow** – Majority of the friction between different players in a project is the delay, unclear or outright lack of information necessary to progress the project. Partnerships have the effect of reducing these frictions since information are co-generated in an atmosphere of openness and trust. Parties are also prone to offer true opinions on issues even when it is a negative feedback.

**Elimination of Adversarial Tendencies and Litigations** – This benefit is largely predicated on the shift to Relational Contracting as against traditional contracting approaches to contracting and administration. This is also made possible with equitable distribution of risk and joint management of risk by all partners.

**Maximization of Competitive Advantages** – A major constraint of traditional contracting is that project organizations are usually formed around contracting companies not the competences of these companies. It is obvious that no contractor can provide high level of strength in all areas and thus compromises are made in selection of a technically competent bidder. In some cases, contractors may come up with specialist sub-contractors to shore-up their areas of weakness and these sub-contractors eventually add to the organizational complexities and minimize the client’s direct control over critical areas of the project.
In partnership arrangements however, the project organization is designed based on the project needs and partners are fitted-in based on their competences. This has the potential to increase efficiency, specialization and structural effectiveness within the team with the resultant effect of cost reduction and timely delivery.

**Continuous Improvement** – *Partnering provides participating firms with in-depth exposure to new management ideas and methods. Partnering also can bring to light internal issues in participating firms, thus providing some insight into key internal issues to address.* [Ref 12].

In Strategic partnering, there is a multiplier effect of this learning when carried across different projects by the same team. In this case, the projects will not only benefit from the individual experiences of each partner, but also their collective experience in working as a team and in surmounting the various challenges previously encountered. This has the effect of reducing the time required to attain the crest of the team’s learning curve as they transition from one project to another. It is estimated that learning curves produce a cost and time saving up to 30% for every repeat in production processes and the rate of improvement becomes consistent enough for production rates to be predictable [Ref 1]. Figure 2 below shows a graphical illustration of the progressive shortening of the learning curve and gradual positioning in the realm of complete utilization of previous learning to maintain maximum efficiency.

![Figure 2 - Learning Curve in Strategic Partnering](image)

The opportunity for predictability of future workloads for the partners will engender increased investment in resources, standardization of component systems and deployment of dedicated operational tools like IT systems, which are optimized for the team’s peculiar needs. [Ref 8]
Transaction Cost and the Transfer of Burden

Transaction cost is generated through interaction across boundaries; this includes the cost of acquiring and managing contracts between different players in the project. Traditional contracting exacerbates this cost by not adequately catering for the numerous risks that are mostly impossible to identify and plan for during the planning stages, thus creating room for the different project contributors to seek ways to protect themselves against undue cost escalations.

The transaction cost is not a sunk cost on the contractors or sub-contractors (save for when they do not win a bid), they are usually borne by the client in the form of overall project cost plus the contractors mark-up; this transfer of cost is what the author terms the “Transfer of Burden”. Figure 3 below illustrates how this cost is transferred to the client in traditional contracting arrangements.

![Figure 3 - Transfer of Burden](image-url)
Relational Contracting and the Sharing of Burden

Relational Contracting embraces a wide and flexible range of approaches to managing the contractual relationship based on recognition of mutual benefits and win-win scenarios through cooperative relationships between the parties [Ref 11]. This way transaction cost can be significantly reduced and some cost items ultimately eliminated if strategic partnering is used for multiple projects. The cost of administering various contracts between parties becomes miniscule in a fully integrated team due to seamless information flow, trust, openness and cooperation and cost of managing claims and litigations are out rightly eliminated.

Value Drivers for Successful Partnering

Project Team Integration

A well-integrated team structure is a fundamental pre-requisite for full realisation of Partnerships’ benefits. This must include both vertical and horizontal integration across the partners’ organisation. The effect of having design teams and construction teams co-located during planning and execution is a positive result of this form of integration, which helps in optimising constructability and value engineering, and reducing communication problems and misunderstanding of intentions. Figure 4 depicts an integrated team design.

![Figure 4 - Integrated Project Team](image-url)
It is also relevant to have very clearly defined roles and responsibilities for all parties based on their competences and what they individually bring into the partnership.

**Strong Leadership**

Clear and visible leadership is important in a partnering arrangement; however, the leadership needed is one that will champion the culture and philosophy of partnership in form of trust and cooperation. The leader therefore must have enough emotional intelligence and a capacity to act in the realm of socially oriented trust. The challenge usually will be in the leader’s ability to move his organisation in the direction where benefits are not only measured in hard dollars, but in the maturity of the partnership.

Effective governance is required to provide adequate steer for the leadership team particularly in problem resolution, and should comprise the top management of all parties. Tennyson R. tabulated the advantages and disadvantages of different management structures on partnering arrangements as follows:

<table>
<thead>
<tr>
<th>MANAGEMENT OPTION</th>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
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| CENTRALISED MANAGEMENT (i.e., management of partnership or project taken on by one partner organization on behalf of the partnership) | • Maximum efficiency  
• Unambiguous decision-making procedures and day-to-day management systems  
• Familiar / conventional management approach  
• ‘One-stop shop’ for external agencies / individuals  
• Quicker response time | • Too distant from experience / potential contribution of other partners  
• Too much influence / control perceived to be in the hands of one partner  
• Too conventional for flexible needs of the partnership  
• May take decisions inappropriately quickly |
| DE-CENTRALISED MANAGEMENT (i.e., different aspects of management shared) | • Maximum diversity at operational levels  
• More opportunities for individual leadership | • Greater potential for conflicts of interest  
• Partners / individuals feeling isolated |
Table 1- Partnership Management Options

**Strategic Partnering**

The opportunity for future jobs is an important incentive for the sacrifice required from all parties to maintain a partnering arrangement. The availability of future workloads, gives confidence needed for parties to put aside opportunism and invest in trusting relationship. Continuous improvement through inter-project knowledge sharing has the potential to significantly impact on the cost and schedule of projects particularly as the integrated team continues to deliver more projects together.

**Client Risk Ownership and Joint Risk Management**

It can be argued that the client is the ultimate owner of all project risks, since those risks that are transferred are paid for at a premium. In a partnering arrangement, it is important for the client to take ownership of the risk, in terms of cost, while a joint risk management approach is used in addressing them. This way all parties in the partnership are focused on
addressing the risk and finding cost effective solutions rather than trading blames or passing bulk.

**Challenges to Partnering**

The major obstacle to successful partnering is the lack of competence within and between partnering organisations particularly in terms of relational contracting. An important obstacle also is the very high expectations that partnering will immediately solve all project problems, but this is not the case as it requires time to build a truly homogenous team through which partnering benefits can be gradually optimised.

The benefits however may not be realisable in hard dollars at the initial stages, in fact it may seem a loss to the client since he takes ownership of risks and ring-fences suppliers’ profits. There is also the issue of switching cost particularly considering the huge investment in building up a partnership [Ref 13]

**Conclusion**

Projects are increasingly becoming more technically complex, durations are getting shorter; risks are increasing with volatility in global economy while profits are getting less guaranteed. The traditional contracting strategies have not paid good dividends in terms of cost effectiveness and overall satisfaction for stakeholders.

The adoption of partnering arrangements based on relational contracting, trust and cooperation can offer benefits to all project participants particularly in form of strategic partnering. It is obvious that there are few incentives for parties to form partnerships unless within a strategic partnering framework where future opportunities exist to offset the “sacrificial cost” necessary to build trust and cooperation.

There are obvious challenges to successful partnerships, like the lack of skill, the need for strategic programs as incentive to partners and the reluctance to change from traditional contracting cultures both within the client and contractor organizations. These however are miniscule compared to the huge savings that are possible over the long haul when true partnering arrangements are exploited. Partnering provides a win-win possibility for the numerous players involved in today’s project delivery efforts, with potential to even do better tomorrow.
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