
Importance Of Construction Industry

The construction industry is an enabler. It provides projects which enable people to go about their day to day lives. Whether it be huge infrastructure projects, like the Heathrow Expansion to support the UK aviation presence on the worldwide stage; new office projects in central London, like 22 Bishopsgate, for UK's leading position as a financial capital of the world; state of the art hospitals for leading healthcare or warehouses in the North of the UK to facilitate the rise in online retail; the need for an efficient construction industry goes beyond individual companies self-interests. With the large contribution to UK GDP and the 10% of total UK employment attributed to the construction industry (Health and Safety Executive, 2018) the need for a sustainable industry is crucial.

Is the current industry sustainable?

In 2018 Carillion, one of the UK's largest construction companies fell into administration with total debts of £3.4 billion (Carillion, 2017). Construction business performances such as these, albeit this being at the extreme end of the spectrum, are not uncommon. In their latest results, the top 10 contractors had a combined turnover of over £30 billion (Price, 2019) with a combined gross profit of £370.1 million, representing just 1.23% gross margin. This could be deemed a positive performance when comparing back to 2018 gross margin figures of -£234.9 million on similar turnover figures (Price, 2019). Commenting on these figures, Leo Quinn, Balfour Beatty Chief Executive, said 'margins below 5% are unsustainable.' Tier 1 Construction companies have needed to grow accustomed to these percentage margins, but what other industry averages out to such low levels of profit.

There is an undisputed 'circle of need' between clients and contractors. With each having a level of dependence on each other for success, why is there often such an adversarial relationship between these two parties?

Research Problem

Traditionally, the first engagement between client and contractor is a tender stage. Various engagement routes between contractors and clients have been attempted over the years as described within (Hampson and Walker, 2003), all with varying success. One issue with the various traditional procurement routes discussed is the route is normally decided by the client and thus, risks are swayed in the client's favour. This does not encourage a 'fair' playing field between all stakeholders of the project and risks the adoption of adversarial behaviours that acts as a blocker to progression. The contractors are forced to 'play the game' set out by the client under their procurement route, which often results in pricing and programme strategies being used by the contractors to secure the project. These strategies are often uncovered after the two parties have engaged on the project and, with a desire for the project to continue its forward momentum, alternatives are not explored.

Research Question

There is extensive literature on the advantages of different engagement methods between clients and contractors, however, there is limited literature to support whether any are utilised successfully in the industry. This case study looks at an isolated project where there was an initial desire to challenge the normal engagement protocols and looks at whether this was a successful arrangement.

Literature Review

Introduction to Partnering

Construction projects are known for being delivered late and over budget, Crossrail being the highest-profile one at writing. Various reports have described the need for change in the industry in an attempt to combat these issues. Constructing the Team (Latham, 1994) described the industry as 'ineffective', 'adversarial', 'fragmented', and 'incapable of delivering for its customers'. The Rethinking Construction report followed 4 years later (Egan, 1998) and implied that the industry was underachieving whilst also calling for dramatic improvements. Within the Egan report, it was noted that the industry needed less competitive tendering and a move towards long term relationships. They both highlighted partnering as a key strategy for implementing change in the industry effectively.

Even though it is accepted there is no amalgamated understanding of the concept of partnering (Li, Cheng and Love, 2000), the Construction Industry Institute (CII, 1991) defines partnering as a 'long-term commitment between two or more parties in which shared understanding and trust develop for the benefits of improving construction'.

Latham (1994) considered that the main contractor was the cause of many of the long-standing industry issues, stating they were mainly conflict-driven and poor working practices were embedded within their ethos. It could be argued that attributing blame to the contractor as the instigator ignores a more fundamental issue within the industry.

Limited exploration of the client's role within the adversarial construction industry under Latham's report means there is a failure to understand the wider impact outside of the main contractor's involvement. Latham (1994) fails to acknowledge the choice of procurement method sits with the client and that most of these routes are based largely on securing the contract at the lowest cost. Egan (1998) touched on this slightly, expressing a view that clients were too concerned with 'lowest cost' and as a result they lost the understanding of 'best value'.

Partnering has been described as the most significant development to date as a means of improving project performance and a move to a more sustainable way for clients to engage with other stakeholders of the project (Wood and Ellis, 2005) but little is known whether the theory has been implemented.

Has Partnering been a success

(Humphreys, Matthews, Kumaraswamy, 2003) investigated the success of partnering and cost savings since Latham and Egan's reports. They concluded that a collaborative relationship, like partnering, could be reached between clients and contractors when there is a desire from both

parties. Although the conclusions support Latham and Egan recommendations, it could be argued that the methods used mean the conclusion was not a true representation of the industry. The findings were largely based on various open and closed questions to 217 construction professionals which is a fairly limited pool of people. The authors give no explanation to the techniques used for the gathering of the data, nor is there any information on the differing demographics of the construction professionals that participated in the study.

(Wood and Ellis 2005) also investigated the successes of partnering and drew similar conclusions to that of Humphreys et. al (2003). They focused on the main contractor's perspective, basing their conclusions on their questionnaire responses from 48 commercial surveyors from the same tier 1 main contractor. Within the positive responses regarding partnering, two concerns were identified. The first, was the need to maintain the profitability levels; whilst also connecting the deterioration of the collaborative ethos as the project cycle progressed. Although the findings mirrored the conclusion Humphreys et al identified as part of their study, Wood and Ellis lacked the greater number of participants and diversification that Humphreys et.al had in their study.

Wood and Ellis (2005) and Humphreys (2003) gathered useful information and pointed towards a positive inclusion of partnering within the industry. However, this cannot be taken as a fully conclusive view of the entire industry. Further to the studies limitations described above, it should also be noted that these findings were gathered and concluded prior to 'The 2008 Great Financial Crisis'. Whilst the authors could not change the economic cycle during their study, it should be noted that the positive findings regarding partnering may not have been the same had they been conducted during recessionary times. In saying this, the conclusions do provide a positive view over the small number of participants in the 'good' times preceding 2008.

The two pieces of literature discussed above have given positive views on the implementation of partnering in the industry. There have, however, also been some views that the struggle for behaviours to change is creating a blocker for genuinely effective partnering. Dewulf & Kadefors (2010) investigated, via three extensive studies, the development of trust. They found that, for effective partnering to truly take place, parties involved needed to invest in communication. This would enable people to change the traditionally drawn upon behaviours within their roles to create a closer collaboration. They also found that people are often unable to move towards a cooperative mindset due to their traditional thinking. Gadde and Dubois (2010) also investigated similar cases and drew similar findings, concluding that a lack of trust is still a major blocker to the effective use of partnering.

A more recent view on engagement between clients and contractors is 'Construction needs to change. But change must be client led', the latest report to come out of the Chartered Association of Building Engineers (CABE, 2019). It highlights the 'self-fulfilling prophecy of low expectations driving clients towards protective procurement models focused on lowest cost rather than best value' whilst acknowledging that the industry needs to change with change needing to be instigated from the clients. It continues to highlight that the current models of engagement have made 'unsustainable business models the norm' which increases the risk of failure, rather than lessening the risk. It recognises that the failings have been recognised for a long time and blames the behaviours of client side project managers as being too adversarial with their aim to 'squeeze budgets', 'squeeze programmes' and a 'focus on driving down cost to the lowest possible level to demonstrate best value'. This report is similar to Gadde and Dubois findings regarding communication and traditional behaviours, however it is the first to

identify responsibilities sitting with the client's representatives.