RELATIONS AS A KEY RESOURCE

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The construction industry is consistently referred to as fragmented and traditional with procurement methods and contractual arrangements that hamper cooperation between involved parties. There is an increasing emphasis on the benefits of partnering in construction projects as a way to reversing these negative effects. Findings from a pilot study suggest that cooperation and interaction *are* difficult under today's tendering regime and that there is a need for new models and processes. Partnering projects is said to increase trust, and value can be created in that there is less conflict, better quality, one finishes on time, budgets are kept, and users are more satisfied. Even so, partnering still has its sceptics, the reason being related to the investment necessary for establishing relationships as well as the uncertain financial gains. There is a need for more research on how relational capital accruing from partnering can generate value within and beyond single projects, as it is not clear exactly how partnering creates value and what this value entails. A point of departure for further research is to regard the relationships in partnering as a key resource. Investing in relationships can be a way to generate strategic resources as it by character is tacit know-how and is difficult to imitate. The literature covered indicates that there are several dimensions that have to be explored to understand relations and value creation and that there is a need for a deeper understanding of these relationships and what happens over time.

Keywords: construction, key resources, partnering, relationships, value.

INTRODUCTION – BACKGROUND AND PURPOSE

The construction industry is consistently referred to as fragmented and traditional with procurement methods and contractual arrangements that hamper cooperation between involved parties (Bayramoglu 2001). Additionally, construction projects have traditionally been conducted in a very sequential manner. This leads to problems of motivation when it comes to focusing on what is best for the project as a whole, as Thompson *et al.* (1998) argue, "in construction projects each party focus on achieving their objectives and maximizing their profit margins, with little or no regard for others, a mind-set that leads to conflict, litigation, and often disastrous projects."

Partnering as a solution to the mentioned problems is finding more and more support as it is said to emphasize teambuilding, conflict management, trust, and mutual goal and objective developments between the contracting parties (Wilson jr. *et al.* 1995).

Findings from a pilot study in the Norwegian construction industry confirm that partnering is beneficial for performance in terms of reduced costs, reduced time, better quality, less conflict, as well as increased user satisfaction (Swärd 2006). It is therefore interesting to note that only a limited number of actors in the Norwegian construction industry are trying out variants of partnering today. The reason for this

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may be related to the newness of the concept and that there is little benchmarking opportunities. It is also mentioned that the clients are not aware of the potential benefits, and that the gains to be achieved financially for the short term and the long term are rather unclear and is little documented. It is also emphasized that the investments necessary for entering into such projects seems to be great as it is time consuming to build relationships and involve multiple actors early on in the projects.

Some contractors and subcontractors anticipate that their involvement in partnering projects and the relationships they establish from these projects are likely to generate value for the future, as in gaining new contracts or learning from other actors by working more closely together on projects (Swärd 2006). However, it seems to be rather unclear how relationships from partnering generate value, and to be able to evaluate whether the investment is viable or not there is a need for more understanding of this issue. Another reason for understanding how value accrue from relationships is that some partnering projects fail. Examples from other industries show that alliance success remains elusive, and as many as 70 percent of alliances are not successful (Day 1995). The reasons are said to be due to complexity, lack of control, and risk associated with letting potential competitors in on knowledge and information. This means that there is a need for understanding both the constraint of partnering as well as the opportunities for value creation.

When studying literature on relationships and value it was found that much is said about what is important for value creation and what relationships can lead to, but it is less clear what the effects are both for the short term and the long term, what the value is, and how long and short term value is related, as well as the situation in which value is created. There is a need for more systematic research on value in relationships, particularly the long-term effects of the additional investments taken by firms who engage in partnering projects. Based on a pilot study on cooperation and interaction in the Norwegian construction industry this paper aims at discussing the role of relationships in value creation by first presenting the results from the pilot study, followed by a theoretical discussion on relationships as a potential key resource, and finally by giving a point of departure for further research.

PILOT STUDY

During the fall of 2005 a pilot study was conducted with an aim of understanding cooperation or lack of cooperation in the Norwegian construction industry. The study was explorative in nature as the idea was to identify successful projects regardless of type of contract and try to understand why some projects are more successful in terms of cooperation than others. 35 interviews were carried out with managers from firms representing clients, architects, consultants, contractors, sub contractors of different professions, as well as industry officials. Each interview lasted for about one and a half hours, and the interviews were nondirective in nature. This means that respondents were encouraged to describe what they felt was significant to cooperation on projects, they were asked to provide their own definitions of the situation, and reveal their opinions as they saw fit. The respondents were encouraged to elaborate on and clarify the answers or to explain the reasons behind the answer. The results from the interviews are presented below by describing the factors that were found to influence cooperation in general, followed by a description of the features said to be relevant for cooperation in successful projects.

Results

Factors influencing cooperation in general

Traditionally, clients choose contractors based on a bidding process. This fact constitutes a number of problems. Firstly, actors will seek to price their offers as low as possible to win the contract. Due to the competitive climate of the construction industry contractors are often forced to take on projects at a profit margin that is too low. Consequently, contractors will seek to maintain profitability by using material of lesser quality or by requesting additional payment from the client. This means that contractors will refrain from pointing out defecting design issues up front and rather take it as a change they can charge additional payments for later. Standard contracts used in the Norwegian construction industry is said to lead to disputes rather than solving them. Actors focus on the contracts as a way of shoveling risk on to others. These issues oftentimes lead to disputes and litigation, which incur costs and time is being lost for the project. Additionally the contracts are based on a sequential process where, for instance, design begins before the contractors and subcontractors enter the projects. This sequentially divided procedure hamper innovation and cooperation as each actor is contracted for a specified piece of work, and there is no incentive to suggest better solutions or cheaper materials as long as one gets paid anyway. Competitive tendering further hamper cooperation as there is no long-term aspects involved, and there is no immediate risk in focusing on own profitability when the Norwegian industry, as of today, is experiencing a building boom.

Cooperation in successful projects

The interviewees were asked to describe how cooperation on successful projects materialized and possible reasons for why cooperation is better in some projects than others. The projects mentioned to be successful in terms of cooperation were mainly projects with partnering contracts. The importance of personal chemistry and relationships were the recurring issues discussed. Working with someone you knew from before seemed to be a wish, but hard to accomplish most of the time. Even so, private contractors all had a pool of subcontractors they trusted and asked to give bids on a recurring basis. Openness and respect for others competencies were put forward as important, in addition to the overall attitudes towards other professions. Further, having a joint understanding of what one wants to accomplish seem to matter. That is, whether quality, design, finishing to a specified date, or keeping operating cost as low as possible is what is most important to the client. How the involved actors understand design also seems to be important as well as an understanding of the final product. The early stages of the project seems to be essential for clarifying and resolving issues, as well as for developing common goals and getting to know each other. During construction, issues should be solved as far down in the hierarchy as possible. This also means that the client needs to make decisions on a running basis. Communication and information is important in this respect and these projects have many meetings during the course of the project to clarify and solve disputes. Some also mentioned the role of incentives, how the sharing of gains and losses make actors focus on cooperating. Incentives can also be less formal as when actors seek to do a good job to strengthen their reputation hoping to be chosen as partner for other projects. Finally, managers in these projects believe that cooperation is beneficial and that solutions are easier to find by working together. Trusting relationships is key.

Summary of findings

The pilot study suggests that the fragmented character of the industry with a focus on contracts and traditional tendering makes it difficult to cooperate; partnering therefore seems to be a solution to break free of the traditional processes and focus on contracts. These projects can generate value in that there is less conflict, better quality, one finishes on time, budgets are kept, and users are more satisfied. Additionally, interviewees with partnering know-how, state that their competence and experience with partnering projects are relevant for winning bids and that these projects are successful both in terms of establishing relationships for future contracts but also in direct financial terms. It is therefore fair to assume that those embracing partnering and gaining experience from doing so will experience a competitive advantage. However, as critics argue, relationship building is a costly endeavour and it is unclear what the effects of partnering will be over time. Additionally, little is known about the impact of the relational ties evolving from partnering. Choosing partnering as a method will not alone be sufficient for ensuring cooperation in projects. To be able to understand partnering in practice it will be necessary to study the behaviour within the system.

RELATIONSHIPS AND VALUE- PREVIOUS RESEARCH

When it comes to understanding the value accruing from relationships in partnering beyond the interaction that takes place at one point in time, it will be useful to draw on alliance literature as well as network theories. The focus of attention is on relations in the form of partnering as this is seen to be the future direction in the construction industry (Wilson *et al.* 1995, and others).

Defining partnering

There is no unified view as to what partnering means. 'The concept captures a wide range of behaviour, attitudes, values, practices, tools and techniques' (Bresnen and Marshall 2000, p.231) and the literature offers a number of definitions. In the industry partnering is often understood as a method including techniques such as incentives, conflict resolution techniques, workshops etc. Nyström (2005) show, through a literature review, that there are two features that are common in the partnering literature when a definition of partnering is being discussed: trust and mutual understanding. These two needs to be present for us to talk about partnering in addition to some, but not necessarily all, of the following components: Relationship building activities, the choosing of working partner, continuous and structured meetings, openness, facilitator, economic incentives contracts, and predetermined dispute resolution methods. He argues in line with Bresnen and Marshall (2000) that partnering takes many forms, and there will exist many variants of partnering consisting of trust and mutual understanding, plus some of the above mentioned components. When looking at other industries as well as construction the term alliances are more often used for collaborative efforts "where firms pool their resources to achieve goals that they could not easily achieve alone" (Lambe *et al.* 2002).

Alliance research

Previous alliance research has progressed along two main paths. The first focus on structural aspects (Sarkar 2001) and concerns how partner characteristics can be an explanation for whether the alliance will be successful or not. In this tradition the focus is on the exchange of resources and the value of resources (Harrigan 1986; Pfeffer and Nowack 1976; Pfeffer and Salancik 1978; Thorelli 1986). That is, the reason for entering alliances is to get access to critical and scarce resources (Saxton 1997). The other research focus, according to Saxton (1997), has been on the interactive nature of cooperation between organizations (Cook 1977; Gulati 1995; Heide and Miner 1992; Levinthal and Fichman 1988; Ring and Van de Ven 1994). The attention here is on the relational ties between firms, and the notion that firm's critical resources can extend beyond firm boundaries. Complementing the structural approach first described, this interactive approach has its main focus on relational capital and cooperative behaviour essential for gaining economic rents from the alliance (Sarkar *et al.* 2001). This also means that having a history of trust (Parkhe 1993) will influence the willingness to enter an alliance with the given firm. Thus, when exploring the impact of relationships in the construction industry it will be useful to look at relations as a potential key resource and how this resource can be sustained and create value. This leads me in the direction of the Resource Based View (RBV) (Barney 1991; Wernerfeldt 1984) as well as Social Capital (Tsai and Ghoshal 1998).

Resource based view

The resource-based view is highly relevant when it comes to exploring the role of alliances in gaining and maintaining competitive advantages (Ireland *et al.* 2002). Firms search for partners with complementary resources or where they can learn skills and capabilities that enhance their own competencies (Hitt *et al.* 2000). The resource-based view is based on the assumptions that resources are heterogeneously distributed among firms, and that firms, which identify resources and capabilities with rent-generating potential, will experience a competitive advantage (Peteraf 1993). Resources can be distribution networks, manufacturing capabilities, research and development capabilities, employees with special skills etc. Researchers have theorized that firms with valuable, rare, non-imitable, and non-substitutable resources (also referred to as strategic resources) can achieve sustainable competitive advantage (Barney 1991). This also means that some resources are more strategic than others. Extending this literature, researchers argue that a resource based view focusing on relationships outside the firm can be a source of competitive advantage as these linkages give access to new resources through the alliance partner and thus increases the resource pool available to the firms involved (Luo *et al.* 2004).

We have seen that relationships beyond firm boundaries matter and that value is created by these relationships. But, how can this value be sustained? Peteraf (1993) argue that there are four conditions that have to be met. One needs to have heterogeneity, ex post limits to competition, imperfect resource mobility, and ex ante limits to competition. This means that the resource one has cannot be imitated by others, there must be forces that limits the competition, for instance causal ambiguity that makes it difficult to know what to imitate, and it must be limited competition initially for the resource position. Imitation can be impeded by time compression diseconomies, asset mass efficiencies, and interconnectedness of asset stocks, asset erosion, and causal ambiguity. These assets are hard to imitate as they are of a tacit character and they are socially complex.

Social capital

The relational ties accruing from partnering can create what is known as social capital. Several studies have pointed out that social capital is a productive resource, like physical and human capital (Tsai and Ghoshal 1998), and that social capital may facilitate value creation by firms (Nahapiet and Ghoshal 1997). Social capital refers to a firm's relationship with other companies and the value constituted in the network of relationships one have. Adler and Kwon (2002) argue that "like all other forms of capital, social capital is a long-lived asset into which other resources can be invested, with the expectation of a future (albeit uncertain) flow of benefits.” Social capital is found to be positively related to the extent of resource exchange between organizations, that is, social capital is a resource attracting other firms seeking access to firms’ networks (Ireland *et al.* 2002).

Social capital is said to comprise both the network of relationships and the assets that may be mobilized through the network. Nahapiet and Ghoshal (1997) identified three dimensions of social capital - structural, relational and cognitive. The structural dimension includes social interaction and pattern of linkages, that is, for instance when one uses contacts to get access to resources. The relational dimension refers to assets that are rooted in these relationships, such as trust and norms. The cognitive dimension refers to a shared code or shared language that facilitates a common understanding. They further argue that social capital is dependent on factors that shape the evolution of social relationships. This means that time, interaction and interdependence is important. Time is highly relevant for social capital, as it requires stability and continuity, and continuity has shown to create trust. Interaction is a precondition as social capital is said to accumulate where ties between actors are strong. Finally, interdependencies will encourage exchange between parties (Nahapiet and Ghoshal 1997).

Being a good partner can become a firm’s key corporate asset as it attracts other firms seeking alliance partners, labelled by Kanter (2000), a company’s collaborative advantage. She also argues that failing to nurture the established relationships is to neglect a key resource. In line with Kanter (2000), Hitt *et al.* (2001) argue that firms broad experiences and social capital will be a sign for potential partners that one is trustworthy, and, hence, an attractive partner. Gulati (1999) introduced the term firm network resources referring to the resources firm accrue from the interfirm networks they are part of. These resources, subsequently, is said to influence the extent to which firms enter new alliances. It also means that social capital is dependent on what has happened in the past. That is, the relations one has at the present is determined by prior relations and will also be the basis for future relations. Social capital can drive alliance formation, as firms are likely to exchange economic opportunities with firms they have collaborated with in the past (Chung *et al.* 2000). Social capital can also create norms and obligations that hinder others from entering the network (Erridge and Greer 2002).

Industrial network approach

The traditional construction literature focuses on partnering from a dyadic perspective, that is, mainly between the client and the main contractor. This is also how partnering often is regarded in the industry, even though sub contractors are more and more involved early on in the process. The focus on dyadic relationships in construction, captured by the traditional concept of partnering is insufficient in order to understand relationships in this industry. The construction industry involves many different actors and hence there is a need of co-ordination between multiple units in order to fully benefit from a partnering approach (Bygballe *et al.* 2006). This is supported by the industrial network approach that argues that each actor is embedded in a network of relationships, which give the actor access to others resources. Industrial markets are seen as networks of inter-firm relationships, where companies become connected to each other by these relationships. The key variables in relationships is said to be activities, resources and actors, and how these are connected (Håkansson and Snehota 1995). The view is that resources do not have a predetermined value, but is a result of how they are used and combined. Relationships are then the result of interactions with others resources. Further, relationships are regarded as assets due to the value generating processes they evoke in contributing to innovations or by increasing efficiency (Jahre *et al.* 2006). Relationships arise through continuous interaction processes between companies as they exchange products, information, money and social symbols (Håkansson 1982). The relationships to other actors in the network can in some situations be one of the most important resources that a firm possess (Axelsson and Easton 1992). Relationships become an important means for firms to handle the complexities and ambiguities they are facing in a market.

As Håkansson and Snehota (1995) remark, the core in the ”relationship” view of industrial markets is that over time the interaction process and the interdependencies created through this process produce something unique by interlocking activities and resources of the two involved parties. This uniqueness cannot be produced by either of the two parties alone or easily duplicated. The parties become embedded into each other. The idea is that those alliances that are able to learn and innovate have built trusting relationships. This is in line with Granovetter's concept of embeddedness (1985) saying that economic activity is embedded in ongoing networks of personal relationships. While the resource based view focus is on achieving competitive advantage trough acquiring and building rare and inimitable recourses, the embeddedness researchers claim that more effort is needed toward understanding different mechanisms of embeddedness (Dacin *et al.* 1999). It is argued that when it comes to relational ties the centre of attention for managers needs to be to acquire and build collaborative capabilities (Dyer and Singh 1998).

CONCLUSION AND FURTHER RESEARCH

The pilot study shows that cooperation in the construction industry is hampered by sequential work processes and counteractive behaviour associated with competitive tendering. Partnering may be a way to increase cooperation in the construction industry, as it breaks free from traditional patterns and focus on trusting relationships. Further, partnering creates relationships within and beyond projects and having partnering experience may be beneficial for winning new partnering contracts. Partnering, if successful, is therefore likely to generate some kind of value for the involved actors.

The literature review demonstrates that partnering can be a potential key resource, as partnering relationships is a sign of your attractiveness as a partner, while at the same time it gives access to resources in the network. Further, partnering can be a strategic resource as it by character is tacit know-how and is difficult to imitate. Additionally, partnering relationships may create value through mutuality, as for instance when firms interact and learn, or innovate together.

The question remains when and how to invest in relationships and whether the gains to be achieved will exceed the costs. The literature covered indicates that there are several dimensions that have to be explored to understand relations and value creation and that there is a need for a deeper understanding of these relationships and what happens over time. The challenge will be to find which values accrue from partnering and how they are connected. This is not a straightforward task as there is a need to consider relationships also beyond the client- contractor dyad.

Research on inter-organizational collaborations has been criticized for ignoring loosely structured alliances in favour of equity-based joint ventures (Cullen, Johnson, and Sakano 1995). Relational aspects are more likely to be important in these alliances, as more formal lines of control are absent (Sarkar *et al.* 2001). In this sense the construction industry provides a good context. Further, previous literature on alliances has focused on explaining why alliances are formed or relating alliance outcomes to initial conditions of the alliance or characteristics of the involved actors. The dynamics in the process of collaboration are less studied (Doz 1996). Looking at relationships as a resource and study the structural, cognitive, and relational dimensions of partnering will provide valuable insights for managers in deciding whether the investment in partnering is viable. Further research on this matter will have value not only to the construction industry but are also relevant in other project dominated industries, such as the biotech (Powell *et al.* 2002) and petroleum industries (Stabell and Fjeldstad 1998).

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