

AN EXAMPLE OF PARTNERING BETWEEN A NORTH AMERICAN SPECULATIVE HOUSEBUILDER AND THEIR SUBCONTRACTORS

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This paper looks at the relationships forged by a medium sized private house building company from Indianapolis, Indiana, USA with its subcontractors. It describes the partnering process as it has evolved and then goes on to analyse in detail the intricate and symbiotic relationships that the company, *Estridge Homes* have formed with all their subcontractors. The paper will demonstrate that this is not pseudo partnering but that the relationship between Estridge and its subcontractors is a true two way process; each partner having the opportunity to have an input into their own work and how it fits into the building process as a whole. It considers the value engineering that the subcontractors do by choice and how this partnership affects contracts they have with other builders and house builders. It will go on to demonstrate how the quality and end cost of the finished house has been materially affected by this partnering process.

Keywords: Latham, partnering, quality, value engineering.

INTRODUCTION

The author's thesis research from which this paper derives focussed on quality in the UK private housebuilding industry. (Auchterlounie, 2004). During the course of the research for the thesis the author came across a reference to an American housebuilder who claimed to have achieved a 97% customer satisfaction rating. Further research into this claim brought about the author's encounter with the partnering process described and analysed in this paper.

The Background

For many years the United Kingdom central government has held the view that the construction industry needed to improve its image and performance. Government's experience over many years, and the realisation that other industries could and had made progress in terms of producing quality end products on time and within budget made them want to take a close look at the construction industry (Latham, 1994).

Over the last sixty years this has included the 1944 Report of the Central Council for Works and Buildings chaired by Sir Ernest Simon entitled *The Placing and Management of Building Contracts*; the 1962 Sir Harold Emmerson team report entitled *Survey of Problems Before the Construction Industries* and finally Sir Harold Barnwell's report of *The Committee on the Placing and Management of Contracts for Building and Civil Engineering work* in 1964. The first major review of the last two decades was the Latham Report, entitled *Constructing The Team* chaired by Sir

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Michael Latham and published in July 1994. In his foreword Sir Michael Latham says the following about recommendations and problems that have been identified during the consultation process:

“This Final Report makes recommendations to tackle the problems revealed in the consultation process. The Review has been about helping clients to obtain the high quality projects to which they aspire. That requires better performance, but with fairness to all involved. Above all, it needs teamwork. Management jargon calls that ‘seeking win-win solutions’. I prefer the immortal words of the Dodo in ‘Alice’s Adventures in Wonderland’, ‘Everybody has won and all must have prizes’. The prize is enhanced performance in a healthier atmosphere. It will involve deeper satisfaction for clients. It will lead to a brighter image and better rewards for a great industry.” (Latham, 1994: v)

Latham wanted to ensure that the findings and recommendations of this report that urged the government along with other major clients were implemented. Latham stressed the role of the client in achieving good performance on any project, and suggested that the government committed itself to becoming a best practice client, and take the lead in providing training for its employees and to *“establish benchmarking procedures to provide pressure for continuing improvement in performance.”* (Latham, 1994:5)

The thrust of the Latham Report was that by constructing a project team early in the process; the client’s requirements could be established. Those requirements that are deliverable were then accepted and those requirements that are not could then be modified using the collective experience of the team and then agreement sought for these modified solutions from the client. This is the classical partnering scenario, everyone involved in the project knows what is expected from themselves and each of the other members and by when, and the agreed performance levels that must be achieved in order to meet the client’s requirements.

A direct result of the work begun by the Latham Report, the Construction Task Force headed by Sir John Egan, was set up. The report entitled *Rethinking Construction* was published in 1998 and in clause 1 states the following:

“The construction Task Force has been set up by the Deputy Prime Minister against a background of deep concern in the industry and among its clients that the construction industry is under-achieving, both in terms of meeting its own needs and those of its clients.” (Egan, 1998:9)

Egan suggests long-term partnerships between clients, teams of professionals and constructors, teams that can elicit from the client exactly what it is that the client needs and convert this into a scheme and finally deliver this scheme on time, within budget and with zero defects. When it comes to looking at the housebuilding sector, the report does however comment as follows:

“The task Force believes that the main initial opportunities for improvements in housebuilding performance exist in the social housing sector for the simple reason that most social housing is commissioned by a few major clients. However, we would expect improved practice in developing social housing to affect expectations and activities in the wider housing market. Consequently we see much scope for cross-fertilisation of innovation between public and private sectors.” (Egan, 1998:35)

This declaration that the main hope for improvement is with the social housing sector is evidence that the Task Force realised the large problem that exists in trying to

influence the private housebuilding sector. The private house building sector and social housing sectors are driven by two diametrically opposed aims. The private sector is profit driven whilst the social housing sector is driven by the need to provide social housing for those who cannot or do not wish to buy a house. The Task Force therefore, realised that unless they could demonstrate a cost reduction as a short-term benefit, then the private sector would not be keen to try any new initiatives. The social housing sector is based on long-term finance and management, and would be interested in the long-term benefits of new initiatives.

A *professional* social housing client, is much the same as a commercial client, it is possible for a social housing management team to sit down and identify *client requirements* and set up project requirements that will drive the project and pull the process on to the optimum project path. The Task Force seem to be aware of these differences between the social housing sector and the private housebuilding sector and what is deliverable. They have the hope, Egan (1998) that the public sector will influence the private sector, but the researcher suggests that this will happen only if the developers find that there is a financial reason for change

The 2001 report by the National Audit Office entitled Modernising Construction produce by Sir John Bourn stated that following research they were now convinced that there were real benefits derived from partnering in government contracts. The report says:

“The benefits include the client and the contractor working together to improve building design, minimising the need for costly design changes, identify ways of driving out inefficiency in the cost of projects, replicate good practice learned on earlier projects and minimise the risk of costly disputes. In the private sector different forms of partnering have delivered savings of between two per cent (project based partnering) and 30 per cent where strategic partnering is used in the cost of constructing buildings and cost of partnering – setting up and monitoring – is assessed as relatively low, adding usually less than one per cent to project costs.”
(Bourn, J, 2001:6)

This again refers to commercial contracting arrangements, but clearly the government are convinced of the benefits of partnering, and as the report goes on to recommend the use of partnering on future contracts. Research done by Watson, Khatib and Lindley , published in Building Engineer Jan – Mar 2006 show that there has been a cultural change in organisations that have been involved in partnering; 42% thought that the introduction of partnering had changed their role within their organisation; 57.5% said that they thought about providing best value for all parties concerned rather than just their own organisation; 72.5% thought that attitudes and the way organisation treat each other had changed for the better; 67.5% thought that working relationships had improved; 67.5% thought that partnering had led to projects being delivered on time and 62.5% thought that partnering had led to projects being delivered within budget.

This then is the background to this paper, the fact that teamwork or partnering is seen as a way forward to give clients value for money and quality without being unnecessarily complex or costly. The contracting sector of the industry and many Local authorities have now embraced this concept, but to date in the authors opinion no real attempt has been made to implement the concept in the UK private housebuilding industry.

THE ESTRIDGE EXPERIENCE

The author visited the Estridge Company in March 2002; a medium sized regional housebuilder based in Carmel, Indianapolis, Indiana, USA. The company currently builds approximately 500 houses per year and has a turnover of approximately \$200m per year. This places it at the top end of regional housebuilders both in the US and in the UK. The visit was funded by the RICS Foundation who provided a travel grant; and the author was given full access to the whole of the company from Paul Estridge the CEO to the subcontractors, known as *vendors* in this company, and had full co-operation from all staff. The purpose of the visit was to investigate the claims of 97% customer satisfaction ratings achieved by the company in their new home sales and the processes used to achieve this rating. Having contacted the company the author was sent a full set of Estridge documentation by post, and was able to read and evaluate the systems employed by Estridge before the visit. It appeared from the documentation that Estridge seek to establish a partnering situation with their clients as well as their subcontractors (*vendors*). This it would seem takes the partnering concept into the same arena as in a client/contractor/subcontractor partnering relationship as is now found in many UK commercial situations.

The Customers

On reserving an Estridge Home, the customer is given a copy of their *Moving Ahead* booklet; this explains in great detail the process from reservation through to completion. Customers are encouraged to become part of the housebuilding process; they are invited to attend several meetings. The first of the meetings is the '*Home Owner Orientation Meeting*'; this is held at the company offices. The second meeting is the '*Color Selections Meeting*' with the sales person, this must take place once the mortgage is secured. The third meeting is the '*Plan Review Meeting*' and must take place before the construction can commence. This third meeting is according to the booklet "*a critical and pivotal stage in the home construction process*" (Estridge Homes undated), it introduces the customer to the builder, the manager who will be responsible for the construction of their house and their point of contact up until the house is finished.

The fourth meeting takes place on site and is called the '*Pre-drywall Meeting*', at this stage all the structural components are fixed, roofed, windows fixed and all services installed prior to the dry-wall (plasterboard) being fixed to the structure. At this meeting the customer is given the opportunity to see how things are constructed and to discuss any matter they wish regarding the progress and construction of their house. Once the carpets are fitted the builder contacts the '*HomeLife*' centre and the fifth meeting is scheduled known as the '*HomeLife Orientation Meeting*', this takes place at the company's offices. In order to activate the three-year '*HomeLife*' warranty the customers must attend this meeting.

The sixth meeting is the '*Home Presentation*', at this meeting the '*HomeLife*' ('*HomeLife*' is a division of Estridge, but separate to the construction division, who undertake the QA on all Estridge home) inspector will walk the customer through the home explaining all the features and functions of the new home and invite the customer to note any problems that they see during the walk through. A final meeting called a '*Re-walk*' is scheduled for approximately a week later on the day of the '*closing*' to check that all of the major items have been rectified. At '*closing*' the '*HomeLife*' six month warranty inspection is scheduled. The company then tell the new home owners that they will be contacted by an independent consulting and

research firm after a period of 45-60 days and asked about their home buying and owning experience as part of a customer feedback system.

The researcher attended one of the *HomeOwner* Orientation Meetings as an observer; one of Estridge staff Judy Roberts opened the meeting and asked everyone to introduce themselves and say where they are buying their new home. The researcher noted that where people were buying their second/third new Estridge home, there was a certain amount of pride expressed on the part of the customer. Even with the first-time Estridge buyers there was a sense of attainment/achievement in being in a position of nearly owning an Estridge Home. The house buying process was then described in detail, with Roberts stressing the importance of the customer's input. The structure of the Estridge Company was also discussed and the customers were given the names of all the people whom they will come into contact with during the process. The customers were given a copy of a video that contained all of the important information that they will need and a copy of the Builders Association of Greater Indianapolis (BAGI) Standards (1998). The new customer were made to feel part of the process, they even said that when indicating on which development they had bought their home that "*they were building*" in such a community not buying, a clear sign that they felt that they were not just spectators in the process.

The researcher also attended a '*HomeLife*' Orientation Meeting; customers are offered a three year warranty instead of the one year standard warranty to attend this meeting as a couple. Communications Director Ron Diehm introduced the meeting, stressing the importance of their customers to Estridge Homes and telling them that there are ways of getting the best out of their new home. Diehm then discussed the scope of the *HomeLife*' Director then took over, and discussed the Estridge QA system, how the '*HomeLife*' inspectors (HLI) go about their tasks, demonstrating the care that Estridge take in ensuring that the customer's house meets the required standards. Ford stated that Estridge has standards and is serious about achieving them. Ford spelt out the responsibilities of both Estridge and the customer; the fact that buying and owning a new house was in fact a two way , emphasising the customer responsibilities as well as those of the Estridge Group.

Diehm finished off the meeting by recapping and showing part of the '*HomeLife*' warranty video that all customers were given as part of the '*HomeLife*' Warranty Manual as they arrived. Talking to the customers during and after the meeting the researcher go the impression that they had all been converted to thinking the Estridge way, not as a cynical management ploy, but as part of a realistic education process in the care and use of a new home. They were convinced that if they followed the comprehensive advice contained in the manual and on the video they would have a trouble free first three years of occupation.

The Builders

During the visit the researcher had the opportunity to talk to some of the Estridge site managers or Estridge in terms '*builders*'; in many ways the UK term site manager represents their job function much better that the term builder. The house building system is one of subcontract packages let out to subcontractors or again in Estridge terms '*vendors*'. The site managers are Estridge employees; they manage the subcontractors and liaise with clients, what could be termed a true management function. The managers that the researcher spoke to clearly felt that working for Estridge as opposed to other builders was a plus, they all commented that Estridge support their employees and helped them to develop to their maximum potential. As a

consequence, they were committed to the company and tried to produce houses with as few non-conformances to Estridge standards as possible.

The Subcontractors

Estridge has chosen partnering rather than the traditional procurement method of lowest tender for their subcontractors. This means that the subcontractors/vendors are involved in the process from the start. Estridge has set up a Vendor Council; where twelve of their major subcontractors meet on a monthly basis with senior Estridge staff to discuss problems and seek ways to make the house building process better. The researcher was fortunate to be invited to observe one of these meetings. The agenda is controlled by the council members and can not be dictated by Estridge, the chair person is a vendor principal, (CEO of one of the subcontract companies). The main aspect of this meeting was the fact that there was no adversarial atmosphere between the parties. The hour-long meeting followed a set agenda, discussing revised job specifications. Estridge let out subcontract packages with what they call 'job scopes', this spells out the requirements of the contract in terms of materials, workmanship and finish. The current discussions revolved around the fact that the revised 'HomeLife' inspections regime seemed to require higher standards than the job scopes.

An aspect of this council that demonstrates the Estridge commitment to their vendors was the request made by Estridge for vendors to take away sets of drawings for the different house types and do some value engineering, not to reduce costs to Estridge necessarily, but to introduce an element of buildability. The vendors were quite happy to take on this task and they welcomed the opportunity to have an input into the design of the houses. In the opinion of the researcher this was an example of real partnering, both sides working together in an atmosphere of co-operation and mutual respect in order to achieve the optimum level of achievement and service for their customers. Producing good levels of communication between Estridge and vendors, no master/servant relationships, resulting in both sides working towards a common goal of 'doing it right first time' (Crosby, 1984:59).

After the vendor council the researcher had the opportunity to have a private meeting with three of Estridge's longest serving vendors. One of the vendors commented that working for Estridge for a number of years had been an evolutionary process, and they were still working on the fine print. They complemented Estridge of all the companies that they work for as being best at being prepared to listen to their vendors and have a genuine two-way dialogue. They commented that Estridge was not perfect, but that they felt that there was a real 'top down' push to try to make the systems work. This commitment was reinforced by the vendor council ensuring that the senior management got feedback from the vendors enabling them to check that the Estridge side was working and not just blaming the vendors when things went wrong. When asked if it was making a difference to them financially, they thought hard and concluded that it had, less visits were being made and thus a saving in time and transport costs and thus an improvement in profitability.

Communication was a big point with the vendors; the council has meant that they were able to meet face to face on a regular basis and have got to know each other. This has had a positive result in that when inter trades disputes have happened, the vendor principals now know each other on first name basis and can meet over lunch and sort things out at the highest level which rarely happened before and can even prevent problems from occurring by better co-ordination of their work. The vendor

council also gave the vendors redress to the senior management when Estridge were not following the system. They were keen to see the council continue and prosper, the work that they were putting in was starting to pay off, they have managed to instil into many of their men the (Crosby, 1984:59) '*DIRFT*' ethic (Do it right first time), and this has improved their work with all their clients, less defects and call backs. They also said that it had reinforced their thoughts on training; they would not send new men on to Estridge sites unless they were closely supervised until they knew the Estridge systems. They have a long-term view on training, they were willing to invest in their men, but the men have to respond; they were just as keen to end relationships that are not working. They were keen to stress the need for strategic thinking and planning, not focussing in on one small problem, but keeping their eye on the large picture.

The experience of the council meeting and the private meeting left the researcher questioning the need for the confrontational and adversarial ways of the UK construction industry. Here was a real attempt at partnering, not perfect but both sides working together to try to get it right and provide their customers with a 'quality product'.

DISCUSSION

This is the Estridge partnering system. They involve and interact with the customers from the outset, keep them part of the process throughout and maintain contact and involvement after the sale of the house. They involve the subcontractors that actually build the houses along with the site managers in liaising with the customers, ensuring that the house has all the features ordered and at the standard required not only by the client but also by Estridge. This is in stark contrast with the UK and it must be said the rest of the US private house building industry.

The Customer

In the UK it is a belief held by some researchers and practitioners that house builders know very little about their customer's requirements. Market researcher and advertising specialist Tim Mills wrote in the HouseBuilder magazine in 2000:

"I've been amazed by the lack of even the most basic consumer data held by many of the house builders I've worked for over the last five years. There appears to be widespread ignorance of even the most basic consumer research techniques.....indicative of general insularity and myopia within the industry – many housebuilders subscribe to the view that 'We know what the punter wants, so why pay someone to tell us what we already know?'" (Mills, 2000)

Gann *et al.* have suggested that:

"There are few major industries in which consumers requirements are so poorly catered for. New housing is delivered in a way which largely accommodates the constraints of producers, rather than satisfying the needs and aspirations of the consumers." (Gann *et al.* 1998)

In the same year Barlow suggested that whilst the private housebuilding companies are aware of increased customer demands their response is:

"limited to slightly greater choice over fixtures and fittings, faster product redesign, and better systems for dealing with complaints." (Barlow, 1998)

Even some of the builders themselves recognise that fact that they do not have public confidence:

“We would like to have seen housebuilders emerge with a similar trust status to doctors and mutual building societies, groups that the public views as ‘looking after me.’ Being ranked alongside used car salesmen is not where we want to be.”

(Eagleton, 2001)

The work done in the researchers own surveys brought up quotes such as *“the builder was very good until they get your money and then seem to loose interest!”*

The typical UK experience is that the customer pays their deposit and chooses their limited options, then when the builder says that the house is the customer must pay the balance and move in. With Estridge system the customer is involved from day one, consulted at regular intervals, made to feel part of the process and guaranteed that the house they are asked to take over is finished and to the agreed standard. In the UK houses have been likened to consumer white goods Lorentzen (1996), where the only involvement is in choosing the location and style of a house on offer. This does not constitute being a full partner in the process and therefore does not bring with it the benefits of partnering in terms of establishing and meeting customer requirements, increased levels of quality and customer satisfaction. It also misses the opportunity to put responsibilities onto the customer in terms of decision making and actual usage and maintenance requirements of the house.

Genuine Partnering brings the customer of the housebuilding company into line with the type of power and influence that the professional commercial client has in a typical contracting situation. And this according to the literature is to be encouraged as it brings benefits to both sides Latham (1994).

The Builders and Subcontractors

The two countries have similar housebuilding processes in that they both tend to use subcontract labour, as in the UK in the US often the only person on a site who is actually employed by the housebuilder is the site manager. The difference that Estridge has in the usage of subcontractors is that they involve their ‘Vendors’ in the process from the start, and then continue to keep them involved throughout the process. The Vendors are made to feel part of the system, they have helped in creating and modifying the system, it has become their system and they feel that they are valued and heard by Estridge.

This empowerment has not only improved the relationship between Estridge and their Vendors but also between vendors at site level and above. As discussed in the private meeting with the vendors the principals have now become known to each other and this has resulted in a reduction of internecine problems at site level. Mutual respect is now the norm between different trades, where once there were disputes; they now see themselves as part of the same team and are proud of the end product and their association with it.

The Vendors see the partnership as a full two way process, they feel they have had real input into the end product. For their part Estridge recognise the fact that they have chosen competent Vendors to be part of the team and it is therefore sensible to use their expertise and knowledge to improve the end product and thus customer satisfaction and ultimately their market share. The Vendor principals have also noticed that the Estridge ethos is helping their profitability in other relationships. Again to use the words of Latham (1994) everybody wins in a real partnership scenario.

Just as Estridge now have a close working relationship with the customers so now the Vendors have the same type of relationship. Customers meet and get to know the men that actually build their houses, it creates respect on both sides as now the tradesmen can put a face to the name and house number. Estridge, their Vendors and the customers appear to agree that the system does in fact produce a three way win win situation. The company is so confident in its system that it now offers a three year warranty on the house, something that no other US builder offers. The senior management were quite open in discussions that it cost money initially but is now self funding due to the lack of initial defects.

The UK private housebuilding companies do operate a form of partnering with a group of preferred subcontractors but this is still very much along the master and servant relationship. There is no UK housebuilding company that has the same two way dialogue with all their subcontractors, or who involve all their subcontractors with the ultimate end user the customer. So the main difference is not just a better close working relationship between developer and subcontractors but there is also this third strand to the partnership between subcontractor and end user which is lacking in the UK industry. The close equal partner relationship between developer and subcontractor is essential in producing a non-adversarial working relationship and improved end product. However Estridge have shown that involving the vendors with clients also produces a better product; the men on site once they have met their 'ultimate employers' the customers, have more of a pride in their work and respect for others work that again produces a better end product on a personal level.

CONCLUSIONS

The Estridge system does appear to work, it does produce homes that achieve high customer satisfaction ratings; both Estridge and their vendors are making a healthy profit. It has not happened overnight and has taken effort on both sides to get to this point; however both sides now feel that the effort was worthwhile. The vendors feel that it has helped them to become more efficient and profitable on other contracts. The third party in this equation the customer; is also a beneficiary from this partnering; the consistently high third party conducted and validated customer satisfaction ratings show that Estridge are giving their customers what they want. The researcher has seen the pride that customers feel and exhibit when they are buying or '*building with Estridge*'.

Can this system be implemented in the UK? The researcher feels that the answer is yes. It will take a developer with courage, vision and commitment to implement it, but as new house prices continue to rise and the number of housebuilders continue to shrink with mergers and takeovers they will need more than just location to sell new houses. This system has been proven to give Estridge a lead over all other builders in the area in which they build, they beat the national lead builders in direct competition when they are in direct competition with each other. Genuine partnering has been shown to work in the commercial contracting sector, it can be made to work in the private housing sector and produce the same savings and improvement in quality.

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