USING VALUE MANAGEMENT TECHNIQUES TO SET UP PARTNERING AGREEMENTS

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The primary issues associated with partnering are reviewed and a research proposition examined. The research proposition is that where the activity of the setting up of a partnering agreement is seen to be a project then the structured team based techniques of value management provide an effective and efficient means of formulating the partnering agreement. The paper outlines a funded action research project, which describes the method of compilation of specific value management techniques conducive to a partnering workshop. A definition of partnering for the purposes of this paper is; the achievement of a strategic or tactical objective by engaging with other organisations on the basis of; a clear understanding of each party's commercial and social objectives, with co-operative decision making, using a common feedback structure, to facilitate continuous improvement. A partnership is characterised by trust amongst the parties together with risk sharing.

Keywords: partnering, value management.

INTRODUCTION

Christopher (1998) describes a partnership as "the development of a long term relationship with a limited number of suppliers on the basis of mutual confidence". The concept is illustrated by reference to the devastating fire on Monday 3 February 1997 at Aisin Seiki, the sole supplier of brake fluid proportioning valves to Toyota. Due to the world famous "just in time" techniques at Toyota, this halted Toyota's total production within half a day. Aisin Seiki worked with Toyota and its partners to resolve the problem. All worked around the clock to re-tool in partners' factories and on Friday 7 February production was resumed at all Toyota plants. All Aisin Seiki labour was retained.

Embodied in this example are a number of issues that need to be made explicit before value management techniques can be used. The issues are explored through a logical examination of the literature and confirmed through a structured issues analysis exercise with a partnering team. The use of the value management technique is further examined through an action research exercise with the partnering team using functional analysis to drive the formulation of the partnering mission statement and the key objectives.

DEFINITION

The Reading Construction Forum (1995) in its publication "Trusting the Team" define partnering as "a management approach used by two or more organisations to achieve specific business objectives by maximising the effectiveness of each participants

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resources. The approach is based on mutual objectives, an agreed method of problem resolution and an active search for continuous measurable improvements".

In its publication “Partnering in the Team” the Construction Industry Board (1997) define partnering as "a structured management approach to facilitate team working across contractual boundaries. Its fundamental components are formalised mutual objectives, agreed problem resolution methods, and an active search for continuous measurable improvements. It should not be confused with other good project management practice, or with long-standing relationships, negotiated contracts or preferred supplier arrangements, all of which lack the structure and objective measures that must support a partnering relationship”.

Generally procurement strategies result in a contractual arrangement between organisations that largely ignores personalities. Partnering differs from these strategies in that it relies on the ability of individuals within organisations to form a trusting bond and working relationship. This is an important concept within a strategic alliance or a project partnering team as individuals responsible for carrying out particular tasks may change. This raises two issues, firstly the ability of companies to partner where the partnering agreement was established at director level and secondly the importance of maintenance of the partnering agreement within the team. Activities to maintain the partnering objective are therefore vital. A group of organisations entering into a partnering agreement will not be able to sustain synergy without maintenance. It must be recognised partnering is a team activity involving individual personalities and that the creation and maintenance of synergy is something that will require investment. At the commencement all partners must agree on the form of maintenance particularly recognising situations where an individual new to the existing team may replace the previous member of a partner organisation.

STRATEGIC AND TACTICAL PARTNERING

Partnering means different things to different people and is understood to be anything between good teamwork within an otherwise traditional contractual framework, to a situation where there is no formal contract and full partnering exists. Within this spectrum there are recognised to be two primary partnering types, project partnering and strategic partnering or alliancing. Project partnering is a partnering framework for a single project. The partnering may evolve at an early stage and incorporate the selection procedure for the partners or may be instituted after a traditional tendering process and after the contract has been signed. Strategic partnering or alliancing, which in this paper are considered to be the same, recognises that the partnership exists across organisations and is independent of specific projects.

PARTNERING OBJECTIVES

Sir Michael Latham in “Constructing the Team” (1994) quoted the Chartered Institute of Purchasing and Supply stating "partnering includes the concept of teamwork between supplier and client, and of total continuous improvement. It requires openness between the parties, a ready acceptance of new ideas, trust and perceived mutual benefit…. We are confident that partnering can bring significant benefits by improving quality and timeliness of completion whilst reducing costs." Partnering objectives that spring from this include:

Ensuring cultural compatibility. This involves understanding and respecting each party’s objectives whether those objectives are commercial or social. It is often difficult for local authority or central government clients to understand, accept or respect the fact that a commercial organisation has a culture based on profit and is entitled to earn a profit. An understanding of the culture of each party in the partnership is fundamental to an effective working partnership.

Providing appropriate auditable records. The existence of a partnering agreement should not lead to cosy arrangements in which record keeping is abandoned. It is fundamental to any well-run project that decision steps are recorded and are capable of being audited and examined as part of a post project review.

Identifying, owning and managing risks. In a partnering arrangement it should be possible to identifying all of the project risks and agree the party best able to manage those risks.

To establish an appropriate disagreement resolution mechanism. Every partnership will have its tension points and the test of a good partnership will be whether all members of the partnership feel sufficiently comfortable to be able to put up their hand and state that they have a problem.

A partnership is generally characterised by, trust and openness between the parties, a robust system for sharing gain and pain, a recognition that tasks should be undertaken by the best person for the job irrespective of the organisation to which that person belongs. This leads to the view is that there should be no man marking, i.e. that the systems within the partnership should be sufficiently robust such that checking of, for example, quality of work and accounts and payments should not be necessary.

The issues raised are ones of culture, trust, auditability and disagreement resolution.

THE CONCENTRIC RINGS OF PARTNERING

Within a complex organisation comprising a number of departments and providing various services the structure of the strategic alliance supply chain needs to be carefully constructed. The theory of the concentric rings of partnering, illustrated in figure 1 below, assumes a core team at the centre comprised of the executive of the organisation representing all parts of the organisation’s activity. The next ring encloses those partner organisations for a particular activity defined within the service cluster. The outer ring encloses those suppliers to partner organisations and only exceptionally will be in the partnering agreement with members of the core team. Cross service cluster partnering agreements become difficult in areas such as continuous improvement and risk sharing. Examples of service clusters are catering, grounds maintenance, and waste management.

The issue here is one of inclusion in the appropriate partnering agreement involving those who have common interests within a core or cluster.

HEIRARCHY WITHIN THE PARTNERING AGREEMENT AND KNOWLEDGE SHARING

The core team therefore have an important responsibility in the structuring of the service supply chain to insure compatible relationships that creates and maximises value. Each partnering group should be configured to facilitate the identification and questioning of “non value adding operations”. Each member of the partnering agreement should feel sufficiently comfortable with, and have confidence in the partnering agreement such that they are willing to put up their hands and identify non value adding operations which exist anywhere within all partners activities. In successful partnering agreements, partners work collaboratively and co-operatively at all levels from senior management to junior operatives, each seeking to achieve long term improvement for the benefit of all. The test of a successful strategic partnering agreement is said to be when it is difficult to identify the partner organisation to which a particular operative belongs.

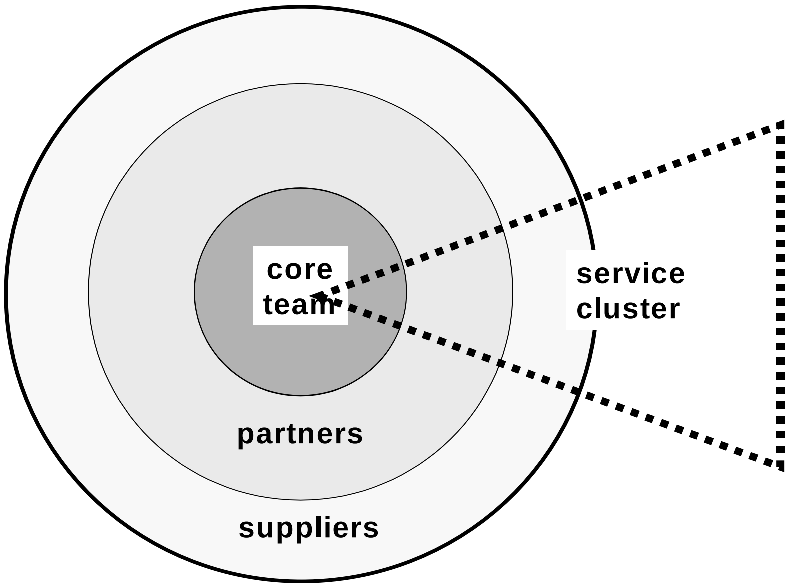

Figure 1: The Concentric Rings of Partnering

The issues are that it will require that confidence for a minor partner to suggest that their paymaster has a non value adding activity that is impacting on the partnering agreement. Further, partners should see it as a fundamental requirement of the agreement to undertake activities to secure the elimination of waste by co-operation and participate in exercises aimed at preventing things from going wrong. A full hierarchical partnering relationship figure will identify who is in need of what knowledge and when. A structured knowledge management system will ensure that those in need of knowledge will have information pushed to them but that at any time should have access and be able to pull knowledge from all parts of the partnering cluster. Risk sharing is one of the main planks of the partnership platform and anticipates that all partners will share in the resolution of all problems i.e. that anyone's problem is everyone's problem.

MAKING PARTNERING WORK

The setting up of the partnering arrangements is vital to the success of the subsequent agreements. Key to this is determining whether the partnering mission statement is to be underpinned by a contract. In most instances it is the intention of the parties to the partnership to enter into a legal contract in which goods and services will be supplied within a specified time for a given price suggesting that the partnering agreement be underpinned by a contract.

The issue is that the monitoring of all partners’ performance is a necessary precursor to establishing trust. All partners should agree those key performance indicators that relate to their contribution to the overall scheme. These key performance indicators should be sufficiently overt that all members of the partnering agreement understands them and can see whether they are being met.

VALUE FOCUSED RISK REWARD STRUCTURES

Most partnering agreements will include reference to some form of risk and reward strategy. It has to be accepted that the public sector generally and some private sector organisations are risk-averse and may not be the best party to carry risk. Reward structures will be configured to reflect the culture of the partner, in the main public sector organisations will seek to maximise the quality of the service rather than to save money and a private sector organisation will seek to maximise profit. Both of these objectives are simultaneously achievable providing that each partner respects and accepts the culture of others. The issues are encapsulated in the models shown in Figures 4 and 5.

Figure 4 introduces a risk reward structure based on a series of fragmented value equations. Each element of a particular service will involve each supplier or contractor in the cost of service provision, overheads and a contingency for risk. The total cost of full-service provision will relate to the addition of the individual prices charged by each supplier or contractor. On the other side of the value equation each element of work will contribute a certain benefit. In a fragmented value equation each unit of work is regarded separately. The disadvantage in this approach is in the lack of opportunity for co-operation in the method of service provision, for example the uniting and sharing of an overhead resource or the minimisation of risk through combination.

Figure 5 demonstrates the risk reward value equation resulting from collaborative team working. In this situation service provision costs might be reduced through collaboration, overheads might be reduced through rationalisation and the contingency for risk reduced through joint risk management. The alternative actions are to reduce costs and maintain benefit or maintain costs and reinvest the identified cost savings into enhanced benefits. Either way value is increased.

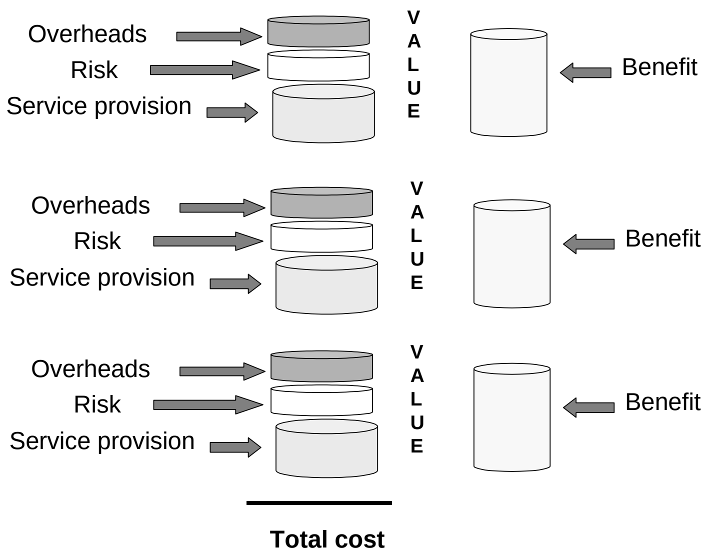

Figure 2: The Fragmented Value Equation

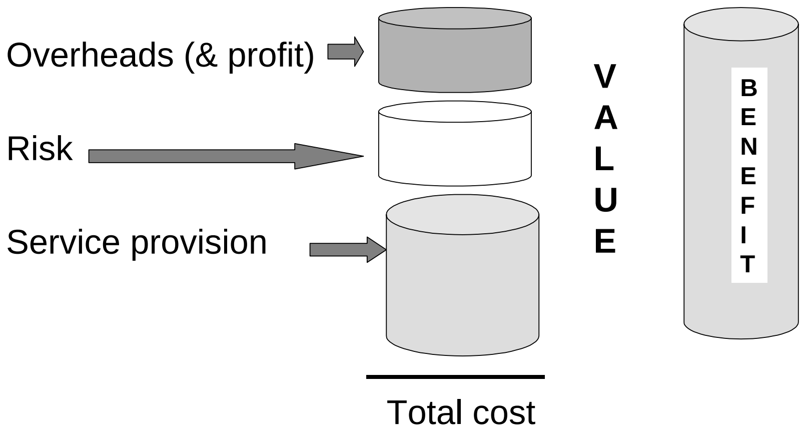

Figure 3: The Collaborative Team Value Equation

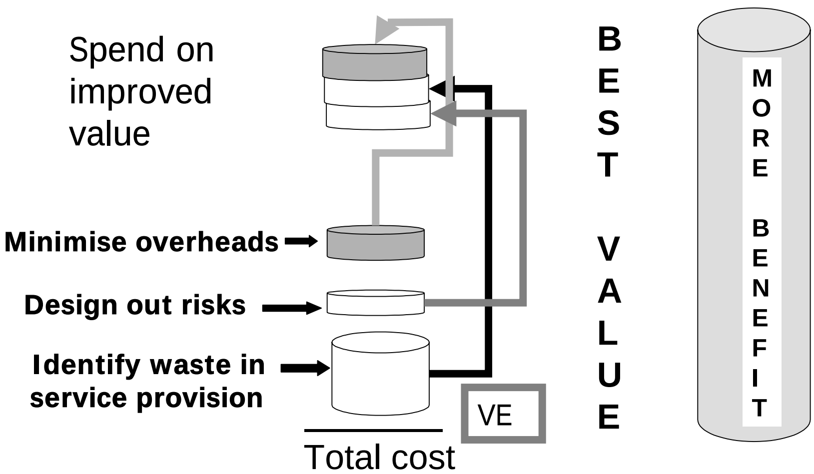

Figure 4: Managing Value Collaboratively in Partnership

A PROPOSED MODEL FOR MANAGING VALUE COLLABORATIVELY IN PARTNERSHIP

If team working were to be developed into a full partnering arrangement, then overheads might be minimised further through the sharing of administrative resources, joint offices, shared receptionist, one set of files, etc, risks might be reduced through partners gathering together to design out risks and workshops held to identify waste in service provision. The savings accruing from this activity will be transferred to a "pot" to be shared for the benefit of all the partnership through a method agreed at the outset. This concept is illustrated in figure 6. The division of benefit might be for example 40 per cent to suppliers and contractors and 60 per cent to the client organisation. The client share may well be spent on increased benefits whereas the suppliers and contractors may add to their profit. It may also be agreed at the outset that the rectification of any problems arising during the project may be paid for from the pot, thus demonstrating the commitment to the concept that one partner's problem is everyone's problem. This process is an incentive to the partnering cluster to discover more benefit and providing maximum benefit for all parties constitutes best value for the customer.

AUDIT

There are a number of issues in partnering which make audit difficult. The first issue is the structure of the competition in which work is awarded to prospective partners. The client authority must be certain at the outset whether the partnering agreement is to be for a project, or a series of projects or continuing service within a strategic partnering framework.

To insure best value the value system of the customer must be made overt such that benefit is increased for those aspects of the service which the customer values. There is little point room in expending effort and at the same time decreasing the quality of the service in the eyes of the customer.

In an open book accounting regime the status of the open book needs to be carefully considered. The clearest method of open book accounting presumes that each of the partners has been open with the client organisation and each other regarding their profit addition. In this situation open book can be truly cost plus. If however, the costs supplied by individual partners are inclusive of profit then the costs originate with the partner and not with a third party. In the latter situation the status of the open book is more questionable.

The deletion of no man marking is seen to be an easy quick win for partnering in that it reduces an overhead. However, it does delete a level of checking which gives confidence to the auditors. For example, an accountant from one organisation will check invoices of another organisation. If it is presumes that trust exists then why check invoices, why not pay without inspection?

The issue from the perspective of audit surrounds the value of trust. A truly trusting partnership of itself is a valuable institution and that value should be represented in a manner that is capable of audit.

USING THE VALUE MANAGEMENT PROCESS TO DEVELOP THE PARTNERING MEMORANDUM: A CASE STUDY

Value management is a service that utilises structured functional analysis and other problem-solving tools and techniques to determine explicitly a client's needs and wants. (Kelly and Male 1993) In the context of a partnering workshop this definition is a valid provided that the focus on the client changes to the partners. This section presents the results of a partnering workshop run using the tools and techniques commonly associated with value management on 14th November 2001. It was recognised that the case study related to project partnering and therefore the issues associated with strategic alliances and the concentric rings could not be tested. The objective of the case study was to test the extent to which the issues raised above correlated with the issues raised by the team using a standard issues analysis technique commonly associated with value management studies (Male, Kelly, *et al.* 1998). Further to determine whether standard functional analysis (Kelly and Male, 2001) could successfully generate a partnering memorandum.

The research question is therefore "if the formation of a partnership is treated as a project can the tools and techniques of value management be successfully used to derive the partnership mission statement and the key objectives?" An action research case study was undertaken to determine whether the answer to the question is a clear or qualified yes or no. An explicit procedure for the action research was evolved thus enabling repeatability. It is accepted that a single case study allows the research question to be answered only in that context but can allow conjecture of a high probability of a similar result from a repeated case study with similar characteristics. A research question was seen as appropriate in this circumstance in that a single case study could lead to "yes" whereas a hypothesis could only lead to "no" or "perhaps".

The subject of the case study was the construction by a housing association of approximately 200 houses on a brown field site in Glasgow. The team attending the workshop comprised the client's development officer and clerk of works; the development surveyor, contracts manager and site manager from the contractor; the employer's representative, the financier from the financing institution, the architect and structural engineer.

During the issues analysis a number of issues were raised, sorted under headings and prioritised. The prioritisation was undertaken using a simple two stage voting technique in which participants could vote 10 times in the first round and 3 times in the second round. Of the 86 issues raised, the top five issues of major concern to the team in order of priority were:

- Trust in partnership
- Co-operation
- Client satisfaction
- Incentives for all team members
- Flow of information at the right time.

This result correlates reasonably well with the issues discovered through a logical analysis of the literature in that all of the issues were addressed within the 86 raised in the case study. However, of particular concern for the case study team were overt co-operation within the team and the individual team member's supply chain, that the success of the project depends upon satisfying the client and not the partnering team, and that information and communication structures are of prime importance.

The function analysis involved brainstorming the function of the partnering agreement where the construction of the partnering agreement was seen to be a project. The functions were sorted initially by identifying those, which were deemed strategic, and those, which were deemed technical. The strategic functions were further subdivided into those which were of fundamental importance to the partnership, typified as needs and those nice for the partnership to have, typified as wants. The strategic needs were arranged into a hierarchy of high order needs and low order needs through a facilitated questioning and ranking technique. Those at the top of the high order needs were word crafted to realise a statement as follows:

"to satisfy the client and Communities Scotland through effective partnering with mutual benefits, creating value by building comfortable, affordable housing and raising standards"

The next level of high order needs were translated into the aims and objectives of the partnership as:

- Build trust in our partnership by sharing and resolving all issues and instituting timeous problem solution.
- Identify objectives by, defining roles and responsibilities, establishing a clear programme, establishing cost limits and identifying risks.
- Raise standards in project management by; developing systems, establishing KPI's, monitoring objectives, maximising design efficiency.
- Maintain our commitment to partnering by; abiding by agreed methods, taking responsibility, identifying incentives and ensuring teamwork, extending our partnering ethos through our respective supply chains.
- Improve quality and address and promote sustainability by; delighting the tenants, helping to improving the tenant's quality of life, facilitating opportunities in employment, helping to regenerate the community.

CONCLUSION

The above leads to a new definition of partnering as "the achievement of a strategic or tactical objective by engaging with other organisations on the basis of, a clear understanding of each party's corporate decision making and commercial and social objectives, using a common feedback structure to facilitate continuous improvement. A partnership is characterised by trust amongst the parties together with risk sharing".

The result of the research is to conclude that the issues raised in a logical analysis of the literature was largely reflected in the issues generated by the team although the team were able to articulate those issues of importance to them. Whether a partnering agreement was established at director level and factors of inclusion as highlighted by the concentric rings of partnering was not an issue in the case study. The importance of maintenance of the partnering agreement was an issue and was highlighted in the partnering memorandum as maintain commitment to partnering. Similarly the monitoring of partners performance was accepted as being a necessary precursor to establishing trust and in that respect key performance indicators were to be established under the memorandum heading of raising standards of project management. An area of tension, which was never satisfactorily resolved, was the value focused risk and reward structures.

The final conclusion is that the research question "if the formation of a partnership is treated as a project can the tools and techniques of value management be successfully used to derive the partnership mission statement and the key objectives?" is answered in the affirmative. Further, teams using the value management process to resolve identified issues leads to a focused memorandum of partnering agreement which is more meaningful than the motherhood and apple pie statements commonly found in such agreements. Finally, the exercise resulted in a focused action plan for the continued maintenance of the partnering agreement.

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