THE IMPLICATIONS AND IMPACT OF THE ‘RETHINKING CONSTRUCTION’ AGENDA (PARTICULARLY PARTNERING) ON THE UK CONSTRUCTION INDUSTRY

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ABSTRACT : This paper introduces the authors research into the impact and implications of the ‘Rethinking Construction Agenda’ on the UK construction industry. This project, in its very early stages, seeks to build on previous research undertaken in 2001 which examined the use of partnering in the civil engineering industry in light of the ‘Rethinking Construction’ report (Egan, 1998), which advocated partnering as the way forward for the industry and sets targets for achievement. This paper gives an overview of the methodology and results from the previous research and provide an outline of the intended new research. The author hopes, specifically, to examine the impact of the ‘Rethinking Construction Agenda’ on the construction industry structure, culture, procurement methods and competitiveness.

Key Words : Construction Industry, Partnering, Rethinking Construction, Supply Chain

1. AREA OF RESEARCH PROPOSED

The purpose of this paper is to review some preliminary work and future plans for research into the impact and implications of the ‘Rethinking Construction Agenda’ on the UK construction industry. Whilst this particular research project is in its very early stages, it is based on research undertaken for an MBA qualification in 2001/2 which looked at expectations, actuality and contradictions in the UK civil engineering sector in an attempt to address the question ‘does partnership sourcing work?’ This paper will therefore present some of the salient points from the previous research and how it is to be adapted to examine the impact of Rethinking Construction at the sectoral, rather than project, level.

2. OVERVIEW OF PREVIOUS RESEARCH

2.1 Introduction

The broad aim of the previous research undertaken was to examine current performance in the construction industry against targets set in light of the ‘Rethinking Construction’ report (Egan, 1998) and to compare industry participants expectations against reality, highlighting any contradictions, in an attempt to address the question ‘does partnership sourcing work’ in the civil engineering industry?

2.2 Background To The ‘Rethinking Construction’ Report

Because of the seemingly chaotic structure of the industry; in 1994 the Conservative Government commissioned an investigation of the industry. The resulting report, ‘Constructing the Team’, severely criticised the industry for its lack of efficiency and its
adversarial approach in dealing with its employees, clients, sub-contractors and suppliers. The central recommendation was that radical change was required if construction firms were to survive. The most important of these was that the client should be the focus of the industry. The general route recommended to achieve this was through teamwork and co-operation.

In 1998, the new Labour Government appointed a ‘Construction Task Force, headed by Sir John Egan to advise, from the client’s perspective, on the opportunities to improve the efficiency and quality of delivery of UK construction and to make the industry more responsive to customer needs.

Consequently the main objectives of the ‘Task Force’ were to:-

a) Quantify the scope for improving construction efficiency and establish relevant quality, efficiency and performance measures which might be adopted by the industry.

b) Identify specific actions and good practice which would help achieve more efficient construction in terms of quality and customer satisfaction, timeliness in delivery and ‘value for money’.

The outcome from the ‘Construction Task Force’ was the report ‘Re-thinking Construction’ which was published in 1998 (Egan 1998). The main conclusions of the Egan report were:

- Effective projects required clear, well run processes to eliminate waste and inefficiency.
- The construction industry could learn from other sectors (e.g. Automotive, Retailing) in that focussing on the needs of the client was paramount, as the only interest a customer/client has, is the finished product – its cost, quality, functionality and timeliness of delivery. Concentrating on these needs, it was argued, would lead to more ‘integrated processes’ in delivering customer satisfaction.
- The key to delivering such satisfaction and simultaneously improving the performance of the industry and its inherent adversarial culture was by the use of ‘Partnering’. This is where designers, constructors and suppliers cooperate to continuously develop the product and the supply chain, thus eliminating waste and innovating and learning through shared experience.

2.3 Methodology

The broad aim of the research was to establish if there are variances or contradictions between industry expectations in relation to the targets defined in ‘Rethinking Construction’ and actual industry performance.

The research was carried out between March and September 2001. It consisted of two phases and utilised a multi-method approach:

The first phase was comprised of 10 semi-structured interviews with 10 ‘partnering experts’ from 9 organisations including: academia & consultant (1), contractors (3), subcontractor/supplier (1), public sector (4) and private sector clients (1). The primary purpose of this phase was to establish an ‘expert view’ on the rationale and the effectiveness of the ‘partnering concept’ in relation to the construction industry.

The second phase of research comprised of questionnaire surveys containing both qualitative and quantitative questions. The questionnaire was distributed to an industry sample of 600, which was not random in that specific companies and individuals known to be heavily involved in partnering were targeted. Questionnaires were also sent to individuals
instrumental in promoting the development of partnering within the construction industry. The response rate was 22% (132 questionnaires were completed).

2.4 Notable Points From Research

Partnering and its limitations in construction

The first notable point from previous research was that the use of partnering had limitations when applied to the construction industry. The development of partnering in the construction industry was inspired by manufacturing industries such as vehicles, aerospace, electronics and, to some extent, retailing where long term supply relationships and/or vertical coordination of product assemblers or first tier suppliers are common. This is unsurprising as Sir John Egan has been prominent in both the aerospace and automotive industries. The research argued that there is a conceivable limit to the practical application of models derived from medium to high batch production industries, such as aerospace, to an industry which is project based and products are usually bespoke. Gann (1996), for example, argues that the implementation of ‘partnering’, ‘lean concepts’, flexibility et al are most effectively achieved when all activities from design to assembly occur in close proximity with a high level of face-to-face contact. In contrast, most activities in the construction industry are quite widely/physically dispersed.

Changing the paradigm of the theory of the firm

Partnering is inextricably linked with ill-defined concepts of supply chain management [SCM] (Fawcett & Magnan, 2002). Theoretically, the advocates of supply chain management (including partnering), suggest these concepts provide a new paradigm for the theory of the firm. It moves away from the neo-classical view of the firm where it is companies that compete, to a situation where competition is channel versus channel (Henkoff, 1994; Wilson, 1996). These supply chain partners, it is argued, will be capable of combining inimitable resources which none of the individual partners could achieve individually (Cox & Lonsdale, 2000; Rich & Hines, 1997).

Partnering – an uncompetitive keiretsu model?

It can be argued that partnering is anti-competitive, because it increases entry barriers to new competitors. Partnering moves an industry economy away from a perfectly competitive model, which optimises the allocation of resources (Devine et al, 1974), to a ‘corporatist’ model which approaches that of the Japanese keiretsu (Burt and Doyle, 1993). Partnering has the effect of increasing supplier concentration and monopoly power which, as New and Ramsay (1997) suggests, reduces pressure from competitors.

There is no doubt that the SCM / partnering metaphors originate from an obsession with the efficacy of the Japanese model. This obsession probably began in the UK in the late 1970’s (e.g. Farmer and Macmillan, 1978), but was accelerated by the hyperbole of Schonberger (1983). However the advent, if not the genesis, of ‘partnering’ was marked by the publication of The Machine That Changed The World (Womack et al, 1990) and later by Lamming (1993). The concept of partnering in these later publications is undoubtedly based on the ‘westernisation’ of the Japanese keiretsu (cross ownership) system.

Large scale longitudinal research by Porter et al (2000), which commenced in 1989 (the year the Japanese economy began its decline) suggests that ‘the keiretsu structure may have unwittingly undermined the pursuit of distinctive strategies’ (p.165). They also argue
that Japanese companies have more significant problems, many of which derive from the *keiretsu* system of partnering and this they loosely term ‘best practice’. This, they argue, has led to more fundamental problems within the Japanese economy:

‘There is a deeper problem with the Japanese approach to competing, however. Relentless and single-minded efforts to achieve ‘best practice’ tend to lead to competitive convergence which means that all competitors compete on the same dimensions [they all use similar plant configurations, channels and serve all customer needs]’. (p.81).

They also suggest that a major cause of the deteriorating performance of the Japanese economy (and industry) since 1989 / 1990 is because most Japanese companies envisage competition in terms of ‘operational effectiveness’ – improving cost and quality simultaneously [cycle time improvement, supplier partnerships, quality improvements *et al*].

This type of competition, they argue, leads to self destructive ‘hyper-competition’, where little real innovation occurs. In this respect their assessment of the ‘partnering’ concept is one of ‘bureaucratic capitalism’, which distorts the free market and the principle of ‘enlightened self interest’ which it embodies.

**Partnering – a legalised control mechanism?**

It could be suggested that government and large companies will always prefer partnering to other forms of collaboration: Governments favour it because it leverages more control, directly and indirectly, over contractors in public sector works. In addition government can legislate for it (‘Partnering’ is enshrined in the ‘Best Value’ aspect of the Local Government Act 1999 and in ‘Modernising Construction’ the report of the National Audit Office 2001). Large companies will prefer it because it gives them more control over suppliers. ‘Partnering’ is made even more attractive to them, because it bears the *imprimatur* of Government.

The popularity of partnering in UK Governments (Conservative and New Labour) is not, of course, confined to the civil engineering sector. Government was also instrumental in commissioning SCRIA (Supply Chain Relationships in Aerospace). SCRIA predates Egan, but proposed almost identical relational approaches to those in ‘Rethinking Construction’. SCRIA and its ‘offshoots’ (LI [‘Lean Initiative’] *et al*) have now become *de rigueur* in the aerospace industry. The result has been that more risk has been passed from large players up the supply chain (to second tier suppliers) with minimal improvement in operational effectiveness of the major companies (McManus, 2001).

**Discrepancies over reported results for Egan targets for improvement**

There are ‘targets for improvement’ highlighted by the Egan report for both individual companies and the industry as a whole. The targets identified are improvements in quality, predictability, timeliness of delivery and value for money which, collectively, will increase overall customer satisfaction. The target areas have been given focus by adopting quantifiable targets and it is envisaged by Egan and the Construction Task Force (1998) that these targets will enable clients ‘to differentiate between ‘the best and the rest’, providing a rational basis for selection and to reward excellence’.

The M4i (a non-institutionalised body launched in November 1998, whose aim is to facilitate delivery of the enhanced performance targets set out in ‘Rethinking Construction’, through sustained improvements and innovation in product design and development, in project implementation, in partnering in the supply chain and in production of components) report that on nearly all the registered ‘demonstration projects’ (projects established to put the
Egan principles into practice); the targets for improvement are not only being met, but are being exceeded. The author undertook to validate these claims by asking questionnaire respondents to record their achieved targets (as measured over the preceding 12 month period), which were then compared with the M4i reported results and the targets for achievement stated in ‘Rethinking Construction’. These results are shown in the following diagram.

![Diagram showing the percentage increase/decrease in various KPIs including Capital Cost, Construction Time, Predictability, Defects, Accidents, Productivity, and Turnover & Profits, comparing Rethinking Construction Target, M4i Reported Results, and Average Target Achieved.]

**Fig 1: Are the targets for improvement set for the construction industry being met?**

The author’s research clearly demonstrated that the targets for improvement set by Egan were not being achieved by the sample in that:

- Capital costs remained approximately the same
- Construction time has slightly increased compared with the 20% reduction target set by Egan
- Predictability, in terms of both cost and schedule performance, has improved but only by 2 – 3%.
- Defects have slightly increased against the Egan target of a 20% reduction
- The level of reported accidents have remained the same against the Egan target of a 20% reduction.
- Significantly, productivity has decreased by 7% against the forecast 10% increase of Egan.
• Turnover and profits increase of 2% reported by our sample are nowhere near the 10% target set.

It is difficult, therefore, to judge from the ‘demonstration projects’ how much any observed improvements in performance are directly attributable to partnering and the ‘Egan principles’. Maybe the results could be attributed to the ‘Hawthorne Effect’, highlighted by Elton Mayo in his 1924-32 experiments at the Western Electric Company in Chicago where performance is increased due to the phenomenon of observation and not through any changed conditions or practices (Huczynski & Buchanan; page 155-63). Alternatively, it is possible that, due to the high profile of ‘demonstration projects’, clients and contractors would be unwilling to allow these projects to fall below requisite performance levels and could divert resources from other areas to ensure that targets are achieved at the expense of non-demonstration projects.

The buying power of advocates sustains partnering

It is conceivable that the arguments in favour of construction partnering owe more to the buying power of its advocates rather than to any independent appraisal (e.g. McManus, 2001). The dominance of buying power is demonstrated by the Confederation of Construction Clients (CCC) (formerly the Construction Clients Forum) who collectively account for around 80% of the construction clients. The CCC document (1998) prepared in response to ‘Rethinking Construction’ committed its members to promoting partnering relationships and promised not to unfairly exploit their buying power, but to look to develop lasting relationships with their supply chain. However, they then issue a ‘threat’ to those companies who remain unconvinced:

‘The message from the Construction Client’s Forum is clear. If this pact is concluded, clients represented on the CCF will seek to place their £40 billion of business with companies that are seen to follow the approach described in this document [Rethinking Construction] ...’

Conclusions

Although partnering has produced some documented successes for some companies within the construction industry, partnering in its current form is not a means of guaranteeing a positive result every time. A fundamental problem, in the authors opinion, is that partnering is being used as a ‘stand alone’ tool, another ‘initiative’ to try to gain temporary competitive advantage, as were the concepts of Total Quality Management and Supply Chain Management previously. Whilst these management tools used in isolation have provided some successes, the successes have been short lived. As Porter (1996, 2001) argues, ‘Rivals can quickly copy any market position and competitive advantage is, at best, temporary . . . a company can outperform rivals only if it can establish a difference it can preserve’. Will partnering achieve this? In its current form, the authors would argue not: Partnering as envisaged in ‘Rethinking Construction’ is a one-size-fits-all approach which could constrain strategic innovation. Christensen and Raynor (2003) advance a similar objection to this one-size-fits-all approach in the context of management theory and partnering:

[Studies are dangerous that suggest that] if you adopt this set of best practices for partnering with best-of-breed suppliers, your company will succeed as these companies did. (p68).
There are also contradictions highlighted from the research which are incorporated in Egan and Latham. For example, one purpose of partnering in the industry was to negate the problems associated with the fragmentation of the industry. This can only have one interpretation; there are too many small firms in the industry. Research has shown that, in almost all industry sectors from automotive to retailing, there is fragmentation in the lower tiers of the supply chain i.e. there are many independent, small and possibly entrepreneurial organisations in every major industry sector. For example, in aerospace, as much as 75% of turnover and employment is in the SME sector, some with no more than 10 employees (SBA, 1999). Do the Government and other construction clients believe that these organisations are a millstone around the neck of the construction industry or do they believe in enterprise? It could be argued that the Government is calling for an entrepreneurial culture at one moment and a corporatist one with the same breath.

3. FOLLOW UP RESEARCH

The ‘Rethinking Construction Agenda’ has continued to gain momentum since the authors previous research – this research intends to identify exactly what recommendations have been proposed for the industry, what impact they have had and also to speculate as to the long term implications of these recommendations on the UK construction industry. The author will in particular, investigate:

- The response of the supply side to the signals sent by the major ‘Rethinking Construction’ procurers

- The impact of ‘Rethinking Construction’ on the structure of the supply side and seek evidence of lasting cultural change in the supply side;
  Will the recommendations of the ‘Rethinking Construction Agenda’ change the structure of the construction industry forever? Will we see the emergence of more ‘clusters’ to the detriment of smaller organisations in the industry, with larger contractors absorbing (via mergers and acquisitions) subcontractors, suppliers and professional services in order to compete for large frameworks?

If so, is this practice anti-competitive? It can be argued that because it increases entry barriers to new competitors, these recommendations blatantly moves an industry economy from a perfectly competitive model which optimises the allocation of resources to a ‘corporatist’ model which approaches that of the Japanese keiretsu. This has the effect of increasing supplier concentration and monopoly power which reduces pressure from competitors. ‘With reduced pressure from competitors, companies tend to grow fat and indolent, efficiency declines, prices rise and [client] interests become subordinated to those of the holders of monopoly power’ (New & Ramsay, 1997).

Is the way in which the industry is structured critical to achieve the desired outcomes of the ‘Rethinking Construction Agenda’? For many years, the Structure-Conduct-Performance (SCP) paradigm, which emphasises the influence of market structure on economic outcomes, motivated much of the thinking and empirical research in industrial organisation. More recently, the SCP paradigm has been rejected since the advent of game theoretic modelling in favour of specific industry models where many different factors may influence the conduct and performance of firms and some theories, such as
the contestable markets theory of Baumol, Panzer, and Willig (1982), have argued that market structure may have no effect at all on conduct and performance.

- The relationship between government policy objectives for competitiveness and those for Rethinking Construction.

Do the ‘Rethinking Construction Agenda’ recommendations undermine the pursuit of distinctive strategies? Have the changes which have occurred in the industry post ‘Rethinking Construction’ lead to competitive convergence with all competitors competing on the same dimensions? If no company has a clear competitive advantage and all competitors are competing on the same level .......... [price will become the determining factor?]. Will this ultimately lead to an industry where all companies are similar with nothing to distinguish them? Will we eventually move into a ‘self perpetuating spiral’ ie, moved from price based competition, onto quality, then, when all competitors are competing on the same level with no differentiation, will price once again become the determining factor?

Do the ‘Rethinking Construction Agenda’ recommendations focus on operational effectiveness to the detriment of competitive advantage and corporate strategy? Rethinking Construction sets targets for firms to benchmark against and encourages the use of key performance indicators. Whilst this measurement and comparison against ‘best in industry’ is useful, these are examples of how to improve operational effectiveness, it is not a corporate strategy !!!!!!! Therefore, if all companies are focusing on this measurement and not on refining their distinct competencies, it could be argued that these recommendations undermine company’s pursuit of distinct strategies.

‘The root of the problem is the failure to distinguish between operational effectiveness and strategy. The quest for productivity, quality, and speed has spawned a remarkable number of management tools and techniques: total quality management, benchmarking, time-based competition, outsourcing, partnering, reengineering, change management. Although the resulting operational improvements have often been dramatic, many companies have been frustrated by their inability to translate those gains into sustainable profitability. And bit by bit, almost imperceptibly, management tools have taken the place of strategy. As managers push to improve on all fronts, they move farther away from viable competitive positions.’ (Porter, 1996)

Are the ‘Rethinking Construction Agenda’ recommendations simply another method of control? Whilst the rhetoric of partnering is extremely seductive, one could speculate that the concept is being used as a control method by government and major clients, an ‘iron fist in a velvet glove’ (Green, 1999). The notions of ‘openness’, a ‘spirit of trust’, ‘good faith’ and ‘fairness’ comprise the ‘velvet glove’.

However, it appears that partnering is sometimes being used as a method by government and clients (particularly those with significant buying power), to regulate the industry, reduce prices and achieve unrealistic levels of performance - that is the ‘iron fist’.

Overall the research will identify whether any changes to these areas, proposed or actual, are sustainable and for the long-term benefit of competitiveness in the construction sector.
4. REFERENCES


