Partnering: culture or structure?

The case of real-estate procurement practices in France

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Abstract

Projects are nowadays considered as one of the dominating modes of international business. While there is an increasing number of publications and research done in the field of project marketing and systems selling since the late 1990s, the field of project purchasing has received little interest and has not been properly researched. In terms of purchasing, the dominant approach applied to project procurement is the competitive bid. In the field of real-estate, this transactional approach is however subject to an increasing number of criticisms since the mid 1990s. These criticisms point out the increasing high levels of customer dissatisfaction in terms of service delivery, time and quality and call for a revised approach to both project purchasing and project marketing. In particular, there has been increasing pressure to promote more integrated and cooperative approaches over the last ten years and to implement partnering in the construction industry. This shift from a dominantly transactional approach to more relational practices questions the role of the purchasing function and the purchasing manager. It requires both a structural and a cultural evolution of the purchasing function.

This paper aims at analyzing the attitude of real estate purchasers towards partnering in France and the determinants of that attitude. In particular, the paper investigates the impact of the firm's structure, the firm's culture and of the project stakes on that attitude. The results reveal that the customers' attitude towards is inversely related to the size of the structure and to its level of integration in the company. It also show that partnering in real-estate business is still at its introductory stage in France due to the resistance of the biggest "market makers" which often feel threatened by the structural changes it implies from their purchasing habits. The more innovative partnering companies are industrial companies for which real-estate is now clearly considered as a non-core activity due the globalization of markets. These companies thus often evolved from partnership practices to partnering practices without any transition.

Key words: Project purchasing, real-estate, construction industry, purchasing strategy, project marketing, partnering, co-development.

1. Introduction and research problem

1.1.

Projects exchanges constitute one of the dominating modes of international business (Hadjikhani, 1996; Günter and Bonnacorsi, 1996; Skaates and Tikkanen, 2003). This mainly results from an increasing demand for complete solutions and global offers (Grönroos, 1997) which push suppliers to integrate their offer in the forms of packages, systems or turn-key projects. In spite of the growing importance of project deals, this field of exchange has long been neglected by the academic community. In terms of marketing, the researchers from the International Network for Project Marketing and Systems Selling (INPM) have recently attempted at filling this gap. In terms of project purchasing, the field still remains relatively unexplored.

This paper aims at analyzing the procurement habits and attitudes of French practitioners purchasing real-estate projects. The case of real-estate projects has raised our specific interest as there is an increasing international pressure to modify the existing purchasing habits based on competitive tendering and to adopt more relational approaches based on cooperation and partnering. While partnering is more and more implemented in the anglo-saxon countries, it remains less developed in France (Guillou, Crespin-Mazet & Salle, 2003).

This paper investigates the attitude of real estate purchasers towards partnering in France and the determinants of that attitude.

In a first part, the paper reviews existing literature on project deals and on the trend towards partnering so as to identify explanatory factors of project purchasers' attitude. In particular, the research investigates the impact of the firm's culture, of the project stakes and project complexity and of the firm's structure on that attitude.

The second part of the paper describes the results of two consecutive studies carried out with real-estate project purchasers in France. Findings suggest a classification of the role played by real-estate purchasers in the partnering decision depending on their firm's structure. This classification is then used to describe the purchaser's attitude towards partnering.

2. Literature review

2.1. The development of partnering in construction project exchanges

Traditionally projects follow chronological stages starting from the identification of a need to the handing over of the completed work (Holstius and Cova, 1990; Cova, Ghauri & Salle, 2002). The customer is generally at the origin of the project: he carries out a feasibility study, writes specifications, defines a budget and launches a call for tender. In the construction industry, the process is fragmented into several distinct phases: the front-end (briefing), the design, the procurement and the realization on site (Campagnac and Winch, 1998; Hobbs and Andersen, 2001).The traditional organization of the construction process is thus very sequential with a clear separation of roles between the actors involved at each phase (customer, technical consultants, building professionals, trade specialists, insurance and fund providers, control agencies, etc.).

This fragmentation between multiple actors and phases, as well as other specificities such as the strong dependence on a particular customer, the one-off nature of production with a diversity of requirements, and the predominance of lowest price procurement strategies raise some difficulties in applying the traditional project management techniques (Campagnac and Winch, 1998; Benhaim, 1997). As a consequence, the construction industry has mostly been dominated by adversarial relationships between the various parties involved in the supply chain. As mentioned by Guillou, Crespin-Mazet & Salle (2003: 65): "*Each project being specific, contractors focus on winning the bid even if this means adopting win-lose relationships with other actors*". Similarly, Cain (2004, page 4) states: "*In the construction sector, where people do things on project after project in the same old inefficient ways, forcing each other to give up profits and overhead recovery in order to deliver at what seems the market price. What results is a fight over who keeps of the meagre margins that results from each project, or attempts to recoup 'negative margins' through 'claims'*". Therefore, it can be argued that the traditional procurement method bases on the competitive bid is transactional.

Since the mid 1990s', these practices have been heavily criticized. The increasing high levels of customer dissatisfaction in terms of service delivery, time and quality have been pointed out both by professional and government bodies (see in particular Thompson, Cox and Anderson, 1998 for a complete review) and by academic scholars (Bresnen and Marshall, 2000; Campagnac and Winch, 1998 ; Dubois and Gadde, 2000; Guillou, Crespin-Mazet & Salle, 2003). In these debates, they question the construction industry's failure to promote more integrated and cooperative approaches which have fostered the development of more proactive market attitudes and increased customer satisfaction in several industrial sectors (Campagnac and Winch, 1998 ; Midler, 1995).

Starting from the mid 90s, several authors have therefore advocated the use of partnering in the construction industry (Sai-On et al., 2003; Bresnen and Marshall, 2000; Barlow and Jashapara, 1998; Thompson and Sanders, 1998; Crane et al., 1997). As a consequence, partnering has been promoted intensively since the late 1990s in the United-Kingdom. However, partnering has been less intensively promoted in France and little research has been done in the field of partnering in France. The pioneering article from Guillou, Crespin-Mazet and Salle (2003) suggests that this can be due to the firm's purchasing culture and to the project characteristics.

Partnering is broadly defined as the joining of two or more companies to exchange resources, share risks, or divide rewards from a joint enterprise. In the construction industry, the concept is referred as follows : "*Under this type of arrangement parties to a contract work towards agreed goals which will benefit all concerned. Partnering thrives in an atmosphere of trust and openness and flounders when co-operation is absent*" (site of construction partnering: www.construction-partnering.co.uk). The concept of partnering has been applied to characterize relationships at various levels of the supply chain. For example, several authors such as Cain (2004) applies partnering to "*supply-side relationships so as to deliver a comprehensive range of building types and construction activities for a variety of demand-side customers*" (page 7).

In this paper, we apply partnering to relationships between a customer and a contractor (construction firm) on a specific project (partnering with suppliers). In this case, it refers to the early involvement of the contractor in the design stage as well as in the construction stage (joint development of the project so as to integrate design and building activities). In the following literature review, we will attempt at identifying the determinants of the purchasing attitude towards partnering in the construction industry.

2.2. The determinants of a firm's purchasing attitude towards partnering

2.2.1. Project characteristics

Three characteristics of projects are often outlined in the literature as key criteria for choosing a contract design which is more or less favourable to cooperation with a contractor in the design stage: project uncertainty, project complexity, and project stakes or risks. The relevance of the concept of risk and uncertainty to analyze the customer's choice of a contract design has already been shown both by institutional economics (Williamson, 1985; North, 1996) and by business-to business marketing scholars (Håkansson, Johanson and Wootz, 1976). In the project marketing literature, uncertainty mostly refers to the project (Turner and Simister, 2001; Barlow and Jashapara, 1998; Cova, Ghauri and Salle, 2002; Smyth, 2000). According to Cova, Ghauri and Salle (2002), the risk approach can fruitfully be applied to analyse the case of project purchase. It can in particular influence the way the customer will decide to organise the project and its make or buy decisions. Depending on the situation and on its level of risks, the customer can act either by coordinating the complete implementation of the project itself, or, on the contrary, he could outsource and delegate design, implementation, maintenance and sometimes management to a unique supplier. This variation in the degree of outsourcing of the project depends on the customer's purchasing strategy.

For the customer, the uncertainties are connected with the development of specifications, with the transaction method and with the supplier's ability to carry the project through a successful conclusion (Smyth, 2000; Cova, Ghauri and Salle, 2002). According to Turner and Simister (2001), this uncertainty can be related to the project's process, to its product or to its purpose.
In this case, the customer is faced with the incapacity to set up a complete contract ex ante and thus to use the traditional competitive bidding procedures (Brousseau and Fares, 2000). Then, traditional arm's length approaches are considered sub-optimal and more open-contracts based on trust are often adapted (Kadefors, 2004). Cova, Damgaard and Mazet, (1993), Scott (2001), Turner and Simister (2001), Good and Schultz (1997), as well as Guillou, Crespin-Mazet and Salle (2004) have all outlined that the project complexity influences the customer's behaviour and his choice of a contractual approach in project business. When the project is technically complex, the client cannot always precisely define his problem, his need and thus his specifications (Cova, Mazet and Salle, 1994). He then looks for experts (consultants, engineering firms, but also contractors) who best master the overall complexity of a given technological field to decrease his own risks. In such situations, winning suppliers are often involved in early collaboration with the client and joint development to help solve the customer problem.

Guillou, Crespin-Mazet and Salle (2003) outline that it is the customer's perception of the project complexity that predicts its contractual behaviour and not the level of complexity as perceived by the contractor. These authors also point out that the level of stakes associated to the project for a given customer influences his behaviour towards partnering or relational contracts. The level of stakes can be assimilated to the impact that the project has on the customer's activity; on its production process and on its image. The higher the project stakes, the higher the risk for the customer and hence, the more willing the customer is to share the risk with a contractor (see also Michel et al., 2003). This is consistent with the findings of Contractor and Lorange (1988) stating that risk reduction is one of the key reasons for forming cooperative ventures.

2.2.2. Customer specific characteristics

The literature outlines that the client's characteristics can promote or inhibit the development of partnering with a contractor (Scott, 2001; Guillou, Crespin-Mazet and Salle, 2003; Bresnen and Marshall, 2002).

a – their "purchasing culture" or "business orientation"

Some clients seem to be naturally open to early cooperation with a contractor instead of splitting the design and the execution phases (Scott, 2001; Sai-On et al., 2003). Cova, Mazet and Salle (1996) point out that partnering mostly occurs when the client is culturally open to a direct interaction with the suppliers. Sai-On et al. (2003: 341) also stress the existence of "*behavioural blockages to cooperative contracting*". This is also confirmed by Scott (2001) and by Brennan and Turnbull (1999) for whom, the client's "business culture" or "managerial orientation" must promote an atmosphere of trust and mutual respect to engage in a relational contract. Some customers have very rigid and formalized procedures restricting the possibility to engage into early cooperation agreements with contractors (in particular public sector customers). When they lack relevant knowledge, customers are more inclined to rely on their suppliers' expertise and advice on how to approach their project (Smyth, 2000).

b- Their structure

The firm's structure also seem to have an influence. Clients having internal design capacities appear to be more reluctant to delegate the design to an outside firm such as a contractor (Guillou et al, 2003).

2.2.3. The characteristics of their relationship with contractors

The literature highlights that the adoption of partnering requires the development of a positive atmosphere between parties characterized by:

- ❖ trust (Thompson, and Sanders, 1998; Crane et al., 1997; Kadefors, 2004 ; Bresnen and Marshall, 2002),
- ❖ commitment (Håkansson and Snehota, 1995; Garbarino and Johnson, 1999 ; Sai-On et al., 2003 ; Grönroos, 2000; Moorman et al, 1992),
- ❖ shared goals and expectations (Barlow et al., 1998 ; Ring Smith and Van de Ven, 1994 ; Kadefors, 2004 ; Thomsen et al, 2004).

These concern both the supplier and the buyer but also other key actors involved in the project and forming the project network (Sahlin-Andersson, 1992; Cova, Daamgard and Mazet, 1993; Hellgren and Stjernberg, 1995; Dubois & Gadde, 2000).

2.3. Insights drawn from the literature review

As illustrated in figure 1, the literature enables to identify the determinants of a customer's attitude towards partnering : the characteristics of the project itself ; the characteristics of its relationship with the contractor and its own characteristics (and in particular its purchasing culture and its structure). These variables can be considered as the "mainframe" or ground architecture of a model for analyzing project purchasing decision.

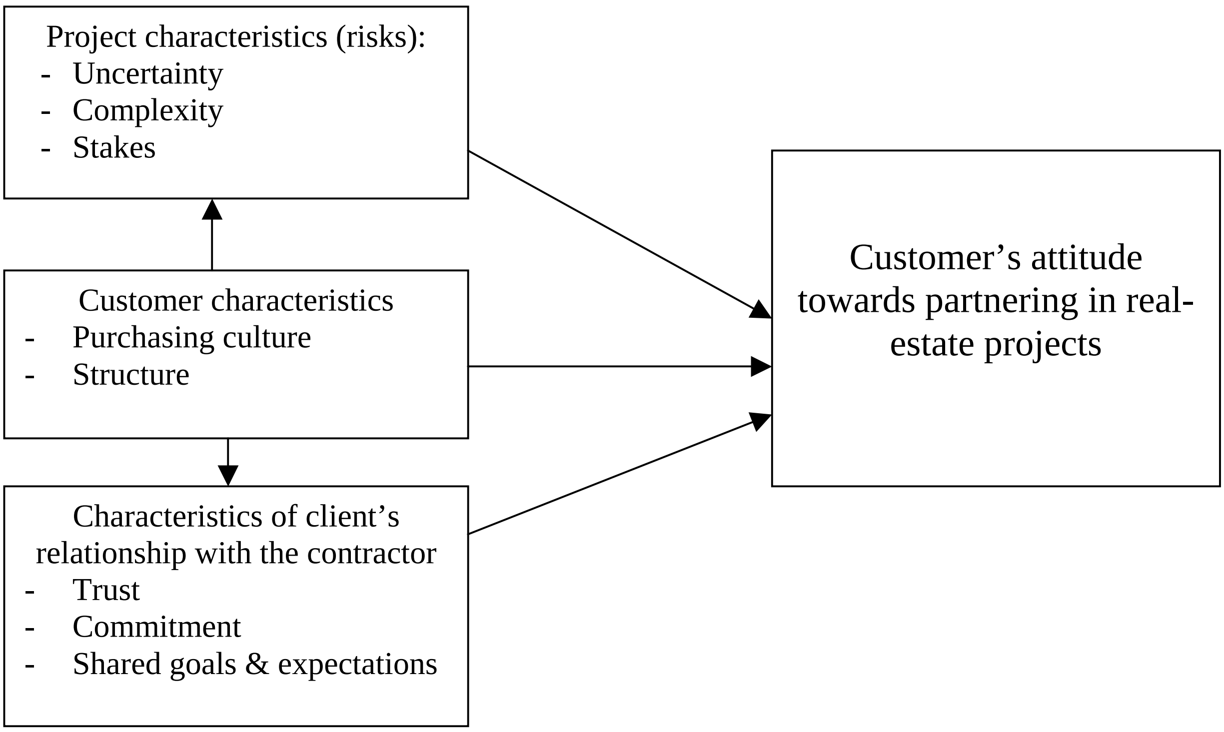

Figure 1– A preliminary framework – the determinants of a customer's attitude towards partnering in real-estate projects

However, we feel that several points remain to be detailed and clarified in this preliminary framework so as to better predict customer's behaviour in professional real-estate purchase.

Firstly, the partnering literature seems to mostly emphasize the role of attitudinal, cultural and relational variables and to underemphasize the influence of the firm's structure on the attitude towards partnering. However, several contributions in the purchasing literature as well as our research experience in the analysis of the purchasing function lead us to suggest that the customer's structure may have a greater impact on the customer's attitude than what is actually suggested in the literature. We believe that the lack of interest shown in the partnering literature to the structural aspect can partly be explained by the fact that real-estate deals take the form of projects which are by nature discontinuous (Hadjikhani, 1996). Due to this discontinuity of project transactions, the project management literature often advocates the definition of ad hoc structures (project organizations) developed specifically for each project (Midler, 1995) . There is therefore a natural tendency to believe that the analysis of the customer's permanent structure and organization may be less relevant to understand project purchases than to analyze continuous purchase. Our intent is to verify is this underlying hypothesis holds true.

Secondly, the relationship between these three variables (the characteristics of the project itself ; the characteristics of the client's relationship with the contractor and the customer's characteristics) remain to be clarified. Are these three variables independent or are there any influence between these variables ? We have suggested in a previous paper (Guillou, Crespin & Salle, 2003) that the characteristics of the customer's structure may have an impact on the customer's perception of the project stakes and complexity. This preliminary finding needs to be further consolidated as well as its impact on the purchasing attitude.

Thirdly, the literature does not give any precise insights relative to the various actors involved in the Decision Making unit (DMU) in real-estate purchase. Having more insights about the the composition of the DMU seems all the more important, that several authors have outlined that it is the perception of the people involved in the DMU that conditions their behaviour towards partnering (Guillou, Crespin-Mazet & Salle, 2003; Michel, Naude, Salle & Valla, 2003) and that the DMU in real-estate purchases is often complex and varies significantly across companies.

This might be due to the fact that little research has been done to analyze the composition of the DMU in real-estate purchase and the influence of purchasers in that decision. Our intent is to clarify the roles & responsibilities of the members of the DMU in the real-estate purchasing decisions in France (and in particular the decision-maker) so as to clarify whose attitude is to be analyzed. When analyzing purchasing decisions, there seems to be a natural tendency to analyze the purchaser's attitude. In fact, this might induce a flaw as the professional purchaser is not necessarily the decision-maker. The influence of the purchasers on the real-estate decision might in turn, depend on his/her own position in the organization and on the organization (structure) in itself.

Therefore, our intent is to investigate more specifically,

- The various types of structures implemented by customers to manage real-estate purchases
- The impact of these structures on the composition of the DMU and on the profile of decision-makers in real-estate decisions
- The attitude of the customer's decision-makers towards partnering.

3. Methodology

The paper is based on an exploratory research programme including two consecutive studies :

- ***an exploratory study*** carried out in 2004/2005 with 18 managers in charge of real-estate purchases from various industrial sectors in France. The interviews covered the following topics: the purchasing organization and structure and the processes implemented to manage real-estate purchases. The objective of this study was to "open the customer blackbox" and identify firstly, the various types of structures implemented by customer companies to manage real-estate purchases. Secondly, it aimed at analyzing the composition of the DMU in charge of real-estate purchase depending on the various types of structure. Thirdly, the study gathered the general opinion of French real-estate purchasers on partnering approaches. A typology of purchasing organisation was derived from this preliminary study.

- ***ten case studies*** carried out in 2005 whereby partnering was analyzed as a procurement option. Case studies involved interviews with both purchasers and contractors of real-estate purchase in France. The case studies aimed at testing the relevance and applicability of our typology and at analyzing the determinants of purchasers' attitude towards partnering based on facts rather than on a general discourse.

4. Findings

4.1. Analysis of the exploratory study : influence of the firm's structure on the choice of procurement practices

Concerning the purchase of real-estate projects, the organisations implemented by French corporations can be described by two variables:

- *The level of integration of the real-estate activity* within the company: this variable reflects the level of stakes associated by the company to real-estate purchases. It is inversely related to the level of outsourcing of the firm's purchasing function. In case of high and repeated stakes represented by real-estate purchases, companies often consider real-estate as part of their core business and integrate related activities. To the opposite, when real-estate purchases represent occasional or low level of stakes for the company, the purchasing function is often outsourced and delegated to outside experts. This variable therefore conditions the more or less central position occupied by the purchasers within their company. The findings reveal that the purchaser's influence relative to other actors in the D.M.U. is inversely related to the level of integration of real-estate in their company.

- *The characteristics of the decision-making process in terms of real-estate*. This variable describes the composition of the DMU and the way the final decision is made between its members. Different situations can be identified varying from two extremes on a continuum: from a dominantly individual decision relying on the attitude and purchasing criteria of a single decision-maker (often not a professional buyer), to a dominantly collective or structural decision relying on pre-defined purchasing criteria and routines set by the structure and applied by a group of professional buyers. This distinction highlights the gap between buyers in charge of a specific function in the company, and the purchasing function seen as "a company's global, transversal function". This variable has a direct impact on the level of power of the purchasers in terms of real-estate. In case of individual decision, the purchaser concentrates the power of the final decision while in case of more structural and collective decisions, this power has to shared with other members of the DMU. These distinct logics – the dominantly individual decision and the dominantly structural decision- can be conceptualized as the "purchasers logic" versus the "purchasing logic". In the first case, the buyer-negotiatior applies his technical expertise to « acquire a necessary product for the company" ». In the second case, the manager-purchaser applies his organisational competences to “optimise the relationships between the company and its upstream markets”, and find a coherence with the other functions of the company.

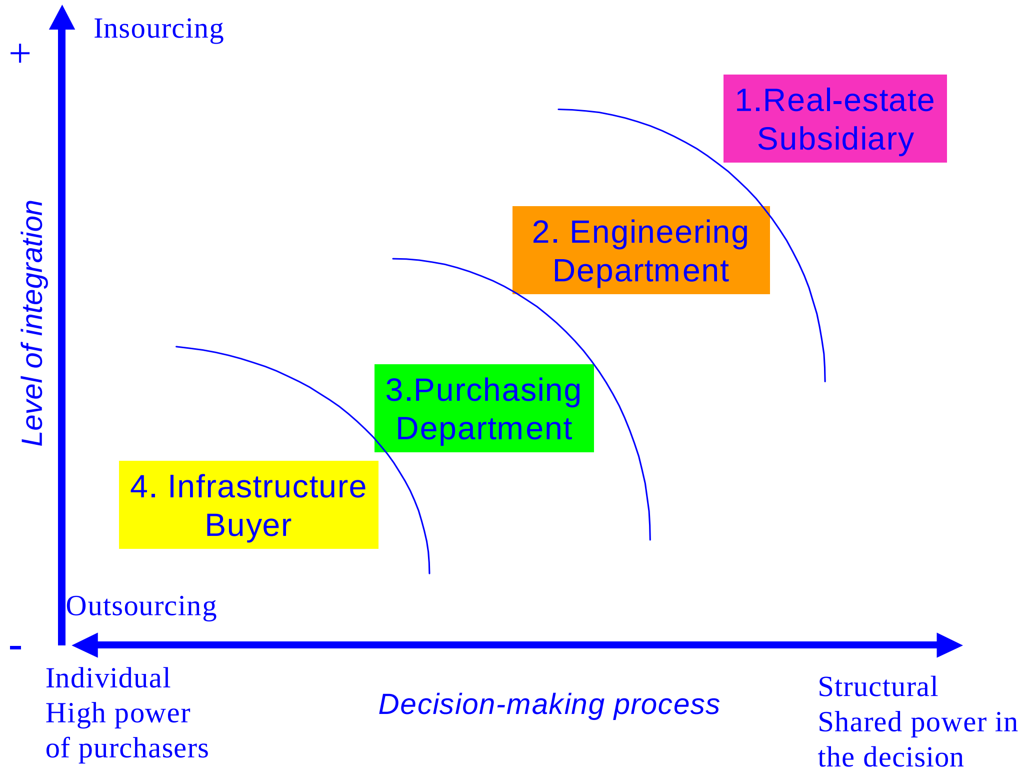

Figure 2 : A typology of structure involved in real-estate purchases

As illustrated in Figure 2, four types of purchasing organisation can therefore be identified:

- When real-estate purchases represent a **low level of stakes** for the company (small amounts, occasional real-estate project purchases), they are often managed by individual **buyers** specialized in **infrastructural investment purchases**. Their level of influence in the organisation is usually high. Their general purchasing expertise enables them to be involved at all the stages of the purchasing process, often replacing internal advisers, but without being integrated in a Corporate Purchasing Department. This situation was mostly found in industrial firms.

- When real-estate purchases represent **an average level of stakes** for the company (more frequent purchases or higher amount), these purchases are often managed by a **Centralized Purchasing Department**, specialized in technical purchases including real-estate projects. These purchasers often have a technical expertise in the field of construction. They play a central role in the negotiation stage and are increasingly involved in the design stage as part of a project team (a new trend). Their level of influence is generally lower than in the previous case, as they have to share the decision with other functions, in particular with influential internal customers (engineering department, financial department, the users or operating units, …). This situation was mostly found in heavy industrial firms.

- When real-estate purchases represent a **high level of stakes** for the company and can impact the overall company's competitiveness (due to the projects' characteristics, the frequency of their purchase, or their financial stake), they are mostly supervised by internal **Engineering Departments** who appoint a Project Manager. They are sometimes assisted by a purchaser belonging to a purely functional Purchasing Department. The purchaser's influence is lower in so far as he/she is not supervising the project and hence, the purchasing process. His influence is more linked to his methodological expertise than to his decision power. This situation is typically found in the hotel business. In such companies, there is a risk of conflict of power between the Engineering Department on the one hand (the Project Manager) and the functional Purchaser on the other.

- When real-estate investments represent **a strategic resource** for the company, they are usually managed by **fully dedicated units** such as **real-estate subsidiaries**. These organisations include all the functions and resources required to provide an optimal service to their internal operational customers. They are often placed in direct competition with external companies. In such specialized real-estate units, the purchasing function is divided and spread among several people. The purchasers' individual influence is thus very moderate. Due to the number of projects purchased, their variety and their importance, the purchasing procedures are formalized and often rely on clear specifications and formalized invitation-to-tender. Such customers carefully analyse the Value Chain in an effort to minimize their total costs of ownership (TCO). The contractors are mostly considered as bidders, strictly compelling to their predefined rules and specs. These managers may provide repeat business to the same construction companies. This situation is typically found in the bank and insurance business where companies may own several real-estate properties in France and even abroad.

The findings of the exploratory study reveal that, independently of the type of structure, the majority of French buyers and managers declare being sceptical about partnering and tend to reject such approaches rather than trying to promote them. In spite of its overall appeal, French purchasers declare lacking faith in the promises attached to partnering. This confirms the lack of maturity and precise knowledge about the concept. For example, some purchasers refer to partnering to mention the fact that they give repeat business to the same suppliers and contractors but for them, this does not refer to the involvement of contractors in the design stage. This illustrates a frequent confusion among French buyers between partnership and partnering.

This exploratory study has enabled to draw a typology of purchasing structure and roles of purchasers. It also gave a picture about the general attitude of French real-estate purchasers towards the partnering concept.

The following study aims at analyzing in more depth the determinants of that attitude, and in particular the influence of the firm's structure on this attitude. Instead of asking the buyers about their general attitude towards partnering, this study has analyzed their attitude on one or two specific projects where partnering has been envisaged as a purchasing option. Twelve projects have been selected with a French contractor, whose marketing and sales strategy is to promote partnering. Some projects finally led to a partnering agreement while some others were procured in a more traditional manner. Therefore, we did not select the customers first but the projects depending on their contractual outcome (partnering versus other type of contract).

4.2. The case studies

4.2.1 Description of the case studies

Data has been collected through semi-structured personal interviews with involved persons at the contractor's and at the customer's end. We also analyzed secondary data (reports, proposal, e-mails, letters, quality reports) to enable data triangulation (Ghauri, 2004). Each interview was recorded and fully transcribed. We present the characteristics of each case in table 1 (at the end of the document) organized along the following dimensions:

- Customer's activity (core business)
- Structure and organisation of the customer's firm in terms of real-estate purchases
- Profile of buyers
- Purchasing habits & culture
- Project description: type, stakes, complexity

- The customer's attitude towards partnering on the project

4.2.2. Analysis of the case studies

a. *A revised typology of structures*

Concerning the typology of structures developed in the previous section, the case studies have enabled us:

- to confirm the overall relevance of the four preliminary types of structures previously identified and their link with the influence of the purchaser in their organisation.

- to identify a new type of structure and buyer profile in real-estate purchase namely "**the entrepreneurial profile**", which completes our first typology (see figure 3 below). The entrepreneurial profile corresponds to individual decision-makers, who are the founders and managers of their own company. As unique decision-makers, they concentrate the power of the decision. They can be found in small and even very small sized firms (less than 5 employees) having limited means and resources to develop real-estate projects, even when it is part of their core business. They mostly rely on outside resources to design and develop their project.

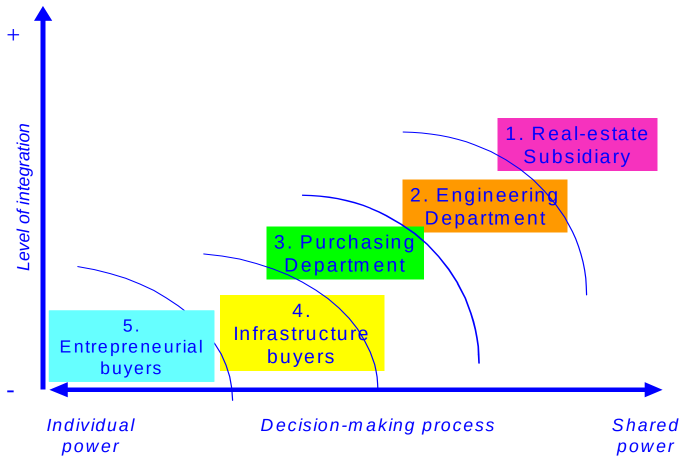

Figure 3 – A revised typology of structure involved in real-estate purchases

Based on the detailed description of the case studies, we have classified them according to four variables (Miles & Huberman, 1994) identified in the literature review (see table 2):

- The position of real-estate activities in the customer's business: are they part of the customer's core business or considered as secondary activities?
- The structure of the customer's firm in terms of real-estate purchases. We have used the previous classification of the various types of structure detailed in figure 3 (1= real-estate subsidiary; 2= engineering department, etc…).
- The customer's perceived risks linked to their real-estate project.
- The customer's attitude towards partnering on the selected project.

Customer	Real-estate : Core Business?	Structure	Client's perceived risks linked to the project	Attitude towards partnering on the selected project
A-Insure Investor	Core	Real-estate subsidiary => 1	Risky (occasional) Low risk (dominant)	Partnership (no true partnering) Traditional / competitive based on a single project
B- TFAC	Core	Engineering Dept =>2	Low risk	Traditional / competitive based on globalization
C- Dent & Invest	Core	Entrepreneur buyer =>5	High risk Low risk	Partnering (constrained) Traditional / competitive
D- Mountain Invest	Core	Entrepreneur buyer =>5	High risk	Partnering (desired)
E - Car Co	Non core	Purchasing Dept. =>3	Low risk	Traditional / competitive
F - Verrerie	Non core	Purchasing Dept Dept=>3	Very high risks	Partnering (constrained)
G - PSB	Non core	Purchasing Dept. =>3	Average risks	Competitive bid through standardization and globalization
H - Biscuit Co.	Non core	Entrepreneur buyer =>5	Average risks	Traditional, competitive.
I - VitroDiag	Non core	Infrastructure Buyer =>4	Low to average	Partnering (desired)
J – Pharma	Non core	Infrastructure Buyer =>4	High risks	Partnering (desired)

Table 2 : Description of case studies by structure, project risks & attitudes towards partnering

b. *Concerning the structure implemented to carry out real-estate purchase*

In the 10 companies analyzed, the case studies confirm that the **type and size of the structure in charge of real-estate purchase is not primarily linked to the size of the**

company but rather to the company's strategic vision in terms of business model relative to real-estate

- ***When real-estate is not considered as part of the company's core business*** (low to average level of stakes), the structures in charge of real-estate are usually leaner sometimes even inexistent (case of Biscuit Co), but the power of the decision-maker is all the higher. If not the CEO himself, the decision-makers are often directly attached to him and have their full delegation. In several cases, we have noticed that the level of stakes is less related to the number of projects carried out each year or to their complexity, than to their impact on the company's activity. For example, in the case of VitroDiag and Pharma, the customer's are two major international groups present in the pharmaceutical industry and developing several real-estate projects each year in France and abroad (plant extension, warehouses & logistical projects, R&D centre, sales offices, refurbishment/renovation of existing premises…). In both of these cases, the structures in charge of real-estate are very light. In fact, these two companies used to have larger structures in charge of real-estate, but they have decided to reduce them following a strategy of refocusing on their core business. In one case, this decision has been fostered by the company's introduction to the stock exchange market. In both cases, this change has been implemented drastically and led to the appointment of new purchasing managers (Infrastructure Buyers) having a totally different background than their predecessors (who retired or left the company) so as to implement the new strategy. In that respect, we can consider that these two companies evolved from a type 3 structure (Purchasing Department) to a type 4 structure (Infrastructure Buyer).
- Going one step further, we can consider that the companies currently classified under the type 3 structure (Car Co & Verrerie) may evolve to a type 4 structure in the near future. In both cases, the average size of the structure in charge of real-estate is currently justified by the number of projects developed each year. These two companies are large French industrial firms (one in the heavy industry) who inherited their historical structure and in particular a history of vertical integration. Many of its staff members are close to retirement. In one case, the company has just been bought out by an American pension fund which already led to some drastic cost reductions (for example: one of the French factories that was less productive than the other European plants has been closed down). The Purchasing Manager clearly indicated to us the stakeholders' intent to reduce other structural costs in the near future.

- ***When real-estate is part of the company's core business***, we have identified 3 types of structures. The first type has been classified as "entrepreneurial" and corresponds to individuals who recently decided to set up a business in the field of real-estate to seize the opportunities linked to a growing market in France. As entrepreneurs at the head of a new business, their founders have developed a business model relying on external resources to develop their business (low financial and technical resources). Their vision is strongly correlated to their own profile and characteristics. Their structure might evolve with the growth of their business. The second type of structure have an Engineering Department to develop their project composed of experts in both technical aspects and in negotiation. For these companies, real-estate is considered as their production tool or process. The third type have a full real-estate subsidiary acting as private investors and able to develop complex financial arrangements to acquire, manage or sale a large number of real-estate properties. For this category, real-estate is a financial investment to grow the money drawn from their other activities.

c. *The link between structures and attitudes towards partnering*

Concerning the purchaser's attitude towards partnering, the findings reveal that it is inversely related to the size of the structure and to its level of integration in the company.

- For the companies for which **real-estate is part of their core business** (Insure Investor, TFAC, Dent & Invest, Mountain Invest)

- The bigger the structure, the more people, purchasing procedures and habits advocating a traditional mode of contracting based on competition and thus rejecting partnering. This finding comes very close to that of Leonard-Barton's (1992) who came to the conclusion that a firm's traditional core capabilities, often deeply rooted in values, inhibit innovation and can therefore act as "core rigidities". Such structures often feel threatened by innovation and changes. As stated by Hobbs & Andersen, (2001), "*Questioning standards and well-established project models is threatening and creates anxiety and complexity*" (page 469). This finding also shows that partnering is perceived in France as an innovation and that partnering is at its introductory stage (low maturity of actors).

- To the opposite, in lean structures (case of entrepreneurial structures), the trend towards partnering is stronger. Its actual implementation depends on the project perceived risks and on the purchasing culture of the entrepreneur (often a self-made man). We can then make a distinction between a **constrained partnering** contracted by the entrepreneur with the main objective to decrease the project's risks (case of Dent & Invest) and a **desired partnering** contracted in an effort to increase the value of the product to be constructed (case of Mountain Invest). In the case of Dent & Invest, the entrepreneur adopts a purely opportunistic approach and selects partnering on this project as he has almost no other choice given the complexity and strategic stakes associated to his project (technical complexity, very short delays, financial risks; heterogeneous offer market and limited number of competitors). Partnering is perceived by the entrepreneur as an opportunity for the contractor to make a higher margin due to the project complexity (and thus steel his value creation). The entrepreneur strategy is therefore to do his outmost to reduce the level of risks during the project development and execution and to come back to a more traditional model of contracting as soon as possible (renegotiate contractual terms during the project phases). On the opposite, the founder of Mountain & Invest has fully integrated the benefits of partnering in his model and has a clear understanding of the concept. His vision is coherent with his positioning on his downstream market focusing on very high standard and quality products (3 to 4 star hotels in the best spots of the French Alps): his own customers are often ready to pay a higher price for a better quality. Worth noticing, is the fact that this entrepreneur is associated to a British investor who also has a clear understanding and knowledge of partnering approaches.

- For the companies for **which real-estate is not part of their core business** (Car Co., Biscuit Co., VitroDiag, Pharma, Verrerie, PSB), the findings are similar. **The leaner the structures, the more positive the customer's attitude towards partnering**.

- In the lightest structures such as that of Biscuit Co. (entrepreneur), the attitude here again strongly depends on <u>the profile of the entrepreneur</u> and on the project stakes. In the case of Biscuit Co, the entrepreneur is used to extremely tough competition with his own customers (mass merchandisers) based on the lowest price offer for a standardized product quality. He therefore considers that he should adopt a similar negotiating behaviour with his own suppliers. In spite of the appeal of the partnering approach due to his lack of internal resources and competences, the entrepreneur is culturally uncapable to adopt a partnering approach. If we refer to Leonard-Barton's article, (1992: page 121), we could say that there is a misalignement between the partnering principles and the skills & knowledge-base dimension of the entrepreneur's core capability. He declared himself very enthused about the concept but never accepted to pay the contractor for their design work. This entrepreneur typically did not understand the difference between partnership and partnering. He has also been reinforced in this position by his own architect who felt threatened by the contractor.

- In the case of VitroDiag and Pharma, we have already mentioned that real-estate investments are directly managed by high level and experienced purchasers (Infrastructure Buyers) having a clear vision of their company's business model based on a focus on the company's core business and the outsourcing of secondary activities. They have a direct relationship to the CEO and the power to personally commit the company to partnering and to change traditional habits (that were implemented before their arrival). In that respect, they can be considered as the <u>"pioneers" of partnering</u>".

- For the biggest structures such as Corporate Purchasing Departments, partnering is only considered when the project risks are very important (constrained partnering). This confirms the relevance of <u>the project characteristics</u> as an explanatory factor of the customer's attitude (moderating variable). This is typically the case of the Verrerie project where the customer was faced with a strategic renovation project with an extremely high technical complexity as well as several uncertainties. To the opposite, the PSB project has been procured through a competitive bid. In spite of its importance in terms of image and size (180 sales offices to be renovated), the project was not complex enough to justify a partnering approach for the buyers. We have a similar situation at Car Co.: the project has an impact in terms of image and some technical complexity (renovation under operations) but this complexity is not considered important enough to modify existing habits.

- Moreover, such projects are not very frequent. In these companies, we could notice an <u>ambiguous message</u> conveyed by the customer firm to the contractor. They openly advocate the benefits of cooperation and partnerships as they understand that it can increase the contractor's motivation and commitment to the project. Therefore, they do not openly reject the approach and to the opposite encourage the contractor to add its value during the design stage. Without using the word partnering, they let the contractor believe that they accept the approach. In fact, once the contractor has provided his input in the design, they strictly stick to a traditional competitive tender at the lowest price thus refusing to pay for the design work. In the case studied, the winner of the bid provided a very standardized architectural design and the lowest price while the partnering contractor spent several weeks refining the architecture and interior design of the building while considerably reducing the length of the project construction (by 6 months out of 2 years). This category of purchasers are typically locked in their habits and « core rigidities » therefore limiting their capacity to adopt a new approach.

As a summary, the case studies reveal a correlation between the type of purchasing structure and the choices made in terms of procurement mode and in particular in terms of partnering. Case studies show that the leaner the structure, the more positive the attitude towards a desired partnering. In the case of lean structures (Entrepreneurs or Infrastructure Buyers), the moderating variables is the profile of the decision-maker.

To the opposite, the bigger the structure, the less positive its attitude towards partnering. For such structures, the outsourcing of the design is perceived as an indirect competition questioning the integration of this part of the value chain within the company or at an architect's. The power of architects (Ben Mahmoud Jouini, 2000) comes across as a threat to the development of new contractual modes in France. This type of conflicting situation based on different values and interests between the contractor and the architect is classical in the traditional procurement approach and especially in France where the architect usually occupies the leading role in the design stage (Winch & Campagnac, 1995). In a network perspective, we can say that the contractor's promotion of partnering is perceived as threatening the architect's micro and macroposition in the network (Johanson & Mattsson, 1986). The adoption of partnering in such bigger structures is thus limited by the core rigidities (Leonard-Barton, 1992) formed by the norms and values attached to traditional competitive tenders and to the existing position of each actor in the supply chain. As summarized by Weick (1979:151): such "*managers unwittingly collude to avoid actions that challenge accepted modes of behavior*".

The moderating variable in this second case (big structure) seems to mostly come from the project's perceived risks and not to the project frequency. This confirms Barlow & Jashapara's (1998: 88) works for whom partnering relates to *"the need to carry out projects with specific requirements which could not be fulfilled using traditional procurement methods"*.

These risks in real-estate mostly come from the time constraints to build the project (risk of schedule slippage) and to a lesser extent from its technical complexity. The case studies show that projects combining both a high technical complexity with challenging delays are exceptional for such customers. Due to their low frequency, such projects have little capacity to instil a change from dominant practices.

This might explain the general position of scepticism expressed during the exploratory study about partnering.

5. Discussion and managerial implications

The paper has revealed the importance to more clearly integrate the structure as a determinant of the purchasing attitude towards partnering. The existing literature has mostly highlighted the importance of business culture, of project stakes and of the customer's relationship with a contractor as determinants of the purchasing behaviour. While this is confirmed by our study, we have seen that structure also plays a central role on the purchasing practices and culture.

We therefore suggest to distinguish the **following variables related to the customer's characteristics** and clarify their interaction as follows:

- **the corporate strategic vision**: the vision that top managers have of their activity and of the firm's role. This vision conditions in particular what is core business and what is outside of their core activities. We suggest to substitute the concept of corporate strategic vision to that of business culture in the framework as it is more clearly indicates its link to the strategy. Also it is more easily understood that a company's strategic vision might change rapidly if its shareholders change while the concept of business culture seems to convey something more permanent and stable.

- **the purchasing structure**. It corresponds to the organisation implemented by the company to develop real-estate projects. It can vary from almost no structure (embryonary) to a fully dedicated subsidiary staffed with several people. This structure directly depends on the corporate vision. Except from entrepreneurial businesses, the biggest and most integrated structure can be found in companies considering that real-estate is part of their core business while the leanest structures in companies that have excluded real-estate from their core business. The integration of real-estate activities in the core business depends in turn on the stakes attached to real-estate by corporate management (impact on the activity). The purchasing structure conditions the profile of the buyers (the characteristics of the DMU), their role and responsibilities and their purchasing habits. The bigger the structure, the more formalized the purchasing procedures and habits but also the more core rigidities. The purchasing structure has a direct impact on the purchasing culture.

- The structure can therefore influence **the perception of the risks and uncertainties** associated to a given project by the actors of the DMU. Therefore, a project that is considered as complex by a lean structure with little resources and internal competences may come across as of low to average complexity for an Engineering Department.

- In case of **entrepreneurial business** with limited to no purchasing structures in terms of real-estate, the structure can almost be reduced and simplified to the decision-maker. His/her purchasing culture comes across as the best explanatory factor in such situations.

We therefore suggest a **revised model** to explain the customer's attitude towards partnering. In this model, the main factors explaining the customer's attitude towards partnering is the customer's characteristics (strategic vision -> purchasing structure -> purchasing habits & structure). We have identified two moderating variables: the project characteristics (complexity, stakes, uncertainty) which influences the functional risks perceived by the DMU and the culture of the decision maker which conditions the level of risk associated to the relationships. This last variable is more relevant to explain the attitude of entrepreneurs. These two moderating variables can be influenced by the customer's characteristics. Lastly, the characteristics of the customer – contractor relationship are the outcome of the customer's attitude towards partnering. But they are also influenced by the attitude of the contractor and the project network (architects, competitors…).

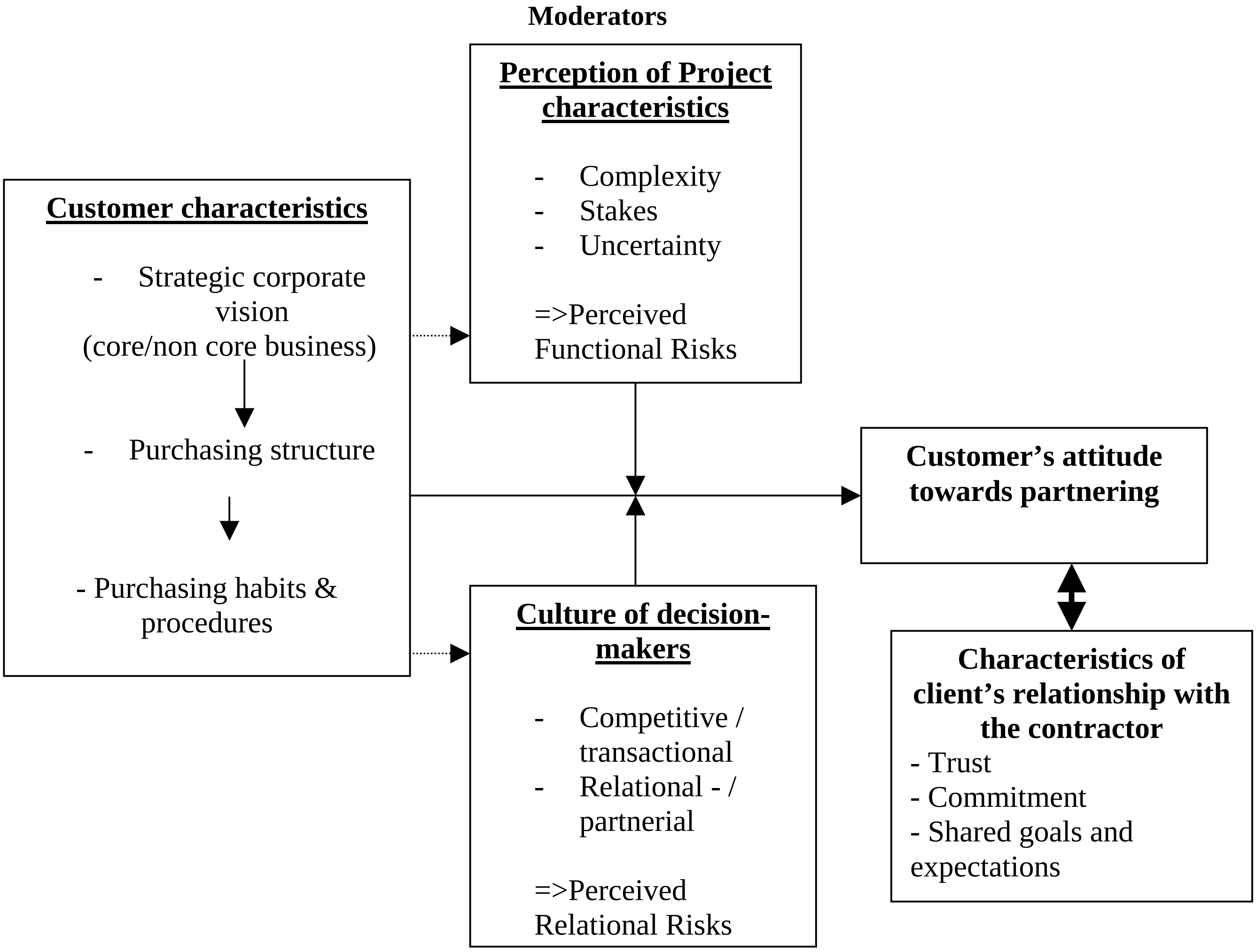

Figure 4- The determinants of a customer's attitude towards partnering in real-estate projects
- A revised framework –

The paper also revealed the need to clarify the vocabulary attached to cooperation and partnering in the construction industry. This is not new but due to the low maturity of French purchasers in terms of partnering, several confusions have been made (Akintoye, McIntosh & Fitzgerald, 2000). We suggest to make the following distinctions to clarify the level of cooperation between the customer and the contractor in real-estate projects:

- **Partnerships**: this refers to cooperative relationships existing between a customer and a contractor and developed over time on several projects (repeat business) whereby both parties progressively make mutual adaptations and develop an atmosphere of trust and mutual understanding. In that respect, partnership refers to classical relationship well described by the IMP School of thought but applied to discontinuous project exchange (Hadjikhani, 1996).

- **Constrained partnering**: this refers to a contractual agreement whereby the customer, faced with a high level of projects risks (complexity, short deadlines, few potential contractors…) accepts to sign a partnering contract with the contractor whereby the contractor is involved in the design and execution of the project.

- **Desired partnering**: in this case, the customer is convinced that partnering with a contractor is a better procurement alternative to drive down total cost of ownership, improve quality, innovate and respect project deadlines than in a traditional adversarial relationship.

Our case studies have revealed that that the French firms who adopted partnering often had close links with anglo-saxon companies or were more exposed to globalisation due to their own market or stakeholders. In the case of Mountain Invest, the founder-entrepreneur had a British associate. In the case of Dent & Invest, the entrepreneur was exclusively dealing with British customers (tour operators). In the case of VitroDiag & Pharma, both companies had an increasing pressure from their shareholders to increase profitability and reduce structural costs so as to remain competitive on an international market. VitroDiag had just entered the stock exchange market. Verrerie, a French-origin company had just been bought out by an American pension fund. In the case of Pharma, after the death of the French founder in the early 2000s, the shareholders decided to focus on their core business and to sell secondary activities.

CONCLUSION

This paper has shown that partnering in real-estate business is still at its introductory stage in France due to the resistance of the biggest "market makers" which often feel threatened by the structural changes it implies from their purchasing habits. It is still dominantly considered as a major innovation in this industry. In such conditions, how can partnering develop in the French real-estate business and which actors can influence the diffusion of this innovation ?

The more innovative partnering companies are industrial companies for which real-estate is now clearly considered as a non-core activity. For them, partnering comes across as the result of a new corporate vision of the business model instilled by top management often to face increased competitive pressure due the globalization of markets. In the cases analysed, the change was implemented drastically which meant the appointment of new purchasing managers (infrastructure buyers) directly supported by the CEO and missioned to diffuse the new business model in the company and change the existing structure and habits. These companies thus often evolved from partnership practices to partnering practices without any transition. In terms of purchasing, this new business model relies on a more global vision and less emphasis put on the project boundary (Dubois & Gadde, 2001). This means that purchasers have understood that the main objective is not to favour the productivity on a single project (through more pressure on contractors and fiercer competition) but to optimise their total cost of ownership. As shown by Dubois & Gadde (2001), this broader view (not focused on a single project) promotes learning and innovation and may even reduce uncertainty. The tighter couplings linked to partnering favour the development of adaptations and the adoption of more tailor-made solutions for the customer instead of the traditional reliance on standardized inputs. If we apply the Brennan & Turnbull's (1999) typology, they can be classified as *'relational'* purchasers: *"partnership as seen as firmly embedded in organizational practice and the problem of implementation has been successfully addressed"*.

The currently conservative companies are large industrial firms having a similar profile than the type above, but have not yet reduced their purchasing structure. They justify this situation by the large number of projects managed. These companies seem to be close to a *"transitional stage"* (Brennan & Turnbull, 1989), and could potentially rapidly change structure and adopt partnering (such as PSB) under an increasing environmental pressure. Often, they start coping with this pressure by centralizing purchases at corporate headquarters so as to standardize and then globalize purchases ; they are then pushed to reduce their structural costs including them in their total cost of ownership. The contractors willing to promote partnering should look for the "window of opportunity" that could reveal a strategic change at the customer's (new stakeholder, introduction to stock exchange, change of managers that were used to traditional procurement practices…)

The most rigid companies with a transactional profile consider real-estate as part of their core business and behave as investors. For them the adoption of partnering would require a drastic change from existing practices and habits (they are locked in their core rigidities which prevent them from innovation). Due to their size and to the very large number of real-estate projects that they develop each year, these companies are very visible and powerful in shaping the industry's practices. They are therefore a real obstacle to the development of partnering in France. As stated by Dubois & Gadde (2001), *"a change in this direction must be difficult to undertake because it is not in accordance with the cultural norms of the community of practice"* (page 13).

For the very small firms specialized in real-estate, partnering comes across as the best procurement alternative. The only reason for its refusal, is the culture of the CEO. Due to their atomisation and very small impact on the market, these companies however do not have the capacity to instil a change of practices in their industry.

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Name	Car Co.	TFAC	Verrerie	VitroDiag	Pharma	Biscuit Co.	Dent & Invest	Mountain Invest	PSB	Insure Investor
Core business	Automobile company	Operate leisure hotels & villages	Glass manufacture bought out by a US pension fund	In Vitrodiags	Drugs, medicine	Biscuit production. Work for French mass distribution & retail chains	Entrepreneur multiple activities (dentist, real-estate devlpt, restaurants)	Real-estate devlpt in the Alps	Bank	Subsidiary of a large Insurance company
Structure of company for real-estate purchase	Several projects/year - financial stakes, image stakes **- Corporate Purchasing Department** (act as project manager -PM) working with complex DMU (users, finance)…	Several small renovation projects/year. - **Engineering Department** (PM) + complex DMU depending on projects (marketing, hotel managers) - real-estate maintenance is core business	Few real-estate projects/year Regular projects linked to the process (furnace) involving light construction work. **Internal Engineering Department** assisted by **Corporate Purchasers**	Real-estate not part of core business ; few projects/ year. Limited amount/ turnover **Investment Buyer** (Director of Property) depending on the CEO.	No internal resources, nor any expertise in real-estate as not part of core business. Few projects. **Investment Buyer** => outsourcing	Small firm No internal resources, nor any expertise in real-estate. Very few real-estate projects: often seen as strategic for their financial amount =>managed by **the CEO**	A 3 people company. 1 decision-maker (the founder). **No internal resources**, a growing expertise in real-estate. Real-estate is a 2nd "core" business. Several projects	A 2 people company. 1 decision-maker (the founder). Real-estate is core business. **No internal resources** but fairly good expertise. Several projects	Evolved from de-centralized purchasers to **a corporate purchasing dept.** A lot of small, projects each year (low stakes/ project).	**Real estate subsidiary** to manage a strategic activity. Several real-estate properties and projects each year. Multiple actors in the DMU
Profile of buyers **Purchasing habits & culture**	Purchasers are specialized in construction. Transactional: specs + lowest price Competitive pressure	Technical experts & experience in construction + outside architect (strong power). Transactional: specs + lowest price Competitive pressure, some repeat business with small	Technical experts in the furnace process, good basic knowledge of construction. Outsource what is not core business. Not yet used to partnering in France. Some repeat business with local firms	Evolved from a traditional to a relational approach with new strategic focus on core business => Appointment of a new corporate investment buyer acting as the key decision-maker after approval	Since 1990, outsourcing of activities that are not part of core business. Partnership contracts in all service activities.	One single decision-maker : the CEO Used to transaction-nal methods and tough negotiation with his customers. Adopts the same logic with his	**Entrepre-neur.** Varying according to projects. Looks for the best price/ security ratio. Value chain analysis. Opportunistic.	**Entrepre-neur.** Varying according to projects. Works with few local partner firms whom he trusts in a long term perspective	Formalized procedures. Project managemt. Search for systematic standardizat ion : detailed specs. Qualificatio n of contractors based on a	Manager-buyer: expertise in real-estate marketing & management Total cost of ownership logic depending on market segments. . Used to precise

		local firms.	based on detailed specs.	by CEO.		suppliers.			global bid including several small projects.	specs & bids. Some repeat business with same actors.
Project profile: **- type** **- stakes,** **-complexity**	Restoration of a large dealership Complex, (image & financial stakes). Delay is not a major constraint	Large renovation program including several villages and hotels Strategic, high financial stakes, low technical complexity. Delay is not a major constraint	Demolishment, reconstruction of part of a plant under operations. Extremely unusual, complex technically, socially, financially (evolving project). Strategic project.	Construction of a new building at HQ to host R&D labs and training centre; demolishment of an existing building. Low technical complexity. Low to average stakes. Low financial amount/ turnover	Separation of 2 production sites so as to sell one considered as out of the core business. Strategic project. Average complexity (legal & social Issues)	Construction of a new plant to replace the existing, obsolete production site (from 1900). Strategic but little technical complexity	Construction of a large hotel divided in 3 chalets in the French Alps. Strategic project. Some technical complexity due to the slope and to the evolving demand (specs are not firm).	Reconstruction of an old hotel into a 3 star luxury hotel in very short time constraints. Complex, strategic project. High financial & marketing stakes	Renovation of 180 local sales outlets in their bank network over 4 years. Strategic: financial, & marketing stakes. Low technical complexity	2 typical projects studied : -renovation of an 18th century building in central Paris - a new office building for rental purposes
Attitude towards partnering on the project	Open to discussion & best design ideas but not ready to pay for them	Seem open to partnering at first but in fact no real understanding of the concept. After analysis, reject the approach : feel cheated by the approach.	Very open since they had no other choice, due to the project complexity and stakes. Cohesiveness between Technical dept and Purchasers which enabled to justify & internally promote partnering on	The customer looked for a partnerial approach from the beginning. Rapid commitment to partnering contract (2 weeks). No competitive bidding in order to decrease transaction costs.	The customer looked for a partner from the beginning. Rapid commitment. No competitive bidding. Qualification of a supplier: reduction of transaction costs & time.	Looks for turn-key contracts. Open to contractor's input on design optimization but not ready to pay for it. **Price logic**. Competitive pressure.	Adopts partnering when he has no other alternative & then tries to "escape" from its binding principles during the construction stage : renegotiates the contract.	Adopted partnering approach on a first project where he had few other alternatives was convinced, & now adopts regularly !	Think that they adopt partnering as they import automotive purchasing methods in the construction sector (globalization & standardization). Not applying	Partnership on very high stake and complex projects but not true partnering. Traditional procurement on lower stakes and low complexity projects

			this project.						partnering: competitive bidding applied	
typology	3 Purchasing Dept.	2 Engineering Dept.	2 Engineering Dept.+ Corporate Purchaser	4 Infrastructure Buyers	4 Infrastructure Buyers	5 manager-entrepreneur (CEO)	5 entrepreneur	5 entrepreneur	3 Purchasing Dept.	1 Real-estate subsidiary

Tableau 1 – Description of the case studies