

About babies and bathwater

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By Alain Mignot, Co-Founder and Executive Director of the Alliancing Association of Australasia Ltd (AAA), a not-for-profit, independent, cross-sector initiative connecting the infrastructure industry to create better projects. The AAA promotes a better understanding of the application and benefits of alliancing and collaborative approaches to procurement, delivery and services.

Australia has become the world's leading practitioner in the application of collaborative methods to procure, deliver and increasingly to maintain public infrastructure.

Our regional leadership has grown from a set of base practices in the late 90s inherited from earlier experiences in the oil and gas industry, to a range of well proven and effective collaborative procurement models available today to infrastructure purchasers. These include project / program alliances, service / maintenance alliances, early contractor involvement (ECI) and a range of collaborative, price-competitive selection processes.

Thanks to early, leading practitioners who have keenly contributed their experience and practice to industry forums such as the Alliancing Association of Australasia, we have a collective level of maturity and confidence, which ably equips us to facilitate the evolution of collaborative models. This includes consolidating their use by industry and ensuring they support delivery of whole-of-government Value for Money. The opportunity for ongoing evolution continues, as evidenced by a recent survey of alliances commissioned by a committee of State treasuries in late 2009. Titled "*In pursuit of additional value*", the survey is the result of a collaboration between the New South Wales, Queensland, Western Australia and Victoria treasuries. It was initiated and Chaired by the Victoria Department of Treasury and Finance (DTF), who commissioned Melbourne University and Evans & Peck to undertake the research and prepare the report. Results confirmed the good track-record of alliances in general and pointed out several areas of improvement to ensure alliances continue to perform and are appropriately used to ensure incremental value over other procurement methods.

This short paper provides a "*State of Alliancing*"-style review of achievements to date and challenges lying ahead with collaborative procurement. It highlights many significant direct and indirect benefits of using collaborative methods in infrastructure development. It also urges practitioners, including owners, to look at the challenges reported in the DTF's recent survey to improve alliancing practice; especially in selecting the right procurement model for projects and committing fully and openly as part of the collaborative spirit. This commitment is at the heart of sought-after alliancing synergies. Contractors and alliance participants are also called on to maintain their commitment and enthusiasm for performance and best-for-project value delivery when engaged in these alliances to maintain the model's freshness and power to tackle our more complex projects. There is much benefit to preserve by addressing these challenges; and much too lose if we fail to seize new opportunities.

The unique contributions of alliancing

Alliances have delivered tremendous value to our nation and have contributed by their performance and productivity to address some of our national infrastructure deficit. Our nation ranks 19th among the leading nations of the world, yet our roads, rail and ports infrastructure ranks respectively 31st, 26th and 41st among industrial nations' infrastructure quality*. We are still far from the level of infrastructure development and performance required to support our recovery in national economic productivity, which according to Saul Eslake, former Chief Economist at ANZ and currently Program Director at The Grattan Institute, is the only source of reliable and long-term prosperity. In recent years we have seen our public infrastructure continue to age despite the recent surge in investment from national economic stimulus packages. This decline has occurred at a time when Australia has developed a strong appetite for accelerated population growth, which has in turn placed increasing pressure on infrastructure assets.

Accelerating complex projects delivery

Alliances help state and federal government agencies successfully tackle very complex public infrastructure development. Many of these projects are today serving our communities, despite the challenges initially faced to deliver them. Project complexity can stem from technical, timing or resource-availability and the need to keep an existing community asset operational while it is being upgraded. It can also stem from complex stakeholder environments where tight integration of complex and differing requirements requires utmost flexibility of approach and a serious dose of lateral thinking from all involved in the delivery. For some projects, preliminary site and construction work starts in parallel with work to plan and design the more complex part of the project. This approach provides accelerated project start-up and helps achieve earlier delivery to communities, which is extremely beneficial to quickly and efficiently meet the needs of rapidly growing cities and regions.

Reducing planning and pre-project overheads

Without alliances, agencies would need to undertake the time-consuming and expensive pre-design stage of complex project development. This involves assessing, describing, quantifying and integrating all risks and difficulties to define a scope of work for tendering to industry. This phase is business-as-usual and appropriate for less complex projects where risks can be identified and mitigated relatively easily. However for complex projects, this project development is far more uncertain. In public-private-partnership (PPP) style competitive tenders, agencies invite the private sector to address this early phase of complex projects as part of the bid process. Enormous pre-project time and money investments are required by each tendering consortium to contemplate the challenges and costs and to prepare and submit a bid. This level of cost and time experienced is indicative of that required if all our community's complex projects were undertaken through traditional market tendering. By virtue of their flexibility and ability to mobilise synergies in the face of project difficulties, alliances have saved the nation hundreds of millions of dollars of pre-project costs and have given us the opportunity to enjoy urgently needed infrastructure.

Quality community interface

Alliances have also excelled in delivering important infrastructure renewal projects in urban or "brownfield" areas where it is critical that people can continue to live, work and play with minimum disruption. Community dissatisfaction resulting in many complaints makes work difficult and can lead to crippling legal

actions or compromising political situations for local elected representatives. Alliance teams have a proven track record for their high quality of attention and responsiveness to community needs and for their engaging communication, which provides a source of mutual understanding and support. There are also many examples of alliances which have embarked on voluntary work in the community, both as a team and after-hours by individual team members.

No litigation

So far, no alliance has resulted in litigation during or after the project. The alliance model promotes a superior level of ownership and focus on best-for-project outcomes as well as open and sincere communication. This shared-accountability and focus on strong relationships enables positive resolution of problems inside the alliance without recourse to costly, time-consuming and stressful legal action common in non-collaborative contracting. These costs add considerable burden on employees and project financial performance, even though these costs are often considered business overheads and rarely accounted to the project itself. Ultimately, the community pays for legal disputes involving public infrastructure.

Industry cultural transformation

For an industry known for its adversarial culture, construction contracting has been transformed through involvement in alliances. Alliancing has fostered a more collaborative approach between clients and contractors and brought a refreshing focus on project outcomes rather than job demarcations. Both procurement and delivery people have become more informed about each other's methods, capabilities and constraints in the process of becoming productive alliance team partners. The resulting wider perspective gained by all participants has contributed to better competencies; a deeper understanding, respect and attitude across the value chain; and has led to better management skills among all players.

Improved corporate effectiveness and competitiveness

Participation of agencies and companies in alliance governance, in particular in Alliance Leadership Teams (ALTs), had highlighted a lack of depth of management skills and leadership. In most organisations, this has motivated participants to focus more on developing their talented employees. We have witnessed a new generation of younger managers who have been exposed to the management complexities of large projects and alliances. This experience will prove a valuable investment in the industry's long-term sustainability, particularly as the "baby-boomer" generation retires.

All organisations have learnt to become internally more collaborative through alliancing, as participants cannot expect to make an alliance work if they need to fight silos and politics inside their organisation. There are a few recent examples where alliances had difficulty performing to expectation for these exact reasons eg one organisation was simply not ready from a cultural point of view. For a contractor, this situation would eventually translate into a contribution below expectation and compromise their chances for winning further alliance business from that client. Collaborative approaches to infrastructure have benefited the Australian infrastructure industry by making it more internally responsive and productive, better managed and possibly more competitive on a regional or global scene.

Attracting or retaining expertise

By removing contractual barriers to performance and creating environments focused on best-for-project outcomes, alliances have introduced a fresh breeze of career-interest in the infrastructure delivery sector.

Attraction and retention is often a key performance indicator (KPI) for alliances and much effort is made to establish and maintain a positive and healthy organisational culture. It is common knowledge in the industry that many alliance participants and alliance managers prefer to continue working in an alliance environment and have moved from employer to employer for the sake of being part of an alliance team.

Defining a new class of “collaboration” professionals

Alliances are a breeding ground for future senior executives. Many represent billions of dollars in financial and resource investment, similar to mid-size corporations; and alliance managers require all the skill of a general manager to navigate the technical, operational and relationship complexities of very large alliance projects, programs or service / maintenance contracts. Alliance managers develop advanced business management skills and a unique approach to achieving business performance through developing and maintaining the team’s peak performance, a skill too often in short supply among many of our corporate business unit leaders. The value and demand for these skills could foreseeably lead to a ‘gun for hire’ class of top professional Alliance Managers with extensive program and business management expertise, who are available on a project-to-project basis.

Current Challenges

As with any procurement method, there is always room for improvement. The infrastructure industry’s successful evolution and adoption of collaborative models will require continued focus on practice development and more disciplined application. Several opportunities have been identified to solidify alliancing for future infrastructure development. These include ensuring:

- Proper justification of collaborative procurement based on project constraints; rather than conveniently off-loading to an alliance team those procedural complexities that should be performed by an infrastructure purchaser
- Continuous information and education for practitioners about alliancing requirements and evolution to maintain the model’s power and ensure alliances are built with a genuine collective commitment to open collaboration and high performance
- Collaborative integrate all validations and verifications necessary to ensure they are compatible and aligned with government Value For Money frameworks.

Proper Application of alliancing:

The industry at large understands and supports application of alliancing only when the project context and parameters cannot be addressed by traditional market-driven procurement methods. Alliancing methods require more senior management involvement and are more complex to manage than other methods. A more rigorous procurement selection process by infrastructure purchasers is required to avoid any excess that at times sees an alliance created for the wrong project, for the wrong reasons and with low commitment to genuine collaboration by agencies not organisationally ready for managing the complexities of collaborative methods.

Value For Money:

A collaborative approach to project scope development and to project cost assessment has traditionally created some discomfort for Treasury departments charged with ensuring Value for Money in government spending. The main reason for this discomfort is the lack of market input to project costing and the feeling that alliance teams lack market-driven motivation to drive costs down. This issue must be addressed by the infrastructure industry and in particular by procurement agencies, to ensure government is comfortable with collaborative procurement methods and that the Value For Money and other public interest driven requirements are protected and integrated into project procurement.

Most serious practitioners ensure robust alliance selection and management before, during and after the process. This includes:

- Independently conducted, pre-project audits and verification
- Reviews and audits during the project
- A post-project, Value For Money report.

Agencies' voluntary or assisted attention to comply with Value For Money should be better formalised and implemented through a set of guidelines and instruments commonly accepted by all practitioners. The recent work led by our State treasuries should yield some positive improvements, including Victoria DTF's work now underway to update its ground breaking overview of project alliancing, *"The Practitioner's Guide to Alliancing"*, which was first released in 2006.

Treasury benchmarking survey on Alliances

Overall the interest from treasuries to enhance Value for Money in alliancing is a very welcome milestone. It provides much desirable input that should, with further guidance and input from industry, sufficiently formalise the application of collaborative methods. This will ensure they remain powerful mainstream options for infrastructure agencies to consider for their most complex developments; and ensure collaborative contracting continues to serve our infrastructure needs well.

The recently published benchmarking survey report on alliances highlights several areas of improvement, which are wholeheartedly supported by industry. The report also provides several recommendations on introducing systematic price criteria into the selection of a delivery method or of the non-alliance participants (NOPs). Such a policy could be either too restrictive or enforce a commercial model misaligned with the needs of a particularly complex project. This could jeopardize the effectiveness and flexibility of collaborative models. It is indeed Treasury's role to insist that the procurement model for a project is selected to maximize value delivery, not just for the project but for whole-of-government. However, it is imperative that agencies have the opportunity to define the mix of price- and non-price criteria in the selection of the procurement method and NOPs.

Conclusion

Alliancing methods are here to stay. Nobody in the industry wishes to revert to the more litigious past and negate the welcome attitude transformation in the industry. Alliancing does need to improve and it will continue to evolve to reflect the needs of the practitioners, particularly procurement agencies and government. However, the infrastructure industry should ensure that further evolution preserves the power

of alliancing to address our serious infrastructure needs; and that while in addressing the challenges, we take care not to throw the baby out with the bathwater.

Comments and views are welcome. Send them to contact-us@alliancingassociation.org

(*) Information contributed by Mr. Saul Eslake, former Chief Economist at ANZ and currently Program Director at The Grattan Institute, from a presentation made at AAA's National Convention on October 22nd, 2009. <http://www.alliancingassociation.org/index.cfm?MenuID=180>