

Preliminary Results – Alliance Contracting in the Australian Public Sector

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Research Question

Are alliance contracts compatible with public sector governance objectives?

Ethical Clearance and Confidentiality

Ethical Clearance was granted for this research activity on 24 Nov 2005, LAW/28/05/HREC. All responses associated with this research have been de-identified except where interviewees provided express permission to allow their responses to be identified (for example during case studies).

Griffith University conducts research in accordance with the National Statement on Ethical Conduct in Research Involving Humans. Any questions regarding the ethical aspects of this research may be directed to the lead researcher or:

Manager, Research Ethics, Office for Research, Bray Centre, Nathan Campus,
Griffith University (ph 3875 5585 or research-ethics@griffith.edu.au).

Methodology

- a. Interviews and surveys across Federal, State and Local Government. A total of 27 interviews completed.
- b. Case Studies completed for three alliances:
 - i. Split Rock Inca Alliance (state government, Pure alliance);
 - ii. Wetalla Waste Water treatment Plant (local government, Competitive TOC alliance)
 - iii. Government Owned Energy Supplier Program Alliance (state government, hybrid alliance – results unfinalised); and
- c. Content reviews and comparative analysis of eight alliance contract terms and conditions.

Alliance Demographics (as at February 2007)

For the geography of each alliance, I have grouped alliances by state. This includes state government and local government alliances by region. For some State Government alliances (especially main roads) federal funding is provided. In these cases, State Government typically selects the procurement option for delivery, hence, I have classified these alliances as state owned. I did not allocate federal government alliances to any state as many of these alliances spanned multiple locations. For example Australian Rail Track Corporation is pursuing alliances for rail projects that cross state borders, Defence Material Organisation is implementing alliances across

multiple states as is the Civil Aviation Safety Authority. I have, therefore included a unique geographical category dubbed “Federal” to represent these alliances. I adopted this approach for simplicity and to reflect the three tiers of government in my analyses. I decomposed my data using a spreadsheet to explore alliance demographics as a function of level of government, alliance contract type, alliance start date, alliance location and alliance value. Figures 1 and 2 summarise these outcomes.

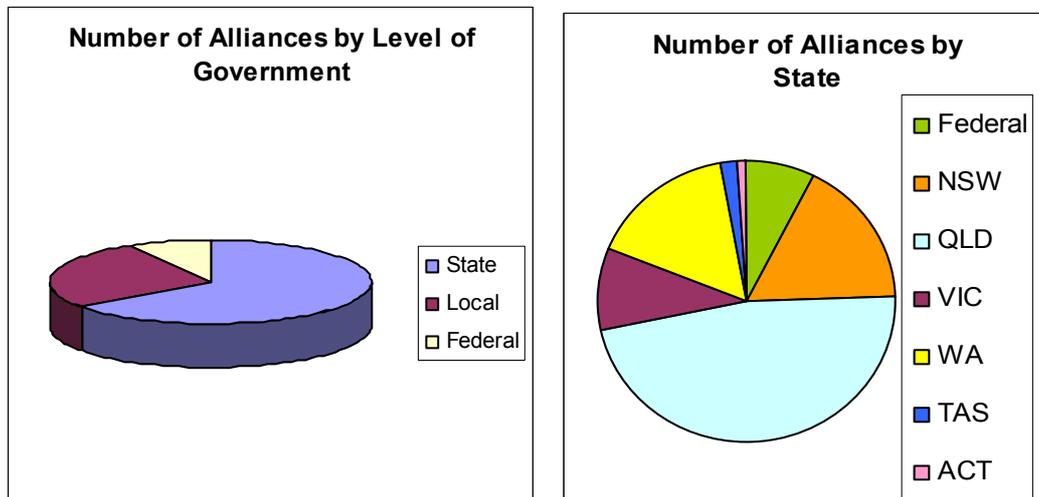


Figure 1: Alliance numbers as a function of level of government and geography (sample of 108 alliances)

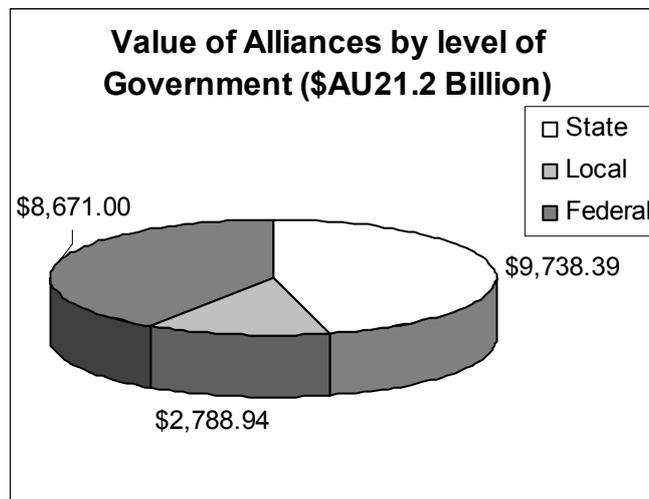


Figure 2: Total Alliance Contract values in \$AU millions as a function of level of government

My data establishes that Queensland is the most prolific user of alliances at both state and local government level with 50 Queensland alliances identified out of a total pool of 108 Australian government alliances. In the Queensland region, alliances have delivered primarily construction projects such as dams, road and waste water treatment facilities. There is no clear evidence as to why Queensland has experienced high alliance usage, though I speculate that the following may be reasons for this:

- a. Queensland was an early adopter of alliances and enjoyed significant successes in this acquisition strategy (especially Department of Main Roads). This initial Queensland alliance experience may have been a catalyst for Queensland local government and Queensland state government departments to use alliances;
- b. Queensland hosts several alliance facilitators and advisers to government eg. Project Control International and Southern Pacific Alliance Network. The proximity of skilled alliance facilitators and potential ‘lobbying’ of these organisations may have promoted the use of alliances in Queensland.¹
- c. Personalities within the Queensland government may have promoted the use of alliances as an ideological means of achieving project outcomes. Though this is in contrast to the majority of my survey results, which highlight that government direction was not a key motivator for using an alliance, ‘champions’ of the use of alliances may be a credible factor resulting in the use of alliances within Queensland.
- d. Alternate acquisition strategies such as Public Private Partnerships have not been adopted by Queensland until very recently. Compared to NSW and Victoria, It would appear that Queensland’s choices for acquisition strategy (in the absence of PPPs) are more limited and hence there is greater likelihood for the selection of alliances.

My research has not reliably identified any one of the reasons listed above as being responsible for the significant use of alliances within Queensland. Hence any one or a combination of the above reasons may be the cause. From my research I discovered no obvious ‘drivers’ for Queensland to use alliances. Factors such as higher risk in projects or greater construction budgets compared to other states are not significant. It must be acknowledged, however, that the range of projects in Queensland are more decentralised to those in other states (except perhaps WA). My research did not explore whether the centralisation of projects played a role in the adoption of alliancing as this was outside the scope of my research question.

The continued growth in the use of alliancing is highlighted at Figure 3. Growth in 2007 alliance declined compared to a peak in 2006.

¹ An alternate hypothesis is that the growth of alliance facilitators in Queensland is a result of the local demand for such services.

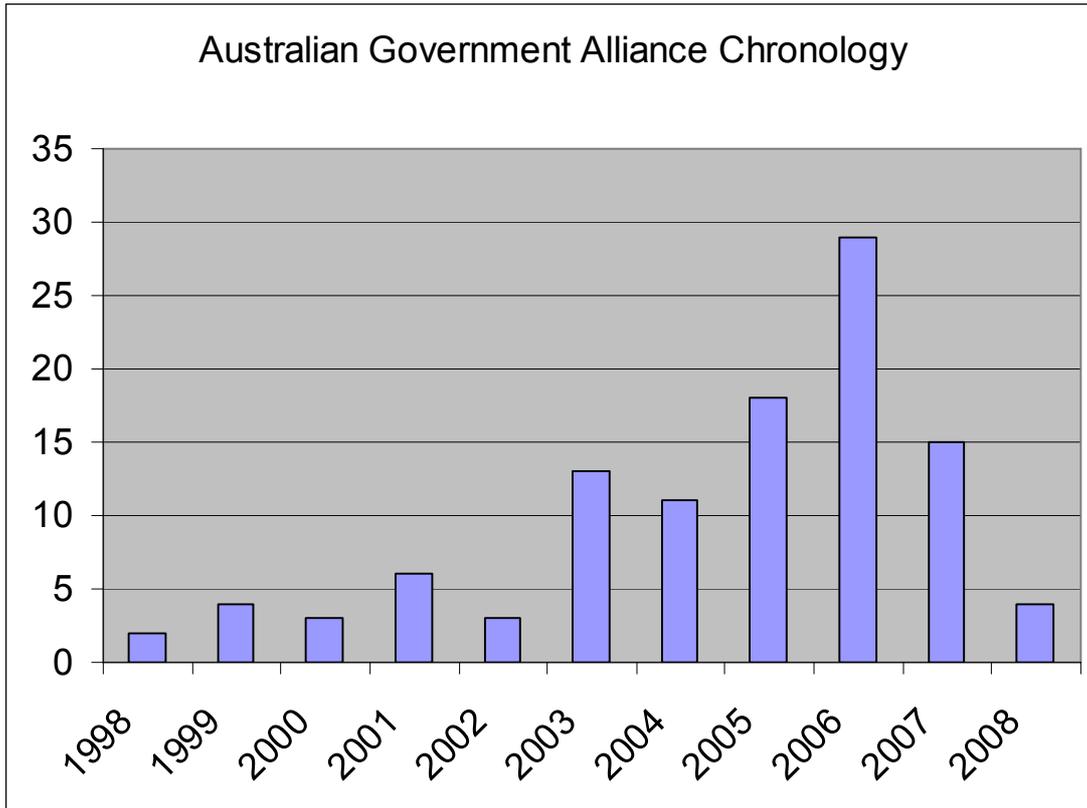


Figure 3: Chronological growth of alliance contracts

Survey/Interview Results

Alliance Risk Profile

My surveys asked alliance participants to explain the risk profiles of their projects considering cost, schedule and performance. Most respondents identified schedule as being a high risk, cost being a medium risk and performance being a low risk.

Motivation For using Alliances

This section of my survey attempts to establish why alliancing was selected as the preferred procurement strategy. Relying on the alliance literature, I selected the main reasons why alliances are preferred and explore whether these reasons correlate to 'real world' alliancing experience. I also added an additional element of whether strategic government direction was a factor in selecting alliancing. The results are as follows:

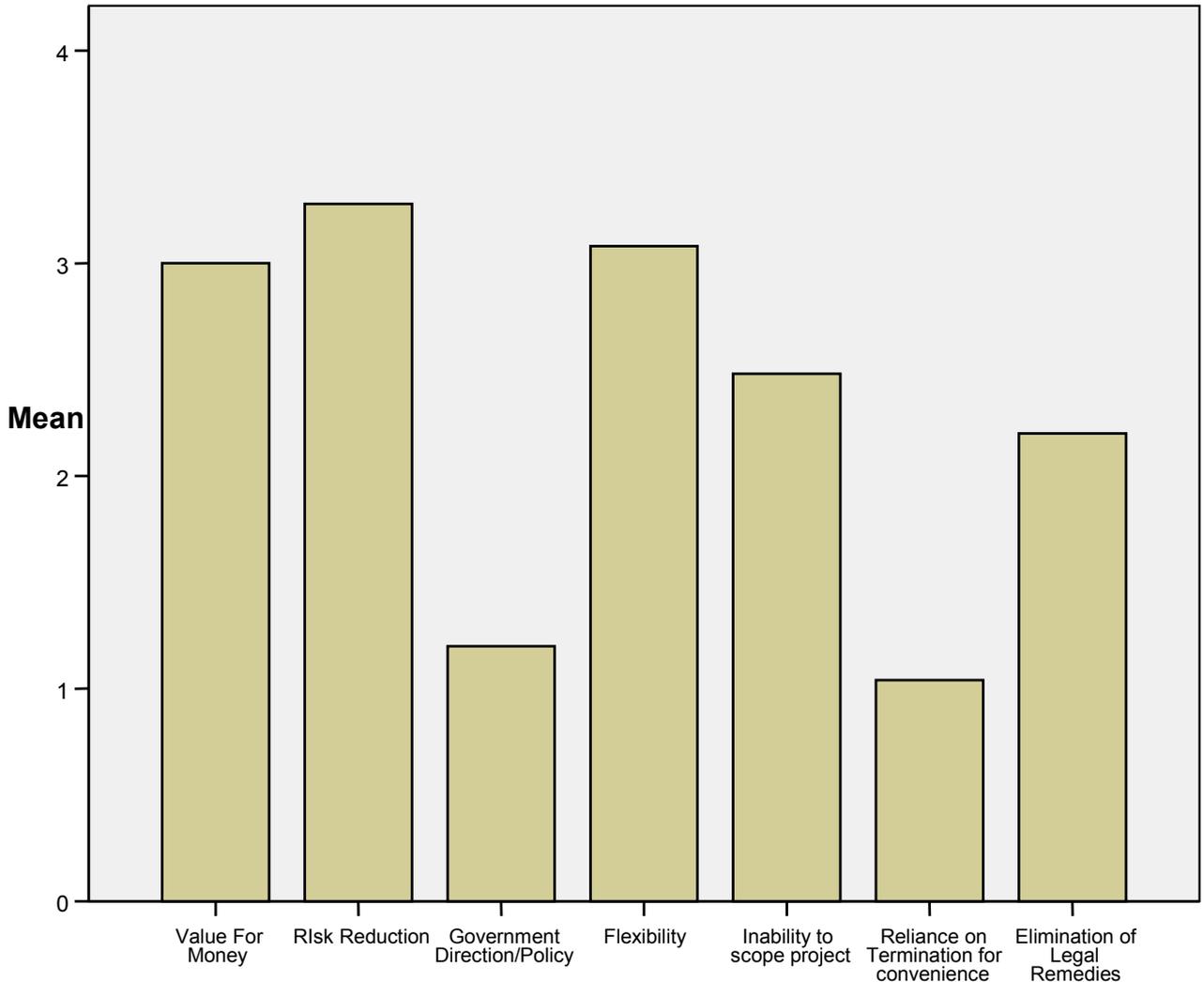


Figure 4: Reasons for selecting alliancing (sample of 27 responses). Four represents strongly agree, zero represents strongly disagree.

Value for money, flexibility and risk reduction feature as the main reasons for selecting alliances. Less important reasons include the inability to scope the project and elimination of legal remedies. Government direction and the presence of a robust termination for convenience process were deemed to be of very little importance.

These results are largely unsurprising and correlate strongly to what is cited in the alliance literature. Though not a direct result from my survey, another motivation for using alliancing that became apparent in interviews was the use of alliancing to capture industry participation in a market of limited supply. Many alliance managers indicated that alliancing increases the likelihood of tender responses, especially in regional areas and thus avoids the problem of a 'no bid' tender response.

Risks of Alliancing

Substantial literature and case studies explore the benefits of alliancing. My research aimed to explore the risks of alliancing to provide a balanced perspective of these forms of relational contracts. The major risks I identify relate to legal risks and

commercial risks. Results are as follows (risks rated from one to ten with one being lowest risk, ten being highest risk)

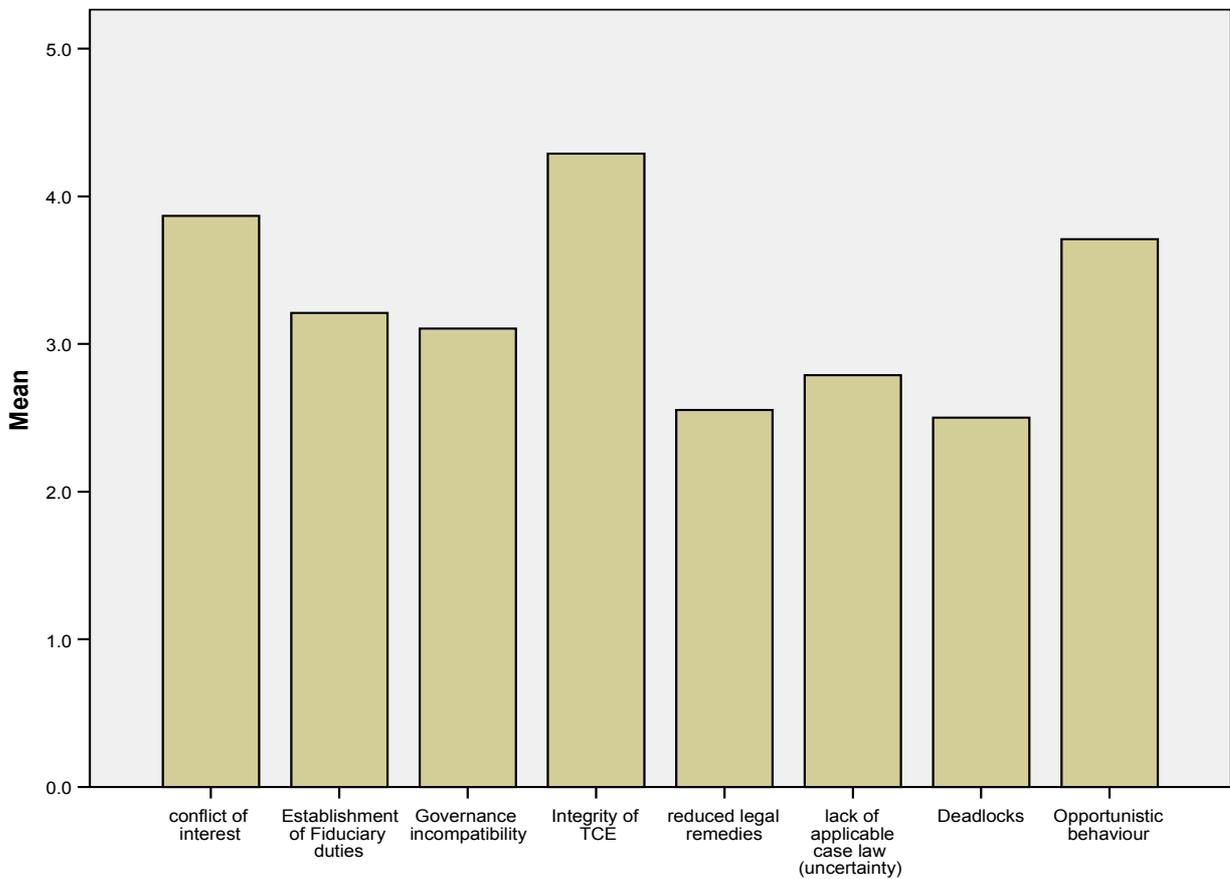


Figure 5: Alliance Risks, One represents lowest risk, Ten represents highest risk (Sample of 27 Responses).

The results showed a relatively large spread across the various respondents. Of interest is that no individual risk was collectively rated higher than four (with the exception of the integrity of the Target Cost Estimate). The reasons many of the risks were rated low became apparent in interview discussions where respondents indicated that the alliance risks are largely mitigated by virtue of the collaborative nature of the alliance and the fact that the alliance operates in an environment of ‘all win or all lose’. In addition, most alliance agreements contained deadlock breaking mechanisms hence this specific risk was deemed low.

The highest risk, integrity of the Target Cost, was rated an average risk of 4.3. This is surprisingly low considering the animated debates and audit reports questioning value for money in alliances. During interviews, several alliance managers stated that target costs are of significant concern but I observed that this concern was marginally lower for competitive TOC alliances (0.3) when compared to pure alliances. Interviewees stated that this risk was reduced with both probity audits, independent audits of the TOC and the fact that the first iteration of the TOC developed by the alliance was rarely accepted by government.

Governance Compatibility

Most respondents (78%) stated that there were no governance incompatibilities with their alliance and their organisational responsibilities. Six respondents (22%) cited that their organisational governance objectives were incompatible with their alliance. Exploring this issue further in interviews revealed that the cited incompatibilities related primarily to potential conflicts in employee codes of conduct and how these translate to alliance behaviours.

Disputes

Approximately half (46%) of the alliance interviewees stated that disputes had been raised to the alliance leadership team for resolution. All these disputes were dealt with satisfactorily by the alliance leadership team. In exploring the nature of the disputes, respondents indicated that the nature of the disputes were typically of a procedural or 'domestic' nature. In many instances, disputes were passed back to the alliance management team to be reconsidered on a best for project basis suggesting that the management teams were premature in escalating issues. Other disputes or 'issues' arose regarding the re-engagement of government employees in the non-owner alliance participant's organisation. No disputes appeared to involve any significant financial matters or significant project performance issues.

All disputes raised to the alliance leadership team were dealt with satisfactorily without the need to trigger deadlock breaking mechanisms or elevate matters beyond the leadership team.

Reuse alliancing?

All but two respondents indicated that they would consider using alliancing for similar projects in the future. The two respondents that indicated that they would not using alliancing again, qualified their answers. These respondents indicated that alliancing principles would be employed in the future but the specific alliancing model employed may change (one would use a competitive TOC alliance in lieu of a pure alliance whilst the other would use a pure alliance in lieu of a competitive TOC alliance).