



# Alliancing

## FAD OR FIXTURE?

While there is little doubt that the alliance contract model is on the rise in procuring Australia's new infrastructure, is this just a fad or does it genuinely reflect the power of an alliance model to deliver value for money?

**Jim Ross, Director of PCI Alliance Services**, looks at the potential benefits of the alliance model, how to make it work, and gives tips for clients and contractors on what is needed to make alliancing sustainable in the long term.



2006 saw a rapid increase in project alliances in Australia as a means to effectively deliver infrastructure in the public sector, with well over \$10 billion of projects being delivered or planned under an alliance model<sup>1</sup>. This trend was also being mirrored in the private sector, where owners who have always used risk-transfer contracting arrangements are starting to use alliances to deliver large scale projects.

While some people still question whether or not alliancing can be proven to deliver value for money, the widespread view appears to be that alliancing, as practiced in Australia and New Zealand, has delivered excellent outcomes on what are often very challenging projects.

Since many contractors (both constructors and consultants) prefer working under an alliance framework rather than more traditional adversarial arrangements, some clients are using alliancing to attract contractor resources to their projects.

While alliances are a sensible and legitimate means to attract the best resources, adopting an alliance for this reason alone can be short sighted. To date most clients have taken the time to understand the benefits and risks of alliancing in relation to their specific project, and reaped the rewards.

However, recent anecdotal evidence suggests some alliances are being undertaken by clients, and to a lesser extent contractors, without sufficient understanding of, or commitment to, the underlying principles.

In some cases, this may result in projects lacking the resources and leadership skills needed to establish and sustain a high performing alliance. At best, this may lead to sub-optimal alliances, at worst a breakdown in corporate relationships and serious project failures – and could damage the future of the alliance model.

**Delivering the promise – what does it take?**

As with any delivery strategy, alliancing provides no guarantee of optimum value for money, and selecting an alliance for the wrong reasons, or without stakeholders sufficiently understanding the drivers of success, only increases the likelihood of disappointment.

However, when applied under the right circumstances, alliancing is a powerful means of overcoming adversity and achieving outstanding outcomes. This is because ‘pure alliances’ are designed to enable and drive organisational peak performance by aligning the interests of the corporate players – thereby removing the contractual barriers that

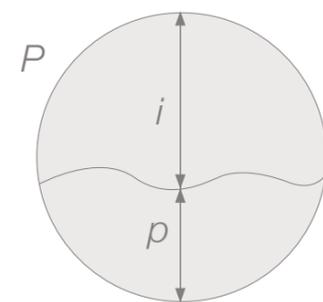
typically prevent or limit the powerful relationships required to deliver complex infrastructure projects successfully. This commercial environment provides the opportunity and platform to use advanced leadership practices to help teams and individuals realise their full potential.

In theory, these techniques deliver a ‘best for project’ qualified team that functions as a totally aligned peak performing project organisation which delivers (and exceeds) the agreed outcomes in the most efficient manner possible.

In practice, achieving this ideal state and all that it promises can be as challenging as it is rewarding.

Consider the following formula, adapted from the Inner Game of Work<sup>2</sup> where p = actual performance level, P = true potential and i = interference.

$$p = P - i$$



According to this formula, realising the full potential of a project team (peak

performance) requires identifying and systematically eliminating the interference preventing the team from reaching its true potential.

Based on close involvement with over 50 alliances, PCI Alliance Services has concluded that, in the first instance, adopting an alliance commercial/legal framework does eliminate a significant part of the “i” (interference) by removing commercial misalignment and contractual barriers. While significant, this is not sufficient on its own to deliver peak performance – it is more a case of picking the low-hanging fruit from the “tree of interference”.

An alliancing framework on its own does not reach the ‘higher’ parts of the “i”, which relate to human behaviour. This is the realm of emotional intelligence and “human emergence” and presents the real leadership challenge: managing the complex array of individual human drivers – our thoughts, feelings, mental models, beliefs and assumptions, our needs and yearnings, sense of identity and purpose.

If projects focus on the framework but ignore leadership, they create the right commercial/contractual environment but fail to exploit it, leading to sub-optimal outcomes. By contrast, where projects focus on leadership in a framework where commercial interests

are not aligned, contractual obstacles are likely to prevent the team from operating near its full potential. The full potential of the team can only be mobilised by a strategy that effectively combines both – in effect a balance of yin and yang.

While the potential benefits may make the choice of a ‘pure alliance’ seem self-evident, in practice there are many reasons why it may not be appropriate. In some situations, a hybrid framework may be more suitable. In such circumstances, a prudent owner must appreciate the implications and limitations of a hybrid framework. Owners adopting hybrid forms of alliance in the expectation that they will deliver the kind of outstanding outcomes seen on pure alliances will be disappointed. Hybrids rarely create an environment that drives and supports peak performance.

**Challenges for developing “sustainable alliancing”**

Despite the proven benefits of well chosen and well run alliances, the industry should be aware that the number of infrastructure projects using alliancing may decrease when the resource shortage eases and market conditions swing back in favour of owners.

To prevent this from happening, each non-owner participant (NOP) involved

**Australia: leading the world in Alliancing**

Project Alliancing, based on the successful North Sea alliances of the early 1990s<sup>4</sup>, was first introduced into Australia for the Wandoo project in the mid 1990s. Sydney Water was the first government agency to use alliancing to deliver public sector infrastructure with the North Side Storage Tunnel project in the late 1990s.<sup>5</sup> In the past eight years, alliancing has been taken up in Australia, to varying degrees, by a wide range of public sector procurement agencies at local, state and federal levels. Procurement agencies around the world are starting to pay close attention to how alliancing is being practiced in Australia.

**What does alliancing mean?**

The Project Alliancing Practitioners’ Guide<sup>3</sup> defines a project alliance as:

“a commercial/legal framework between a department, agency or government-backed enterprise (GBE) as ‘owner’-participant and one or more private sector parties as ‘service provider’ or ‘non-owner participants’ (NOPs) for delivering one or more capital works projects, characterised by:

- collective sharing of (nearly) all project risks
- no fault, no blame and no dispute between the alliance participants (except in very limited cases of default)
- payment of NOPs for their services under a ‘3-limb’ compensation model comprising:
  - reimbursement of NOPs’ project costs on 100% open book basis
  - a fee to cover corporate overheads and normal profit, and
  - a gainshare/painshare regime where the rewards of outstanding performance and the pain of poor performance are shared equitably among all alliance participants
- unanimous principle-based decision-making on all key project issues
- an integrated project team selected on the basis of best person for each position.”

<sup>3</sup> Victorian Government, 2006 | <sup>4</sup> Knott, T., 1996 *No business as usual* | <sup>5</sup> Henderson A., & Cuttler, R., 1999 *Northside Storage Tunnel Project*

<sup>1</sup>As of early 2001

<sup>2</sup>Gallwey, 1999

in alliances through the current ‘good times’ must resist the temptation to exploit the current market conditions. By building sustainable relationships and leaving owner partners convinced that alliancing is the ideal delivery model for complex projects, alliancing and its benefits will continue to enrich the industry even when the lean times return.

Moreover, the industry must come together to put in place the formal protocols and standards required to sustain alliancing in the long-term. This will include:

- Compiling objective, rigorous and credible data to demonstrate that alliances can and do deliver value for money (VFM) for owners, both in the narrow context of cost as well as wider concepts of VFM.
- Finding a way to give credit for lower cost structures when selecting alliance partners, without resorting to direct price-competition or other selection practices that undermine the integrity of the alliance
- Developing a much wider base of people with the leadership skills to operate effectively at Alliance Leadership Team (ALT) and Alliance Manager levels.

- Establishing a suite of standard alliance practices and a more consistent framework for demonstrating VFM, while taking care that, in our attempts to codify its practice, we do not destroy the essence and “humanness” of alliancing. This is particularly vital as, in the last couple of years, a plethora of different alliance processes and documentation have emerged, including:

- An array of different selection processes, often based on quite different beliefs and philosophies.
- Many different forms of alliance legal agreements and commercial frameworks, again reflecting different underlying philosophies. While it will probably always be necessary to customise the legal arrangements for each alliance, it would be helpful to have a standard template containing widely accepted core elements and features to use as a standard platform.
- Various approaches to collecting performance data and demonstrating VFM.

BELOW  
Wandoo Alliance  
Western Australia



**A framework for high performance alliances**

The following sample “EPPO map”<sup>1</sup> adapted from Senge for a hypothetical alliance, gives a sense of the Essence, Principles, Practices and Outcomes of a high-performing alliance team.

<b>Essence</b> spirit – who we are	One-team, focus, creative, energy, passion, integrity, commitment, courage, possibility, etc	
<b>Principles</b> what we believe	We all win or we all lose – together (corporately) A sense of worthwhile purpose is the primary source of inspiration, inspiration is the wellspring of personal energy, and energy is the currency of high performance Health and safety is paramount - every person we touch deserves to go home each day in the same or better health than they arrived. The primary role of senior leaders is to create and sustain an environment that supports and drives peak performance Your problem is my problem We innovate every day Current perspective is always partial – and each view is valid High performance requires profound owner involvement in the journey We (ourselves) have the potential to be our most effective coaches Systems must serve a clear purpose We act as though we own the business We are accountable for the consequences of our actions Peak performance requires us to focus on and balance yin and yang	
<b>Practices</b> what we do	Respect and build on past experiences, systems and practices Be clear about our responsibilities and frame our accountabilities as bold personal declarations Create a compelling vision with a clear mission and specific and demanding objectives in line with the vision and mission Be willing to commit to possibilities without knowing how we are going to get there Use clear, simple and effective systems that add clarity and are geared for peak performance Care for and coach each other	
<b>Outcomes</b> what we achieve	<b>Our companies</b>	Mission fulfilled with all project objectives met or exceeded Breakthrough outcomes achieved in some or all key areas Widely acknowledged as new benchmark of excellence Enduring corporate relationships
	<b>Us as individuals</b>	Great sense of pride and achievement Personal and professional growth – new insights that enrich our lives and those around us Powerful new career opportunities now available
	<b>Other stakeholders</b>	Legacies that enrich the lives and well-being of those touched by the project Unsolicited praise for what the project has done/left behind

<sup>1</sup>Senge, P., 1990, *The fifth discipline - the art and practice of the learning organisations*

**Hybrid alliance modifications**

- Introducing direct price competition into the process for selecting the non owner participants.
- Relying on marketing type presentations for selecting alliance partners, rather than engaging in real conversations that enable the owner's selection panel to see through the marketing hype.
- Retaining the right to blame, or significant carve-outs in the no-liability framework.
- Backing away from the concept of a fully integrated team, towards a highly collaborative arrangement, where the obligations of the NOPs remain quite distinct from those of the owner.
- Skewing the gainshare/painshare model to transfer risk back to the NOPs.
- Giving the owner a casting vote in key decisions that would be shared decisions in a pure alliance.

- Developing a much broader base of competent alliance advisers, educators, facilitators and coaches – including external professionals and in-house resources.
- Building more flexibility into government budgeting and approval processes to take advantage of the way project budgets are developed under an alliance. This will require procurement agencies to better understand the alliance development process and how they can exploit it. Specifically, agencies need to:
  - Develop the business case to the point where it makes sense for the owner to invest in setting up an alliance to develop a detailed project proposal including committed target outturn cost (TOC) and other performance targets.
  - Make the final project approval subject to the owner being satisfied in all respects with this project proposal.

This will link the commitments made at each stage of the process to the level of uncertainty at the time, making the cost of the pre-TOC phase of the alliance an investment in driving out uncertainty, because it will secure a genuine pre-estimate (backed by full NOP commitment) of the final outcome. In PCI's experience, TOCs are a very reliable forecast of the final actual outturn cost and alliances are very good at meeting (and exceeding) non-cost objectives. Thus, provided

appropriate commitments are made at the appropriate time, alliances allow politicians to reliably and consistently deliver on the promises they make.

Meeting all of these challenges will require trans-industry collaboration. Some alliance agreements already require participants to make information and people available for "conferences of alliances" to share experiences. Such forums would be a good opportunity to learn from and build on past experiences and share knowledge for the betterment of the whole industry. At an industry level, the Alliancing Association of Australasia (AAA - [www.alliancingassociation.org](http://www.alliancingassociation.org)), launched in September 2006 as a forum to advance the understanding and practice of alliance contracting, is well placed to help address the challenges and opportunities outlined above.

**Conclusion**

The current increased use of the alliance model gives the construction industry an opportunity to both definitively prove the power of the model to deliver value for money and put in place standards that will support alliancing into the future. Consultants and Contractors wishing to perpetuate the alliance model must bear in mind the long-term consequences of their actions on current alliancing projects: not just delivering the desired project outcomes, but enlisting the clients as advocates for the alliancing model – thus ensuring its long-term sustainability.



Jim Ross is a Chartered Professional Engineer and a Director of PCI Alliance Services (PCI), a firm that specialises in developing and supporting high performance teams in an alliance environment. As adviser and facilitator/coach, Jim has played a lead role in the strategic planning and establishment of over 50 alliances in Australia and internationally and is acknowledged as one of the world's leading alliance thinkers and practitioners.

Jim was the principal author of the Victorian Government's Project Alliancing Practitioners' Guide and his papers on the principles and mechanics of project alliancing have been widely distributed in Australia and overseas.

Significant parts of this paper are based on insights gained from Ken Lowe, PCI's coaching director and human emergence specialist.



# Tips for a successful alliance

For many people, working on an alliance is a career highlight – sometimes even leading to a personal epiphany, transforming the way they see and relate to the world. There remains a risk that for some, the experience will be a disappointment, falling well short of the hype and the promise. To ensure the alliance experience lives up to its promise – both corporates and individuals, should observe the following guidelines.

## For clients

1. Be fully informed on both the benefits and the risks before embarking on an alliance – it should not require a ‘leap of faith’.
2. Be sure the selection process reveals prospective partners for who they really are.
3. Be careful of relying on feasibility budgets that lack rigour – be prepared to see the alliance as an investment in driving out uncertainty.
4. Use an alliance framework that develops a peak performing team. If using some hybrid form of alliancing – fully understand and appreciate its implications.
5. Let your actions during the selection process show that you understand and practice alliance principles. Be respectful of the industry and mindful of the huge effort (and emotion) that proponents put into seeking selection as your alliance partner.

## For non owner participants

1. Don’t view alliancing as a marketing ploy to secure work – the risks for you are too great!
2. Take the time to understand the underlying principles and start deploying the relevant leadership and communications skills you learn on alliances throughout your operations.
3. Adopt a long-term strategic view (beyond the limits of the project itself) – this might call for you to make a “sacrificial play” occasionally.

## For all players

1. Agree on core “principles of operation” and then act and make decisions in line with those principles.
2. Remember, leaders create and sustain the environment that produces the results. Effective leaders know that inspiration is the wellspring of personal energy and that energy is the currency of high performance.
3. Invest in people and leadership – focus on value, not the cost.
4. Learn and practice “real” conversations – by drawing on our capacity for self-disclosure and ownership of each situation, we build trust, intimacy and powerful relationships.
5. Be prepared to commit to targets without knowing how to achieve them. But in your enthusiasm for breakthroughs, don’t lose sight of proven systems and practices.
6. Use alliancing as a training ground for development of a new breed of super-leader.

Source: Jim Ross, PCI Alliance Services