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ALLIANCING IN AUSTRALIA – A LONG TERM JV?

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ABSTRACT

Joint ventures can take many forms and be formed for a whole host of reasons. However, the contractual and operational arrangements between parties have to be formulated to fit each situation in order to set up a framework for success. This paper reports on a project alliance between public and private organisations in Queensland, Australia. As a form of joint venture alliancing is a system that provides a collaborative environment and which provides a framework for participants to adapt their behaviour to project objectives. It is about sharing resources and experiences, exposing the 'hidden' risks. This study took a step towards reinforcing the trust element in the alliance by placing a No Dispute clause in the alliance agreement. A review of the effects of the no litigation clause upon the project team is presented.

Keywords: Alliancing, Australia, No dispute clause, collaboration, relationship management

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ABSTRACT

Joint ventures can take many forms and be formed for a whole host of reasons. However, the contractual and operational arrangements between parties have to be formulated to fit each situation in order to set up a framework for success. This paper reports on a project alliance between public and private organisations in Queensland, Australia and reports the critical factors identified that influence the success of the alliance project. The alliance is viewed as a business strategy whereby client and commercial participants' objectives are aligned. As a form of joint venture alliancing is a system that provides a collaborative environment and which provides a framework for participants to adapt their behaviour to project objectives. It is about sharing resources and experiences, exposing the 'hidden' risks. The study suggests that leadership has a strong influence on the alliance climate. Commitment and action by the Project Alliance Board (and, so, parent organisations) has a strong impact on the team and alliance culture, indicating alliancing has a high chance of failure when there is inadequate support from top management. Like all relational contracting approaches, trust between alliance partners is important. This study took a further step towards reinforcing the trust element by placing a No Dispute clause in the alliance agreement. A review of the effects of the no litigation clause upon the project team is presented. The authors conclude that without a positive approach to relationship management a No Dispute approach is impossible and that a no litigation contract cannot exist without the help of a clear relational vision, which leads to both soft and hard infrastructure to assist decision making and relationship building.

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1.0 INTRODUCTION

In both mainstream and construction management literature there has been a steady rise in the number of papers reporting studies on the implicit link between organisational culture and performance (Handy 1985; Wood and Ellis 2005). Benefits of partnering such as win-win relationships, time and cost savings, trust, motivation and open communication are highlighted in a stream of literature (Bennett and Jayes 1998; Wood and Ellis 2005; Wood, McDermott and Swan 2002; Bresnen and Marshall 2000). Numerous reports published in the past decade, such as the Tang Report on Construct for Excellence: Report of the Construction Industry Review Committee, the Hong Kong Housing Authority report on Quality Housing: Partnering for Change, Building for Growth by Australia NatBACC and the Egan report on Rethinking Construction, all indicate the way forward for the construction industry. These reports advocate a move away from adversarial relationships and towards the use of relational contracting approaches. However, such approaches require a culture change.

1.1 CONSTRUCTION SUPPLY CHAINS AND SUSTAINABILITY

More recently, the NAO report on Modernising Construction and Sir John Egan's report on Accelerating Change, both highlight the construction industry need for better management of construction supply chains and more engagement with the supply chains to achieve sustainable construction. Relationship management is a sustainable approach to the industry in terms of social, environmental and economic sustainability and can provide a positive contribution to sustainability and help to satisfy client and stakeholder interests (Blau 1963; Darwin 1994; Darwin, Duberley and Johnson 2000; MacNeil 1978; MacNeil 1985; Rousseau and Parks 1993). It provides the means to achieve sustainable, ongoing

relationships in long and complex contracts by an adjustment process of a more thoroughly transaction specific, ongoing, administrative kind (Kumaraswamy and Matthews 2000). Although the potential benefits of relational approaches (for example, construction partnering, alliancing, PPP and relationship management) have received strong interest in the construction industry, relational approaches are not yet the dominant choice of procurement strategy (see Phua 2006 for example).

1.2 RELATIONAL CONTRACTING

Relational contracting is predicated on a broader view of the procurement system; it implicitly incorporates supply chain engagement, essential if the performance indicators of best value, community benefit and innovation are to be achieved. It is about moving away from adversarial relationships, in order to develop a team, and perhaps a long-term commercial relationship. Thus, relational contracting approaches, such as partnering, alliancing and relationship management, are about communication, cooperation, trust, culture, mutual objectives and risk sharing (European Construction Institute 1997; Liu and Fellows 2001; Matthews 1996; Sanders and Moore 1992; General Contractors of America Associated 1991; Bennett and Jayes 1995)

According to Rowlinson and Cheung (2002), relationship contracting (referred to as relational contracting above) is based on a recognition of and striving for mutual benefits and win-win scenarios through more cooperative relationships between the parties. Relationship contracting embraces and underpins various approaches, such as partnering, alliancing, joint venturing, and other collaborative working arrangements and better risk sharing mechanisms. Relationship contracts are usually long-term, develop and change over time, and involve substantial relations between the parties and development of trust.

2.0 RESEARCH APPROACH AND RESULTS

A number of recent studies address innovation and change in the context of inter-organisational collaboration in project based settings (Rowlinson 2001; Alderman and Ivory 2007; Cox and Ireland 2002; Winch, Millar and Clifton 1997). Organisational structure, culture and commitment are identified in these works as being significant in shaping organisational performance, which form the main parameters of this research. Thus one objective of this research is to investigate the impact of the various cultural variables on project performance, which then allows patterns and characteristics leading to successful collaboration amongst firms to be identified. By using independently collected data, it was possible to verify the thinking of key individuals in the organisations as to the strengths and weaknesses of the systems currently in place. A questionnaire survey was conducted in order to find out where the organisation currently stands and interviews and case studies were conducted in order to validate the results.

This paper reports the findings captured from a survey undertaken with a public organisation focusing on the supply chain relationships and a series of interviews within public sector case studies. The survey stemmed from an initial, extensive grounded study which identified key variables in relationship management and supply chain engagement, namely: organisation culture and its fit; organisational commitment; organisational structuring, situational leadership and technology context. Information collection includes conducting a questionnaire survey and face-to-face interviews, collection of archival data such as meeting minutes and written material documenting the purpose and nature of the alliance team and observation of a number of team meetings. The response rate for the questionnaire survey was thirty-two of a total of fifty staff members, which represents a sixty-four percent representation of the whole alliance team. Eleven one-hour interviews were conducted with key members from a variety of positions including Design, Services, Alliance Management

and Construction. Interviews were also conducted with an external facilitator and a Project Alliance Board Member. Team dynamics and communication processes in the Alliance Management Team (AMT) were examined by sitting in and observing team meetings.

2.1 ORGANISATIONAL STRUCTURE

Van de Ven and Ferry's (1980) organisational assessment was used to explore organisational structuring. The aim is to assess the organisation performance in relation to how it is organised and to the environments in which it operates. Using the results generated from the survey and interviews, it is noticed that although the organisation was initially expected to follow the logic of developmental group mode, the logic of a cross between systematised impersonal mode and discretionary personal mode is more closely followed. This reflects the results derived from Handy's instrument (Handy, 1985). The professionals should be and expect to be following a developmental group mode and do prefer working in a task culture but are actually in a mix between role/power cultures and follow the systematic/discretionary mode. In subsequent interviews with survey respondents, the senior management was often described as a power centre, where information and decisions were diffused from the top.

Alliance Organisational Structure

The alliance organisational structure is made up of mainly three levels – Project Alliance Board, Alliance Management Team and Integrated Project Team. The driver of this alliance is the client. However, although the client has good design skills, the organisation has only experience in traditional lump sum project delivery methods. There is clearly a need for sharing knowledge and resources between the alliance partners, including the top management level. Skills identified in this project as essential in an alliance include:

- Y The ability to work as part of a team – it is important for team members to participate in group decision making and be comfortable with group consensus. This is exemplified in the esprit de corps generated that allows member to work together to solve the problem, rather than taking the easy option and pulling out from the project;
- Y The importance of communication skills – highly relevant to group decision making skills. Communication skills emerged as particularly important when interacting with people from different disciplines but also when dealing with stakeholders and the community, to members from other organisations and these involved day-to-day plant operations; and
- Y The ability to think broadly and creatively –thinking outside of one's own discipline, thinking outside the box, and being open to new ideas. The consequences include encouragement of creative thinking and brainstorming, which leads to moving people out of their comfort zone to foster innovation.

2.2 SENIOR MANAGEMENT ROLE

The study indicated strong top-down support being received for the alliance relationships. The PAB provides overall direction and continuous support to the alliance team. The high level of support from senior management has been reflected in the questionnaire survey result; with an overall mean score of 5.48 (the maximum score is 7). Bresnen and Marshall (2000) point out that senior management support is vital in making a collaborative approach both credible and legitimate. Alliancing is generally championed at the highest level of the organisation, where goal alignment and good relationships are crucial. Both individual and group flexibility also are seen as important. However, results indicate bottom-up support for alliance relationships, group resilience and coordination are slightly weaker until all members can be convinced of the benefits of buying in. Observations showed that both individuals and groups are able to adapt to necessary shifts in opinion, plans and behaviours (when

planned and clearly communicated). Furthermore, the role of leaders and project managers is critical to maintaining relationships and direction in the alliance project. On the other hand, group resilience, defined as ability to handle unpredicted or unexpected change, was found to be low, suggesting individuals would be more adversely impacted and less likely to be effective if an unexpected change was to occur. This underlines the principle that strong commitment and support from all levels are required for an alliance to be successful.

The Alliance Infrastructure

Alliancing is a system put in place which provides a collaborative environment between people and which provides a framework for them to adapt their behaviour to project objectives. It is about sharing resources and experiences, exposing the 'hidden' risks. The case study suggests that leadership has a strong influence on the alliance climate. Analysis of the questionnaire survey indicates the overall mean of Work Unit Leadership is above 5 (the maximum score is 7), with little variation across the variables (vision, intellectual stimulation and inspirational communication). Commitment and action by the PAB (and parent organisations) has a strong impact on the team and alliance culture, indicating alliancing has a high chance of failure when there is inadequate support from top management. The inter-organisational rivalries and barriers must be quickly knocked down and open communication and trust developed and maintained. The questionnaire survey results also reveal relatively lower ratings on the group coordination measure (an overall mean of 4.91, with a median of 4), suggesting work units can find it relatively difficult to work well together, particularly without the presence of leaders (managers). This again reinforces the important role of the leader in an alliance project. Leadership is especially important in construction projects to facilitate and encouraging timely decisions and dispute resolution, as well as clarifying issues. Leaders need to act as mentors of AMT and, nurture a team culture. Leaders need to be visible, available and attentive, showing respect to AMT processes which motivate employees. Another crucial role of leaders is constant communication with their subordinates on wider goals.

3.0 NO BLAME – THE ROLE OF TRUST

Like all relational contracting approaches, trust between alliance partners is important because it creates an opportunity and willingness for further alignment, reduces the need for partners to continually monitor one another's behaviour, reduces the need for formal controls, and reduces the tensions created by short-term inequities. Various interviewees expressed the view that alliancing is about sharing resources and experiences, with risks placed on the table, focusing on the results rather than on 'who to blame' when an incident arose. This alliance project takes a further step towards reinforcing the trust element by placing a No Dispute clause in the alliance agreement. The No Dispute clause states "... there will be no arbitration or litigation between the Participants on any Alliance Disagreement..." and "Each of the Participants waives its rights of action against each of the other Participants arising out of any act or omission in connection with this PAA (Project Alliance Agreement)..." Agreements between participants are reached in conjunction with commercial drivers (Ross, 2003). Alliancing is based on a totally different legal platform where there is to be no blame, no dispute, developing a win-win culture. There is a total ownership between all alliance partners by sharing of risk and outcome. Decision making focuses on 'best for project': such an approach leads to individuals from the project team having a sense of ownership and focusing on solutions/outcomes. Interviewees also expressed the view that decisions are encouraged to be made at the lowest possible level within the team and escalated to higher levels only if the team cannot arrive at a decision. It is the project team at operational level which has hands-on experiences and deals with the everyday issues such as design and materials. By bringing in sub-contractors and designers into the alliance project team, a more direct communication between the frontline staff (contractor, sub-contractor and designer) is obtained. Rather than working through layers

and layers of contract procedures, all key personnel are bound together and talk, rather than generating back and forth communication, sometimes leading to miscommunication. In an alliance project, everyone puts his/her personal interests aside and focuses on 'best for project' during discussions; a focus on outcome rather than immediate responsibility. Open-book access to financial records is one of the key features of alliancing. It is crucial for the alliance parties to be open and honest while communicating, exposing the possible risks in the project and there should be no hidden agenda. Studies (ANAO, 2001) show in an alliance contract, as the project's risk/reward outcome was tied to the collective performance of the alliance partners, the 'no blame, no dispute' clauses ensured each partner maintained an interest in maximising the performance of the other partners rather than simply serving their own best interest.

4.0 DISCUSSION

The degree of match and mismatch between organisational culture and structure has an impact on staff's commitment level. The concept of relationship management needs to filter down to all levels in the supply chain if participants are to retain commitment and buy-in to the relationship and become engaged.

A sustainable supply chain requires proactive relationship management and the development of an appropriate organisational culture, and trust. Relationship management will not succeed without parties' strong buy-in and commitment to the concept. Project parties need to recognise the benefits of relationship management. They also need to be familiar with relationship management principles and relationship management in practice for effective integrations.

The 'no-claim' alliance contracting approach presented in this paper demands the buy in of all members of the project team, including the client side of the process by educating, perhaps re-educating, the project participants to ensure that a no-claim contract can be successful. The principles of relationship management are documented widely but few commentators have addressed the issue of linking the relationship to a no claims contract. The infrastructure required to develop and maintain this no claims approach is expensive; for instance, in this US\$98M contract there was a sum of about 5% of the project manpower budget set aside for relationship management issues. Without a positive approach to relationship management a no claims approach is impossible. So, one might conclude that the 'alliancing' and 'no claims contract' terminology is essentially tautological. A no claims contract cannot exist without the help of a clear relational vision, that leads to both soft and hard infrastructure to assist decision making and relationship building. As a minimum, such an approach requires a facilitator who regularly returns to re-facilitate the project as the project progresses and as team members enter and leave. An agreement to an ongoing commitment of personnel within the organisation is necessary to ensure that the no-claims culture is maintained throughout the life of the project. An innovation manager and an alliance psychologist are also pre-requisites for the maintenance on a day to day basis of positive relationships. To conclude, if a no claims contract with a relationship management infrastructure is fully implemented at the outset of a project then success can be achieved, albeit with an upfront cost. Further discussion on the nature of relationship management can be found at Cheung et al. (2005) and Rowlinson and Cheung (2004a, 2004b, 2002) and the CRC for Construction Innovation.

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