

Project Alliance Boards

THE INFRASTRUCTURE WORLD'S BOARD REVOLUTION

A quiet revolution is transforming New Zealand's world of infrastructure development. It's important to note because "infrastructure" has become a political priority. The Government is committing billions of dollars to infrastructure projects as one means of combating the recession. **Iain McCormick** reports from the front lines.

INFRASTRUCTURE PROJECTS to enhance, for example, our underdeveloped transport and communication systems, are happening everywhere. To be accurate, however, the revolution is less in the number of projects being undertaken than in the governance of these projects.

Projects are increasingly structured as alliances between large clients (Transpower for example), the contractor and the consulting engineers. Alliances and other forms of collaborative contracting are now a major procurement force and the trend is growing.

TRADITION VERSUS ALLIANCE

Alliance contracts exist in sharp contrast to traditional contracts. Infrastructure projects have become larger, more complex and riskier – so testing the traditional contracting approach. Previously clients requested tenders from a range of contractors and, more often than not, chose the cheapest. In turn, the successful contractor made little or no profit from the project. Then followed the litigation and arguments over variations and overruns as the contractor battled to generate a "reasonable rate of return" for the effort and risk.

Alliance contracting, on the other hand, is a coalition of organisations designed specifically to achieve mutual objectives. Put simply, the client selects a contractor and consultant engineer with collaborative potential. The joint client/contractor team then work together to set a total cost for the project. If this project cost is exceeded all parties 'write out a cheque'. If the project comes in under budget, all parties 'get a cheque'. The relationship is cemented by all parties signing away their right to litigation. The contrast between traditional and alliance contracting is obvious.

Alliances are especially useful in large projects where the outcome is uncertain and the job complex, Auckland's Newmarket Viaduct Replacement and the city's Victoria Park Tunnel for example.

The alliance revolution began in the early 1990s when

British Petroleum (BP) found it uneconomical to exploit oil reserves in the North Sea. The fields were small and the competition from more favourable drilling locations in other parts of the world fierce. To tap the reserves and still make a profit, BP needed to significantly reduce its oil production costs.

The petroleum giant opted to throw away its traditional conflict and mistrust-prone contracts in favour of a contract that would generate trust and teamwork between the players. It wrote a contract based on a mutual pain-share and gain-share outcome. All parties had to share the "uninsurable" risk, work together to establish an initial target outturn cost and accept transparent and open-book accounting. Positive or negative variations from the target cost were shared by all participants.

There was a clear alignment between the commercial terms of the project and the psychology of collaboration. Financially speaking, the whole team swam or sank together. The first alliance contracting process was hugely successful. It reduced costs from an estimated £450 million to a final cost of £290 million and the facility began producing oil six months ahead of the original schedule.

Alliance contracts are based on the following 10 principles:

1. A 'no-blame' team culture is developed where any blame is directed at the work systems and processes rather than at each other.
2. A breakthrough philosophy of delivering outstanding commercial and other benefits for all parties is adopted.
3. A change in culture is made from an adversarial 'master-servant' to a collaborative peer relationship.
4. Agreed mutual responsibility and the honouring of all commitments made is adopted.
5. All parties have an equal say and serious disagreements are escalated to an Alliance Board that has the power and status to make 'best for project' decisions.
6. All risks and rewards are shared on an agreed equitable

basis so that all parties either win or lose.

7. Innovation is used to generate efficiencies in the context of a high-performance culture.

8. Open communication and high trust levels are built with no hidden agendas.

9. The alliance allows full sharing of resources, skills and expertise among all parties.

10. There is no ability to resolve issues using litigation except in the case of wilful default.

THE ALLIANCE STRUCTURE

Critical to any alliance is a new governance system. Generally, alliances comprise a four-part structure:

1. The Project Alliance Board which has a clear governance responsibility for the whole project.
2. The Alliance Manager who is effectively the CEO of the alliance.
3. The Alliance Management Team, which typically consists of specialist members from the client, contractor and consulting engineering firm.
4. The Wider Project Team, which consists of the members who deliver the design and the physical works for the project.

THE PROJECT ALLIANCE BOARD

The alliance governing board comprises senior management members from the client, the contractor and the consulting engineer. The board provides leadership, direction and oversight to ensure that the alliance achieves or exceeds its objectives. In the spirit of collaboration, all board decisions must be unanimous. With no rights to normal litigation, the alternative to consensus is to tear up the contract and walk away.

Project alliance board members need a number of critical attributes. Most important is the power and authority from the parent organisations to commit resources to the alliance to ensure overall success. Because the board is the final authority for all alliance resource decisions, it must be able to both get and use resources effectively.

At a personal level, board members need effective leadership skills to inspire the development of the collaborative and participative culture at the heart of the alliance. This type of culture cannot be built without board members having the ability to challenge ingrained beliefs developed during more adversarial traditional contracts. This self-awareness and appraisal must also be part of an ongoing commitment to leadership and governance development.

Board members must be able to challenge other team members to foster innovation and breakthrough performance. Some alliances create specialist 'challenge teams' of outside experts to help the board and alliance root out complacency or any sense of stagnation.

A healthy dose of business acumen and a long-term view of business is important. A short-term financial sacrifice may, sometimes, be necessary to achieve the long-term

success of the alliance. This is especially important in maintenance alliances where contracts are typically for five or 10 years and sometimes longer. Astute board members understand that if the alliance works well, the client may reappoint the contractor for an extended term.

For the full benefits of alliances to be realised, board members must have the ability and commitment to lead their respective parent organisations through the cultural changes that enable maximum performance. Good board members become alliance champions and embrace the collaborative psychology that drives them. The best long-term measure of alliance effectiveness is the number of alliance innovations that the respective organisations entered into.

ALLIANCE BOARD CHALLENGES

A range of consistent patterns arise that often challenge the alliance board. Alliance boards usually consist of very experienced and able professionals with years of operational track record. This experience can lead to complacency and at the set-up phase of the board it is easy for members to underestimate the challenge of their own team development. There is, I find, a clear correlation between board effectiveness and the time and effort boards put into trust building, developing board charters, process mapping, dispute resolution and just getting to know each other. Boards that try to short-circuit this process often live to regret the time and effort needed to re-establish broken trust.

Alliance boards are made up of executive directors from the parent companies. These directors are familiar with both the technical aspects and the management aspects of the projects. It can be tempting for them to dip into the management level of the project during board meetings and not stay at an appropriate governance level. Training and critical self-evaluation of the board can help overcome this challenge.

On the other hand, the spirit of collaboration can go too far. Some boards take a gentle-handed approach to project monitoring. Board members need to be as vigilant in monitoring costs and risks as they would be in a traditional contract. Again, try training and critical self-evaluation.

The right board membership is critical. Executives on alliance boards must be senior enough to command respect and obtain resources from the respective organisations. Without sufficient clout, the board can't resolve the problems that arise as part of complex construction projects.

As I said, a revolution is taking place in the governance of large infrastructure projects with the development of alliance contracting. This new style of governance delivers huge benefits but demands new skills and attitudes from the project alliance board members. 🍌

Iain McCormick PhD heads DirectorEvaluation.com – www.directorevaluation.com