

Infrastructure alliances: A two-edged sword

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In today's fast-paced, competitive business environment, companies are forever in search of ways to obtain a competitive advantage. In this climate, business alliances and strategic partnerships have become an increasingly important string in the bow of executives attempting to get ahead. Indeed, with the promises they hold – bridging capability gaps, extending global reach, maximising customer value – business alliances are proliferating rapidly. And the infrastructure industry is no exception.

Yet, despite the hype, the reality on the ground paints a different picture: the vast majority of business partnerships fail. In the world of infrastructure contracting, one need not look far to find evidence of this trend. From Leighton Contractors' Spencer Street Station woes to Multiplex's Wembley Stadium nightmare, something seems to be going wrong.

Partnership contracting: The current state of play

The rise of various forms of partnerships within the infrastructure industry is widely acknowledged. When a company wins a major job – whether it's to build a road, a bridge, a railway or a soccer stadium – executives fast recognise that they can't complete the project efficiently on their own, at least not as efficiently as the competition. So it's become standard fare to engage contractors and technical specialists to assist with the process.

And the purported benefits of these kinds of arrangements are numerous. As markets globalise and competition intensifies, partnerships allow companies to access cutting edge technology, tap into otherwise inaccessible overseas opportunities, fill any critical capability deficiencies and bring together the sheer manpower to get a job done fast and at reduced cost.

It all sounds wonderful in theory. It's just that the bubble bursts once you look at the hard data around the success of these partnerships. While some produce outstanding results, approximately 70% of business alliances fail outright or achieve only initial goals.¹

Need some examples? Here are just a few: Spencer Street Station upgrade? Leighton Contractors recently announced a \$122 million loss. Refurbishment of the Victorian State Library? Five years overdue and \$47 million over budget. Melbourne Convention and Exhibition Centre? Two years behind schedule, with completion not expected until 2010. The former fishmarket site? Three years overdue, with costs skyrocketing from \$170 million to more than \$350 million. Need we even mention

¹ Ertel, D., Weiss, J. and Visioni, L.J., *Managing Alliance Relationships: A Cross Industry Study of How to Build and Manage Successful Alliances* (Vantage Partners, Massachusetts, 2001), p16.

what happened to Multiplex's \$1 billion contract to redevelop the spiritual home of soccer – England's Wembley Stadium?

The current state of play is a disturbing one. What's going wrong?

Causes of partnership breakdown: The case of Spencer Street Station

Consider the case of Southern Cross Station (formerly Spencer Street Station). Some important insights emerge.

Here's the story: In 2002, the Southern Cross Station Authority (SCSA) – on behalf of the Victorian Government – initiated the redevelopment of Southern Cross Station. The aim: to provide a world-class gateway to Melbourne and the regions; to link the emerging Docklands precinct with the Melbourne CBD; and to have it completed before the 2006 Commonwealth Games in Melbourne.

On 2 July 2002, after a competitive tendering process, SCSA selected Civic Nexus Consortium, which engaged Leighton Contractors for the design and delivery of the station.

And then construction began – at least for a while, until problems set in. Here are two examples. CountryLink, which operates a train service between Sydney and Melbourne, has a refueling depot at Spencer Street. Leighton wanted it moved to allow demolition work. CountryLink didn't. The issue took 12 months to resolve, causing substantial delays. Similar delays occurred in relation to completion of the regional platforms. Leighton wanted access. But, given the shortage of drivers qualified to move the trains, access was delayed by over six months.

The result? The original \$294 million contract spiraled to more than \$450 million. Leighton is expected to seek millions in compensation once it quantifies the loss.

What went wrong?

A number of possible explanations have been offered for the time and cost blow-out. Leighton itself offered two diagnoses. The first was poor project management. The second was a lack of foresight in taking on contractual risks. Under the current arrangement, Leighton accepted a substantial range of design, construction, finance and operational risks. So when problems began, the burden fell squarely on them.

Each of these factors warrants analysis in its own right. Much can be said about improving project management processes. A great deal has also been written about contractual risk taking. For instance, there exist different models of alliance contracting, ranging from more formal alliances – in which companies integrate to form a third entity and apportion risk according to investment of resources – to informal arrangements, where the companies remain distinct; they simply agree to direct certain resources towards the joint project. Each model has its advantages and shortfalls, and companies must decide wisely on what's appropriate for their circumstances.

But there's another critical factor at play in the downfall of many alliances – and, notably, in this Spencer Street blow-out as well. It's a factor that's not often given as much attention, perhaps because it's harder to isolate, more amorphous. And yet it remains fundamental to the success of business partnerships.

It's the capacity of parties to collaborate effectively.

Understanding Collaborative Contracting

Collaborative contracting is generally understood to require a relationship characterised by openness, genuine mutual respect, and acknowledged risk-sharing – in other words, acting more like a team working to achieve a common goal than two separate and potentially adversarial parties.

According to Leighton's Chief Executive, Wal King, it's this ingredient that was missing from the Spencer Street alliance. In his own words: "...if you look at [the Government's] guidelines, they talk about this being a partnership. They don't use the word marriage, but it's a coming together. If you're married to someone, and it's a master-slave relationship, things end up in divorce."² According to King, as soon as the Authority committed themselves to helping Leighton resolve the delay issue with CountryLink, the issue resolved in a week. "So if they could have solved it in a week, in a positive frame of mind," argues King, "why couldn't they have solved it in a week 12 months ago?"³

Anyone familiar with the infrastructure industry knows that disagreements are bound to occur between parties working on major, complex projects. So the real litmus-test of a successful partnership is not whether problems arise, but whether parties can work through those differences constructively and collaboratively. Project management capabilities and the nature of the contractual terms are critical factors, and must be thought through comprehensively. But when the rubber hits the road, and implementation problems arise, it's the strength of the relationship between the parties that will determine whether the venture succeeds or fails.

Indeed, research supports this notion. In a three-year, cross industry study of alliance managers, poor or damaged working relationships between partners were found to be the foremost cause of alliance failure.⁴ In another study, 79% of respondents whose companies were in outsourcing alliances reported that the difference between a great relationship and a troubled relationship was more than 30% of the annual contract value.⁵

Mastering collaborative contracting: A how-to guide

While an increasing number of companies are recognising the importance of fostering genuine collaboration between partners, many are uncertain about how to create and maintain a partnership of this nature.

Based on years of working with organisations in the infrastructure industry, we've identified a number of behaviours, processes and technologies that help organisations maximise the value of their alliance partnerships.

² Hannan, E., "Station fiasco heading to court", *The Age* (July 15, 2004).

³ Hannan, E., "Nightmare on Spencer Street", *The Age* (July 17, 2004).

⁴ Ertel, D., Weiss, J. and Visioni, L.J., *Managing Alliance Relationships: A Cross Industry Study of How to Build and Manage Successful Alliances* (Vantage Partners, Massachusetts, 2001), p 17.

⁵ Ertel, D., *Outsourcing Value and Management: Part IV, Sourcing and Vendor Relationships*, Executive Update, Vol. 5, No.10. p 1.

1. Assessing alliance compatibility

It's clear that for an alliance to succeed, allies must be compatible at a strategic level. Today's leading organisations, however, are taking their pre-alliance "due diligence" a step further. Now, they're also asking: Can we collaborate effectively? Executives are giving serious thought to differences in corporate culture, operating style and business practices – all with a view to ensuring that when it comes time to implement the agreement, the process runs smoothly.

By way of example, companies might research potential partners' operating practices, review the success of their partner's former alliances, organise extended site visits to observe working culture and protocols or even set up meetings to discuss compatibility issues explicitly. And if the fit isn't right, they can cut their losses early.

2. Establishing protocols for working together

There's no question that getting the formal business contract right is a critical step. Have we apportioned risk realistically? Is there mutual understanding of the project scope? Is the deal operational in terms of resourcing?

But, if a genuinely collaborative contract is the objective – one that will stand the test of the inevitable challenges that accompany major projects – it's not enough. That's why leading organisations are beginning to explicitly develop agreed goals and processes for working together – a 'project charter', of sorts.

For instance, partners might get together prior to implementation to define collaboration goals and protocols around such issues as how partners will solve problems, deal with conflict, make decisions, clarify roles and communicate more generally. As an example, some organisations have developed specific procedures for dealing with the notorious issue of project scope. These procedures provide an agreed means by which to identify scope boundaries, recognise when they need modification, and make appropriate decisions when parameters are challenged – all with the aim of avoiding costly and time-consuming disputes down the track.

3. Building staff collaboration skills

It goes without saying that alliance staff need the core project management skills to successfully plan and track the progression of a given project. What's sometimes less obvious is the need to ensure that staff can effectively work together with their counterparts when it comes to implementation – particularly when conflict arises.

VicRoads recently completed the Hallam By Pass project 17 months early and 10 million under budget. According to the project Director at VicRoads, Trevor Boyd, one of the key reasons for the outstanding result was their commitment to training all staff in collaborative negotiation and problem solving skills.⁶ When problems arose,

⁶ The project-wide training program was delivered by CMA, a leading Australian provider of education and advice in the fields of negotiation, collaboration and influential communication. For more information about cma; <http://www.cmaservices.com.au>

staff were able to resolve those issues in ways that created value for both sides, while at the same time maintaining the critical working relationships.

In fact, some organisations are even going as far as to train their stakeholders and clients in the same core collaboration skills as their own teams have learned. By building shared language, expectations and processes, the investment translates into more efficient, problem-free interactions and produces greater value outcomes for all concerned.

Fostering a collaborative culture

Even when organisations devote time and energy to training their people in collaboration skills, it's still possible that they're not realising the full potential of these processes. That's because people find it difficult to implement these skills and processes in an environment or culture that either doesn't encourage it – or, worse, opposes it. In the infrastructure industry, for instance, it's not always standard practice to think of one's partner as a collaborator. So how do staff remain committed to constructive strategies in the face of counterpart push-back?

Many organisations are answering this question by developing collaboration metrics or KPIs, which are then built into staff coaching, performance reviews and incentive schemes. By holding staff accountable for constructive behaviour, they're motivated to implement the skills in practice – even when the going gets tough. Other organisations reinforce the collaborative vision through regular encouragement and modelling from multiple levels of management. Where management is 'talking the talk' and walking it at the same time, behaviours become culturally entrenched – and their organisations become fast perceived as 'partners of choice' in their industry.

Conclusion

So it seems that the continued growth of business alliances is a two-edged sword. On one hand, they undoubtedly hold great potential. On the other, they are often fraught with problems that compromise partners' ability to realise their full value. And, as the Spencer Street Station story testifies, one of the critical factors is parties' ability to collaborate successfully.

Given this situation, the provocative question that companies must ask themselves as they ally into the future is clear. It's no longer simply, "Is this alliance strategic?"; it's also "...and can we do it together?"

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