SUCCESS FACTORS IN AN ALLIANCING CONTRACT – A CASE STUDY IN AUSTRALIA

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Many studies have been carried out in relation to construction procurement methods. Evidence shows that there needs to be a change of culture and attitude in the construction industry, moving away from traditional adversarial relationship into cooperative and collaborative relationship. At the same time there is also an increasing concern and discussion on alternative procurement methods, drifting away from traditional procurement systems. Relational contracting approaches have become more popular in recent years, and have appeared in common forms such as partnering, alliancing and relationship management contracts. This paper reports the findings of a survey undertaken with a private organisation based on an alliance project during its design stage, identifying the critical factors that influence the success of the alliance project. Legal aspects focusing on dispute resolution in alliancing are also highlighted.

Keywords: alliancing, procurement, Australia, relationship management.

INTRODUCTION

Construction project teams are unique entities, created through a complex integration of factors, with inter-disciplinary players, varying roles, responsibilities, goals and objectives (Goodman and Chinowsky, 1996). Teamwork and collaboration are crucial in construction projects since sharing up-to-date information between project participants leads to minimising errors, reduction of time delays and breaking the widespread rework cycle. The formalisation of these processes through relational contracting approaches helps a sustainable relationship between participants to evolve. Benefits of collaborative, rather than adversarial, working relationships within the construction organisations are well documented (Walker and Hampson, 2003).

Despite the fact that successful sustainable relationships rely on relational forms of exchange characterised by a high level of trust, however, it is generally accepted that the construction industry has a stronger preference for distrust rather than the full benefits of cooperation (Wood and McDermott, 1999). The industry has been described as a business with the strongest distrust amongst its participants. This triggers the urgency of a cultural change to facilitate more positive cooperation and collaboration between parties on a long-term basis (DETR, 1998, Construction Industry Institute, 1991, Latham, 1994).

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ALLIANCING – A QUICK REVIEW

Relational contracting approaches, such as partnering, alliancing and relationship management, were introduced to the construction industry over the past four decades. Alliancing is generally assumed to be a long-term business strategy linking together client, contractor and supply chain (Rowlinson and Cheung, 2004a). Alliance partners are brought together for a specific outcome or project, where risks and rewards are jointly shared and there is goal alignment between parties (Walker and Hampson, 2003, Peters, Walker and Hampson, 2001).

Successful alliancing requires creativity, trust, commitment, interdependence, cooperation, open communication, goal alignment and joint problem solving (Peters, Walker and Hampson, 2001, Howarth, Gillin and Bailey, 1995, Hampson and Kwok, 1997, Rowlinson and Cheung, 2004a). Trust between alliance partners creates an opportunity and willingness for further alignment (such as future job opportunities), reduces the need for continuous cross monitoring of one's behaviour, reduces the need for formal controls and reduces the tensions created by short-term inequities. It allows the partners to focus on their long-term business development as well as cutting down cost and time outlays.

Collaboration between alliance partners is essential for a successful alliance project. During collaborations, alliance partners are able to share resources including professional expertise; this initiates a higher frequency of ideas flow – after all, two heads are better than one. Alliancing will not succeed without continuous flow of information and communication. Through open and honest communication, foreseeable risks are exposed and parties have a better understanding of each other's needs. Trust, continuous open communication and knowledge sharing are the keys to successful alliancing.

However, such positive and proactive behaviour also draws to one's attention the fact that partners might become capable of disarming them (Hamel, 1989). Since alliances between partners are formed in order to contribute to achieving their major goals and objectives for a particular project (Kwok and Hampson, 1996), parties to these alliances have clear objectives and understand that their partners' objectives will affect their success. Collaboration does not always provide an opportunity to internalise a partner's skills. A 'psychological barrier' may exist between alliance partners caused by the fear that their partners may out-learn or deskill them (Love and Gunasekaran, 1999). Some organisations choose to enter collaborative relations to reduce the complexity of their environment and to gain more control over environmental factors (Wood and Gray, 1991).

These issues prompt the question – what are the success factors of an alliance in practice? Through a questionnaire survey and face-to-face interviews with key team members of an alliance project, this paper presents the critical factors identified that influence the success of an alliance team in an Australia case study. It also attempts to examine the effects of and means of resolving the issues commonly found in an alliance relationship.

METHODOLOGY

The research methodology is a grounded, triangulated approach. The basic concepts and variables relating to cooperation, collaboration, organisational issues and performance were investigated initially through the interview process. The

measurement instruments to be used were clearly defined and validated, and these are discussed below. These formed the basis of a holistic model of the needs required in setting up a relational based project team. The second phase of the research was data collection using these instruments and validation of the scales and concepts being used. Once this process had been undertaken, the outcome was validated in two ways. One approach would be by a second set of interviews in which the findings of the research are presented and debated with interviewees. The second approach would be to use the concepts and instruments on a series of case studies identified during the course of the research and to make use of the data collected to explain and understand the outcome emanating from these real life projects. This paper presents initial findings captured from one of the case studies in the research. Empirical data will be validated through subjective analyses of real life cases of real people.

THE WASTEWATER TREATMENT PLANTS PROJECT

This project was set up to carry out upgrades to three existing wastewater treatment plants located in three different city sites in eighteen months. The client had opted for a formal relational contracting approach, alliancing, with the principal aim of creating mutually beneficial relationships between all parties, to enhance the production of outstanding project outcomes. Under this alliance, all alliance parties took collective ownership of all risks associated with delivery of the project, with equitable sharing of risks using a risk//reward mechanism. This commercial alignment is consistent with the 'no-blame, best for project' alliance philosophy that focuses all participants on achieving common objectives. In this instance, Jim Ross's alliance model was chosen by the client which also embodied a no-claim clause in the contract.

Although the client has excellent design skills and is the driver of this alliance, the organisation has only experience in traditional lump sum project delivery methods. There is a clear need for sharing knowledge and resources between the alliance partners at all levels. Skills identified as essential in this alliance project include the ability to work as part of a team, communication skills and the ability to think broadly and creatively. It is important for project team members to participate in group decision making and be comfortable with group consensus. Communication skills emerged as particularly important when interacting and collaborating with professionals from different disciplines.

Initial Stage
Studies show that commitment at senior management is vital in relational contracting (Cheung, Rowlinson and Marcus, 2005, Rowlinson and Cheung, 2004b, Bresnen and Marshall, 2000). Strong support from senior management makes the collaborative approach in alliancing both credible and legitimate. Goal alignment and good relationships are found to be crucial at top management level – after all, the alliance team needs constant support from parent organisations. Findings show commitment and action by senior management in parent organisations have a strong impact on the alliance team and its culture, supporting the view that alliancing has a high chance of failure when there is inadequate support from top management.

The role of leaders and project managers is critical to maintaining relationships and direction in the alliance project. Individuals and groups are able to adapt to necessary shifts in opinions, plans and behaviours when they are properly planned and clearly communicated – again highlighting the importance of open and honest communication in a diverse environment. Communication should not be bounded at the individual

level only, but filters all the way through the project and parent organisation. Buy-in and strong commitment to alliancing do not stop at the top management level, but alliance team members also need to be convinced of the benefits of buying in. Such observation is reflected from the survey findings and the case study wherein the relationship management philosophy created a diagonal slice from top to bottom of the organisation.

Leadership is not only crucial in facilitating communication across the alliance team and at all levels, survey findings suggest work units in the alliance team can find it relatively difficult to work well together, particularly without the presence of leaders. Especially in an alliance team environment where professionals from different organisations are involved, leaders need to act as mentors of the alliance team and nurture a team culture.

Project Stage
In order to facilitate the alliance team environment amongst team members from different organisations, team building was identified as a crucial issue which was targeted through a number of activities during the foundation workshop. The project charter and principle objectives were set during the workshop which was facilitated by an external facilitator. Based on the principle objects, a set of strategic objectives was agreed and in a form which enabled their measurement. Individuals from the alliance team would assess the project performance based on the list of objectives. Similar to a relationship management or partnering project, individuals from the project team would score themselves against the list of Charter Objectives at the end of each period before the next relationship/partnering meeting. In this alliance project, performance in non-cost areas such as schedule, environment, community, legacy and lifestyle, were also measured, as opposed to the measurements common on traditional types of contract.

During the alliance project, there was a continuous 'health check' on the project by an alliance psychologist and an alliance coach in order to maintain team spirit. The alliance coach would visit the alliance team on-site once every week and would have an informal chat with the team members individually. The alliance psychologist would visit the three site offices once every month as an observer. Findings also reveal there was strong buy-in at the top management from the parent organisations and at the senior management level, whereas the buy-in of alliancing at the operation level was found to be rather weak. The problem was acknowledged and a full day workshop for all operation level staff was arranged with the alliance coach. Other than buy-in to alliancing at all levels, the values of the alliance team, the work environment, team building workshops, the project specific merchandise and equipment, informal social occasions and the induction process also have significant influences on the effectiveness of the team in an alliance project. Induction processes are extremely important in any project using a relational contracting approach. High turnover of staff is not uncommon in the construction industry. All newcomers should be given an induction to both the project and alliance process, even one who has previous experience in alliance projects. No two alliance projects are the same, even the personalities of a pair of twins are different in some way.

Continuous facilitation and workshops took place throughout the project. The mutual understanding of alliancing observed from the project team is about sharing resources and experiences, exposing risks, and focusing on the project result – focusing on problem solving when issues arose or, preferably before they became an issue. Open

and frank communication between the alliance project team is encouraged through formal and informal processes, and is sustained and developed by trust. Without trust, there would not be sharing of resources and knowledge; without trust, there would be hidden agendas and closed communication. As mentioned earlier in this paper, trust is a crucial element for the success of an alliance project.

No Blame, No Dispute
The construction industry has been described as an industry with a strong air of distrust. This alliance project did not 'just let it (trust) happen' in the project, but took a further step towards reinforcing the trust element by placing a *No Dispute* clause in the alliance agreement. Alliancing is based on a totally different legal platform. The *No Dispute* clause embedded the fundamental philosophy of alliancing where decision making should be focused on the project outcome and 'best for project'. In an alliancing project, there should be no blame, no dispute, but a drive to develop a win-win culture where the risks and rewards are shared by all parties. Interviewees commented that the alliancing arrangement has helped to develop a sense of ownership towards the project. Also, decisions were encouraged to be made at the lowest possible level within the team and issues escalated to higher levels only if the team was not able to come to a consensus about e a decision or solution. Joint problem solving was highly encouraged and has been successful at the operation level.

In this alliance project, the risk/reward mechanism was tired to the collective performance of the alliance parties, the *No Dispute* clause ensured each party maintained an interest in maximised the performance of the other party other than simply viewing issues from a self-interested standpoint. Alliance parties agreed to wave their rights of action against each other and there would be no arbitration or litigation[2] over any project events. Trust and goal alignment were built up between the alliance parties in an atmosphere where there was no need to worry that one or other side would behave contractually with an adversarial attitude when problems (such as poor decisions and unforeseeable events) arose.

The risk/reward mechanism adopted in this alliance project created financial incentives and equitable risk sharing between the alliance parties. Contractors have often argued there is no commercial alignment in partnering type of contracts. Also, those contracts remained inflexible and client wanted to retain maximum control, but risks were not shared. However, interviewee expressed the view that the contract for this project was more flexible (compared with traditional type of contracts) and the contractor had more control over the project. Also, through the risk/reward model, the key issue in terms of commercial alignment between all alliance parties was addressed, which also served as one of the major ingredients giving all parties an incentive to perform throughout the project.

One of the frequently asked questions on the inclusion of *No Dispute* clause is legal jurisdiction in court. In an alliance project, alliance parties are expected to have careful discussions of their rights and identified clearly which rights are enforceable. Once the alliance agreement is signed, enforceable rights are very limited (Ross, 2003) and there is no clear solution for overcoming such 'risk'. However, the intention of an alliance is to solve problems together and expose all possible risks on the table, rather than developing a resolution model. The limited enforceable rights 'risk' should not exist or be seen as a risk if the alliance parties follow the philosophy

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[2] Except 'wilful default'

of alliancing, where a proactive environment, collaborative relationship and trust are developed between parties. Instead, developing a formal dispute resolution model in the alliance project might put pressure on the alliance parties, decreasing the incentive to work towards 'best for project', opposing the philosophy of alliancing.

Postscript

Behind every successful project, there is always a good leader and a great team. It is crucial to employ the right people who believe in relational contracting (Rowlinson and Cheung, 2004b). Although members in this alliance team were not selected, they were asked to complete a questionnaire to help them find out their personality and data on individual work experiences were also collected. Should anyone be found not cooperating with the rest of the team, the project manager would sit down with the member and try to identify the problem and a solution. If the problem could not be resolved at the site level, similar to all project problems, it would be escalated to the senior management. The problem would be addressed to the member's senior manager in the head office for further action, including the drastic step of taking the person out of the alliance team as a last resort.

The issue of staff turnover was identified at the very early stage of the project. The most common problem was the parent organisation trying to control on-site staff, especially by pulling the staff out from the alliance team for two or three days, as if they were 'only on secondment' to the alliance. Such an issue was tackled by communication with the alliance parties at senior level and receiving policy support; once staff were committed to the alliance, the staff were committed to the alliance team for the duration. As it cane be seen by this example, strong commitment and support from the parent organisations are crucial to an alliance project. High turnover of on-site staff would have a negative impact on the team synergy.

The alliance project also experience difficulties in keeping design staff in the alliance team, again mainly due to intervention of parent organisation; especially pulling out or changing staff from the alliance team after the initial stage of the project and workload appeared to have eased. This flags the necessity of further embedding the benefits of alliancing in the ethos of the design professional; together with the alliancing philosophy and putting it into practice.

CONCLUSION

Trust, teamwork and collaboration are crucial in construction projects. Relational contracting, such as alliancing, brings about a more proactive and collaborative working approach. To bring about success in an alliance project, it requires open and continuous communication at all levels. There needs to be a clear goal alignment between alliance parties. By adopting a risk/reward mechanism, there are motivation incentives for all parties which encourage them to work towards 'best for project' solutions. Buy-in to alliancing is crucial at the top management level, as well as continuous support and commitment to the project. The philosophy of alliancing needs to filter all the way down to the operation level.

The role of leader is critical in a project. Leaders and project managers in an alliance project ensure a harmonious environment in the alliance team, maintain relationships and direction in the project, and communicate with the project team and the higher management level. Constant facilitation and project team 'health check' allow the development of more open and frank communication, focus the alliance team on the project direction, and allow early identification of people problems. On-site team

members were introduced to the true meaning and values of alliancing. Workshops and induction processes assist the project team in putting the alliance philosophy in practice, through techniques such as joint problem solving.

The *No Dispute* clause in this project helps binding the alliance parties together. Without the pressure of litigation, parties are able to focus on goal alignment, enhancing open problem resolution and development of trust. However, maintaining alliance team synergy still remains a problem, especially keeping designer staff in and committed to alliance team.

Open and continuous communication is a must for alliance project success. In this alliance project, the project manager and alliance coach worked together closely to ensure the maintenance of communication and development of skill sets. This case study gives evidence of the development of a more cooperative and collaborative relationship between participants in the construction industry, through more open and honest communications. Parties in this alliance project put aside negative views on open book communications and information sharing. Education on alliancing philosophy, constant facilitation of the alliance team relationship, strong commitment from parent organisations and buy-in to alliancing at all levels promote a successful alliance project.

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