Book Two
Best Practices
User's Guide for
Alliance Based Construction &
Aligned Construction Enterprise

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CONTENTS

Introduction to the Best Practices Section

INTRODUCTION

Understanding the nature of Principles, Processes, & Practices

While the User's Guide is entitled "Best Practices", it actually is a compilation of Best Principles, Best Processes, and Best Practices. Here's what the terms mean:

- **Principles** are underlying truths that don't change over time or space. Principles guide decision-making. Usually a cluster of principles are applied to a real situation to give guidance on how to view or address a circumstance. Seldom should only one principle be the sole determinant of what to do, as that principle might skew the realities of a situation. For example, Adolph Hitler used the principle of the greater good to annihilate innocent people. Principles are high-order directives, and should be considered ranking above Processes.
- **Processes** are the application of principles to a particular situation, consisting of a series of stages of actions that are used to improve, change, add value, or transform something. Processes are sequenced into a flow from one stage to the next. The end of one process is marked by a major event, accomplishment, or result, which sets the stage for the kick-off of the next process.
    - **Core Processes** are those that create the primary value of a business, such as the Processes used to construct a building.
    - **Guiding Processes** set the direction or governance of an organization, such as strategic planning, or corporate governance. (In Book Two, we will be focusing on Core and Guiding Processes,)
    - **Support Processes** are assist the functioning of the Core, such as recruiting of people or accounting.
- **Practices** : Each Process step is composed of a set of Practices, which are work tasks used to accomplish the process. As people innovate, they tend to create better practices that save time, energy, or eliminate redundancy or bureaucracy. Thus Practices tend to be more *malleable, more adaptable, and more fluid than Processes.*

Changing Practices involves a natural evolution of learning and innovation. Changing a Process tends to be more revolutionary, in that the whole manner of thinking and acting begins to change. Changing Principles is extraordinary because it means shifting the entire belief systems that underlie how things operate.

Often, however, Principles have been based on false or sub-optimal beliefs, such as the principles that underlay racism, intolerance, or sexism. However, even when ragged belief systems are challenged with overwhelming evidence and logic, they are still highly impervious to rapid change as people cling to outmoded beliefs and their supporting principles long after proven obsolete.

It is for this reason that books like this are written, to help the mind and language shift from an old frame of reference to a new one.

Practices can and should differ as you move from one environment to the next, and they also change as a situation evolves.

Most importantly, a vigorous adherence to Best Principles, Processes, and Practices *typically*

Purpose of the User Guide

The purpose of this Strategic Alliance Best Practice User Guide is to enable you to design, form, and manage alliances in the most successful manner possible. The Alliance User Guide is the result of years of experience, analysis of successes and failures, and surveying of the most profitable approaches used by alliance experts among the top companies in America. The material contained in this User Guide reflects the learnings gleaned from well over 1,000 alliances, both domestic and international.

However, it is not the intent of this guide to provide you with a "cookbook" about alliances, with precise formulations and ingredients, because every alliance is different — one size will not fit all. Neither is it valuable to attempt to make users alliance "mechanics," because mechanics understand only the "nuts & bolts,"

but lack the designer's understanding of the vision, value proposition, and interactions between the systems — all capabilities possessed

by an "architect." Every alliance is unique and must be customized to the alliance partner, the driving strategy, and the cultures of the alliance partners. Therefore, this User Guide should be viewed as a ***guidebook, not a cookbook.***

This User Guide is designed to prevent those involved in creating alliances from making from committing significant mistakes typical to business developers that are the cause of alliance failure. In particular: too much emphasis on legal agreements; too early a focus on structure without understanding and, the driving strategy or functional integration requirements; lacking a sense of continuity between the negotiating team and into the alliance operational planning and implementation.

Using this User Guide

Findings from Best Practices Benchmarking

The contents of this User Guide have evolved from benchmarking studies of the Best Practices used among the top corporations currently involved in alliance formation and management throughout the world. You will see many words of advice from seasoned veterans who have made many mistakes in the course of mastering their profession.

A Best Practice then results from comparing a number of different ways for achieving the same output. The "best way", or Best Practice, is the one that achieves a superior output in the most efficient way at the least possible "total" cost to the organization.

An important consideration to remember is that a Best Practice today can be replaced with a "better" Best Practice tomorrow that improves upon the results of the output of the process being performed.

Explicit in this definition are the importance of consistent quantitative measurements.

It is important to know that alliances that do not follow best practices have a very high likelihood of failure. But for those who diligently adhere to best practice usage, the rewards are enormous, resulting in much higher success rates as shown in *Figure A.*

Figure A : Alliance Success Rates using Best Practices

Why Alliances? The Difficulties in Construction Industry

The following article (written by industry authorities Joel Darrington, Dennis Dunne, and Will Lichtig)[1] describes our current predicament.

The traditional construction project is organized into three "camps" with diverse

[1] Darrington, Joel; Dunne, Dennis; Lichtig, Will; Integrated Project Delivery, A Working Definition, McGraw Hill Construction, 2007, pp 12-17

interests that sometimes converge and other times are opposed: owner, designer and contractor. Project participants come into their camps at various times during the project, with designers coming on early, construction managers (if any) coming on in mid- design, and general and trade contractors coming on after design is substantially complete. Project communications typically reflect contractual lines, so a trade contractor's issues flow up to the GC, over to the architect or owner, and if needed, down to the design consultant having the answer. As a result, traditional projects have organizations that resemble silos or chimneys, with each camp organized vertically and separated from each other by contractual walls.

What's the problem with that? It practically ensures that:

> Design effort will be wasted because information about cost, constructability and owner's non-program preferences only come to the designers, if at all, at a few milestones after substantial design effort has occurred, thereby requiring re-design.
>
> Construction costs will be higher because general contractors and trade contractors will pad their prices with contingencies resulting from their uncertainty about the meaning/completeness of the design, in which they had little or no involvement. Also, designers will use larger than necessary space factors to give plenty of room for trade installations, resulting in larger buildings than needed. If designers were coordinating with trade contractors from the beginning, they would not need to provide such large space factors.
>
> Engineering safety factors will be extreme, as the engineers have no assurance concerning the capability and quality standards of the trade contractor who might ultimately be the low bidder. In order to avoid an underperforming system, engineers often over- design the system's capacity.
>
> Change orders will result because the constructors first chance to point out problems in the drawings occurs after they have provided their final prices. Additionally, trade contractors who know best how to influence the design in order to improve productivity and constructability are excluded from the design process.
>
> Relationships will be adversarial and disputes more frequent. Imagine a situation where the party who is alleged to have made a mistake is also the party who decides whether that assertion is valid. That is routinely the position that architects and engineers are in. The contractual structure encourages each party to look to its own interests rather than the interests of the project as a whole. Lack of constructor involvement in the design phase reduces the level of common understanding of the project among the players, resulting in more mistakes, misunderstandings and blame. The stove-piped lines of communication often result in long-distance and arms-length relationships among project participants, hindering collaboration and increasing the likelihood of misunderstanding and mistrust……

Current approaches to managing design and construction are typically based upon a definition of construction management much like the following:

> *Construction Management is defined as the judicious allocation of resources to finish a project on time, at budget, and at desired quality.*[2]

This definition is a reflection of the famous triangle of tradeoffs between Time/Cost/Quality with many supposedly smart people in the industry indicating to their peers (but rarely to the owner) that you can only solve two of the three. Unfortunately this cynical, jaundiced viewpoint is based on practice and experience.

The essential features of current PM/CM practice are:

It is activity-based, ignoring the effects of workflow variation on performance.
It optimizes "performance" at the activity level to increase productivity or point speed.
It is based on tracking deviations.
It is defensive, managing with the expectation of future claims and disputes

The 6th annual survey of construction owners by CMAA (2005) reveals:

- Between 40 and 50 percent of all construction projects are running behind schedule (same as previous years)

- The biggest cost impacting construction today is that of inefficiencies built into the way projects are run and managed – not costs of raw material like steel and concrete, or the cost of labor

- More than a third of owners said they felt their project controls were not adequate, citing project management and cost controls as areas most in need of improvement

- "Trust and integrity are required ingredients for improving communications and collaboration"

In the same CMAA 2005 survey the owner' top concerns were listed as:

- Each party in the project protects its own turf
- There is little learning and repetitive failures It ignores the

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2 Richard H. Clough and Glenn A. Sears, Construction Project Management, John Wiley & Sons (1994

creation and delivery of value Trust and integrity in the construction process

- Coordination/Collaboration among team members
- Improved relationships between contractors, CM staff, Designers, and final users
- A/E consciousness of the cost to build their designs
- Bringing contractors, subs, and suppliers on board during the design phase
- Scope control/communicating a clear work scope
- Providing drawings that are more complete to build the project
- Owner responsibility for the process Owner decision-making responsiveness Attaining good project definition

The Trajectory of a Mega-Project

This eloquent description, provided by Economist-Researcher Jeremy Heigh, under a Productivity Alberta contract, describes the process garnered from numerous interviews with those in the field of operations:

With coarse and blunt strokes, let's walk through the general trajectory of a Mega-Project in Alberta:

- Projects start by being put out for bids. This seems like a good move for the owner but it instantly sets up a zero-trust environment.
    - It's a cut-throat process where engineers, constructors, and manufacturers battle their peers to provide the lowest bid, within the tightest schedule, at the highest quality.
- The winning companies are rarely given enough time to pull the ideal team together.
    - They cobble together a group of readily available individuals and throw them into the project.
- The project team stumbles around trying to figure out each other, the other companies they're partnered with for the project and the owners.
- The owner almost always starts by changing the schedule and the plans, immediately making the carefully crafted planning irrelevant.
- Plagued by schedule changes, budget volatility, input constraints, labour shortages, safety violations and regulatory uncertainty, the project teams toil doggedly through the five to seven-year process of producing the project.
    - Inevitably, the zero-trust environment flourishes, seeded by the bidding process.
    - Owners complain about engineering, engineering complains about construction, construction complains about schedules and materials, and manufacturers complain about the burden of inspections.
- Exhausted, the management teams of all the partners and any associated executives finally complete the project.
    - The almost universal response is that it’s over budget and past schedule.
    - The teams are dismantled. Scapegoats are fired.
    - And the process starts again.
- The learning, strategic implications, and experience within that specific project is dispersed and ineffectively captured.

    - The individuals are often thrown into new projects where nothing is the same and the learning is only partially leveraged.
- The consequence is that executives tell us the projects today are no better, no faster and far more expensive then they were 10 years ago. Management is full of holes.
    - And too few of the companies we interviewed trust anyone else.

In this short story, Jeremy Heigh poignantly describes the “Bid – Bully – Build – Breakdown – Blame” plight of the Mega-Project, how the system is broken, why there are so many problems in implementation, and the great importance of a new system of delivery.

Is there a Better Way?

Any experienced construction professional will be asking :

“Is there a better way? Can we bring a new approach that will work?

Fortunately, there is a way to turn the tide from an essentially adversarial model to a collaborative one.

Some have tried the Integrated Project Delivery (IPD) approach with some success.

We believe there is a methodology that shares the belief system of IPD and many of its methodologies, but is more holistic, more robust, and, most importantly, has a much stronger record of success – the alliance approach.

Alliances enable the domains of the Owner, Designer, and Contractor to be ‘aligned’ in a way that produces optimal outcomes and produce higher levels of productivity and innovation.

Alliances are founded on a highly collaborative systems architecture based on the strongest ethics, high performance teamwork, and collaborative innovation.

Alliances embrace virtually all collaborative methodologies, tools, and software.

Alliances create Win-Win outcomes for all players and are governed by a core Executive Council guided by the principle to always do what’s right for the project, not necessarily what’s right for one party’s self-interest while damning their partner.

Alliances are built on a sturdy foundation of trust and culture of collaboration that fosters high performance teamwork, rapid problem solving, improvements in productivity, and day-to-day innovation.

Alliance agreements are weighed heavily on the side of strategic, operational, and financial alignment, and less on onerous legalistic terms and conditions.

Alliances view their realm of operations as a network of interconnected companies that need to work in synchrony and synergy, not as a chain of independent hierarchies battling for their existence in a hostile world.

Defining Alliance Based Construction

The term “strategic alliance” is used by many organizations to encompass a broad spectrum of relationships. For the purpose of this book, our definition of an alliance in the construction industry is:

- a close, collaborative relationship between an Owner (private or public sector) and two or more entities (including at least a Design Team and a Construction Team)
- created for the joint delivery of one or more capital works projects (typically commercial, infrastructure, or industrial)
- characterised by:
  - a mutual commitment to operate in a high trust, high performance, high innovation manner
  - unanimous principle-based decision-making on all key project issues
  - a fair, pre-agreed gain share/pain share regime where the rewards of outstanding performance and the pain of poor performance are shared equitably among all alliance participants
  - an ‘everyone wins or loses together,’ no fault, no blame and no dispute agreement between the alliance participants (except in very limited cases of default)
  - an integrated project team selected on the basis of best person for each position.
  - a governance system that enables rapid problem resolution and ‘best for project’ guidance

There is a big difference between defining something and creating something. While this definition is technically correct, if one tries to create an alliance from this definition, failure will result. Why? Because an alliance is a ‘living organism’ that represents the dynamic interplay of many forces and functions. A simplistic definition may be good for a theoretical understanding, but it doesn’t build a powerful “design structure” to produce high performance results.

When to use Alliance Based Construction

[from AECOM Manual] Alliance Based Construction (known in Australia as “alliancing”) is a form of project delivery often used for complex projects which require speed of delivery and cost certainty. Usually owners seek outstanding alliance outcomes through an integrated team characterised by aligned goals and commercial drivers, innovative thinking and collaborative behaviour. This is reinforced through a commercial framework set up to create a win-win outcome by aligning the commercial interests of constructors and designers with the owner’s project

Figure 1:
3 Dimensional Alignment

objectives, with risk collectively assumed by all participants and rewards determined by collective performance.

Even though alliances have been around for more than ten years, there are still project owners and participants in the engineering and construction industries who share a keen desire to know and understand more about alliancing and why it is a successful delivery model for certain types of projects. The opportunity to provide industry with an experience-based educational tool and practical guide was evident and was a key driver in producing this book.

Alliance Based Construction ing is currently being used on projects worth many billions of dollars in Australia and New Zealand and is now a relatively common form of project delivery. While Alliance Based Construction is not suited to all projects, increasingly it is being seen as a Value For Money model because it:

- suits *complex projects* where *risks are difficult to define and opportunities for innovation are large*
- suits projects which require close management of:
    - *uncertain or changing scope,*
    - *potentially rapid cost escalation*
    - *time to completion*
    - *stakeholder relationships which are often highly visible to the public*
- provides cost management through *a rigorous target cost* development process
- encourages innovation as a means to smarter, *value-based solutions*
- facilitates the incorporation of *community, stakeholder and environmental drivers*
- facilitates speed of delivery through an *integrated owner/design/construction team*
- *attracts resources* in a tight market and labour is tight.
- *promotes innovation* at all stages of construction
- holds the promise of finishing projects *on-time, on-budget, or better*

From the Partner (Designer/Contractor) perspective the alliance process provides an opportunity to build deep knowledge about the Owner and the Owner's drivers, the full complexities of the project/s and the project delivery landscape.

The opportunity to strengthen relationships with the owner is obviously part of this process. The result is that it optimises the Partners' ability to provide the most appropriate services offer, including assembling a 'best-for-project' team to deliver the works. All of this enables the Partners to deliver smartly, efficiently and in a cost-effective manner by getting it right from the start.

Alliance Based Construction is increasingly being seen as a sustainable delivery model that is continuously improving and evolving to suit Owner and project requirements, and which is deepening its Value For Money proposition as more and more alliances are successfully being delivered and more people in the industry have exposure to alliancing.

Designing an Alliance

The real power of the alliance framework is that it integrates strategic advantage, human behavior, and high performance operations into its 'systems design.' In designing an alliance, first think in terms of a '3-dimensional alignment' (see Figure 1) of:

1. *Strategic Drivers* that are pushing on the partners to think and act in a manner that collectively creates Competitive Advantage. The alignment of *Strategic Drivers* ensures the cast of characters are working in the same direction and understand the fundamental meaning and purpose the owner has in mind. If and when the Strategic Drivers change, the entire alliance must now shift to stay in tune.

2. *Culture* of human interactions that create great chemistry among people. The alignment of the *Culture* ensures that critical issues like trust, decision making, communications, leadership styles, values, protocols, and reward systems are compatible so that people can work together in teams, and create together to innovate and solve problems rapidly without blame and discord.

3. *Operational Functions* that must produce results. The alignment of *Operations* means that the human delivery systems and the mechanical functions can be implemented in the field in a highly effective manner.

It is important to understand from the outset that these three dimensions are crucial to long term success. This 3-Dimensional Alignment framework is highly successful because it integrates strategic, human, mechanical systems into a highly effective, holistic approach to doing business.

Supporting these three dimensions, must be a compatible cast of legal/contractual/financial instruments, as well as a fair and effective means of governance. (see Figure 2: Details on 3 Dimensional Fit for more information)

Additional Alliance Characteristics

An alliance should embody the spirit and essence of the following characteristics to improve its likelihood of success. Any alliance missing these characteristics will likely be beset with problems. Use these characteristics as a checklist to assess current and prospective alliances. Any missing characteristic should be considered a danger sign.

Some additional characteristics of a typical successful alliance include:

- Synergy in the relationship contributing to a powerful value proposition;
- Mutually compatible goals that would be difficult for each to

achieve alone;

- Expectations of sharing the rewards and risks inherent in the relationship;
- Terms of the alliance agreement are incomplete because of future uncertainties;
- A governance structure is established to conduct joint decision-making and to deal with conflict resolution;
- Each organization is looking out for the interest of the other organization and the alliance as a whole;
- Champions are designated by the involved organizations;
- Operational unit support is achieved and aligned at multiple levels;
- There is a long-term view to the relationship; and,
- Joint planning is used to innovate and evolve the relationship over time.

Figure 2: Details on 3 Dimensional Fit

Distinguishing "Systems Architecture" from Methods & Tools

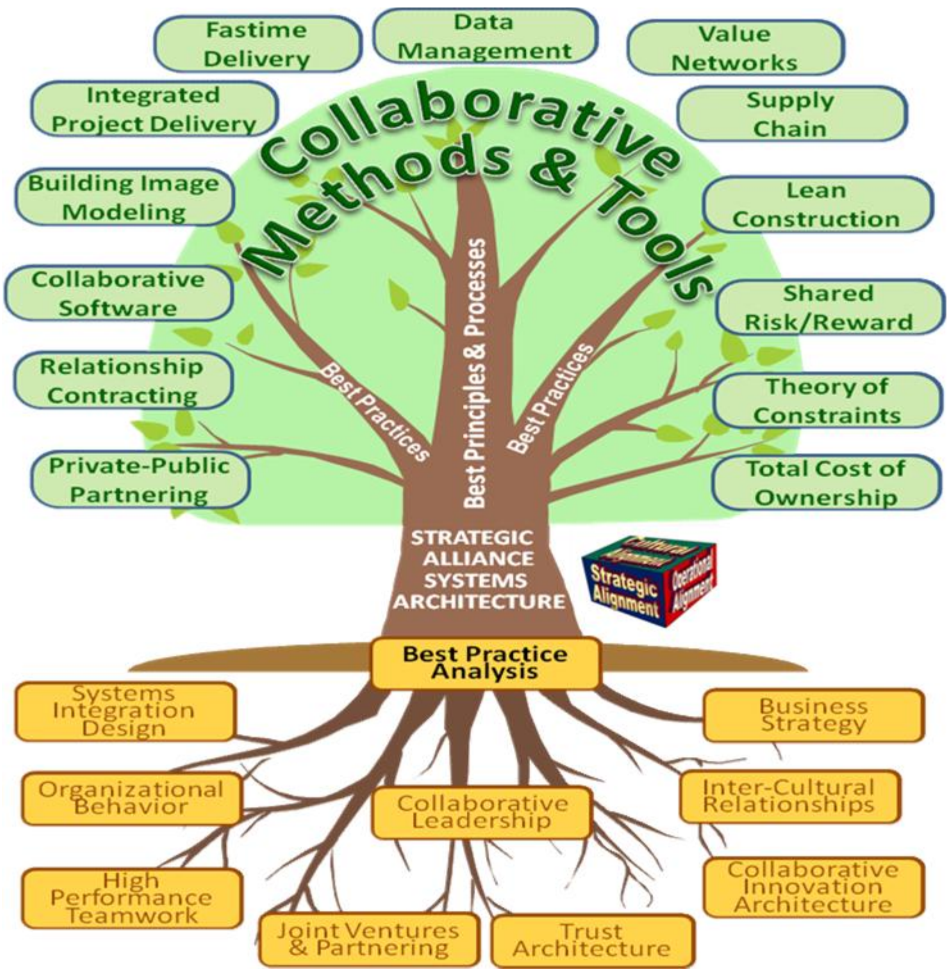
Robust & Scalable

Because Strategic Alliances are based on a highly tested platform of hundreds of successful best practices, and the collaborative systems have been carefully integrated and are interactive, the alliance approach is easily used in a multitude of situations, including construction, manufacturing, private-public partnerships, and many others.

One of the primary reasons for the success of Alliance Based Construction is that it uses, at its core, a 'systems architecture' that is holistic, integrated, and based on sound and tested rationale. (see Figure 3)

First, the alliance systems architecture is deeply rooted a multiple set of

Figure 3: Alliance Systems Architecture



disciplines, including business strategy, systems integration design, organizational behavior, inter-cultural relationships, collaborative innovation, collaborative leadership, high performance teamwork, joint ventures & partnering, and a system of trust. This makes the alliance systems architecture extremely holistic.

Second, the 'trunk' of the systems architecture is built around the three-dimensional alignment system of strategic alignment, cultural alignment, and operational alignment.

Third, the core of the system is a highly effective and tested Best Process flow map that takes the development of the alliance from concept to implementation to completion. (see Figure 4)

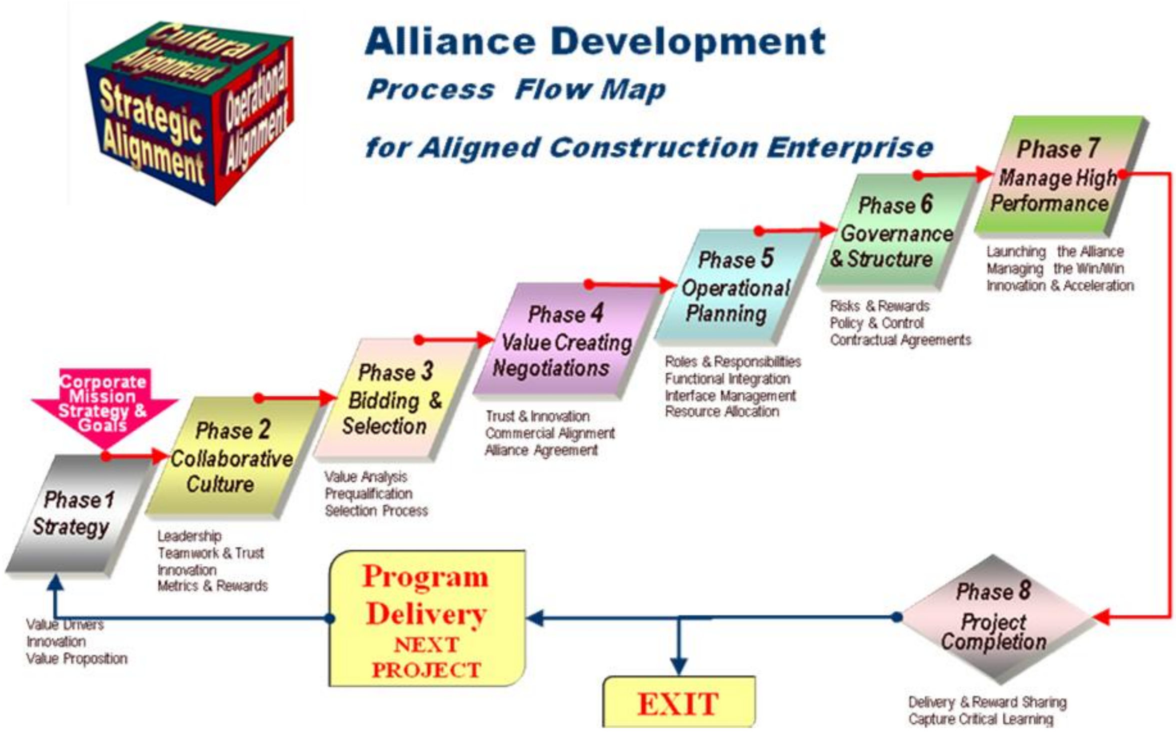


Figure 4: Process Flow Map for Alliances

Fourth, onto core Best Process Flow are literally hundreds of tested and valid Best Practices, which ensure a powerful, fluid, and successful means of moving through each phase of the process map.

Fifth, onto the Best Process/Best Practice map a number of methodologies and tools can be utilized, including Lean Construction, Fastime, Private-Public Partnering, Value Engineering, Supply Management, Total Cost of Ownership, Relationship Contracting, Collaborative Software, and other Integrated Project Delivery methods and tools.

The robustness of the alliance system means that virtually any collaborative methodology and collaborative tool can be successfully attached to the best process/best practice framework. (For example, practitioners of Lean Construction will quickly find the alliance system creates the leadership, trust, and innovation infrastructure to accelerate and support Lean programs.)

Best Process Framework

By combining the best process with best practices (see Figure 5) the alliance professional or practitioner has the advantage of an extremely powerful methodology for alliance success.

Distinguishing Best Process from Best Practices

Often people are confused when hearing the words 'best process' and 'best practices.' These expressions are closely linked, but are not synonymous.

A *process* is a distinct stage or phase in the conversion or transformation or adding of value to product or service.
Each process is composed of a series/sequence of practices that enable the process to perform its function.

In addition to Best Practices, this User Guide provides the proper sequencing of best practices, which is the "Best Process" flow. In the compilation of the best practices, it has become clear that there is also a best process for alliance formation and management

Figure 5: Best Process & Best Practice

A Best Process Is a Sequence and Flow of Best Practices.

By combining Best Process with Best Practices, the alliance professional or practitioner has the advantage of an extremely powerful methodology for alliance success. The Best Process model used throughout this book is depicted by the Alliance Framework outlined at the end of this section.

While the illustration above indicates that a Best Process is a collection of Best Practices, how would we recognize one if we were to see one. A Best Process is best thought of as a total systems solution of a problem. As an example, if we consider all of the steps required from receiving a claim form through responding to the claim we would have a number of Best Practices being applied throughout the steps involved. We would then consider all of these individual steps, using Best Practices, within the overall process being considered the Best Process.

The best-process model used throughout this book is depicted in the Alliance Framework image at the beginning of each phase in this User Guide. (see Figure 6)

Figure 6: Best Process Flow for Alliance Based Construction

Overall, the alliance systems architecture is profoundly simple, but capable of handling highly complex situations in multiple industries.

Each of the Phases of the Alliance Based Construction Life Cycle Framework is depicted in Figure 6, and each chapter in this book provides detailed guidance on implementation of the phases.

Scaling Up or Down

Being scalable has important significance for producing collaborative results. A system that is scalable can be used with greater sophistication and attention to principles, processes, and practices for very large scale projects and long term programs with multiple partners, such as industrial construction in the oil sands.

This system can also be scaled smaller, for shorter duration, single projects, and few partners, using less rigorous application of the Practices, but still adhering to the Principles and Process flow.

Professional

Alliance Best Practices are constantly evolving, being upgraded by several thousand professionals who contribute and share new approaches through the Association of Strategic Alliance Professionals (ASAP). (see www.strategic-alliances.org)

Those who are keenly interested in alliances may

Best of Breed

The alliance profession attracts bright people from a wide cross section of industries throughout the world. Collectively, these professionals have a very diverse background and unabashedly hybridize ideas from other focus areas.

Thus the collection of alliance best practices becomes a collection of 'best of breed' characteristics. Learnings from Integrated Project Delivery, Lean Construction, Supply Chain Management, Value Engineering, and many other collaborative methodologies have been, can be, or will be integrated into the robust alliance systems approach.

Customizable

Because the alliance system is constantly evolving, some companies and highly strategic alliances may decide to use the basic system, and then customize it with proprietary and confidential practices methodologies. (under these circumstances, contact Productivity Alberta to license the User Guide and receive the software to drive a customized version of this edition)

~TRAP~

Apply the term "Partnership" Very Cautiously

Using the term "partnership" has very strong legal implications which link one firm's obligation to legally binding commitments on the part of the partner, and vice versa.

Recently, one very large US corporation had told one of its suppliers it wanted to engage in a cooperative partnership with its vendors. The supplier made major capital investments based on this commitment. When the market changed unexpectedly, the large corporation canceled its orders and the supplier sued based on the supposition that a partnership existed. Use the term "alliance" instead of "partnership."

Why Alliances are Essential

Winning in Today's Competitive Environment

In today's world, companies must continually grow their core business and enter the fastest growing market segments.

In the rapidly changing world of global competition and technological invention, where state-of-the-art technology is sometimes superseded in a matter of weeks, the race may not go to the swiftest state-of-the-art new technology, nor to the largest behemoth corporation, nor to the fanciest marketeer. Rather, it will be won by the team delivering to the customer the highest value integrated solution.

Maintaining a competitive edge and marketing leadership is more than just a challenge, it is a necessity. For companies to remain strong during the 2000's, it is essential to find opportunities for leveraging and expanding their core

competencies into leading edge markets.

~TIP~

USE ALLIANCES to ADD or SUPPORT CORE COMPETENCIES

Enhance Performance in the Value Chain

1) Widens the Domain of Innovation
2) Capitalizes on Hidden Assets
3) Provides Potential Access to a Variety of Markets
4) Significantly Contributes to Perceived Customer Benefits
5) Difficult for Competitors to Imitate
6) Grows When Shared and Applied

Coopetition

Coopetition is a term to describe alliance relationships between organizations that normally compete against one another in the same competitive space.

A generation ago, competitors were considered “the enemy,” to be dominated, defeated, and eliminated. In a dramatic turn of attitudes, 50% of all alliances today are between competitors. Often these alliances are driven by the need to reduce risks of developing new technologies, to open up new markets, or to supply a mutual customer with compatible products & services. Given the critical issues that naturally occur between competitors, it is essential to use the best practices in this guide.

In the construction industry, coopetition is becoming more and more prevalent. A typical coopetition agreement may be between two contractors with complementary skills. For example, one may have strong ties in the local market, and the other may have unique skills building specialized facilities, such as chemical plants or sports arenas.

In these coopetition arrangements, the practices in this User’s Guide will be especially useful.

Advantages of Alliances

There are numerous reasons for forming alliances, as described in Figure D. Some of the major shifts in market evolution include:

- To take advantage of economic disruptions in the market place, alliances provide a fast alternative to internal growth;
- Revenue in the market is shifting to services;

and,

- Profit is increasingly derived from leveraging the core competencies of alliance partners by creating stronger integration of their unique strengths.

Developing synergies by matching your capabilities with potential alliance partners that share your objectives, basic values and strategic focus will be the key to success in this competitive world.

Given the proliferation of rapidly changing technologies, new delivery systems, vicious global competition, and difficulties in foreseeing every future possibility, a needed strategy for winning in a rapidly changing and highly uncertain environment is to have many options, opportunities, and avenues for creating value for the customer. This often will require multiple alliances in multiple markets, which will need to be managed using an alliance portfolio management system.

Maintaining *prominence as the leader in the industry* is only possible when our company creates the *greatest value* for its customers.

This superior *value* is generated not solely from being technologically competent, but by combining a best solution with the best service, quality, distribution, integrated management systems, reliability, and the best relationships with alliance partners and customers.

You can achieve a *superior value-added position* in the market by *augmenting its own internal core competencies with the assets, competencies and human capital brought by alliances.* Alliances can be used to immediately enhance our position in: marketing, distribution, service, systems integration, product development, technology research, design innovation, *and solution sourcing.*

While alliances, mergers, and acquisitions each have their distinctive advantages in certain situations, some of the general advantages of alliances compared to mergers and acquisitions are shown in Figure F on the following page.

Concern over Lack of Control

Many managers perceive a lack of control as the largest disadvantage. However, alliances can be controlled, but the concept of control is very different from the classic style of control through hierarchical power and limitations of authority. Alliances exercise control through alignment, coordination, creative adaptations, governance structures, and designing empowering measurement systems.

Loss of exclusivity in any area is only a concern when you think that it is paramount to your core capability. If a technology is core, then plans should be made to acquire it at the outset of the agreement.

Correcting problems quickly is more a function of trust and chemistry as we shall see, than anything else. By ensuring peer – to-peer functional reviews and empowering employees closest to the problem, issues can be resolved quickly in alliances.

Legal conflicts arise when you lose trust in your partner. The old adage is, “If you have to pull the contract out of the drawer to resolve an issue, then the alliance is failing.”

Creating an Alliance

Once your organization has decided upon allying with others, the next step becomes the most important step in the overall development of the alliance. It is implementation of the Aligned Construction Enterprise (ACE) alliance framework or process. Not using this process could more than likely result in a “transactional, deal making mentality.”

~ TRAP ~
This deadly sin is the most frequent trap of all alliance killers

Best Practices Violated

Alliance disadvantages are normally due to an organization’s haste to create an agreement. The end result is considered a “deal”, rather than an alliance of equals. This occurs because in our haste to culminate an agreement we do not review all of the basic alliance principals that are outlined in this User Guide.

It is critical that alliance practitioners not ignore basic considerations, such as, core competency of each player, chemistry, operational styles, and the strategic direction that each organization has laid out for themselves.

Consistently using the time-tested alliance process in this User’s Guide will assure practitioners a high likelihood of success as they initiate the first steps in the alliance formation process.

Senior management begins by selecting a champion - an executive who is charged with making the specific strategic alliance take shape and become a reality.

The champion builds a cross-functional/multidisciplinary core alliance development team that will execute the relationship-building process - analyzing needs and potential partners and ultimately creating an operational team that will oversee the alliance relationship over the long-term.

As the process proceeds, the core alliance development team grows and draws on the expertise of people from throughout the organization to create sub-teams to handle specific tasks.

The nature of the core team and sub-teams varies as the organization moves through the phases of the alliance process; the precise makeup of the team depends on the task at hand at any given time, on the nature of the business process being considered, and the organization's specific structure and needs.

The various teams involved in the first stages (Phases 1-4) of the alliance formation process are essentially temporary. They are assembled to perform specific tasks and then dissolved when the tasks are complete. As a result, executives must ensure that team members are familiar with the alliance concepts and processes and have enough time to devote to the effort. Once the alliance reaches the Final Operational Planning, Structuring, and Launch stages (Phase 5-7) the teams will have become more stable and permanent.

Worst Practice Process

Worst Practice Roles – (Often the Way Alliances are Done)

– Deal Makers are Rewarded for Number of Deals

– Focus on Getting Contract Signed, then jump to the next "deal" with no follow-through engagement

Think of Alliances as just another 'transaction'

– Goal is to Maximize Financial Impact of the Venture on their organization and Shedor Reduce their own Risks Exposure

– Desire to Keep Alliance Management and Operational People out until after the deal is signed

Tip-off that you are engaged with a deal-maker: The most important question to them is "How do we 'structure' the deal."

It is important to remember that another company utilizing a "Deal Mentality" will have to become educated in the way our organization will approach alliance relationships. If they are not amenable to this method, we may have to reconsider the relationship or treat it as a tactical one until a more appropriate organization comes along.

We highly recommend that all companies involved the alliance formation and management have a copy of this User's Guide and use it as a guidance map for the evolution of the alliance. In this way everyone is dancing to the same music.

Distinguishing Joint Ventures from Strategic Alliances

Joint Ventures are very prevalent in the construction industry. Often two contractors with different skill sets will jointly agree to build a project. For example, one company may have the technical skills to build a high-rise office building, but not have the local knowledge or trust of the governmental authorities or trade unions. The partner company may have these local relationships, but not the technical experience or bonding authorization of the larger, outside firm. Together they can form a Joint Venture to bid on and build the project.

While Joint Ventures are not, in the strictest sense, a strategic alliance, they are a collaborative relationship. However, being good at a JV does not imply that JV experience can be transferred fully into a strategic alliance. (see Table 1 to understand the difference between a JV and an Alliance)

~TIP~

Use Alliances to LEVERAGE CORE COMPETENCIES

"What We Are Good At"

Core Competencies are not simply our products, services or physical assets, but include:

- Embedded organizational knowledge
- Defines your company's unique capabilities to deliver value
- Involved complex integration
  - Harmonizing streams of technology and production skills
  - Specialized coordinative abilities
  - Unique technical capabilities
  - Integration of customer needs to technical possibilities

Table 1: Comparing a Joint Venture to a Strategic Alliance

Joint Venture	Strategic Alliance

Objective	• Joint Project Bidding & Construction • Potential Joint Ownership after construction completion • Maximize Profit from Project	• Long Term Strategic Alignment combining strengths of two organizations to produce a highly competitive, unified set of joint capabilities that will bid on and complete many projects over the lifetime of the alliance • Strategic intervention into the marketplace to capture strong market position
Competitive Advantage	Brings strengths of two companies together for increased chance of success in Project Bidding & Construction Delivery	Strengths of two companies are combined for Long Term Market Penetration, Higher Value Delivery in Bidding, Construction, Innovation Evolution, and Customer Satisfaction to maximize profitability, market share, & value delivery
Structure	• Joint Project Construction Agreement that divides responsibilities, risks, and rewards among the partners	• Multiple levels of Strategic, Relationship, Operational, & Financial Integration • Evolving Strategic Plan that adapts to Market & Competitive Conditions • Committed Leadership at senior and middle management • High Levels of Trust based on Personal Relationships of Integrity • Individual Construction Projects are often separate JVs based on specific conditions
Contract	• JV Contract defines the Legal Structure & Allocation of Responsibilities, Risks, Profit Sharing, and Conflict Resolution, etc.	• Contract is only a Portion of the Agreement, often intentionally broad. • Operational Teamwork & Interpersonal Integrity more important than contract • Maximum Flexibility as times and market conditions change,
Key Factors for Success	• Best Project Management Practices (cost, quality, and time control)	• Best Alliance Management Practices, including Project Best Practices • Requires intimate knowledge of the customer's needs & high value inter-action between A&E, suppliers, subcontractors, & others
Duration	Construction Cycle (or longer if JV operates the facility)	Long Term Commitment to mutual success (no defined endpoint to the relationship)

Risk Reduction and Risk/Reward Sharing

Managing risk is a critical element in every construction project. For most construction companies, 'safety first' is where risk management begins.

Safe job sites not only save workers from injury, but also save on insurance premiums from workers compensation costs. And, as an important bonus, when workers feel safe, their morale increases along with productivity. A worker worried about his or her chance of being injured is focused on personal protection, not innovation.

In the Alliance Based Construction model, many construction risks are dramatically lower than in traditional approaches.

First, because trust levels are higher in ABC, communications, problem solving, and innovation increase, reducing risks of failure in the field. Trust also eliminates massive amounts of non-value-added work, such as redundancy, cover-your-backside, etc.
Second, by creating a high performance team utilizing the 'best people for the project' principle, higher productivity creates lower risk.
Third, by integrating all the creative thinking up front (front-loading) into the design cycle (Phase 5 – Operational Planning, see Figure 4), opportunities for innovations are identified, field problems are reduced significantly, and early warning systems are established for averting major catastrophes.
Fourth, the Risk/Reward balance is fair and incentivizes co-creation, collaborative innovation, and collective action for the 'good of the project.' (Note: the Risk/Reward structure is not finalized until all the members of the alliance are engaged in identifying potential risks and finding ways to resolve them *before* they strike – Phase 5,(Figure 3)
And lastly, because most ABC relationships reject litigation as a means of resolving difficulties, the back-end legal costs are eliminated. (Resolution of differences can be handled with Alternative Dispute Resolution. However, in the hundreds of ABC projects, litigation was never necessary.)

Typical Risk Sharing – Reward Sharing Model

One distinguishing feature of alliances (in every industry) is the sharing of risks and rewards. Sharing risk is important because it creates 'skin in the game;' each party is obligated to put forth its best efforts to reduce risks, and to share in the rewards for creating value.

In Alliance Based Construction, a three tiered Risk/Reward financial structure is established for 'pain-gain sharing.' (see Figure 7). It is a "three tiered (or limbed)" approach that ensures neither the Designer or Contractor will be bankrupted by the formula.

Limb 1: 100% Reimbursement of Direct Costs

This includes direct costs and project specific overhead incurred in delivering the works, irrespective of the performance of the alliance and the outcomes of the gain share/pain share regime. This reimbursement includes rework where aspects of the work change, fixing errors or mistakes, and any wasted effort. Reimbursement of direct costs should make no contribution to administrative or support functions that are not directly related to the performance of the works.

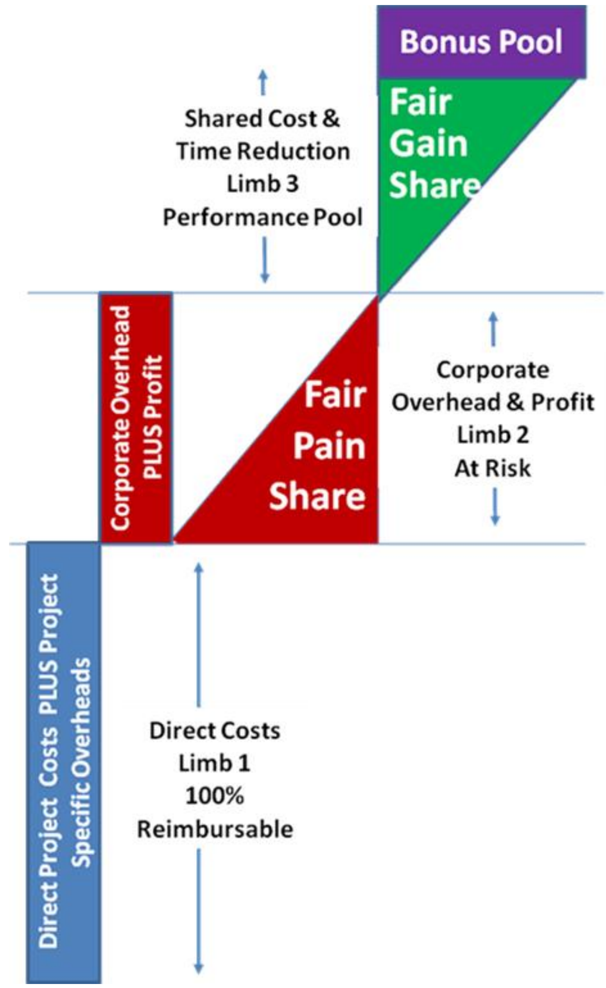


Figure 7: Pain-Gain Share Model

Limb 2: Normal Profit and Corporate overhead (non-project specific)

An outside accounting firm determines what has been normal historic overhead and profit, above and beyond that included in the direct project overheads. This is placed at risk should the alliance members underperform. (Subcontractors that are not part of the pain/gain arrangement are excluded unless the Contractor makes special arrangements with the alliance). Typically Limb 2 percentages are lower for Contractors than for Designers, because of the different ways each allocates overhead. The fair share percentages are negotiated among the Owner and Partners and agreed upon mutually before launching the project.

Limb 3: Gain Share

This represents the amount of money that is offered to the Owner and the Partners to 'beat the target cost.' Typically the owner retains about 50% of the savings, and the Partners split the remaining savings as a bonus. The

Partners engage in robust principles-based decision making to ensure a real win-win and that performance is not sacrificed in order to achieve gains.

In projects where completion ahead of schedule is an important part of the Value for Money equation, a bonus pool is established to incentivize fastime delivery.

Bottom Line: Industry shift

After having shifted to an Alliance Based Construction model, here's what the Aussies say about its effectiveness:

> As well as the traditional drivers, today's alliances also resonate with clients because of their capacity to deliver significant community and social benefits and legacies. Increasingly this is a major requirement for clients whose vision transcends the historical project delivery outcomes of time, cost and quality, and whose own clients, often the public, expect community-focused, sustainable development.
>
> Today's high demand for alliances is also being driven by a resource-constrained market. Owners are seeking resource certainty and want to develop and retain people on their projects.
>
> Historically, Designers and Contractors have provided services to clients in traditional 'design then build' frameworks, in 'design and construct' teams, 'partnering' and similar arrangements.
>
> Experience has shown that when alliances are used for the right project and given appropriate management focus they can provide better outcomes and a higher level of satisfaction than if these traditional adversarial delivery methods are utilised. The reasons for this include:
>
> - Price Certainty – alliances are typically delivering to within (+or-) 5% of the Target Cost
> - Solutions-Focused Approach within complex, challenging project environments
> - Project Team's Energy focused on achievement of project goals
> - No Costs incurred in Litigation
> - Better Project Delivery Certainty
>   - an evolved Value For Money (VFM) proposition incorporating transparency, time and quality criteria, as

well as long-term sustainable (community, environmental and stakeholder) legacies
- focus on responsibility and accountability
- greater community and stakeholder engagement
- superior prospects for achieving environmentally sustainable solutions through a whole-of-project approach
- improved professional and personal growth
- opportunities for skills and knowledge exchanges between the Owner and Partners
- constant benchmarking of project outcomes.

Change in Mindsets

One of the primary reasons for an extensive User Guide is that the world of alliances is one where collaborative methodologies prevail.

For a wide variety of reasons, our business world has historically been far more adversarial or transaction-oriented, than collaborative.

Thus, the world of alliances, partnering, and connectedness is new to some and alien to others.

Many people find the collaborative world "intuitively marvelous," but even for those who flourish in the collaborative world, the mindsets and skillsets required are often not nearly as well documented and formalized as they are for the adversarial and transactional worlds. Many of the collaborative methodologies actually can be traced back to the era of ancient Greece, but over the aeons, their methodologies were seldom embedded into modern business.

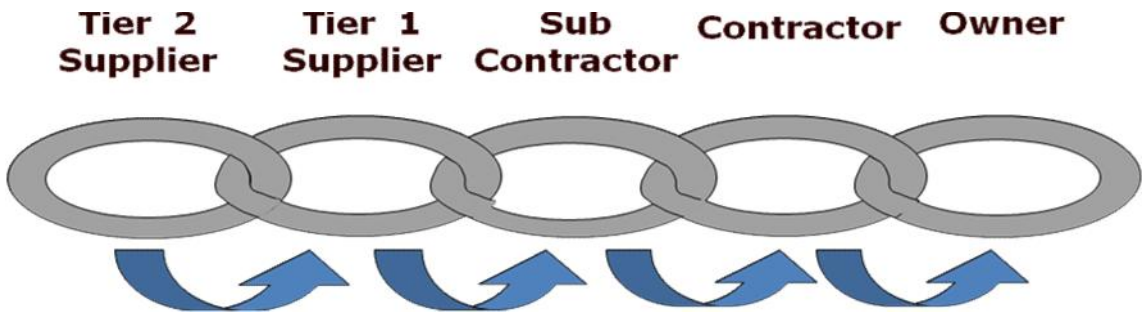
Some have referred to this shift from adversarial/transactional to collaborative/relational as a 'sea-change,' and indeed it is.

For this reason, we spend time with a detailed description of the mindset and skillset shifts required

When companies work 'transactionally' they 'bargain' for the exchange of goods/services in exchange for money. There is nothing 'wrong' with this approach, but it does not generate the flow of innovation from supplier to customer. The customer only gets what the 'bargain for," nothing more.

Transactional engagement between customers/owners and suppliers/designers-contractors, establishes a relationship referred to as a

Figure 8: Supply Chain approach to Value Flow



Supply Chains connect suppliers to customers in a set of linkages that enable the flow of goods and services to move from one stage to another. In theory, each link in the chain is supposed to add some new value to the good or service. For example, in the delivery of an orange to a retail customer who eats the orange, the orange may go through a long value chain from the grower to a transportation company that takes the orange to a wholesale processor that polishes the orange and packages it, then sells it to a retail marketer (grocery chain) via another transportation company that brings it to a grocery store, where it is placed on a display, then sold to you the customer. At each step of the value chain, someone/organization adds value (in the form of a service) to the product.

While this supply chain approach based on transactional exchange is acceptable in simple systems, it breaks down in complex systems that have to deal with constant change and need rapid response.

"Chains" are too slow, lack a means of innovation, and cumbersome to work effectively when speed, innovation, and cooperation are really necessary. The transfer of value may have to be renegotiated every time something new is required by any member of the chain.

'supply chain." (see Figure 8)

The 'chain' approach is inherently slow, cumbersome, and filled with non-value added work.

A better approach is to interconnect all the organizational parts into an integrated network (like the brain or the internet) which communicates, coordinates, synchronizes, and responds rapidly. (see Figure 9)

However, the chain is simple in that most organization need only deal with one link forward (customers) and one link backward (suppliers) in the chain.

When a linear chain of organizations acting transactionally shifts into a network of coordinated, symbiotic, integrated network focused on a common objective, we call this an "Aligned Construction Enterprise." (ACE)

In an Aligned Construction Enterprise, while the alliance may *formally* be agreed upon between only with the Owner/Designer/Contractor, the alliance members expect and treat *the other members of the network*

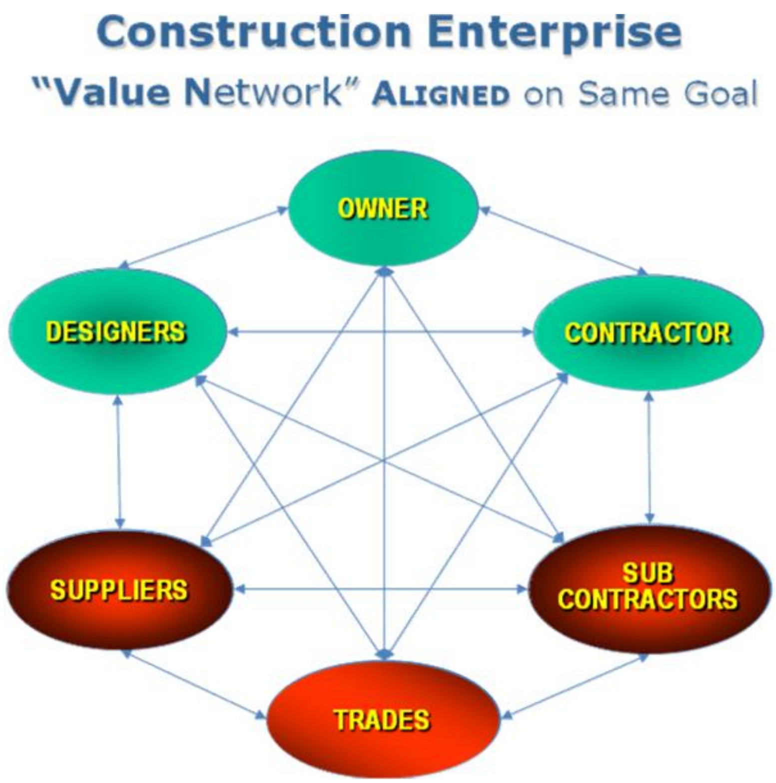


Figure 9: Integrated Network – "Aligned Construction Enterprise" (ACE)

(suppliers, subcontractors, and trade unions) *as alliance partners* as well*.*

In a network alliance structure, organizations agree to share their complementary assets and strengths to create a "win-win-win" (multiple win) situation that increases value for *Owners* while increasing the rewards for *all partners involved.*

Practical Implications of Shifting from Chains to Networks

Supply chain thinking causes projects to develop 'linearly' in a fragmented manner. Key people who have value to contribute are often left out of the design, or are consulted only after a breakdown occurs. For example, electricians who understand the interrelationships with plumbing and HVAC systems may not be involved in the design stage with architects and engineers. Consequently problems that could be avoided by consulting the experts from the field often show up later in the construction cycle as breakdowns, resulting in aggravation, blaming, as well as duplication of effort (loss of money and loss of time)

Back Loading

The most obvious result of linear chains in a construction project is a condition called ‘back loading,’ which brings subcontractors into the project too late to have an impact on the design phase. (see Figure 10)

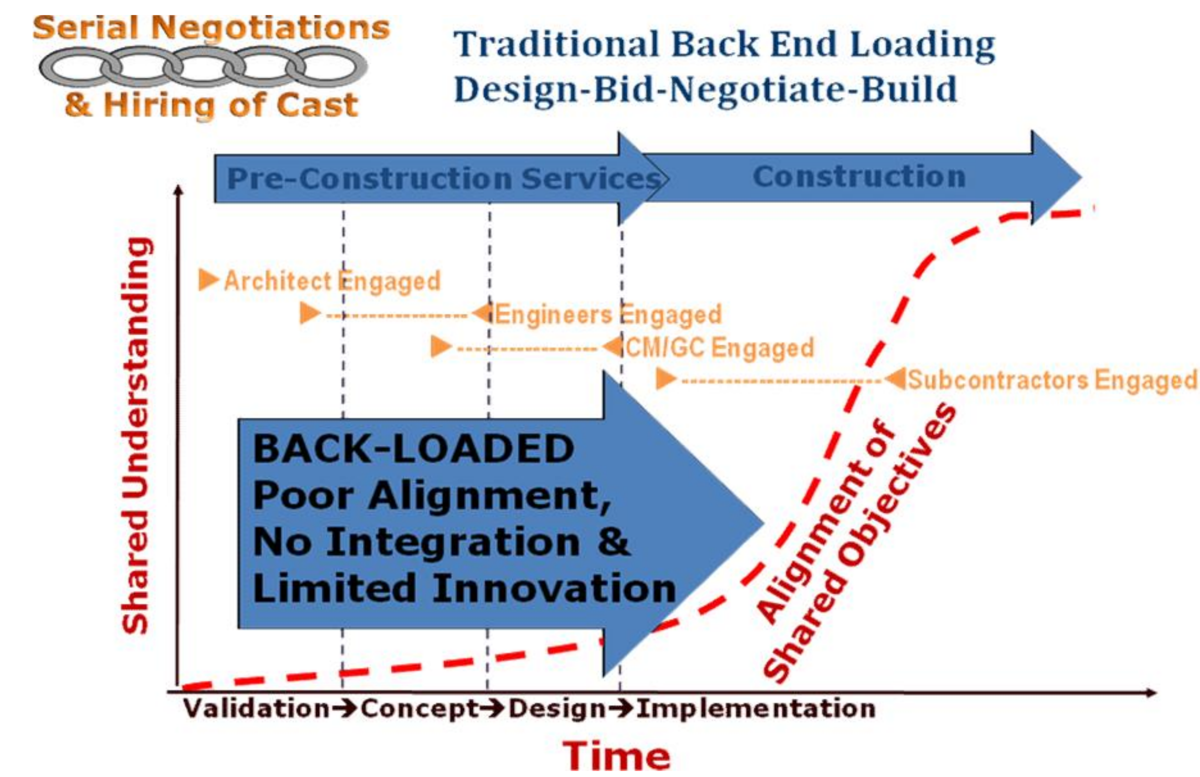


Figure 10: Back Loading Creates Fragmentation

Not only does back loading cause the knowledge of the construction team to be stifled, but it also creates a multitude of change orders, field installation breakdowns, which attack the schedule and budget.

Frontloading

The objective of an integrated, high performance, high trust team is to bring the entire team on board at the outset, and get their insights into the design and delivery. (see Figure 11).

For example, by having sub-contractors and trades involved in the design stage, suggestions for better constructability, sequencing of activities, and potential conflicts can be identified and incorporated in a redesign before committing to materials and labor.

To illustrate, an electrician may suggest that conduits be laid under concrete and wiring run early in the project instead of later to enable portions of the lighting system to be installed earlier, which will provide better illumination for other trades during their portion of the build.

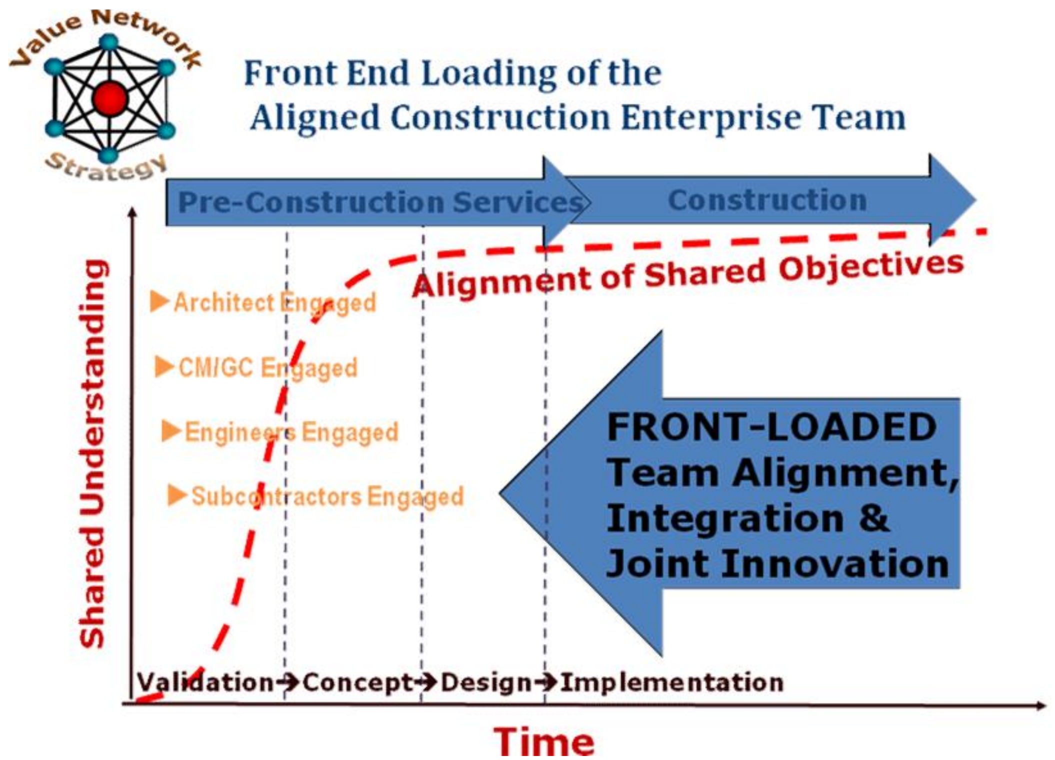


Figure 11: Creating the Integrated Innovation Team

Because the cost of design changes escalates dramatically once construction begins, (see Figure 12) using the mind-power of both the design/engineering team and the construction team to suggest innovations and better coordination early in the design-build cycle, the higher the likelihood of coming in on-time, on-budget, while creating sufficient profit for all the partners to want to work together in the future. And, in future projects, since the relationships are already in place, and the learnings of one project create a step-stone for future projects, the design-construction teams are better able to improve significantly on future projects.

In this way, all the players become collaborative innovators early on, setting the stage for other advanced methodologies such a Building Image Modeling (BIM), GPS, Lean, Fastime, etc. to be used effectively throughout the construction period.

Coordination and Systems Integration

Thus, in theory, the alliance structure is able to capitalize on using the entire network's assets, knowledge, experience, creativity and capabilities effectively. In this way, theoretically, the whole is greater than the sum of the parts. See(Figure 9)

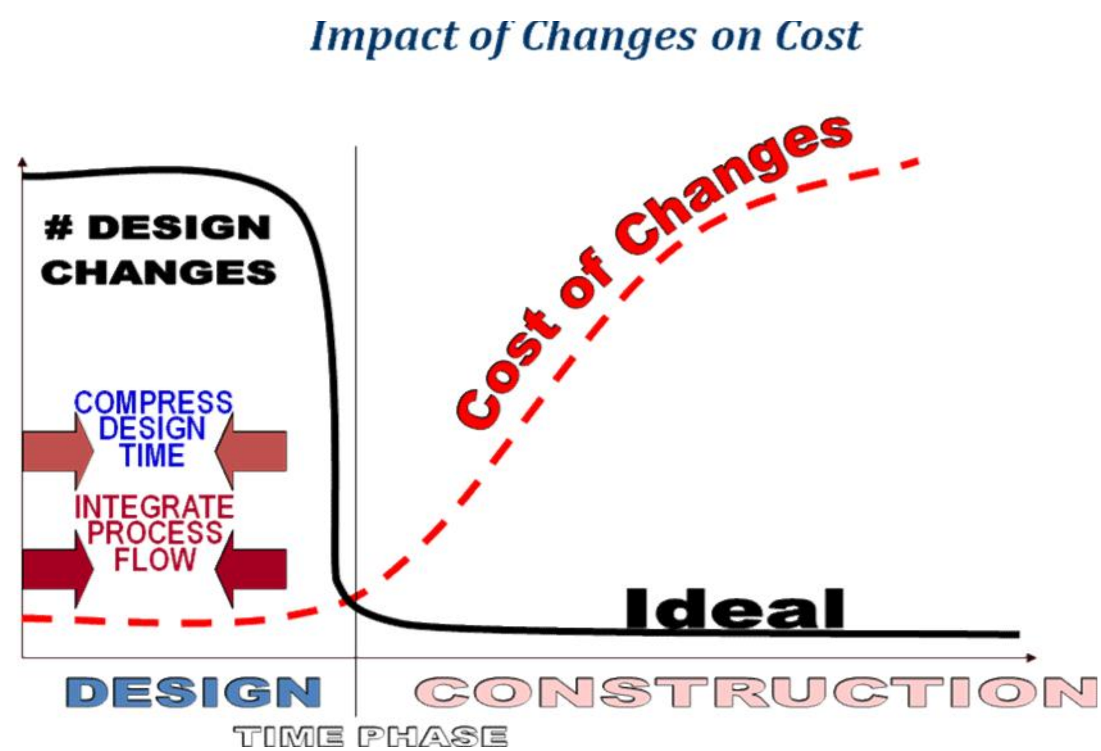


Figure 12: Compress Innovation & Integration into Design Cycle

However, because each organization in the network has its own unique drivers, goals, and financial objectives, it has the tendency to actualize its future *independently, unless it makes a commitment to the 'greater good of the whole,"*—known as the *'best for the project.'* (see Figure 13) And the more members of the network, the higher the complexity, the more vital it is to pay attention to network alignment

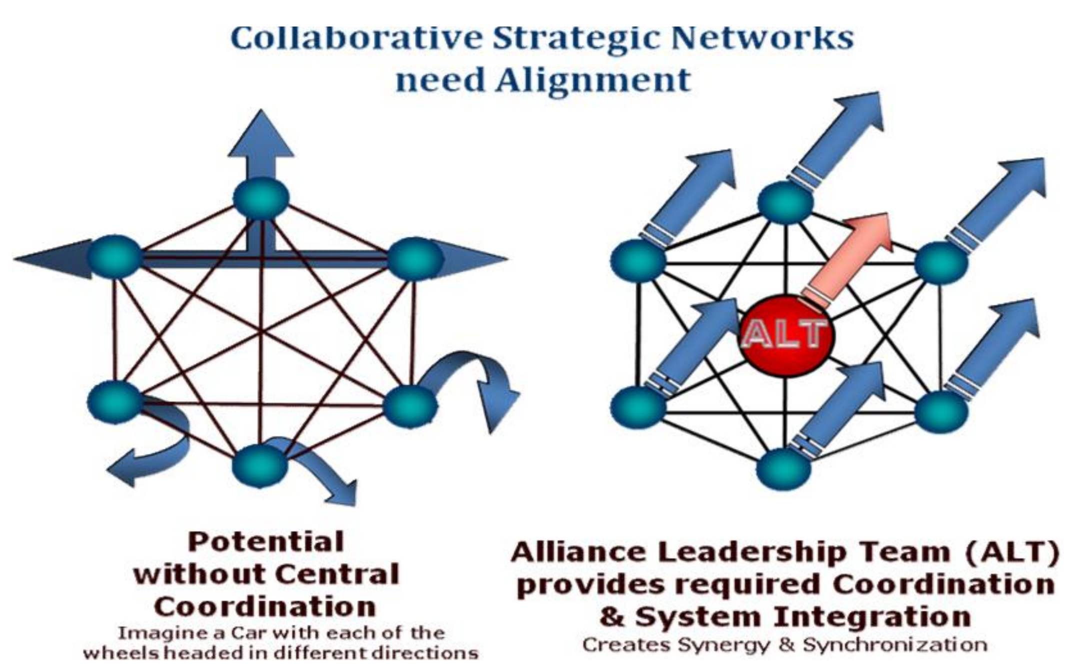


Figure 13: Value Networks Need Central Coordination

Shifting from Vendor to Alliance Partner Perspective

Alliances are not for every business relationship. There are innumerable situations where a supplier should only be considered as a "vendor." When thinking about what kind of relationship is optimal, use Table 2 as guidance. (note: no company will fit perfectly into any of the three categories. Many companies may currently be considered Vendors or Preferred Suppliers, who should be Alliance Partners. In this case, the Best Practices in Book Two will prove invaluable in making the shift to an Alliance Relationship.

Table 2: Distinguishing Vendors from Alliance Partners

Factor	Vendor	Preferred Supplier	Alliance
Viewed as	Replaceable commodity	Unique specialty	Integrated, customized specialty
Level of Integration	Low/not integrated	Loosely integrated	Highly integrated or inseparable
Number of Suppliers	Many	Several	Very few
Distinguishing Features	Mainly price driven within minimum quality standards	Price plus unique offering (e.g. technology, service, etc.)	Synergistic value proposition (e.g. mutual growth)
Style of Interaction	Tactical transaction	Preferred and/or tactical relationship	Strategic synergy
Duration of Term	Short-term	Medium-term	Long-term
Value Proposition	Price and acceptable quality	Price, superior quality, and excellent service	Strategy, cost, quality, reliability, speed, innovation, etc.
Framework for Winning	Winning is essential for me—what happens to you is your business	A win is essential for me and I know I should let you win too if the relationship is to survive	A win-win is essential for both of us and is critical if the relationship is to thrive continually
Competitive Advantage	Low	Moderate	High
Build, Buy, Partner Decision	Seldom produced internally (not a core competency)	Often produced internally (debatable core competency)	Frequently has been an integral part of the internal value chain
Trust Level	Distrust prevalent (caveat emptor)	Trust is important to managing the relationship	Trust is essential to generating a continuous stream of new value
Difficulty of Exit	Low impact, excellent ability to switch vendors quickly	Moderate impact	High impact; switching may have detrimental impact due to disintegration of systems
Strategic Environment	Cost driven Low product differentiation TCO is noncritical Relationships not important	R&D is a distinguishing value Application focus Provider of performance	Discontinuous change in buyer's industry Fast time to market is essential Innovation and integration are essential

Alliance Mindset and Spirit

"Synergy" is the elusive but alluring theme song of alliances. Its archetypal attraction is bound in its possibility of creating something more than the sum of its parts. Synergy captivates all, escapes most, briefly visits some, and for the blessed few, bestows enormous wealth and success.

What then is the magic of synergy? Or is it magic at all? The quest of every alliance professional is to find this holy grail -- the formula or architecture that will manifest this gallant goddess with singular regularity; to unveil synergy's secrets like Edison revealed the power of electricity or the Wright brothers manifested flight.

The Illusion -- What's Missing?

Not understanding the spirit and soul of the alliance and the need to create synergy results in comments like these:

"We know how to create alliances, but don't know how to manage them!" reflected one American top executive, who lamented the lack of success in achieving his alliance's primary goals.

"It looked great on paper, but it was a terrible fit in reality. Our cultures clashed on every issue from decision- making processes to rewarding our sales force;" stated a dejected alliance manager in the pharmaceutical industry.

"During negotiations, the deal makers poisoned the well, and we haven't yet recovered. We had to undo all the damage caused by the adversarial legal jargon;" was the battle-weary response of the president of a multi-billion dollar international joint venture.

"Alliances are an unnatural act for us. They are extremely difficult to manage; we'd prefer to do acquisitions;" complained a senior vice president of a large German chemical manufacturer. Later, he noted that 30% of his revenues and nearly 50% of his division's profits came from alliances, but *" we*

spend only 5% of our management time on them."
For some inexplicable reason he failed to allocate management resources to
the highest profit generator in his business.

Alliances are a very different form of business genre than managing an internal business unit. Fundamentally, executives who have been managing in traditional hierarchical command and control companies are befuddled when given an alliance assignment. The synergy they seek from the alliance remains elusive; cultural differences become insurmountable obstacles; project management turns into problem management; and the bureaucracies of the two parent organizations become a quagmire of politics.

Secrets of Synergy

Not every alliance must face these impasses.

> *"I am amazed how well our two companies are working together. We are actually ahead of schedule, and have had relatively few difficulties;"* was the delighted comment from the alliance manager of a strategic alliance venture composed of a European food service company with an American partner.
>
> *"After only 6 weeks of working together, it's hard to tell the difference between the employees of their company and ours;"* explained the director of an international mining company, commenting about his alliance with an electronics firm.

These alliance managers achieved success because they insisted their joint teams spend ample time understanding the unique aspects of alliances, building cross-cultural teamwork, and establishing processes and skills to access and embrace the unique value of the alliance and their alliance partner.

Experience has proven that there are invaluable beliefs and skills which are often overlooked that enable alliance managers to produce high performance results: skills at managing differences, breakthroughs, speed, and transformation.

The Sources of Alliance Mastery

The fundamental reason why alliances are formed is to access a capability within another company, thus finding the magical synergy, the $1+1 \geq 3$. However, this means capturing the value of differences.

Lying within these inherent differences is the promise of the alliance to create bold new futures, or conversely, to implode upon itself as differences turn destructive.

Traditional approaches to managing cultural differences have focused on becoming sensitive to differences, cross-cultural training, understanding linguistic nuances, and acculturation. While these methods have their worth, we have found a number of very essential elements are often overlooked that distinguish successful alliances (each element will be explored in detail in the following pages):

- Power of Shared Vision
- Synergy of Compatible Differences
- Commitment to Mutual Benefit
- Trust Building & Integrity
- Commitments & Camaraderie
- Sharing Expands Possibilities
- Conflict Transcendence
- Transformational Flexibility

The Power of Shared Vision

The universal vitality of focusing on a powerful common vision, backed up by a dynamic and inspiring value proposition that speaks to the customer shows no cultural boundaries.

For example, take this typical vision for alliances:

"We will be the leaders in our industry."

It presents a "vision vacuum" by saying nothing, containing no commitments, and inspiring neither the alliance partners nor the customers. Devoid of a powerful vision, everything defaults to politics, manifesting as cultural differences, which then divide the alliance partners against themselves.

As the old adage from Alice in Wonderland states: "If you don't know where you are going, any road will get you there." And that road will be fraught with in-fighting, subversion, despair, and confusion, all of which will ultimately lead to the ruin of the alliance.

Contrast the weakness of a faulty vision with the motivational force of a more commanding perspective:

> *"Our alliance will create 10 new innovations each year that will reduce the costs to our customers by 25%, while accelerating their throughput by 50%."*

By having a powerful central vision and value proposition such as this, alliance partners focus differences on how to achieve the joint goal, rather than arguing amongst themselves as to whose way is the "right way." A shared vision helps ensure synchronicity.

Powerful visions are all founded on belief in the ability to discover the unknown, accomplish the seemingly impossible, and overcome the apparently unattainable. Therefore, strong alliance leadership must be present to build such a vision and to unify and align the alliance's differences for a common purpose.

~ EXAMPLE ~

Baseball's Famed Double Play

Infielders executing a "double play" is a perfect example of synergy and synchronicity. All players have the same shared vision and guiding principles, innate trust in their teammates, commitment to precision of execution, and very clear roles and responsibilities.

Timing is essential. A split second spent to "think about the play" is enough to ensure failure.

Synergy of Compatible Differences

Synergy does not just occur as a natural byproduct of alliance formation, nor from a tough legal agreement, nor by means of a dream.

Rather, it must be designed with architectural assurance. But more, synergy must be activated by a powerful set of actions founded upon the understanding of how differentials produce the 1+1 ≥3 effect.

> "*If two people in the same room think alike, one is unnecessary;*" commented the philosopher Ernest Holmes.

The eminent psychologist, Carl Gustav Jung foresaw the potential of alliances when he said: "The greater the contrast, the greater the potential. Great energy only comes from a correspondingly great tension between opposites."

Joel Barker, in his groundbreaking work on paradigms, recognized that new paradigms originate from outsiders who think differently, not from insiders who see their world from an old and tired perspective.

Each of these men understood the profound impact differences can have on the co-creation of bold new futures.

Invariably, however, ethnocentric or business culture attempts to enforce its mighty hand. Some alliance members may begin by making judgments regarding the other side's culture, branding it as strange, wrong, inefficient, bad, or unproductive. As soon as this begins, fear, uncertainty, doubt, and distrust begin to fester, and then the alliance begins to unravel. This calls for strong action.

Adept alliance managers, leveraging the vision for the alliance, will call for creating a "synergy of compatible differences" in which differences are respected as source of innovation, cherished for their ability to break paradigms, and expected to produce creative solutions. The manager's ability to create this new "super-ordinate" culture within the alliance enables the alliance to produce at higher performance levels than either parent company can achieve alone.

Because alliances cannot be commanded, the mechanisms for leadership and control are dramatically different compared with most conventional organizations. Great alliance managers tend to be "integrators," possessing outstanding skills in bridging differences through their ability to translate across cultural boundaries. The greater the differential between cultures, the greater the need for highly skilled integrators.

Often the effective alliance manager will develop principles and values for the alliance that forge unity of vision and purpose. Integrators empower those around them by recognizing that "people support what they help create." Thus, they use techniques to unify alliance members, rather than divide them, to bring out the best in others.

Commitment to Mutual Benefit

Win - Win is the oft-trumpeted rallying call for alliances. But win - win can mean very different things to different people. Consider these statements, all of which represent win-win:

Weak

- *I will fight to win, and you must fight to win, and somewhere in the middle we will strike a balance;*
- *I must protect my interests, and, inasmuch as they are protected, you can take what is left or what is in your interests;*

Good

- *We must both be willing to strike compromises and make concessions if we are to achieve win-win;*
- *I will let you win because I know win-win is good for alliances;*
- *I am committed to you winning as long as you are committed to me winning;*
- *We both have a common goal, so we should work together to achieve the goal together;*

Strong

- *I will defend your interests from an attack or an infringement from people on my own team because you are my partner and my ally and because we have established firm Rules of Engagement which I will not let my own side violate – I am committed to retaining our trust;*
- *We augment each other's strengths and weaknesses, therefore together we are greater than we are apart;*
- *Our Vision is the same, Our Values are Compatible, Let's Dance*
- *We will create a whole new world together with an inspired vision of the future that expands our potential, and lets the Customer win too.*

For synergy to manifest itself, the alliance must be championed by people willing to make strong commitments to a powerful win-win.

Trust Building and Integrity

Ask any alliance manager about the value of trust in an alliance, and they will wax eloquently about its impact on success. Without trust, alliances fail! Trust is the foundation of all cooperative enterprises.

Trust is the hallmark of the personal relationships between the people who constitute the alliance. Without this trust, no legal agreement, no strategy, no structure, and no process can achieve its objectives. These personal relationships distinguish alliance professionals from their transactional cousins specializing in acquisitions.

Trust is the glue that binds personal relationships and the grease that prevents frictional differences from becoming contentious.

Trust and integrity are the threads of the alliance fabric. Integrity is more than just being honest or trustworthy. Integrity means being true to oneself, to one's deepest values; and the benefits are ultimately both a divine blessing and a liberating freedom.

> *Integrity resides in the ability to constitute yourself as your word. As such it is a home, an anchor, a self-generated and continuing commitment to honor your word -- despite contrary thoughts and feelings if need be. It is a consistency of being, speaking and acting that shapes who you are -- to yourself and to others.*
>
> Anonymous

Integrity becomes a divine gift by enabling us to touch the deepest yearnings of others around us, thus creating a new set of possibilities filled with hope and inspiration. Integrity is thus expansive, allowing us to become more than ourselves, to create with others, to empower others.

For Gerry Dehkes, an alliance champion at KPMG,

> *"Integrity includes setting expectations and consistently meeting them. Doing both is important. Making sure that your counterparts will know (and be able to trust) that you will act in a certain way in a given situation. Then meet or beat that expectation consistently. This extends beyond the individual to the rest of the people in the alliance partners organizations. Or better, in an old Minnesota expression: 'Underpromise. Over Deliver.' View problems or barriers, especially early on, as opportunities to show your trustworthiness, meeting the expectations you've set with your partners. These have strong impact beyond the decision of the moment. They engender trust that later on you will indeed act that way, thus inviting reciprocal actions."*

Integrity marvelously liberates us to live our alliances forward into the future, enabling us to experience the present moment cleanly and without fear that our past will undermine us, corrode our vision, and erode our energy.

The lack of integrity inevitably forces one to look back over one's shoulder, haunted by a past filled with historic baggage which will harbor tomorrow's illness, or threaten to destroy one's false illusions that were invented to disguise the sordid realities of a troubled life.

In a fast moving world, trust and integrity thus spawn a massive competitive advantage, because together they enable the alliance to make rapid decisions without the need for a legal contract every time someone tries to make a decision. What's more, trust and integrity enhance creativity, build teamwork, reduce unnecessary transactional costs (such as memos to protect oneself), and make the alliance more fun, thereby building human energy.

(In Phase 2: Collaborative Culture, we will set forth Principles and Practices for building a strong 'trust architecture')

Commitment and Camaraderie

Building trust in alliances comes not from golf games and dining together. It's built in the heart, and on the field of deeds; it's held the commitment to transform values and beliefs into concrete actions, it's founded on the commitments to the integrity of one's word.

Trust and Integrity are but hollow concepts until vigorous commitments are put into place. For it is with commitment we transform promise into reality by words that reflect intentions, and actions which speak louder than words.

Commitment is:

- making the time when there is none;
- the daily triumph of vision over skepticism, of conviction over fear, of cohesiveness in the face of adversity
- the willingness to take risks, even when past experience calls for caution;
- crossing the chasm of fear and danger to meet the needs and hopes of your partner;

- the willingness to look from the past into future possibilities;
- the willingness to move enough to release anger and hurt to enable our rising to a higher level, seeking to turn breakdowns into breakthroughs;
- the power to transform the reality of relationships;
- the willingness to take the leap of faith when there is little justifying evidence, because one believes in the other's values and integrity.

Alliance champions always remark that they are accused of being traitors to their companies when they stand tall and strong for their alliance partners. Brian Ferrar, alliance champion at Compaq recognizes how this bonding impacts the relationship between champions:

> *"An alliance manager and his or her counterpart at the partner company are often closer than each may be to many of their co-workers because of the trust it takes to form the alliance."*

However, this bonding across organizational boundaries can be quite disconcerting to many insiders who see this as a serious breach of loyalty. It is from this loyalty, commitment, and integrity that alliance champions build a camaraderie that lasts for years.

Sharing Expands Possibilities

For a moment, consider the interconnection between synergy and sharing. Synergy's goal is to attain the $1+1 \geq 3$ proposition. The only way to attain such gain is through co-creative sharing. Alliances are built on the fundamental premise that sharing of risks and resources will expand the possibilities and rewards available to all.

For a moment, consider the interconnection between synergy and sharing. Synergy's goal is to attain the $1+1 \geq 3$ proposition. The only way to attain such gain is through co-creative sharing. Alliances are built on the fundamental premise that sharing of risks and resources will expand the possibilities and rewards available to all.

Unfortunately, in a world where certain resources may have been scarce, hording of resources has been a common practice, based on the belief that hording will control resources and maximize returns.

One must distinguish between *exp**e**ndable* resources that disappear upon sale or consumption (such as oil, food, minerals, etc) and *exp**a**ndable* resources that multiply the more they are used (such as creativity, cooperation, and teamwork).

> Exp***e***ndable resources are depleted and decrease upon usage.
>
> Exp***a***ndable resources regenerate and increase when used.
>
> For example, software is an expandable resource. Using it daily does not diminish its size or impact. To the contrary, using software creates more value every time it is used. Therefore it expands. It is best used when shared, transferred and transmitted. Using this resource brings it to life.

Unlike exp***e***ndables, which adhere to the universal price laws of supply and demand, exp***a***ndables are not limited by supply, and demand does not increase their price, but does increase their value.

We must be able to distinguish between exp***e***ndables and exp***a***ndables when negotiating alliances. To treat each with the same principles limits possibilities of expanding the realm of the alliance. This type of thinking is often reflected in contracts for intellectual property, where negotiators tussle for months and even years over ownership rights, when, if sharing of intellectual property rights occurred, both sides would create more new ideas and command a better mutual competitive advantage.

The economic Laws of Exp***e***ndables run counter to the Laws of Exp***a***ndables, but both are true and both mutually exist in our world. The problem is usually that we don't acknowledge the latter.

Accessing the expansive possibility of sharing begins with the mutual belief that "the more you give, the more you're going to get." When both partners hold this belief, it manifests. The general rule for the Law of Exp***a***ndables is

Sharing Expands, Hording Contracts

> Roy Rogers, commenting on his long marriage to Dale Evans, remarked that a great marriage is not a 50-50 arrangement. Both partners have to give at least 100%. Rogers said both Dale and he were always willing to go beyond: giving 120%.

The Law of Expandables creates its own "regenerative energy," this is what we call "synergy."

Ask yourself the question: "What kind of relationship will emerge if sharing is not a fundamental value?" This applies not only to marriages (which is just one form of alliance) but to any form of alliance. This differentiates a 'transaction' from a 'mutual relationship.'

Conflict Transcendence

Whenever disagreement arises (and it will, for wherever there is change, heir will be disagreement and conflict), great alliance practitioners are careful to focus on ideas and issues, steering clear of ego entrapment games, such as "who's right or wrong," or "what's good or bad" that will rapidly descend into the pits of defensive self-righteousness and difficult conflict.

Conflict is the inevitable by-product of all change, and any proposition of new ideas will generate some amount of conflict. The objective is to prevent the conflict from degenerating into blind fear and inflexible rigidity. As one champion in our focus groups articulated it:

> *"Without conflict there will probably be no buy-in. I just have to be careful I do not take conflict personally as an attack on myself. Conflict is just a tool to get people talking and debating an issue from one side or another. It promotes the kind of understanding necessary to be successful in this business."*

Alliances exist in a world of constant flux, and therefore need frequent and continual adjustment. If those responsible for the alliance use win- lose negotiating techniques, always angling for self-interested advantage, then each side will lose synergy potential. But worse, this approach will then generate conflict, which will soon become unmanageable as trust and commitment rapidly evaporate in an enflamed atmosphere of fear and protection.

The alliance spirit has an internal compass that points to synergy in lieu of conflict. This does not mean disagreements and breakdowns do not occur. But rather that these circumstances are opportunities for improvement, situations for turning breakdowns into breakthrough, conditions for shifting to higher orders of thinking.

Disagreement does not naturally gravitate to conflict, but becomes a transcendent experience to turn the passion of argument into the passion of creation. Instead of taking "positions" on issues – a certain sign that conflict is brewing – the effective leader seeks to find mutual interest, joint advantage, shared vision, common values, and combined strength to stake out a new future and a shift in thinking.

The alliance champion will not be a great compromiser between the diverse elements, however, unless every other avenue has been explored. A compromise is usually seen as a poor second choice, the forsaking of a dream. Forging a new unity from seemingly diverse values and thinking will be the champion 's first choice. This unity becomes a new order of interaction, better than the original, thereby creating a *super-ordinate* culture for the alliance.

Negotiating styles that are overly legalistic, win-lose, or adversarial in any way will be highly detrimental to the overall health of the alliance in an environment of frequent repositioning.

Transformational Flexibility

A fast moving world causes the strategic driving forces that formed the essence of the alliance to be in a constant state of flux, serving as a major destabilizing factor, like a rogue wave trying to capsize a boat. Thus, alliances are in constant need of transformation.

Alliance managers must be monitoring the shifts in the strategic environment regularly, and repositioning their parents and partners to align with these shifts.

Because the alliance must transform itself frequently or lose its competitive edge, alliance managers must establish a culture of visioning, breakthroughs, and co-creation as a foundation for their re- negotiations. As one telecom executive said of his alliance in Poland: “No one knows what the future will look like. But if we don’t talk about it, we will end up someplace else.”

Flexibility is essential to making alliances work over the long haul, because benefits to each party are seldom equal at any one point in time. Each alliance partner can expect to see benefits unequal for short periods of time, but without flexibility to re-write an agreement, failure is lurking.

> For example, in the alliance between British Airways (BA) and USAir, both airlines gained significant new passengers and made commensurate investment. However, the benefits eventually saw BA gaining over a 100% increase in revenues, while struggling USAir gained only 40%. This situation called for a readjustment of the division of profits, which, when it did not occur, created friction and eventual dissolution of the alliance. BA’s later alliance with American Airlines embraced a distribution of revenues based on passengers attributable to the alliance.

The legal definition of an alliance is straightforward:

Cooperative business entity, formed by two or more separate organizations, for strategic purposes, that allocates:

- *o w n e r s h i p ,*
- *operational responsibility,*
- *financial risks and rewards*

to each member, while preserving their separate corporate identity/autonomy

It always seems to surprise lawyers that if one designs an alliance to this specification, one does not create a successful alliance.

What is missing in this definition are those elements of the alliance spirit that bond people and organizations together, and give them the flexibility to make adjustments as the world around them changes.

Successful alliance managers proclaim that if you ever have to look at the legal contract, the alliance has failed. Alliances exist not in the contract but in the soul and spirit of those who create and manage them.

Mastery as Alliance Architects

Seldom does synergy happen by accident. It manifests because people believe it is possible; it is so often a self-fulfilling prophesy. To so many of us, our work in strategic alliances is not just a business profession, but a mission with its roots solidly set in the "architecture of cooperation“.

Our mission is to transcend divergent points of view, thus co- generating bold new futures where differences become the ever- renewable source of creative energy, the essence of innovation, the dynamism of new possibilities. Ours is a noble endeavor - designing the synergy of compatible differences. Daily we must use honor and integrity to build the trust that is essential to all our alliances.

Held within the seed of the architecture of cooperation is the power to let us bring a new insight, a new pathway, a new hope, a new spirit, and a new power to our world.

Each day, when we use or invent best practices for alliances, we are contributing to the creation of that higher order of experience and action that makes our workplace a better place to live. Daily we are honing the skills and transmitting the abilities and multiplying the possibilities to spawn a better world around us. As our corporations globalize, we can use these proficiencies in a multitude of applications to engender not just better companies, but better relationships, better teams, better families, and better communities.

In the large span of things, step by step, alliance by alliance, we will have created a better world for all of us. The Spirit and Soul of the Alliance can help make that happen.

Assembling the Right Team

If senior leaders opt to reject the adversarial or transactional route for their business development strategy and opt instead for a collaborative approach that stresses joint innovation and teamwork, then assembling the right teams is a critical factor. Senior management begins by selecting a champion - an executive who is charged with making the strategic relationship take shape and become a reality.

The champion builds a cross-functional/multidisciplinary core alliance development team that will execute the relationship-building process -

analyzing needs and potential partners and ultimately creating an operational team that will oversee the alliance relationship over the long-term. As the process proceeds, the core alliance development team grows and draws on the expertise of people from throughout the organization to create sub-teams to handle specific tasks.

The nature of the core team and sub-teams varies as the organization moves through the six phases of the Strategic Alliance Process; the precise makeup of the teams depends on the task at hand at any given time, on the nature of the business relationship being considered, and on the organization's specific structure and needs.

The various teams involved in the Strategic Alliance Process are essentially temporary. They are assembled to perform specific tasks and then dissolved when the tasks are completed (with the exception of the operational team, which is created to manage the alliance on an ongoing basis). As a result, executives must ensure that team members are familiar with the alliance concepts and processes, and have enough time to devote to the effort. Typically, that means relieving individuals of some of their normal workload so that they can focus on the alliance process.

Teamwork & Human Resources

People are an essential part of construction, whether it be a single project or long-term program involving many projects.

Often we neglect the development of people, and find, in the end, the project ran over-budget and over-schedule because people didn't operate like a team, blame and mistrust interfered, unions were reluctant to bend archaic work rules, or job turnover left the project with inexperienced people doing two or three times the work of an experienced team.

In Alliance Based Construction, high levels of teamwork are necessary. The Number One influence on teamwork is trust; the Number Two influence is training.

Throughout this User Guide we will be referring to human resources, as this is often a severely neglected area of specialization in the construction industry.

In Book Three: Methods and Tools, we address the human resource issue in greater detail.

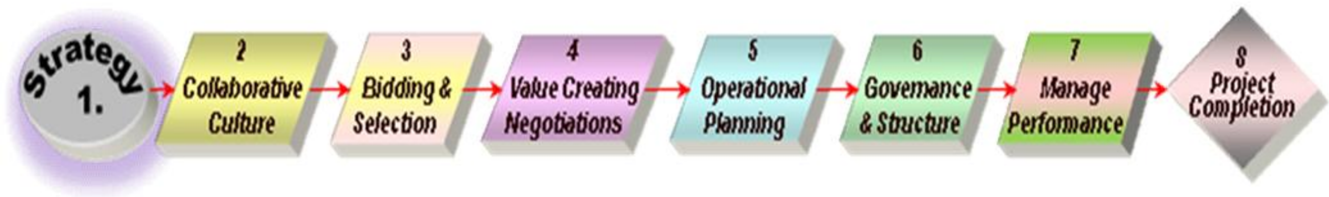
Lean Construction Methods

One of the most important means of keeping on-time and on-budget is streamline the construction process using Lean methodologies. One of the most critical elements that has caused Lean to fail is the lack of a collaborative, trust and innovation oriented *culture* within which lean can flourish. Phase 2 sets this important foundation.

Alliance Based Construction regards Lean as an important methodology with key toolsets necessary to make improve construction in the future. Book Three, Methods and Tools, addresses the Lean Method and Tool Sets in greater detail.

Phase One: Strategy

Alliance Framework -- Strategy



Overview

Strategy is the term that addresses the way a company puts its vision and value proposition into the competitive marketplace. Vision sets direction, value propositions establish the unique way a customer is attracted, and strategy is the means by which competitive advantage is generated. Without strategy, a company has an ideal without a reality.

Alliances are an important means for companies to realize their strategy. Therefore it is important to think strategically before initiating an alliance. There are four critical interrelationships that should be thought through carefully when designing an alliance:

1. What are our company's needs for its own strategic positioning in the marketplace?

2. What do our customers need in order to see our company as their most vital provider of products and services?

3. What will our competitors be doing to take away our customer base, and how will they respond to any competitive moves our company and its alliance partners may make?

4. What is the array of collaborators (potential partners) available to our company? What are the implications of choosing one over another? Which partners could augment our company's product-service offering to provide the strongest market offering, and therefore, the highest competitive advantage?

Purpose

The purpose of this initial phase is to develop and validate a direction for the formation and management of alliances that ensures alignment with corporate and business sector strategies. Additional results of this phase include:

- Clarity of strategic intent
- Clear objectives and metrics
- Commitment by champions/top-level and operational support

Clear communication and alignment of the corporate strategy are critical to validate the direction of the alliance, and for the formation and management of specific alliances. When there is a well-defined translation of the alliance strategy, then the alliance managers have the guidance to deliver successful alliances. A company's leadership must communicate clearly the vision, mission, value proposition, and corporate strategy to ensure validation.

Until an organization successfully defines its alliance strategy, it is unlikely that it will be able to develop a cohesive portfolio of alliances that operate within that strategy. As a result, defining the alliance strategy is the first step toward creating a successful alliance. The following lists outline the goals, critical success factors, and expected outcomes that organizations that first develop a coherent alliance strategy can expect.

The Collaborative Imperative

Every company has an important choice to make when setting a competitive strategy. It can choose to stand alone, independent of any other company or to see itself in a network of value creation.

In choosing the independent route, suppliers and customers can be treated as either adversaries who are trying to squeeze for more advantage, or as transactionaries who are to be bargained with on price, quality, and delivery.

Or, one can travel down the cooperative path, seeing customers as an essential source of revenue to which our company must provide some form of competitive value, and seeing our suppliers as more than an unfortunate expense, but as a source of innovation and new value creation.

(Note: Collaborative Strategy is the term that refers to 'teamwork' between organizations. Teamwork refers to 'internal' operations, 'collaborative strategy to 'external.'

Either path provides competitive advantage, but the only the collaborative path has the chance of generating high levels of innovation, operating in a fast and highly adaptive mode, and eliminating unnecessary bureaucracy, redundancy, and operating inefficiencies, while at the same time exciting employees to perform at extraordinary levels.

Goals for Phase 1: Strategy

- Ensure alignment with long-term winning strategy
- Assess options/directions
- Clarify strategic returns
- Develop competitive advantage

Critical Success Factors

- Know the results you want
- Clearly define objectives and goals
- Know customer needs
- Know the driving forces for the alliance
- Evaluate the prospective ally's forces
- Calculate strategic return on investment
- Build internal alignment

Expected Outcomes

- Strategic gaps validated and documented
- Strategic needs and assets confirmed
- Shared mission developed
- Objectives and goals documented
- Alignment with corporate strategy
- Profile of prospective partners
- Value proposition created
- Value migration identified
- Champions identified
- Preliminary team identified and sanctioned
- Planning assumptions identified

Alliance--Specific Strategy Process Steps

Step 1.1 Identify Key Strategic Issues

- Developing a Powerful Strategy
- Understanding the Implications of Coopetition

Step 1.2 Strategic Drivers

- What Are Strategic Drivers?
- Be Aware of Driving Forces
- Strategic Drivers Model

Step 1.3 Map Value Migration/Evolution

- Importance of Value Migration
- Central Question of Value

Step 1.4 Mission Statement and Value Proposition

- Mission Statement
- Value Proposition

Step 1.5 Alliance Stratagems

What the Experts Say: Strategy

…Timing is critical. Waiting too long to formulate and implement strategy will let strategic advantages slip further away.

> You can always make up lost ground, but never make up lost time.
> —*Napoleon*

…Knowledge is essential. Know what you want, and know where you and your competitors are going.

> A thorough knowledge of one's own conditions as well as the conditions of the competitor is essential to winning. If you don't know the plans of your competitors, you cannot make informed alliances.
> —*Sun Tzu300 BC*

When great intentions yield mediocre results,
When the tried and true ceases to work,
When every attempt to fix things is met with
Frustration and failure…
Then perhaps the design has reached its limits,
And the paradigm is ready to shift,
Opportunity is present,
Creative vision is called for,
And bold action in new dimensions
Is the nature of things….
—*Robert Porter Lynch*

Step 1.1 Identify Key Strategic Issues

Developing a Powerful Strategy

All of an organization's alliances, whether tactical or strategic, should flow from a coherent overall strategy. Therefore, it is important to think strategically before initiating an alliance.

Typically, construction companies are not strategically focused. Instead, their focus is on the next project – how do we land the next contract.

Project-to-project thinking means short-term horizons, without deep consideration about

- how to create powerful competitive advantage,
- how to generate innovation, and, importantly,
- how to connect with other companies in the value chain in a way that produces fluid flow of capabilities directly to customers (owners).

When companies don't think about these questions, they fall into a "default" strategy: doing what everyone else does. In the construction industry the "default" strategy is typically either 'adversarial,' or 'transactional.' The third option is 'collaborative,' which is a road less chosen in the construction industry.

But before addressing the creation of a powerful collaborative alliance strategy, it's useful to confront two 'myths.' (a myth is a ½ truth and ½ deception, disguised as the full truth.)

The first myth is the "Power Myth," and the second is the "Scarcity Myth." These myths drive too much thinking that destroys the potential for alliances to be successful.

The Power Myth in Business Strategy

The Power Myth says that "He who holds the Power (usually a large buyer) creates a 'power dominance' which becomes the primary basis for relative strength of the buyer-supplier relationship.

When power becomes the fundamental force in negotiations, a win-lose relationship is established which forces an adversarial reaction between buyer and seller.

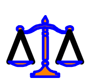
Like all myths there is an element to truth to this, but that small truth should not be extrapolated into a universal truth.

Here's is what's true: In some markets, some buyers and some sellers are dominant, to the point of having a monopoly. Consider Microsoft in software, Wal-Mart in retailing, or many airlines in their hub where they have a dominant position and therefore presumably control pricing with near monopolistic behavior. In these cases, the dominant player may control.

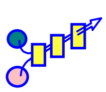
(What happens in markets where either buyer or seller are dominant, a monopoly occurs. Monopolies are inherently dysfunctional because innovation is stifled. Eventually other forces will destroy a monopoly, just as the railroad and steel monopolies were destroyed.)

The issue of "who has the power" is also based on a very narrow definition of how power is used in any relationship whether it be inter-personal, inter-organizational, or inter-national. Power can be used in three fundamentally different ways:

- POWER DOMINANCE: POSITIONING Forces *AGAINST* to *OVERWHELM* an opponent an opponent in a Win-Lose Game



- POWER BALANCE: EQUALIZING Forces in a series of *TRADE-OFFS* and *COMPROMISES* to achieve an Quasi-Win-Win



- POWER ALIGNMENT: COORDINATING Forces with a strategic ally to create a *SYNERGISTIC, SYNCHRONISTIC,* and *SYSTEMATIC* Win-Win

Power Dominance probably prevails in 20 percent or so of the cases.

In the other 80 percent of the situations, Power Balance or Power Alignment are far better options, and the effective negotiator will be adept in their use.

The Scarcity Myth in Business Strategy

The Scarcity Myth says that In a world of Scarcity, Win-Lose negotiations is the best approach

As one authority of the old paradigm recently stated: “Your purpose in a world of economic scarcity is not to be nice – it’s all about win-lose. Win-Win is B---S---.”

This idea is both dangerous and impractical.

In a world of Scarcity, win-lose can only be used in a short-term, one-time play; this example will illustrate:

> <u>Labor Management Negotiations</u>: When a buyer (management) and seller (labor) engage in a win-lose relationship, it usually results in a lose-lose. The National Hockey League strikes are a good example. Win-Lose is usually a game of fear and greed, which triggers more fear and greed, retaliation, and power games that make little rational or economic sense.
>
> When win-lose begins, trust is broken. In environments of low trust, many grievances are filed. The total cost of ownership of a single grievance is between $10-20,000. Win-Lose usually produces losses for everyone(except the lawyers) because the loser will always try to get even in the next round.

Win-win is not just a matter of price. Innovation is a critical component of any supply chain. Win-Lose shifts the focus of the paradigm into negotiations and deal making instead of strategy and value creation.

While win-lose negotiations may have value in a world of commodity procurement where there is an infinite number of suppliers, it has no practical value in a world where these conditions exist:

- too few suppliers
- most suppliers making marginal profits
- supplier is strategic to your value creation
- possibility of killing the supply base
- innovation is critical to competitive advantage

In most supply chains today, innovation is a critical element of competitive advantage. Win-lose thinking will never create continuous streams of innovation. To the contrary, win-lose will stifle all innovation. Consequently, win-lose, as a practical matter, has no long-term business value in most industries. .

The issue of win-lose is tied directly to the presumption that we live in a world of scarcity. Innovation becomes the antidote for scarcity in most situations.

Why is the Adversarial Strategy Used so Frequently?

Most business strategy has, historically been built on military strategy. In China, Sun Tzu's *Art of War* is the country's most popular book and it has been translated extensively into business strategy. In America, Michael Porter's influential book *Competitive Strategy* he describes buyers and suppliers as rivals in a power game, each with bargaining power to exert in a manner to force the other into relinquishing their share of profits.

> "Buyers (owners) compete by forcing down prices, bargaining for more services, and playing competitors (contractors and designers) off against each other, all at the expense of industry profitability…..Suppliers … exert bargaining power…by threatening to raise prices or reduce the quality of purchased goods and services….Labour must be recognized as a supplier as well, and one that exerts great power in many industries…. An effective competitive strategy takes offensive or defensive action [against its rivals, including buyers and suppliers] in order to create a *defendable* position against ….competitive forces."[3]

Nowhere in the book does the author mention 'alliances,' 'cooperation,' or even 'innovation' as important strategic moves. This is a glaring error in thinking about strategy.

Collaboration as a Competitive Strategy

Competitiveness is dependent upon many factors. As any winning sports team knows, trust and teamwork (cooperation) among its players (the value creators) is the essence of a team that beats the competition. The same goes for business.

Figure 1.1a

There are four critical interrelationships that must be thought through carefully when contemplating an alliance; these are shown in Figure 1.1a.

1. What are our **company's** mission and objectives for its own strategic

[3] Porter, Michael; Competitive Strategy, Techniques for Analyzing Industries and Competitors. Free Press, 1980, pp 24-29

positioning in the marketplace? What are our unique competitive advantages that we offer to our customers?

2. What are our **customers'** needs in order to see our company as their most vital provider of products and services? How do our customers see us in terms of increasing *their* competitive advantage in the marketplace?

3. What are our **competitors** doing in order to take away the customer base from our company? What unique competitive advantages do they present? How will they respond to any strategic moves our company and its alliance partners may make?

4. Who are the array of **collaborators** (potential alliance partners) that are available to our company for the prospective alliance? How will a prospective partner increase the flow of value into the buying equation? What are the implications of choosing one of them over another?

We operate in a highly dynamic and ever-changing environment, which requires frequent re-evaluation and repositioning in order to maintain a competitive advantage.

Three Strategic Options

Most construction companies, design firms, and owners fall into their building strategy almost by accident or default, because it has been tradition, or it is the 'structure of the industry,' or 'it's the nature of the owner' who sets the tone.

First, let's look at the options for strategy: three are basically three, illustrated by Figure 1.1b. – Collaborative, Transactional, and Adversarial.

The point is: make the strategic options choice open, conscious, and transparent. Don't default to whatever shows up in the project.

Smart companies reject the adversarial strategy because they know it will only create massive problems during construction and afterward.

> For example, recently an Alliance Based Construction team won a contract to build a sports arena in the New York City area. The project was in excess of $1 billion. After winning the bid, the Owner brought in a tough negotiating team to squeeze the alliance and place adversarial terms on the venture. The alliance leaders decided this was not the relationship they wanted with the owner, and eventually backed way from the project, which was completed by a less collaborative contractor.

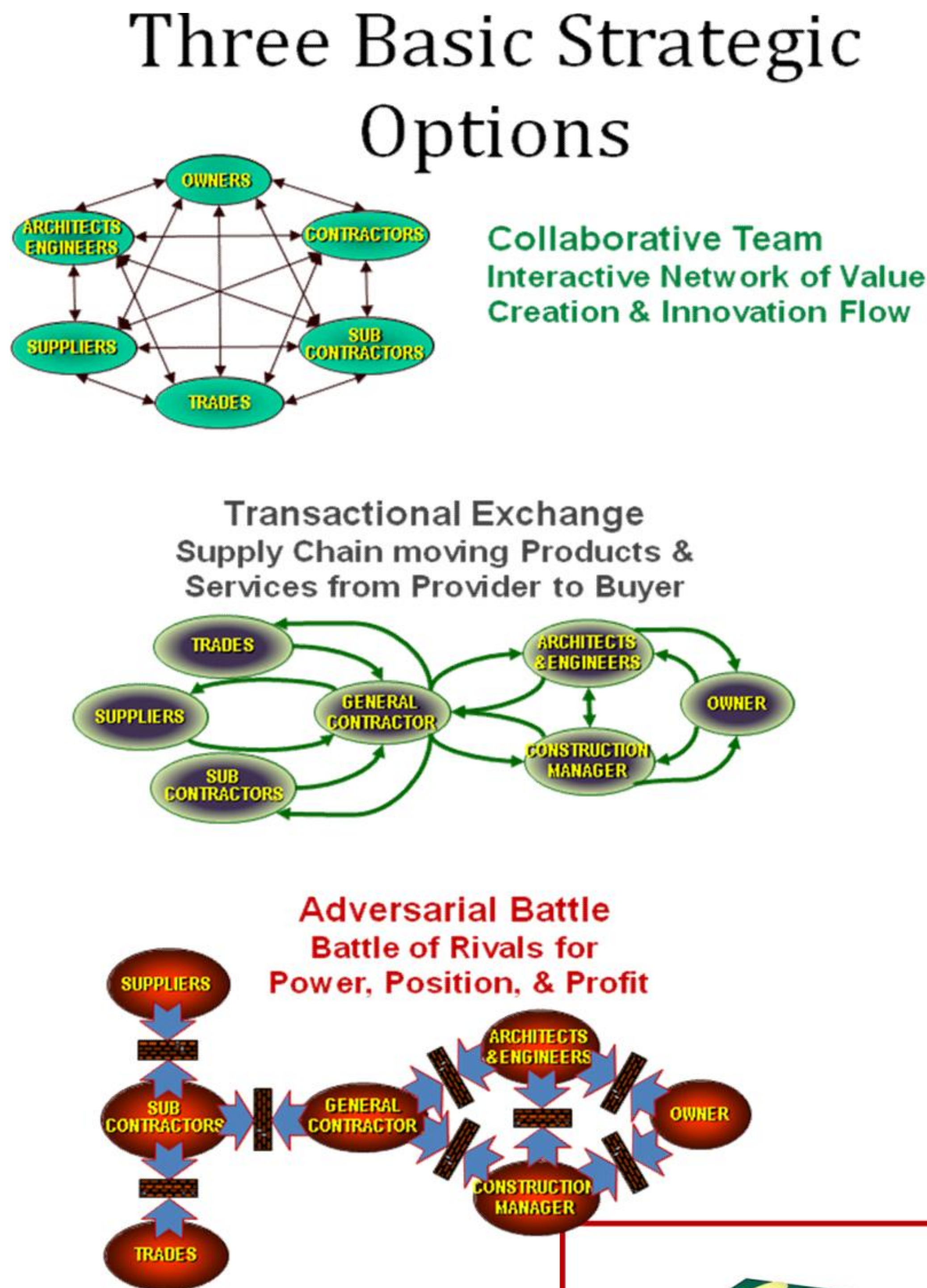


Figure: 1.1b Three Strategic Options

Strategic Alignment

Figure 1.1c: Three Dimensional Fit

Recall in the introduction that ‘alliance systems architecture’ is framed around a 3-dimensional fit model. (see Figure)

The most critical factor in determining success in an alliance is its strategic power, which is derived from two essential sources:

- *Compelling Competitive Strategy*, which places the alliance in the most competitively advantageous position in relation to the customer and the competition. This implies that the alliance has a powerful value proposition which:
    - Supports sufficient revenue and net income to result in a win-win outcome
    - Provides strong added value to both the customer and the two partners (this is referred to as the “triple win”).

- *Strategic Alignment* of vision, mission, goals, priorities, and commitment, which includes:
    - Compatible long-term strategies
    - Complementary strategic drivers
    - Well-matched objectives
    - Augmenting core competencies
    - Synergistic strengths and weaknesses
    - Cultural alignment
    - Clear Strategic Returns on Investment (STROI)

Each of these strategy issues is addressed in this section.

Use Checklist 1.1 to assist you in developing the appropriate set of Key Strategic Questions. These questions, and more important the responses to them, will help to determine whether or not you will pursue a specific alliance. By answering these critical questions, you will have addressed the fundamental issues necessary to create a powerful *strategic mission* for the alliance.

Checklist 1.1
Key Strategic Questions

Ask and answer these questions before commencing negotiations:

1. What pressures are our customers facing?

2. Will this alliance make our customers more satisfied or successful? How?

3. What new ways of doing business should we consider?

4. Is a "breakthrough" in thinking possible? How?

5. Do the strategic objectives of the alliance create value added that will yield a strategic competitive advantage?

6. Is an alliance needed to accomplish our objectives and goals?

7. Have we been frank in our analysis of our strengths and weaknesses?

8. Do we know our potential alliance partner's strengths, weaknesses, and strategy and objectives for growth?

9. Do we know our competitors' present and future strategies? Are we honest and realistic in our assessment? Has it been "devil's advocated"? How do we know?

10. What future strategic profile must we have in order to be winning in this market in three to five years? Is this empirically substantiated?

11. Which major trends represent opportunities, and which represent threats for the alliance?

12. What happens if we do nothing? Maintain the current course? Go it alone?

13. What can we expect our competitors to do if we form an alliance?

Asking Questions

Don't ask questions for which there is no measurable or actionable response. If you don't ask the right questions, it's difficult to get the right answers.

Planning and participating in alliances – the Australian Experience

Hundreds of Alliance Based Construction projects have been successfully completed in Australia, with many currently underway and even more in the planning stages.

Why do Owners choose the Collaborative Strategy -- the alliance pathway -- as a project delivery method and what have been their experiences?

This section will share some owner experiences, including the thinking and planning that goes into deciding whether or not to use an alliance delivery model. The section will also look at owners' preparation for an alliance and the impact on owners' staff.

Owner experiences

The decision whether to use an alliance to deliver a project is often due to a combination of factors. These factors include consideration of the drivers that alliance models are believed to deal with effectively. Owners also look at the kinds of results that other alliances have delivered.

Traditionally, alliances have proven to be very popular with owners in situations where projects are complex, scope is unclear, tight timeframes exist, and community and stakeholder interests are critical.

Previous alliance experiences also contribute to the way that owners think when choosing the right delivery method for their project. So what has the alliance experience been like from the owner's perspective?

Public sector owners

The number of alliances delivered by the public sector has risen, driven by a range of factors including, but not limited to short timeframes, complex projects in brownfield sites, and a resource constrained market. Looking objectively at the acceptance rate of Alliance Based Contracting as a delivery method indicates that alliancing is considered to be a successful model – for the right project.

In its desire to deliver Value For Money (VFM) outcomes to stakeholders, the public sector has shown itself to be open to innovation and experimentation. Consequently, public sector owners have been willing to embrace the delivery of complex projects through alliance frameworks and continually refine the framework to deliver good outcomes for all stakeholders.

The experiences of public sector owners can be described from two perspectives: that of the individuals from the owner who participate in the alliance; and that of the overall owner organisation.

Individual experiences

Anecdotal evidence derived from industry conversations suggests that most of the public sector owner representatives who are closely involved (either in the alliance team or as an internal stakeholder) are largely pleased with the results – both financially and in regard to other aspects of importance to the project. These experiences are particularly the case when the alliance has been set up well from the start.

There is even evidence to suggest that in some of these cases, the individuals involved – both from the Owner and the Partner (Contractor or Designer0 – have found it hard to go back to their home organisation at the end of the alliance as their experiences working in a multi-disciplinary environment were very satisfying from both a professional and personal perspective [RPL: their home organizations did not embrace the collaborative and congenial culture the alliance structure had generated.]

The individual experience depends greatly on the extent to which the alliance has not only embraced the fundamental principles of alliancing, but developed them and then internalised them throughout the alliance. Of course, the opportunity for an alliance to achieve its full potential is entirely a function of the processes implemented and the behaviours and attitudes of the people involved.

Organisational experiences

At an organisational level there are varying degrees of solid support at senior levels between agencies, even when the results are exceptional. Some public sector alliances have delivered outstanding results for the owner, with those organisations becoming advocates for alliancing. There are many examples of these in the market which are all considered to have delivered exceptional results. However, not all alliances have achieved to agencies' overall expectations.

Some senior agency representatives still question the ability to demonstrate Value For Money (VFM) in an alliance. This is particularly the case where the agreed Target Cost Estimate (TCE) for some alliances has exceeded the owner's original project budget.

This discussion still continues in the marketplace, but it is generally considered that alliances are delivering good outcomes for owners, with most alliances achieving (+ or -) 5% of the TCE.

A significant organisational benefit that has come from the application of alliances to state (public sector) projects is that they generally have a broad community and environmental focus. Increasingly, alliances are proving to be successful vehicles for serving the community, particularly through better stakeholder responsiveness, and community and environmental legacies.

Organisations have also benefited from the personal development of their staff who have participated in alliances as these learnings spread to other teams and projects.

The private sector view

In contrast to public sector owners, the private sector's project delivery experience in alliancing has not been as prolific. Since the introduction of alliances in Australia the majority have been undertaken on public infrastructure projects.

The private sector experience differs between market sectors. Project alliances were first introduced to Australia through the private sector oil and gas industry with success. Since then there have been experiences in the resources sector from projects that were called alliances but differed from the conventional model as used on infrastructure projects. Service alliances are reasonably common in the resources sector and have proven very effective for many private sector owners. Additionally, the resources market often uses an EPCM (engineer, procure, construct and manage) approach.

In other market sectors, such as transport and energy, private sector owners are now starting to use alliance frameworks to deliver their projects with significant focus given to Key Result Areas (KRAs) that drive value for the owner. It is believed that the rigorous approach taken by the private sector in the development of their project business cases supports the application of alliance frameworks to project delivery. These alliance frameworks are subsequently structured to drive behaviours and outcomes on projects that support business objectives, particularly reputation and shareholder value.

Anecdotally, the move towards alliance frameworks in the private sector is also being influenced by the desire of these owners to have far greater direct control of the project outcomes, which an integrated alliance team allows.

Choosing an alliance as a delivery method

Alliances are not a project delivery method suited to all projects. Owners need to carefully choose their procurement strategy to match their objectives with the project characteristics. This analysis of project characteristics should occur as early as possible and preferably as part of the establishment of the project business case.

The key reason that owners, both public and private sector, tend to choose alliances for project delivery is that they think that it gives them a better chance to achieve their objectives. These objectives (with example situations) may include:

- Delivering projects with unclear scope of works
  - scope definition is not able to be achieved in a timely manner (or alternatively such that the risk

Case note 4

Organisational experience

Project: Tullamarine-Calder Interchange Alliance
Owner Participant: VicRoads
Non-Owner Participants: Baulderstone Hornibrook, Parsons Brinckerhoff
Value: $150m
Duration: 2005 – 2007

The Tullamarine-Calder Interchange (TCI) upgrade involved reconfiguring the Tullamarine and Calder Freeway junction which is adjacent to Essendon Airport 10 km north of Melbourne. The junction is in close proximity to the Western Ring Road and on the way to Melbourne Airport

Key project objectives were to eliminate dangerous weaving and merging to improve safety, and to reduce travel times and congestion.

Construction was completed under traffic with more than 170,000 vehicles per day travelling through the work zone. Much of the construction took place on land within an operating airport. Works needed to be planned and delivered in consideration of the signification project risks and interests associated with complex stakeholders including Melbourne and Essendon Airports, the CityLink Tollway operators and the Commonwealth Games Organising Committee.

The alliance delivered the freeway upgrade more than $12 million under budget with some of the new freeway lanes opening up to ten months ahead of schedule.

Key lessons:

The Tullamarine-Calder interchange upgrade was the first Victorian freeway project delivered by an alliance.

The alliance paved the way for alliance contracting to be considered for the delivery of major infrastructure in Victoria, establishing credibility for alliancing as a project delivery method not just for VicRoads as the Owner Participant (OP), but for the Victorian Government. The project was a test bed for alliancing with government guidelines for public sector alliances based on TCI learnings.

Having VicRoads staff working directly within project teams created a positive experience which enhanced their hands-on knowledge, understanding and development. A legacy of this is that VicRoads is now
better-placed as 'informed purchasers' which will assist in managing future projects whether or not they are delivered by an alliance or as design and construct contracts.

VicRoads and Non-Owner Participant (NOP) staff developed strong relationships between themselves and with key stakeholders, which created a better understanding of the critical issues and interests which influence decision-making. This insight is being taken back within partner organisations with behaviours, culture and innovations trialled on the TCI Alliance are now being implemented on other projects.

carried by the owner is unreasonable)

- complex or brownfield sites require flexibility to modify scope during the project
- scope definition is best determined with input from the owner, constructor and designer

• Delivering projects with significant risk uncertainty
  - management of risks is best shared
  - risk contingencies are best developed together
  - capping of risk costs enable Partners ~~Non-Owner Participants (NOPs)~~ to participate
  - full multiparty project insurance cover can be obtained

Case note 5

Private sector owner experience

Project: Southern Link Upgrade Alliance
Owner Participant: Transurban Ltd
Non-Owner Participants: Abigroup, AECOM
Value: $106m
Duration: 2006 to 2009

The Southern Link Upgrade forms part of the larger Monash-CityLink-West Gate Upgrade in Melbourne. The project is primarily intended to increase traffic capacity and improve safety on the freeway corridor. It generally involves adding a traffic lane to the inbound and outbound carriageway along 5 km of the CityLink tollway, from the tunnel portals to the CityLink boundary just east of Glenferrie Road. It also includes development and construction of a freeway management system involving lane management and ramp metering.

Key lessons/outcomes:

- The alliance framework enabled the commencement and staging of construction on the project to best fit with the needs of adjacent major stakeholders and other construction works without claims and in the best interests of all parties.
- The Key Result Area (KRA) framework has focused attention on a key concern of the owner to ensure positive stakeholder relationships are maintained and traffic disruption is minimised throughout the works with excellent results. Minimising traffic disruption was particularly important given the works were taking place on an operating toll road.
- The alliance clearly contributed to building the capability of the owner to successfully deliver large infrastructure improvement works.

- Managing stakeholder issues
  - full consideration of ‘scope’ stakeholders in the project definition
  - best management of ‘non-scope’ stakeholders who can have a significant influence on the project outcomes
- Value For Money
  - ensuring competitive pricing for definable packages of work
  - integrated owner, designer and constructor management of risk items of work
  - full open book accounting of costs
  - flexibility to cost effectively deal with changes to approvals, scope or budgets
  - team alignment to deliver certainty of outcome
  - achieving tight deadlines.

However, the objectives vary between clients and contexts. In particular, the value placed on certain objectives and benefits may be different between public and private sector owners.

Case note 6

Selection of delivery method

Project: Inner Northern Busway Alliance
Owner Participant: Queensland Transport
Non-Owner Participants: Leighton Contractors, AECOM, Coffey, Bligh Voller Neild, EDAW
Value: $333m
Duration: 2005 – 2008

The Inner Northern Busway was a highly complex multi-disciplinary project constructed in the heart of Brisbane City. It forms the Central City Busway link to the Northern Busway including two major bus stations (one underground), a 600 m tunnel and major city infrastructure relocations. Challenges included:

- relocation of all subsurface city centre services along the alignment (water, sewer, power, gas, telecommunications, drainage)
- stakeholder and community management with city centre businesses and communities
- construction under existing city centre traffic 24/7
- design and construction through and adjacent to existing structures including a multilevel car-park, Brisbane City Hall, major hotel, historic church and city traders
- integration with Roma Street local and interstate rail terminal and interstate bus terminal.

Alliance delivery selection:

Queensland Transport held a project delivery workshop in August 2004 to assess a range of potential delivery options for this project. Subsequently, it was decided that the project should be delivered by an alliance. The decision to use an alliance approach was heavily influenced by the impact of this project on key stakeholders and the impact that key stakeholders could have on the project, the complex brownfield nature of construction right in the heart of the CBD, and the difficulty the owner had in defining the scope in detail without the expertise of a multidisciplinary team including architects, structural designers, geotechnical specialists and constructors.

Once an alliance was chosen, a facilitator was engaged and Queensland Transport assembled their team. Importantly, the team was chosen based on their skills, as well as their fit with the alliance culture.

The Request For Proposals (RFP) was put together with the facilitator while the owner's team was engaged in a parallel series of workshops. The workshops delivered a process to teach the department's personnel about alliance behaviours, embedding these behaviours, and then turning the owner's team into an integrated high performance team.

The owner and key personnel from the INB HUB Alliance project have stated that the project could only have been delivered successfully in an alliance. The complex, technical challenges in a brownfield site, the need for a solutions focused approach with owners, designers and constructors working closely together, and the significant stakeholder and community interface could never have been achieved so successfully in a traditional design and construct project framework.

The project was completed nearly six months ahead of schedule, slightly under budget and with award winning success in community/stakeholder relations.

Implications of Coopetition

Due to the high degree of complexity that defines today's business environment, it is becoming increasingly common that organizations need to cooperate with existing competitors. This situation is known as coopetition. While coopetition can be both strategically appropriate and operationally expedient, it adds an additional layer of complexity to alliances. As a result, organizations must be very careful in crafting their alliance strategies in order to ensure that these alliances have a reasonable chance of success.

Because of the natural tensions within a coopetition agreement, the alliance architects must be extremely confident that there is a strong "strategic imperative" for its formation, and be aware that as strategic conditions change (see Step 1.3: Value Evolution) the foundation for the coopetition will also change. They must also be aware that there are inherent risks in partnering with a competitor and be sure to implement measures to manage those risks.

When preparing a business plan to partner with a perceived competitor, the alliance architects must recognize that their proposal may not be immediately embraced or understood internally. In many cases alliance professionals will expend significant political capital to pitch the proposal to the necessary approval levels and overcome objections each step of the way. Those organizations in the heat of competition may find the internal conflicts that arise may leave deep and long-lasting wounds that will need to be overcome. Having a senior executive sponsor who sees the vision and publicly supports the proposal will be crucial to defining a successful alliance strategy and seeing it through to fruition. Structuring and managing a "coopetitive" alliance is not fundamentally different from structuring and managing any other alliance. However, since these alliances are more difficult and sensitive to manage, the success of many coopetition agreements is especially dependent upon the vision, trust, and leadership skills of the individuals who create them.

Where Coopetition Is Used

Coopetition is employed quite frequently, typically where the potential partners believe that they can:

- share common costs,
- gain mutual advantage,
- compete more effectively against a common enemy,
- integrate a complex solution,
- develop a product or technology that might otherwise not be accepted by the marketplace,
- use cross-licensed technology, thus avoiding litigation, or
- act in the best interests of a common customer.

While the idea of partnering with a competitor has been around for centuries, its usage is far more prevalent today. In the technology sector, for example, coopetition occurs frequently. Competitors may partner to create new IT standards, for instance, or they may join forces against a common enemy (e.g. Microsoft and Nokia, whose mobile platforms on their own lose market share against Google and Apple). Companies are also often compelled to cooperate with competitors based on customer requirements in selecting multivendor technology environments—for example, Oracle ERP software, HP hardware, IBM databases, and Accenture integration services. In the construction industry, a local contractor who knows the local trades and permitting authorities, but is not skilled in a unique type of construction (such as hospitals or sports arenas) may partner with an out-of-town contractor (who is a potential competitor) with those unique skill sets.

The path to success in a coopetition is to have a very clear and fair set of "Rules of Engagement," (which are created in Phase 4: Value Creating Negotiations – Step 3.2)

The Issue of Control

Often the coopetition agreement is driven by a large customer. For example, Ford may demand that several electronic suppliers, who might ordinarily be competitors, team together in an alliance to develop a new voice activation and recognition system to work with an onboard GPS.

In a massive oil extraction arrangement, the number of highly integrated methods and technologies needed may require a multitude of providers.

Thus a coopetition arrangement is in order; otherwise the non-cooperator would lose the business. Because coopetition is inherently unstable, a clear control structure is called for. Several variants of control structures are typical:

- **Customer Control**
  - Customer coordinates the two competitors and demands their cooperation
  - Competitors cooperate because it is in their mutual Customer's best interests
  - Greatest gain for Customer comes not from letting one supplier gain advantage over the other party, but from encouraging both suppliers to continually improve
- **Joint Venture Control**
  - Competitors join forces because it makes sense strategically and economically
  - Often the results of cooperation are shared
  - This structure can be used to develop markets or position against other competitors
- **Consortium Control**
  - Industry standards groups use this model to ensure that everyone plays by the same rules
  - Service companies perform a common task for all "members"
- **Systems Integrator Control**
  - Used to integrate complex methods and technologies
  - Advantage of high speed and low transaction costs

Note: in an Aligned Construction Enterprise, with numerous companies, high complexity, changing conditions, and multiple risks, this is the method we recommend because none of the alliance partners has all the necessary skillsets to ensure full scale integration of all the complex interrelated components.

Step 1.2 Strategic and Commercial Drivers

One of the important distinguishing features of the alliance to business relationships is the emphasis on understanding and aligning strategic and commercial drivers at the outset.

This makes the assumption that if strategic and commercial drivers are not compatible at the beginning, forces will cause the partners to split no matter how strong their personal chemistry.

What Are Strategic Drivers?

How does an alliance come together? What keeps it together? The answers to these questions reveal how powerful forces can keep some alliances together for years, while others disintegrate rapidly. We will discuss some of these strategic drivers in this section:

- Customer Drivers
- Competitive Drivers
- Capability and Capacity Drivers
- Core Competency Drivers
- Planning for Value Migration/Evolution
- Strategic Alignment

Be Aware of Driving Forces

"Driving Forces" keep pressure on the allies. Poor understanding of the driving forces will result in defective alliance architecture, and the venture will not endure the winds of change. Imagine these driving forces as pressure put on the two companies like clamps or a vise (seeFigure 14).

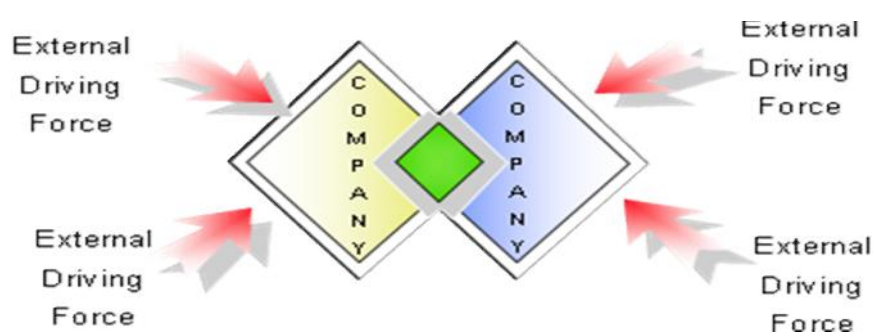


Figure 14

Drivers can be quite different as one links companies from a diversity of industries. For example, the key driver for an energy company may be time to completion, for which it might pay a premium for beating time schedules. However, another company may pay a premium for an alliance that produces innovations that can be used in the next venture.

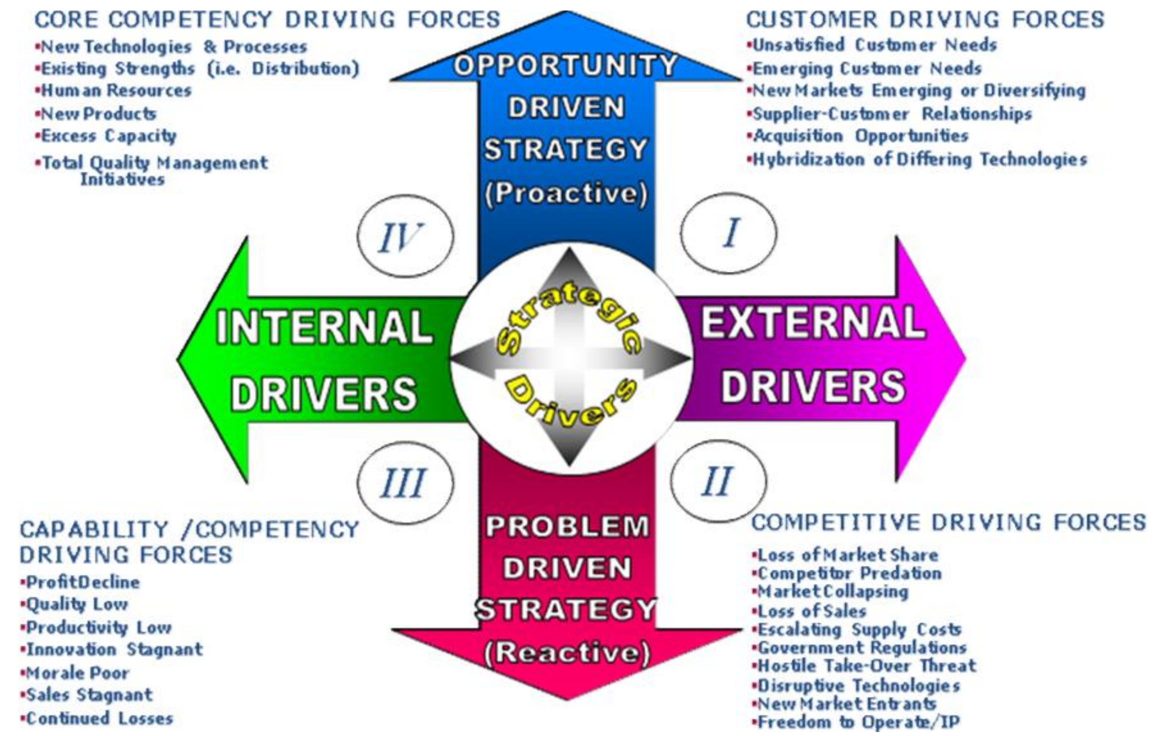


Figure 1.2b Strategic Drivers

Companies will not naturally stay together for long unless there are sufficiently strong driving forces to keep them in alignment. These forces are a major component of understanding the essence of strategy formulation and the nature of the strategic “alignment” element. The companies’ continued strategic alignment is derived from translating the driving forces into evolving missions, goals, and objectives. (See Figure 1.2b, which shows the four basic types of strategic driving forces.

When determining whether it makes sense to commence an alliance, check the driving forces for both companies (see Checklist 1.2). Are they sufficient to hold the relationship together? What is the expected duration of these forces? Are you aware of the forces that affect your prospective ally? Are these forces truly “strategic,” or are they more tactical and operational in nature? The forces can be many, or they can be few. However, it is important that the forces are powerful, strategic, and that they are expected to be of long duration. It pays handsome dividends to partake in a bit of future forecasting to determine what these current driving forces will look like in three, five, or ten years. Look to uncover any hidden opportunities for additional driving forces to build greater structural strength into the alliance.

For example, if a contractor has a business model that gets business by being the low bidder, then receives 75% of its profit by taking advantage of change orders once construction has begun, then this will make a terrible partner of in an alliance whose other partners are dedicated to innovation and coming in on time and better than budget estimates.

Strategic Drivers Model

During alliance Phase 3: Analysis and Selection, critical questions should be asked of both companies regarding their driving forces. Once the alliance is under way, these driving forces need to be kept in mind, because they are vital to the continued understanding of and commitment to the alliance's purpose by both partners' management. Figure 1.2.b describes the four basic types of strategic driving forces.

Quadrant I: Customer Drivers

These are typically opportunities that exist within the customer's needs and desires. Sometimes these opportunities are highly visible and recognized by the customer, but often the customer does not even have knowledge of the opportunity, especially if the opportunity is a new technology, product, or service that emerges from the company's capacity to innovate.

All successful alliances should have a sufficiently strong set of customer opportunities available, or else there will not be benefits that are great enough to propel the alliance over the long haul.

Quadrant II: Competitive Drivers

All good alliance strategies must be competitively sound. The alliance must provide better value to the customer than the best competitor. The presence of a strong competitor is often a good motivating force because it provides a threat if it is better than the company's alliance, and it provides a benchmark for excellence.

If there is no competition, questions must be raised about either the existence of a market (perhaps the market does not yet, or will not ever, exist), or the timing of market entry (the market may be very new and require large market development expenses on the front end).

Quadrant III: Capability and Capacity Drivers

No company has all the resources and capabilities to accomplish anything and everything. The lack of a needed capability and/or capacity is always a fundamental driving force behind an alliance. It is a combination of both strengths and weaknesses that propels an alliance.

Today it is increasingly important not to overlook opportunities in emerging and growing markets. Use alliances to take advantage of these market opportunities to drive value to the customer.

However, beware of those alliances built on weaknesses that may eventually undermine the venture, particularly situations where the prospective ally is looking for someone to offset their incompetencies, and not simply to fill in what's missing.

Quadrant IV: Core Competency Drivers
The best alliance allies, whether large or small companies, have a set of core competencies that add significantly to the competitive advantage of the alliance. This is the quadrant where unique strengths reside. Both companies should have sufficient core competencies to contribute that will enable innovation, spark customer excitement, and sustain competitive advantages.

These core competencies are seldom located on a company's balance sheet, and typically reside in integrated team functioning. Be sure the alliance accesses these key personnel, and that a highly effective means of leveraging capabilities is designed to provide a long-term stream of new innovations. Often these individuals will be linked directly to the customer with the sales team to maximize the creation of new products and services.

Use Checklist 1.2 to assist you in analyzing the specific driving forces affecting your alliance. Concentrate on identifying near-term versus longer-term forces and how they may change over time. It is important to remember that nothing will remain a constant throughout the life of this alliance. To the extent you can, anticipate those changing forces for your company and the prospective ally.

> Note
>
> Be cautious about alliances that are strictly problem driven or reactive (Quadrants II and III)—they may indicate a fundamental weakness in the alliance. Be sure there are significant proactive drivers to propel the alliance (Quadrants I and IV).

> **Watch for Changing Driving Forces**
>
> Every company exists at a moment in time in a particular strategic and operational environment.
> One thing that can be predicted with utmost certainty is that this environment will be different in the future. For some companies in dynamic markets and technologies, the future atmosphere may be rather stormy. For those in mature markets, it may be cyclical, with feasts followed by famines. And those in commodities may be subjected to great fluctuations in prices and supplies.
>
> Therefore, it's important to be keenly aware of these driving forces, because the ever-changing pressures require the alliance to be like a willow tree flexing in the strategic wind.
>
> Use the Value Migration Process (Step 1.3) to account for these factors.

Checklist 1.2
DRIVING FORCES ANALYSIS

Quadrant I: Customer Driven (Opportunities)

MARKET
___ Globalization of Markets
___ Access to Markets
___ Closeness to Customer
TECHNOLOGY
___ Hybridization of Technology
___ Development of New Technology
___ Commercialization of Technology
STRATEGIC
___ World-Class Company Goals
___ Profitability

Quadrant III: Capability/Capacity Driven (Weaknesses)
RESOURCE
Production Capacity Limited
Management Resources
Technology Resources
Financial Resources
Territory Coverage Resources
RISK
Economies of Scale
Share Risk of Capital Expenses
Share Operational Risks
QUALITY
Increasing Quality Standards
PRODUCT
Increasing Customer Solution

Quadrant II: Competitive Driven (Threats)

REGULATORY
___ Government Prohibitions
___ Legal Requirements
___ Taxation/Tariff
STRATEGIC
___ Competitive Positioning
MARKET
___ Changing Market Share
___ Loss of Sales
___ Distribution Capabilities
COST
___ Escalating Cost Structure

ACQUISITION
___ Competitors Acquire New Assets
ALLIANCES
___ Competitors Form New Alliances

Quadrant IV: Competency Driven (Strengths)

INNOVATION
___ New Technologies and Processes
___ New Competencies
PRODUCTION
Control/Lower Cost of Supplies
Improved Quality and Reliability
Design for Manufacturing and Assembly
Excess Capacity
MARKET
___ Customer Access
___ Market Identification (Logo/ Brand)
___ Sales Leadership
___ Service Excellence

Step 1.3 Value Migration/Evolution

Importance of Value Migration

In designing the strategy of the alliance, one must recognize from the outset that not only will the strategic drivers be changing, but the nature of what is valued will also shift dramatically over time. This shift in what is valued is called *value migration, or value evolution*, and its impacts on an alliance will be profound. Figure 1.3.a illustrates how the value has changed..

It is vital for both future alliance partners to have a common vision and strategy regarding these shifts, because both must position themselves, their investments, and their technologies to capture the value on the upswing of the curve.

For example, Figure 1.3a shows how various aspects of IBM's business have evolved over time. As a result, its value proposition has migrated away from its traditional hardware business toward software, service, Web-based computing, and Smarter Planet initiatives; an increasing level of attention needs to go toward those parts of the business that are on the upswing.

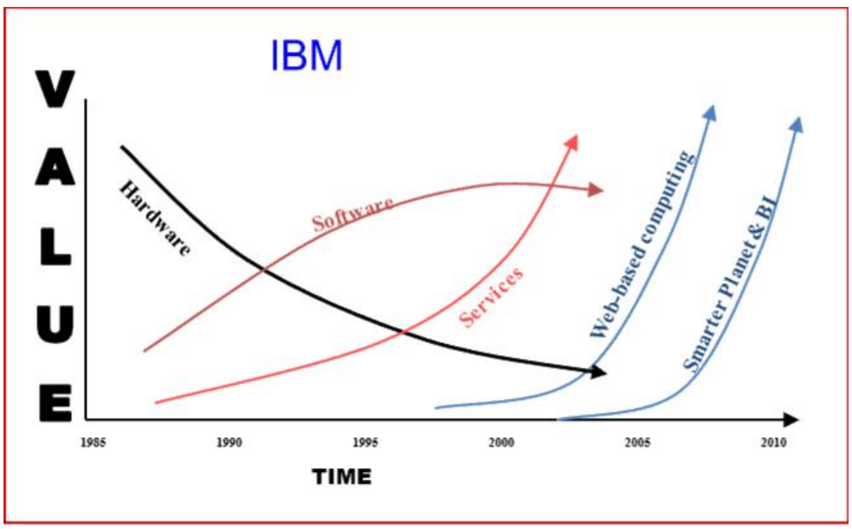


Figure 1.3.a Value Migration/Evolution

Alliances that ride the downswing of the curves tend to be "consolidation" alliances, where cost cutting and rationalization are the driving forces. Low margins prevail here, and alliances have less margin for error and less profit to allocate among the parties.

It is normally advisable to reevaluate these value migration curves on at least an annual basis once the alliance is under way, because rapid innovation in the industry or changing customer demands may require the alliance partners to reconfigure the alliance.

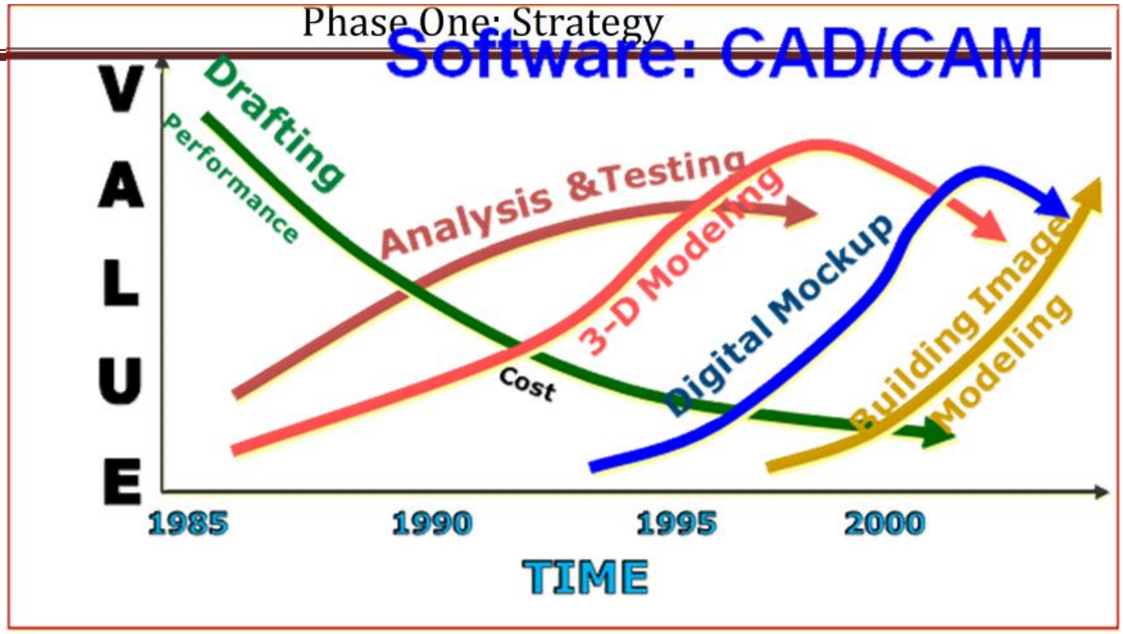


Figure 1.3b Example: Value Evolution in Software for Computer Aided Design

Another implication of this strategic imperative is that the alliance partners must be flexible, because they will need to reenergize the alliance frequently.

In mapping the value migration, be sure and identify the key issues around customers, new business designs, value movement, and other important characteristics of the market that will create change over time. Checklist 1.3 will assist you in this effort.

Over the last two decades, the speed of change has increased dramatically. This means that the Value Migration Curves now tend to be shorter in duration, and shift more rapidly from one curve to another.

To illustrate: It took over a century for telephone technology to migrate in the 1G (First Generation Analog) space and finally establish itself in 2G (Digital). However, the shift from 2G to 3G (Wireless) then 4G (Integrated Voice, Data, Video) happened in only about a decade.

Finally, it should be noted that alliances are inherently unstable vehicles, because the driving forces upon which they are built are always changing. Therefore, frequent realignment is essential.

It's like driving down the road. You are constantly adjusting your steering wheel, your gas pedal, and your brakes as all the other vehicles weave in and out of traffic, lights turn red and green, weather conditions change, and roads are detoured. The ablest navigators are always anticipating and adjusting to changes.

The issue of value evolution has major implications on the sustainability of the alliance.

First, the alliance partners should be 'proactive' about value evolution – generating innovations that drive the value curve rather than being reactive to some other entity's creating the innovation and capturing the high ground of competitive advantage.

Second, in jointly assessing value evolution, the alliance partners engage in detailed discussions about the meaning of value (versus price/cost).

Fundamentally, the Value for Money (VFM) assertion is so central to the nature of alliance performance. To have a firm grasp of the ever-evolving importance of value will sustain the continued success of the alliance.

Why Value Migrates

- ✓ **Technology Changes**
- ✓ **Unmet Needs**
- ✓ **New Entrants with New Solutions**
- ✓ **External Environment Changes**
- ✓ **Companies with New Rules of the Game**
- ✓ **Cultural Differences**
- ✓ **Integrated Solutions**
- ✓ **Accelerating Speed**

It you don't see or expect value to be evolving over time, then people's innovation 'antenna' are not tuning in to important signals in the market that drive change. There are no productivity improvements where there is no innovation. Companies that think themselves impervious to innovation are headed for the graveyard.

For example, in 2007, the leading players in the cell phone market were Motorola, Nokia, and Blackberry. By 2012, they had been marginalized.

Checklist 1.3a
Value Migration Checklist

Customers

___ Who is the Customer?

___ Has our target customer changed, or are we now focused on new customers?

___ Are decision makers and influencers changing?

___ What are the Customer's needs and values?

___ Which customer needs are mature and require a more cost-effective solution? Which needs are emerging and require a high-performance solution?

___ Given the customer's needs and value profile, how are their priorities changing?

___ What do you think will be the customer's most important future needs?

New Business Designs

__ How many distinct new business models have been introduced in our industry segment in the past five years?

___ What is their customer and economic rationale?

___ How do their economics compare with ours, and what do we need to learn from these new models?

Value Movement

__ What is the current status of the Value Migration curve that enabled us to gain our present position?

___ What is the total market value of our industry? What is our share of that value? Who is gaining share of value most rapidly?

___ What is the next shift in value migration we can either anticipate or lead?

___ How will the rules of the game change in the future based on the new value migration?

Step 1.4 Mission Statement and Value Proposition

Mission Statement

Once the strategic imperative of an alliance has been defined, it can be captured in a *Mission Statement*. Mission Statements describe at a high level why the alliance exists. For an alliance to be successful, it must be able to accomplish something that could not be done as effectively by any other means. This requires an ability on the part of the alliance to provide extraordinary value that “delights the customer” as well as the stakeholders. Strong mission statements are bold and inspirational—they create energy and serve to unite partner stakeholders in the common vision for the alliance.

TIP
Be bold with your Mission Statement
Boldness creates Energy.

“Reasonable people adapt themselves to the conditions that surround them.”
“Unreasonable people adapt surrounding conditions to [their vision of the future].”
“All progress depends on the unreasonable person.”
-- George Bernard Shaw

Importance of the Value Proposition

The Value Proposition enables the partners to align their mission on a very specific and tangible value for the ultimate customer and for themselves. This requires a clear and explicit definition of what “value” is actually going to be produced by the alliance.

Because alliances will require an extra effort and expenditure of resources by each company, it is essential that the incremental value produced is greater than the incremental resources expended.

TIP
The Value Proposition Should Define and Measure Synergy
The value proposition must be clear and visible internally and externally. It clarifies 1+1=3. If 1+1 does not equal 3, then why are you doing the alliance?

There are actually three value propositions for an alliance: one describing customer value, and two that define the value for each partner., earlier described as a “triple win.” (or “multiple win” for alliances with multiple partners)

Customer Value Proposition

The *customer value proposition* communicates directly to the customer why this alliance will be beneficial, exactly what value it adds, and why the customer will profit from the alliance. For example, the customer value proposition might show how the alliance will:

- Create the best chain of value added for the customer
- Be the best at every step in the value chain and ensure that our company’s core competencies are superior to the competition’s
- Produce results significantly better than could be produced alone.

The customer value proposition must make it clear to the customer precisely why this alliance provides greater benefit to the customer than other competitors’ offerings.

The customer value proposition is a critical unification point because it focuses externally on the customer, rather than internally on the individual allies. When frictions arise, the value proposition will help coalesce the alliance. Alliance architects need to construct the most effective value-added chain which:

- Defines the target customer and the appropriate channel
- Develops a value proposition that profitably satisfies the customer’s wants/needs and surpasses the competitors’ capabilities
- Determines if we can/should do this alone, or if an alliance is needed
- Designs an alliance that provides the strongest value added

> *Value* is the difference between benefit and price, as perceived by the customer.
>
> Competitive advantage refers to how well the alliance profitably provides value compared to the competition.
>
> These are the hallmarks of a unique and clear value proposition.

Partner Value Proposition

The *partner value proposition* is the value the alliance creates for the internal stakeholders. It clearly envisions and communicates how the alliance partners themselves will benefit. Each partner will have a unique perspective on the benefits of the alliance and therefore a different value proposition. Rarely do both partners benefit equally or in exactly the same way. The partner value proposition is essential for gaining corporate commitment and support, and for “selling” the alliance to internal stakeholders.

In the rapidly changing world of global competition and technological innovation, the race will not always go to the swiftest state-of-the-art technology, nor to the lowest-price competitor, but rather to the alliance providing the highest added value to customers. For example, many of Apple's breakthrough products contain no new technology, but instead are easy for customers to use and are supported by a massive network of allied applications providers.

While it is important to define expectations of value at the strategic development phase of an alliance, be aware that both mission statements and value proposition statements will evolve over the course of alliance formation. The process at this stage is very internally focused, based on the perspectives and needs of the organization seeking an alliance. As you engage with potential partner candidates in the next phase, their perspective will and should influence and further refine your strategy, mission, and value propositions for the alliance.

The Value Proposition should be closely tied to the Value Migration/Evolution curves, thus placing the alliance in a powerful strategic position, while aligning the partners in a focused common direction/vision.

The Value Proposition: A Vision Made Measurable

The Value Proposition should not be vague—in other words, it must be something more than "excellent quality," "good service," etc. Define the Value Proposition in terms of measurable results, so that the alliance will have clear benchmarks for its performance.

Checklist 1.5.a should be used when developing a value proposition. The list contains key points to consider when determining what value the relationship will provide.

Checklist 1.5.a
Value Proposition: Key Questions

1. How does the alliance's product/service offering make the customer more:

- successful?
- effective?
- profitable ?
- competitive?
- productive?
- satisfied?
- efficient?

2. Has this Value Proposition been validated by target customers in the segment? Does it create more:

- opportunities for growth?
- opportunities to add value?
- difficulty for competitors to:

a. enter the market?

b. match our offerings?

3. The future may not be an extension of the past. What shifts in the value proposition might be expected within the next five years?

How should the alliance prepare itself for this shift?

Checklist 1.5.b assists in clearly developing the words for each of the key categories that should be included in the value proposition. It is not necessary to use all of the points listed below; just those that will be crucial to the success of this alliance.

Checklist 1.4.b
Value Proposition Key Characteristics

1. Explicit and Clear Benefits: ______________________________

2. Total Solution Price to Customer:________________________

3. Target Customer: _____________________________________

4. Superiority: ____

5. Profitability:____

6. Demand: ____

7. Competitor's Position: _________________________________

8. Feasibility: ____

9. Alliance Advantage: ___________________________________

10. Simplicity/Elegance: __________________________________

Checklist 1.4c
Criteria for an Effective Value Proposition

- **Poignant:**
  Succinct Description of the VALUE your organization provides or creates.
- **User Focused:**
  Speaks directly to the Customer. Targeted beneficiaries recognize that this message is for them
- **Valuable:**
  Promises to deliver something better (or faster, or less costly, or more accurate, etc) to user
- **Measurable:**
  Contains metric(s) (either explicit or implied) that puts the value in clear perspective.
- **Understandable:**
  by Stakeholders: Corporate, Employees, Customers, Suppliers
- **Credible:**
  can be supported by evidence that you will create in the FUTURE
- **Articulate:**
  People can say it with integrity and remember it easily
- **Differentiated:**
  Must be Clear about its Value and why this value is better than other alternatives. ("Competitors" cannot easily make the same claim)
- **Sustainable Advantage:**
  "competitors" cannot catch-up quickly

Step 1.5 Alliance Stratagems

The definition of a "stratagem" speaks for itself. A stratagem is a means, method, or manner of implementing a strategy. In this section, we will present a wide variety of implementation approaches that have been very successfully used in the field. None of the stratagems we use are tricky, deceptive, or scheming.

Stratagems are selected to determine the best means to outmaneuver competitors. By gaining agreement on the selected alliance stratagem(s) in conjunction with our collaboration partners, we can ensure that all partners are focused on attaining the same strategic mission using the same methodologies.

Stratagems are concrete implementation pathways through which the strategic mission and value migration are brought from concept into reality.

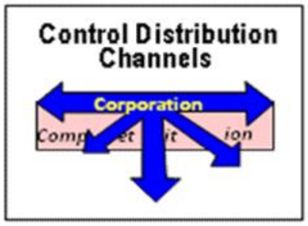
The strategic mission is tightly wound to the value migration, which describes the dynamic movement of strategic value over time. All too often, "strategy" is left in a vague, un-measurable, un-actionable state of being, with no clearly defined, targetable program of action. By defining stratagems with your alliance partner, you will ensure strategic alignment, thus enhancing strategic fit. Some examples of stratagems are:

- **Strategic Degrees of Freedom:** Strategic Expansion? Would that be more clear? Take core technologies into totally new arenas.
- **Control Distribution Channels:** Command access to major customers.
- **Exploit Niches:** Enter small, often low-end markets, then expand into high-end markets.
- **Change the Rules:** Alter buying patterns by offering a new value proposition.
- **Attack on Their Turf:** Force the competition to use its resources locally, sacrificing global expansion.
- **Combine for Success**: Do the job better together than it can be done alone.
- **Leverage Core Competencies:** The core competencies of two companies augment and complement each other.
- **Breakthrough:** The technology of one company, combined with the technology of another, creates a totally new technology.
- **Bypass:** Outflank traditional competitors with a completely new approach.
- **Spider-webbing:** Build a global network of the most influential players to become dominant despite inadequate technology or a lack of other key strengths.
- **Fast Time Shift:** Dramatically decrease cycle time.
- **Fast Response:** Implement strategies and technologies faster than competitors, even when competitors announce first.
- **Reinvent Yourself:** Use alliances to reconfigure the nature of your business**.**

Each stratagem has its pros and cons, advantages and liabilities, efficiencies and costs. The alliance leadership should carefully evaluate the stratagems, and determine jointly which approach has the biggest impact from the resources available.

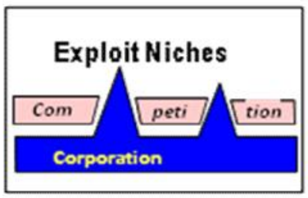
Strategic Degrees of Freedom:

Take core technologies into totally new arenas.



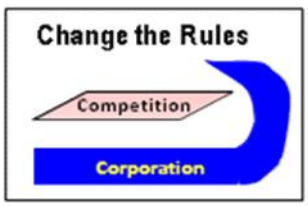
Control Distribution Channels:

Command access to major customers.



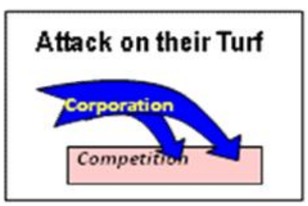
Exploit Niches:

Enter small, often low end markets, then expand into high end.



Change the Rules:

Alter the buying patterns by offering new value proposition.

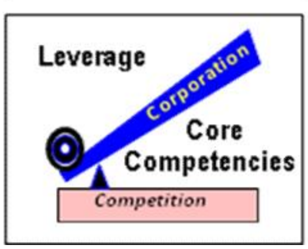


Attack on their Turf:

Force Competition to use its resources locally, sacrificing global expansion.

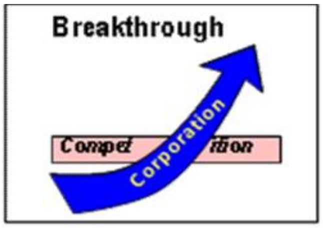
Key Factors for Success:

Do the job better than can be done alone.



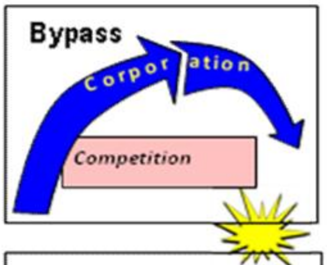
Leverage Core Competencies:

The core competencies of two companies augment each other.



Breakthrough:

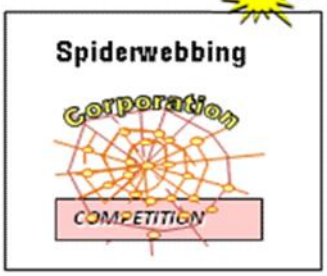
Technology of one company, with the technology of another creates totally new technology.



Bypass:

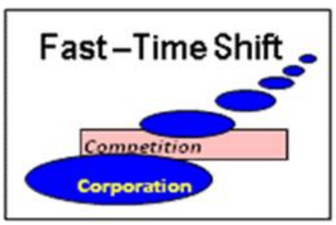
Outflank traditional competitors

with new approach.



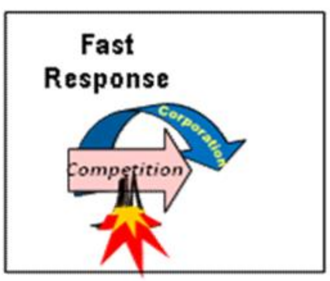
Spiderwebbing:

Build a global network of the most influential players to become dominant despite inadequate technology.



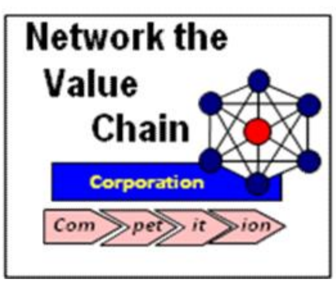
Fast Time Shift:

Dramatically decrease cycle time.



Fast Response:

Implement strategies & technologies faster than competitors, even when competitors announce first.



Reinvent Yourself:

Reconfigure the nature of business

Focus on the Customer

It's far more important to focus alliance strategic energy on meeting new and emerging customer needs than to use the stratagems to "destroy the enemy," "dominate the market," or "make the competitor's life miserable." By focusing too much on defeating the competitor, the alliance will probably become vulnerable to misreading the direction and speed of the marketplace, and will not recognize new competitors entering from very disparate markets and technologies.

Too Many Stratagems

While most alliances apply more than one stratagem, often in parallel in the same market, don't try too many at the same time, thus diverting focus and diluting resources.

TRAP
The Term "Vendor"

Be cautious about continuing to use the term "vendor" with an alliance partner. It suggests that one of the partners is merely fulfilling a product or service rather than being part of a mutual value creation process. As a result, it does not generate a long-term vision filled with new opportunities. Use a more appropriate term like "business partner," "ally," "preferred supplier," etc.

Step 1.6 Construction Business Models

Choice of the right business model is an important business decision. It means matching the right business model for the right projec or long term program.

Once the business model choice is made, an Owner becomes 'pathway dependent;' a myriad of decisions and commitments are henceforth made on this pathway, which impact competitive advantage, return on investment, and development of core competencies.

The Business Model choice is *not* just a matter of 'delivery method;' it is a choice of 'pathways.' Fundamentally, there are two pathways that are completely different in their strategy, approach, methodology, mindsets and skillsets.

- Adversarial Path – Traditional Design – Bid – Build
- Collaborative Path – Design/Build using partnering, alliancing, or integrated project delivery

(And you cannot go down *both* pathways simultaneously on the same project – although you can choose different pathways for different projects, but not with the same players, unless you want to totally disorient them.)

Considerations in Selecting a Delivery Method

[RPL: From AIA Owners Guide to Project Delivery 2012]

Owner's Requirements and Risk Considerations

An owner has several areas of concern when embarking on a construction program or project. It is necessary to choose an overall project delivery and contracting strategy that effectively and efficiently delivers the project. The following are some of the key considerations that will influence the selection of the project delivery method for a project:

Budget

Determining a realistic budget before design to evaluate project feasibility, to secure financing, to evaluate risk, and as a tool to choose from among alternative designs or site locations is a primary need. Once the budget is determined, the owner requires that the project be completed at or near the established budget figure. Owners must decide how quickly they need to establish final project costs and with what risk level of exceeding this cost.

Design

Of foremost importance to the owner is that the desired facility function as envisioned while successfully fulfilling the needs of the owner and users. Therefore, the design team should be well qualified in the type of facility being designed. In addition, the owner must ensure that the program needs are clearly conveyed to the design team. Since the design of the facility must be buildable and design intent must be properly communicated, the owner requires that the design documents are constructible, complete, clear and coordinated. The documents should properly incorporate unique features of the site to include subsurface conditions, interfaces with adjoining properties, access, and other characteristics. Owners must decide how much control they need to have over the design elements of a project.

Schedule

The owner has similar needs in the area of scheduling. The dates of design commencement, construction completion and ultimately the operation of a new facility can be critical, either in terms of generating revenue from the facility, or in terms of providing needed functional space by a particular deadline. Therefore, a realistic assessment of project duration and sequencing needs to be performed early in the planning process. The schedule must then be monitored and updated throughout the design, construction and pre-occupancy phases to achieve the desired goal. An owner must decide how critical it is to minimize schedule duration for a project.

Risk Assessment

In construction, issues of risk are closely tied to the status of the local construction market, on-site

safety, the schedule and the budget. The owner requires an understanding of the risks involved in construction, and should make a conscientious decision regarding allocation of these risks among project participants, so that all areas of exposure are properly understood. In considering risk allocation, the owner should strive to assign risks to those parties that can best exercise control over those aspects. For example, it would typically be problematic to require that the contractor correct problems due to design errors or changes at no extra cost since a contractor generally has little control over the cause or magnitude of such errors or changes. An owner must decide how much project risk they are comfortable in assuming.

Owner's Level of Expertise:

The owner's familiarity with the construction process and level of in-house management capability has a large influence over the amount of outside assistance required during the process, and may guide the owner in determining the appropriate project delivery method. An owner must make an assessment of its ability to properly perform under the various delivery methods.

Project Delivery Methods Available to Owners

A *project delivery method* is a system designed to achieve the satisfactory completion of a construction project from conception to occupancy. A project delivery method may employ any one or more contracting formats to achieve the delivery.

Because of financial, organizational and time constraints, various project delivery methods have evolved to fit particular project and owner needs. Most delivery methods used today are variations of three methods: Design-Bid-Build, Construction Management At Risk, and Design- Build. A fourth method, Integrated Project Delivery, although to date only used on a negligible number of projects, is included here due to the attention is it getting and the interest in understanding the concept. The four methods and the primary variations are:

Design-Bid-Build (DBB) – The traditional U.S. project delivery method, which typically involves three sequential project phases: The design phase, which requires the services of a designer who will design the project; the bid phase, when a contractor is procured; and a build or construction phase, when the project is built by the contractor. This sequence usually leads to the sealed bid, fixed price contract. A common variation is:

- *Multiple Primes* – An owner contracts directly with separate trade contractors for specific and designated elements of the work, rather than with a single general or prime contractor.

Construction Management At Risk (CMAR) (also called CM at Risk and CM/GC) – A delivery method that entails a commitment by the CMR for construction performance to deliver the project within a defined schedule and price, either fixed or a Guaranteed Maximum Price (GMP). The CMR acts as consultant to the owner in the development and design phases, but as the legal

equivalent of a general contractor during the construction phase.

Design-Build (DB) – A project delivery method which combines architectural and engineering design services with construction performance under one contract. Variations include:

- *Bridging* – A designer is retained by the owner to develop the design documents to a specific point (usually schematic level) prior to engaging the Design-Build contractor, who then finishes the design and constructs the project.

- *Public Private Partnership (P3)* – A private entity or consortium of investors provides some or all of the required capital with a commitment to deliver a completed project for a public sector owner in exchange for revenue that the completed facility is anticipated to generate.

Integrated Project Delivery (IPD) – A project delivery method that attempts to spread the risk, responsibility and liability for project delivery equally among the primary parties—the owner, the designer, and the builder, whether through partnership agreements or multi-party contracts.

Each of these project delivery methods carries a different level of risk for the owner. Generally, the level of control provided to the owner correlates with the level of risk, as illustrated in the following chart.

Integrated Project Delivery does not fit cleanly on the above chart because the basis of IPD is shared risk among all parties, or an aligned relationship rather than an inverse relationship of risk between the owner and contractor.

Construction Trends

In today's U.S. construction market, the prevalence of each of the methods described in this guide varies between the vertical construction market and the horizontal construction market. In the vertical construction market, the breakdown is approximately as follows:

- Design-Bid-Build (DBB) 60%
- Construction Management at Risk (CMAR) 25%
- Design-Build (DB) 15%
- Integrated Project Delivery (IPD) <1%

The recent trend has been an increasing use of CMAR and Design-Build, with a corresponding decline in the use of the Design-Bid-Build method. There has been a great deal of recent attention to IPD. However, the formalization of IPD as a distinct delivery method is still relatively new and still lacks an overall industry consensus. There are only a limited number of projects that have actually employed the multi-party contractual arrangements that IPD proponents use to define IPD as a delivery method as opposed to a collaborative management approach or philosophy.

In the horizontal infrastructure market, DBB is still most prevalent. DB is also used, particularly in large public-private partnership infrastructure projects. One noticeable difference in horizontal construction is that CMAR is seldom utilized in this market.

CMAA promotes a policy of project advocacy that requires being delivery method neutral. Owners who are unfamiliar with alternate delivery methods should consult with a professional CM/PM to determine what specific delivery method is best for them and their project.

PHASE TWO: COLLABORATIVE CULTURE

Alliance Framework

Overview

It's vital to understand that alliances are not only a mindset and skillset shift but also a cultural shift in the way people do their work. It is common to hear alliance professionals remark how often they would rather work permanently in the alliance than in their own companies because the alliance supports collaboration, and their own corporate culture does not.

It is possible, but difficult, for authoritarian, hierarchical, command and control companies to engage in alliances, because the culture shift is so alien. (The only way they succeed is to carve out a core group of highly collaborative people to interface with the alliance, and be sure these people have an internal 'god-father' that will protect them from being seen as alien creatures within their own organization.)

This section outlines the thinking and actions necessary to create a collaborative culture both within the parent company and within the alliance itself.

If your company does not have a collaborative culture internally, it will be necessary to select highly collaborative people from within to engage in the alliance

Key Factors for Success

Step 2.1 Collaborative Leadership

Role of the Champion[4] and Executive Sponsor

Alliance Success Principle: Alliances Require Champions

A successful alliance will require:

- One champion representing each partner
- Who intensely believes in the future of the alliance,
- Has a vision for the future of the alliance along with the competencies to be respected by those committed to success, and
- Has clear access to, and the confidence of, his or her own CEO or senior sponsoring executive.

Note: The role of an alliance champion should be distinguished from the role of an Executive Sponsor, although they can be one in the same. The Exec Sponsor is typically the most senior exec who will ultimately have responsibility for success and failure of the alliance in their business unit. The Champion is the passionate advocate that stays intimately involved in leading the alliance. The Alliance Manager (who can also be double-hatted as Champion) may be more involved in the day-to-day management functions. (Remember, I make a major distinction here between what leaders do and what managers do.)

Champions are probably the most influential factor in creating a synergistic relationship that propels a successful alliance. Without at least one accomplished champion, the chance of successfully sustaining, nurturing, and transforming an alliance is virtually nil. (The unique characteristics of alliance champions, from a survey[5] conducted among several hundred champions and their alliance associates, are described in Figure 000.)

Cooperation in alliances beyond the walls of your company is considered by many an “unnatural act”; therefore, alliances are still often perceived as foreign entities. Alliances are essentially start-up companies and must be led

[4] Portions of this section are excerpted from Robert Porter Lynch, “How to Foster Champions,” in Frances Hesselbein, Marshall Goldsmith, and Iain Somerville, eds., *Leading Beyond the Walls: How High-Performing Organizations Collaborate for Shared Success* (Jossey-Bass, 1999). cer

[5] Survey Conducted by The Warren Company during Alliance Best Practice Program training and Best Practice interviews between 1989-1999. Alliance leaders were asked to describe the characteristics needed to be successful in alliance leadership.

by champions who are at the same time entrepreneurs, risk takers, visionaries, and results-oriented managers. Unless an energetic, visionary leader is in place, the parent corporation's natural "immunal rejection response may kick out the alliance before it's had a chance to become established.

Champions exist in a perpetual state of "enlightened dissatisfaction," always looking for a new idea that will improve upon the current state of affairs. Typically, they have a long history of pursuing new ideas, attempting breakthroughs, and challenging the accepted.

Champions often cannot command because their authority may not be positional.

A champion must be highly influential and therefore senior executives are often appointed to fulfill this role as the Executive Sponsor. But the ability to be effective in this role is often derived from a champion's character more than their positional authority. Their authority comes from their vision, their energy, and their ability to touch the hearts of those who believe their vision is the realit yof what the alliance can achieve to benefit the organization -- not just to survive, but to thrive..

Figure 000~~1~~
3 **Characteristics of Champions~~:~~**

- Visionary
- Energetic, confident optimist with a can-do attitude
- Results oriented with demonstrated leadership and track record of success
- Passionate or charismatic crusader with powerful belief systems
- Credibility and knowledge in the field of endeavor
- Tenacious, perseverant
- Focuses the team on initiating things for the greater good
- Team player, creates buy-in
- Able to build cross-functional relationships and cooperation
- Sees adversity as opportunity, loves challenge—will climb mountains, but gets bored with administrative management duties
- Entrepreneurial, risk taker
- Demanding—works "on the edge"
- Innovative and creative

To be effective the champion needs a track record of success. Yet down deep, most champions are idealists; therefore they often tend to become overly optimistic. Thus it is not ironic that the hallmark of real champions is not how many successes they have had—, and they will have had many—, but rather how they have dealt with failure. Failures should be the learning experiences that temper their idealism sufficiently to make them effective. Often the best champions will have at their side a seasoned realist or skeptic to provide balance and practicality to their idealistic vision.

Not surprisingly, many champions are entrepreneurial at heart, which enables them to excel with broken tools and inadequate resources, under adverse conditions, and with minimal organizational support.

> Unless key management understands the unique flavor of champions, they are mistreated, underutilized, and often marginalized, with the ultimate effect of causing harm to the future of the alliance.

Their extraordinary results come from a blended potion of vision, persistence, ability to learn from mistakes, a willingness to take risks and possibly fail, and an abiding commitment to the greater good of all.

Without a strong champion to lead the alliance, it runs a high risk of failure. In a number of companies, no alliance will be considered unless a strong champion has been identified. They realize that without a willing and committed champion, the alliance will probably wither and die quickly, no matter how well conceived.

> I have seen people “anointed” as champions who just didn’t have the qualities necessary to pull it off. Champions are a breed unto themselves. Many times I’ve seen successful alliances fall flat on their faces because a well meaning bureaucrat was appointed/anointed to the alliance leadership /champion role and they proceeded to meander into oblivion.

Even a well-strategized alliance will struggle to succeed unless it has a dedicated champion at the operational level who will “own” it. If there is no such person, do not try to find one after the alliance is formed; do not try to “appoint/anoint” one involuntarily. Similarly, be sure your prospective partner also has a willing champion. Another important consideration is the chemistry between the champions and the alliance partners.

In addition, the champion must be closely linked to the business sector that will ultimately own and support the alliance.

When operating in the truest sense, champions are the passionate pioneers, the discoverers, the learners, the ones who will never accept mediocrity and are even willing to destroy what they’ve built in order to build something greater.

Champions are omni-directional, in that they know the necessity of navigating the halls of power, and at the same time are willing to jump the chain of command or network the bowels of the organization. Although champions think of organizations as networks, not hierarchies, they also somewhat grudgingly, but patiently, acknowledge the realities of the corporate ladder, without giving it their blessing.

What is often perceived as their neglect of protocol causes champions to be slightly off-center from corporate norms and to have offended traditional corporate sensibilities more than a few times in the pursuit of a worthy cause.

Career rotational cycles of alliance champions need to be carefully planned to diminish any destabilizing impact they might have on the alliance. One company, which shifted its champions’ rotational cycles from eighteen months to five years found that trust levels, which had been decreasing, were reestablished and the success rates of their alliances doubled.

There are seven particular issues that reflect how champions become successful, which the leader of the future must understand in order to manage alliance champions effectively.

1. Building Trust

   Trust is the foundation of all cooperative enterprise, and integrity is the basis of all trust. Alliance managers see integrity as the ability and commitment to honor one's word, especially during times of adversity and often regardless of personal cost.

   Alliance champions set a tone by building the trust that forms the foundation of the chemistry and culture of the alliance.

2. Maintaining Resiliency

   Resiliency is like a spring: the more it is tensioned, the more powerful it becomes. Champions can bounce back into shape because their spring-steel inner core of values and principles is not altered by circumstances. However, this inner core is surrounded by a flexible outer core of practicality, which gives them the freedom to shift with changing circumstances, to be influenced by the insights and wisdom of others, and to avoid rigid thinking and obsolete paradigms. Tenacity and persistence are also associated with successful champions.

3. Working for Co-creative Change

   Creativity is the most effective response to rapid change, and all breakthroughs rely heavily on creativity. However, champions are not independent, isolated creators. Instead, champions bond with their counterparts in the alliance as kindred spirits in co-creation; that is, they are typically co-creative synthesizers, linking new ideas and innovations, building bridges with other creative individuals whose voices have not previously been heard. Champions typically do not require full credit for an idea to satisfy their egos, because they know that others need to share credit in order to share ownership.

   Alliances create breakthroughs as a result of differentials in thinking. In an alliance of two partners, the champion has a unique opportunity to initiate creative tension that can generate the essential shift in perception and thinking that underpins all true innovation. Managing this "synergy of compatible differences" through the process of co-creation is a fundamental attitude and skill of the best champions.

   Champions see that the real value in an alliance lies in the diversity of thinking across the boundaries of different organizational cultures and perspectives. Fundamentally, champions must honor the dignity of diverse thinking, a point of view that can often evoke strong negative emotions from traditionalists bound to the status quo within the alliance's parent organization.

4. Building Alliance Teams

Champions play a vital role in building alliance teams. By their nature, alliances are populated with diverse perspectives. Unless the champion integrates and converges the partner's energies on a focused mission and objective, the alliance will tend to crack, as divergent interests pull in nonsynergistic directions.

Effective champions pull together diverse alliance teams, developing a very healthy balance, like that of yin and yang, which enables members to experience the synergy of compatible differences—the very elusive chemistry that characterizes powerfully successful alliances.

5. Problem Solving and Ongoing Negotiations

Because the driving forces that underpin alliances are always in a state of flux, all cooperative ventures between companies must be continually repositioned in the strategic environment to maintain competitive advantage. This is the work of the alliance champion. Therefore, champions must be excellent negotiators.

Champions will seldom engage in win-lose negotiations because they know these efforts may quickly degenerate into lose-lose games. It's more than likely that they will choose a synergistic style of negotiating (which to the hard-nosed win-lose negotiator may look soft, overly trusting, and prone to giving away too much too fast). (See Step 3.5 for more details on Co-Creative/Synergistic Negotiations.)

6. Practicing Transformational Leadership

It is quite common to find champions functioning as transformational leaders, attempting to use an alliance as a mechanism to introduce new ideas, new values, and a new culture into their parent organizations. In a survey[6] of several hundred champions, respondents reported that 85 to 90 percent of all organizational change is driven by a crisis or some outside force, such as a competitive maneuver, market shift, or government regulation. Champions will often try to shift that proportion, making *vision* a far larger causal factor for change.

7. Gaining Top-Rank Support

Top-rank support is critical for alliance success. Champions must often confront other top executives forcefully, yet diplomatically, when the corporate castle walls seem impenetrable and resistance to new ideas becomes overwhelming. Therefore, the effective champion must have the support of the organization's high priests, or "godfathers." (Top level sponsorship is often referred to as the "godfather" role.)

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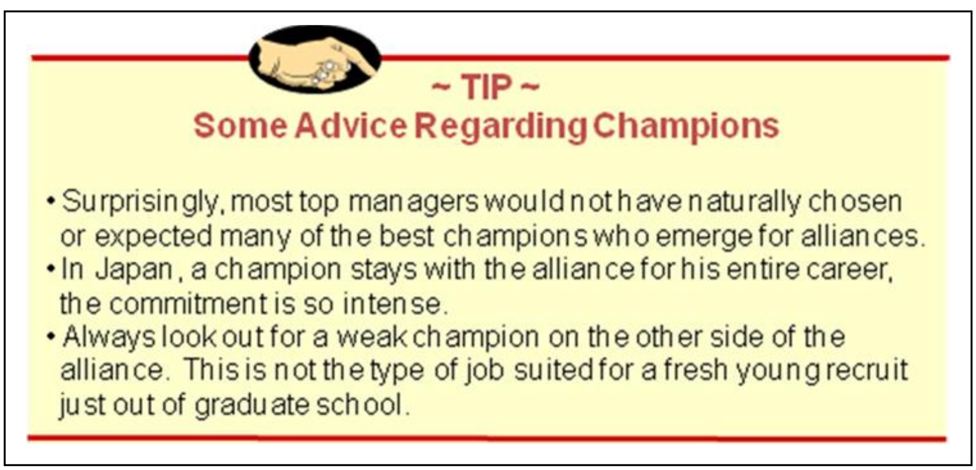
[6] During the period of 1990-2000, I routinely asked participants (in excess of 2500 people) in the American Management Association and Canadian Management Centre "Building Strategic Alliances" program this question. This is the response from those surveyed.

The presence of the godfather's support validates the strategic value of the venture and helps shield it from the onslaught of nay-saying cynics and others who may feel threatened by the alliance's very existence.

What Alliances Champions Must Ensure

Alliance champions must take an active leadership role in setting the tone and demonstrating the values of the alliances. The following principles are a collective responsibility of the alliance team but the leadership of the alliance champion will go a long way in ensuring their adoption:

- Strategic Realignment as conditions change, including
    - a focus on innovation that enables adaptation
    - achieving a worthy Value Proposition
- High Trust at all times, especially as people change, including
    - Impecable integrity
    - Prevention or elimination of trust-busting behavior
- Operational Performance, including
    - Pressure to keep teams producing value
    - Metrics that demonstrate the achievement of real value



Step 2.2 High Performance Culture

Culture and Teams

[Section excerpted from AECOM Alliancing Guide – RPL Note: this section needs to be cut down and made more user friendly – less academic.. We can do this in the next round of editing]
Just about every alliance Request for Proposal (RFP) put to the market today refers to the 'high performance team' and developing a 'high performance culture'. This is the language used by owners and facilitators to describe a performance that is believed to deliver well beyond historical or Business As Usual (BAU) expectations.

But what is a high performance team? What does that look like in a project delivery context? And how can a high performance culture be built?

This section looks at these and associated aspects of alliancing – culture, team development, communication, connection and emotional intelligence in high performance teams.

The approach in this section is to set the context in a theoretical and definitional sense, link that theory to the alliance world and then pull it all together by suggesting that understanding and applying the principles of (what is) behavioural science can enhance the performance of teams.

The application of this science in an alliance manifests itself in tangible management plans that take a structured approach to individual and team development, which is then linked to project performance. When implemented well these plans can be the difference between good and outstanding outcomes.

Even though the alliance may develop specific plans around individual and team performance to enhance project delivery, fundamentally it's all about assisting and empowering individuals and teams – that is, people – by providing the kind of working environment where they can use their talents, be the best that they can be, feel they have contributed and in so doing, be happy.

High performance culture

This book has referred to the importance of culture a lot. It is a powerful tool in alliancing. But just exactly what is culture? And why is culture so important within the alliance framework?

Of course, the relevance of culture is not confined to alliancing. Culture plays an important part in families, communities, organisations, and nations. Culture, and its effects, is to be found everywhere.

Culture can be difficult to nail down in a linear, definitional sense. Everyone has a different idea of what culture is, and some even relegate it to that 'soft stuff' that is not relevant to the engineering and construction industry anyway.

However, whether or not we think about it, we all work and live within multiple cultures. So the culture we operate in might as well be the one we create for ourselves, the culture which best suits the achievement of our goals, the culture which helps us to get where we want to go.

There are many books written on the subject and many concepts expounded around the idea of high performance and high performance teams, and readers are encouraged to read widely around the subject to gain their own perspectives. Generally speaking, the concept of a high performance culture is thought to include elements such as:

PURPOSE: where people are deeply connected to compelling goals and objectives

MEANINGFUL CONTRIBUTION: where people are able to contribute meaningfully towards the achievement of these objectives and they feel and behave as part of something larger than themselves

CONNECTIVITY: people experience high levels of positive connectivity (communication and relationships)and think, speak and act together

EMPOWERMENT: people work in an operating environment that is based on trust and openness, has best-practice systems and is governed by principles that support them to work in a generative, solutions- focused way, thereby nullifying negative or blocking influences

GROWTH: people grow personally and professionally through their work experience

These are some of the elements that make up the road map for how to get to be a high performance team (or organisation).

Defining culture

The book *Alice in Wonderland* by Lewis Carroll, contains a wonderful passage where Alice, on her journey through Wonderland, comes to several forks in the road.

She looks up at the Cheshire cat, sitting in a tree, and asks, “Please, can you tell me which road I should take?”

The Cheshire cat looks down at Alice and, grinning, replies, “Well, that depends on where you’re going.”

“I don’t know where I am going,” replies Alice.

“Then it doesn’t matter which road you take”, says the Cheshire Cat.

Culture is a bit like that. If you do not know what your project objectives are (where you’re heading), and if you do not have the right road map (or enabling culture) to get there, then it does not really matter which road you take.

Culture is important in any organisational sense, and in alliances. The right culture can provide a dynamic, empowering project delivery environment. Culture is one of the key ingredients in alliance success.

So, what is culture?

For years scholars, cultural anthropologists and behavioural scientists have studied and worked with the concept of culture. Consequently, there is a substantial body of work from which to gain insights into what constitutes culture and how individuals behave in certain environments. There are many definitions that could be applied and these different definitions reflect the various theoretical bases for understanding, or criteria for evaluating, human activity.

To appreciate the quantum of research that exists on this subject – and as a precursor to discussing why culture is important in alliancing – we will briefly explore a couple of studies.

One well-known anthropological consensus definition is derived from American anthropologist and social theorist Clyde Kluckhohn (1905-1960), best known for his contributions to the development of the theory of culture within American anthropology, who stated that, “culture consists in patterned ways of thinking,
feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiments in artefacts; the essential core of culture consists of traditional ideas and especially their attached values.” (Kluckhohn, 1951).

In his book *Culture’s Consequences* (2001) Professor Geert Hofstede describes culture as, “the collective programming of the mind that distinguishes the members of one group or category of people from another.” The ‘mind’ stands for the head, heart and hands (that is for thinking, feeling and acting, with consequences for beliefs, attitudes and skills). This is, in essence, a shorthand definition of Kluckhohn’s more extensive definition, and is also taken up by Philippe

Rosinski, in his book *Coaching across Cultures* where he states that, "a team's culture is the set of unique characteristics that distinguishes its members from another group."

In Figure 22, these unique characteristics are pictured as the layers of an onion proceeding from visible and conscious to buried and typically unconscious. The other diagram shows culture as an iceberg with a visible tip and immersed parts (Rosinski).

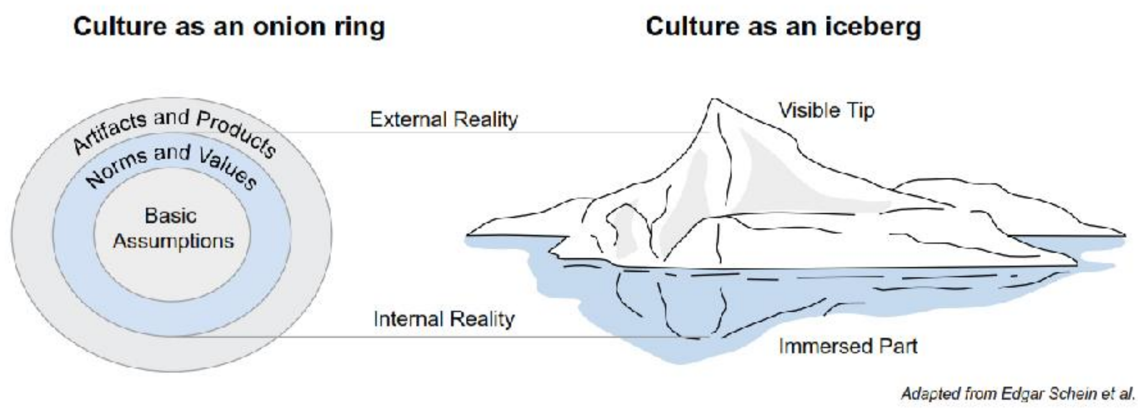


Figure 22 Manifestation of culture at different levels of depth

Rosinski suggests that artefacts and products are the *visible manifestations of culture* (the outer layer of the onion, and the tip of the iceberg). Examples of these from the alliance world would be the alliance language (including all those acronyms!), the project office, alliance shirt, alliance logo, awards, office layout and special furniture or project symbols and Alliance Charter. They are the *visible* parts of the alliance culture. All the observable alliance behaviours belong to this layer as well.

The next layer of the onion ring is composed of norms and values. Norms consist of what is considered right, appropriate, and acceptable *by the cultural group*. It also includes the rules you live by in practice. The values include what is important to us, and how we live or show those values. In an alliance, the norms and values would include the vision, objectives, principles and behaviours that have been developed and agreed by the alliance team, and most probably displayed on the Alliance Charter.

The third layer is basic assumptions and beliefs. This covers what *individuals* believe to be true and false. In an alliance, these would include what individuals hold to be their own personal thoughts, assumptions or beliefs – perhaps aligned with (and sometimes at odds with) the alliance principles.

It is this layer of culture which contains the secret ingredient of alliancing (and indeed organisations). When an individual (or team) truly connects to (something about) the alliance at that third layer, it propels them to a level of ownership and commitment that results in them giving their all – their hearts and minds – to deliver an extra special performance or contribution.

Examples of what might inspire this type of deep connection between an individual or team and their performance might be a compelling project vision, an inspirational leader (or leaders), an outstanding technical challenge, a chance to leave a positive community legacy or a chance to do something positive for the environment. All of these have the potential to satisfy an individual's quest for meaning, purpose and contribution, things which act as turbo-boosters in our daily work and life performances.

Carolyn Taylor in her book "Walking the Talk: building a culture for success" (Random House, 2005) asserts that culture is about messages sent, and that these messages demonstrate what is valued, what is important, what people do to be accepted and rewarded. Carolyn suggests that the messages come from three broad areas:

- Behaviours
- Symbols
- Systems

There are many variations to the theme of culture, but for the purposes of this book we will defer to Hofstede's definition of culture, shared by Rosinski (and aligned with Taylor) that:

Culture is the set of unique characteristics that distinguishes the members of one group or category of people from another

And that

These characteristics influence a human group's response to its environment.

This definition encompasses the visible (behaviours, systems, language and symbols) and the invisible (values, beliefs, principles) which go to the heart of culture.

In essence, this is why culture is so important in alliancing – a team's culture influences how it performs in and reacts to its project delivery environment.

Viva la difference!

The word culture can be applied to any human collectivity or category – an organisation, a profession, an age group, a gender, or a family. According to Rosinski everyone belongs to multiple 'collectivities' and therefore we operate within multiple cultures.

This melting pot of multiple cultures starts to have an impact during the bidding phase in alliancing, when organisations come together to begin the process of integrating into a seamless, unified team for the purposes of bidding and privilege of (hopefully) winning a project. Indeed, some organisations actually come together *because* they are culturally aligned, and believe this will be a success factor in their bid efforts.

Those who have experienced the bid phase of alliancing will know that different sectors of the engineering and construction industry have distinct cultures; different organisations have different cultures; and different disciplines within the industry have different cultures. None of this is wrong, it just is.

The challenge becomes real when two organisations with markedly different cultures join forces. These cultural differences will often come into play and should, for best results, be addressed early on through an alignment process to ensure all are heading in the same direction.

In alliancing, where different organisations come together to create a new team, it may be useful to examine each different organisational culture, as well as different discipline working styles and preferences, before agreeing and aligning around the desired culture of the newly-formed team.

Conversely, if cultural alignment is not achieved, then different drivers and behaviours may become apparent, and may divert time, energy and focus away from the main game, that is, to win the right to work with the owner to deliver the project.

Cultural differences also manifest when the preferred proponent (which may consist of more than one organisation, depending on the selection process) joins with the owner to form the new virtual organisation.

All participants in the newly formed alliance should aspire to become one in a cultural sense, so alignment process needs to occur almost straight away. This is an important step, as it helps all to understand that there is a new way of thinking, being and doing that will underpin the delivery of project outcomes. Most alliances use external coaches or facilitators to take them through this process and it generally starts with real urgency at the foundation workshop.

The newly formed team should ideally develop and then align around the preferred way of thinking, being and doing things to achieve outstanding project objectives – the Project Charter generally incorporates these objectives and behavioural characteristics. Usually these charters are developed at the foundation workshop (also called start-up or kick-off workshop), which should ideally be attended by all team members, and which should happen as soon as possible after the alliance is awarded.

Case note 24

Aligning cultures

Project: TrackStar Alliance
Owner Participant: Queensland Rail
Non-Owner Participants: Thiess United Group JV, AECOM, Connell Wager
Value: $800m
Duration: 2006 onwards

A sequential alliance selection process was used by Queensland Rail (QR) for the selection of constructors and designers to partner with them to deliver a number of rail infrastructure projects as part of the South East Queensland Infrastructure Plan.

Comment:

In this alliance process former competitors (both constructors and designers) teamed to present the most technically comprehensive and resource ready team to prepare the submission and undertake the workshops in an effort to (hopefully) win and deliver the work with the owner.

In one proponent team, that of AECOM and Connell Wagner, much effort went into developing the new team, with a strong focus on setting and aligning around goals, and developing the behaviours consistent with achieving those goals in a mutually respectful way. A lot of effort went into providing opportunities for connectivity and constructive communication, and successfully too, with panel members commenting on how surprised they were that the two design organisations had 'gelled' into such a unified team.

Although the two organisations were quite different both had common areas to build upon (such as technical quality and results orientation) so those qualities laid the foundation for the new team 'identity'.

The key to the success of this combined design team was alignment of goals and connectivity.

It is very important that the team achieves *alignment* around the way forward. Just because it is an alliance does not mean that people automatically agree about everything. In fact, alliances should try to create the kind of environment where tough conversations can be held with respect and without fear, where the hardest decisions can be made and where people can work together towards resolution with respect and trust truly maintained.

Be aware that it is not as simple as once the commercial framework is developed and signed off, then you automatically have an alliance with a commercial framework that drives all sorts of great behaviours. As if it all just magically happens. It does not. There is no magic wand to turn the alliance participants into a unified team all working collaboratively towards a common goal. But there are many good specialist coaches and facilitators who can work with teams to help the team to become an integrated, solutions- focused working group.

Culture champions

The roles of the Alliance Leadership Team (ALT), Alliance Management Team (AMT) and Alliance Manager (AM) are important in helping to ensure the project objectives and behaviours are well understood and can be connected and linked to the day-to-day activities of the alliance. This ensures that there is no mistaking where the alliance wants to go, and how it is going to get there. This is particularly so on a large alliance where there are a number of Partners ~~Non-~~

~~Owner Participants (NOPs)~~) and a large, multi-disciplined project team. Sometimes the larger, more complex alliances may decide to have a peak performance or relationship manager to work closely with the AM to link the project vision, objectives and behaviours (culture) with the day-to-day activities of the alliance. Examples of this are INB HUB Alliance, TrackStar Alliance, Southern Hume Alliance, SafeLink Alliance.

For the appropriate project, this model can potentially help the take-up of key project objectives and behaviours.

The 'soft' stuff can be challenging

Culture is not the 'warm and fuzzy stuff' it is sometimes neatly labelled as. Building a high performance culture and managing the relationships within a project delivery team can be challenging. Culture should not be left to chance.

The concept that a team's culture is the set of unique characteristics that distinguishes its members from another group has already been discussed. On an alliance, these characteristics may include:

- what the team values – for example Value For Money (VFM), community engagement, legacy, safety, quality, environmental gains
- what the team represents – such as professionals delivering quality infrastructure that benefits people's lives
- what the team wants to achieve – perhaps the team wants the best project outcome in parallel with a rewarding project experience for all
- how the team wants to achieve – such as through collaborative behaviour, innovation, courage, respect, honesty, constant benchmarking of self and others.

Australian alliances typically set very high performance targets for their teams to achieve. But before a team can get anywhere, it needs a framework for performance (the 'what' and 'how to') to underpin the delivery of these game-breaking outcomes.

The role of alliance coaches and facilitators is important in helping to develop the alliance frameworks – the 'what' and 'how to' part of the alliance. These industry experts provide the structure and methodologies for teams to develop the vision, goals and behavioural commitments that form the backbone of the alliance, and indeed give the alliance its own unique personality.

Do not leave culture to chance

Alliances often have a high performance plan which incorporates a relationship management and culture component to support the achievement of a high performance outcome. The Alliance will draw on the expertise of external coaches who bring specialised skills into the mix as required, and in conjunction with the project program.

The high performance plan is closely intertwined with the other project plans, and links best practice processes with the project program to achieve great outcomes across all project constructs.

This high performance plan will include strategies, processes, tools and techniques aimed at building and accelerating positive team processes, behaviours and outcomes that will amplify the project's results across the board.

The plan may include such things as team development programs, innovation and knowledge workshops, powerful meeting architecture, refresher programs, silo-busting programs, critical conversation workshops and communication coaching. All these activities will link in with the project program, to ensure they are delivered at exactly the right time to elevate the achievement of specific project milestones.

Case note 25

The power of culture

Project: INB HUB Alliance
Owner Participant: Queensland Transport
Non-Owner Participants: Leighton Contractors, AECOM, Coffey, Bligh Voller Neild, EDAW
Value: $333m
Duration: 2005 – 2008

The Inner Northern Busway was a highly complex multi-disciplinary project constructed in the heart of Brisbane City. It forms the Central City Busway link to the Northern Busway including two major bus stations (one underground), a 600 m tunnel and major city infrastructure relocations.

Key lessons:

On the INB HUB Alliance in Brisbane, a project team of around 200 (at its peak) delivered a complex, multi-disciplined transport infrastructure project in the heart of Brisbane's CBD.

Even though this project involved designing and constructing a tunnel right through the city heart – within the context of a labyrinth of public utility and plant including water mains, electricity cables and gas mains which were all keeping the city of Brisbane functioning – the team achieved in the 'exceptional' range for its purpose, culture and people KRA.

The team's culture of collaboration across disciplines, respect, trust and the relentless pursuit of the project objectives contributed greatly to its success.

The following are all factors which contributed to the success of this project:

- Queensland Transport (QT) was very involved in the alliance from the beginning. This integretion was both through involvement at the Alliance Leadership Team (ALT) level, with initially two QT representatives (John Chambers and Shane Doran) and a representative (Bob Atkinson) on the Alliance Management Team (AMT). This was an important part of the alliance success, ensuring full visibility and involvement of the owner.
- Culture, relationship management and peak performance were not left to chance. The Alliance Manager (AM) and peak performance manager established very early on a framework for a high performance team, including a peak performance plan which linked the alliance's day-to-day activities to the project vision and objectives.
- The alliance proactively engaged with stakeholders, including having Brisbane City Council as well as client representatives on its AMT.
- In the initial stages of the alliance a stakeholder advisory group, consisting of representatives from all key stakeholder areas, met weekly.
- The alliance induction was a critical and powerful tool in aligning new team members around the alliance's vision, project objectives and behavioural commitments (the project charter).
- The community and stakeholder team was an important part of the alliance, ensuring the community and stakeholders were well informed and engaged in the project every step of the way.
- There was a strong focus on systems and processes, with the systems and processes manager developing a new web-based management plan
- There was a strong focus on obtaining outstanding results with champions from the ALT identified for each KRA.

There are many components to the high performance plan. Generally the plan is built around the elements of systems, symbols and behaviours, for it is the combination of these three elements that fundamentally create the culture of the alliance. Examples of systems include the project management plans, processes and tasks, the reward and recognition program, and team and individual development plans. Behaviours include the vision and objectives, how they are agreed and communicated across the team, the team and individual responsibilities and accountabilities, and those behavioural characteristics that the team develops to serve them well in achieving project objectives. Symbols include the team branding, awards, office layout, display of project targets and objectives, and meeting protocols. All of these (and many more elements) help to create the culture of high achievement in alliancing.

Team development activities act as vehicles for delivering fast-tracked relationship building – both on a micro and macro scale. Sure, they can be enjoyable exercises, but the real benefits lie in the accelerated positive team behaviours (contact and communication) that results.

Rapport and relationship are the precursors to trust, and most would agree that trust lies at the heart of any successful team. The team building exercise is one tool in the culture toolbox to accelerate the development of positive relationships and team behaviours that will translate into better project outcomes.

Many constructors and designers are investing significantly in the development of its human capital operating in alliances. In many organisations alliance personnel participate in leadership development programs which aim to enhance the suite of inter-personal and intra-personal capabilities required to operate within a high performing, relational-based, collaborative project delivery framework.

High Performance Management Plan

Some owners will require a High Performance Management Plan as part of their approach to delivering outstanding project outcomes. Each alliance is different and will therefore have a different approach to suit their specific project environment and goals.

The following High Performance Management Plan Table of Contents shows the range of elements that can be part of the High Performance process.

High Performance Management Plan

Project Scope (especially outcomes required) Alliance Culture

    Vision, goals, objectives, behaviour commitments

High Performance strategy & expected outcomes

High Performance Implementation

    Establishment phase, delivery phase, operational readiness and handover, project completion
    ALT, AMT, WPT – roles and responsibilities / position descriptions / expectations / commitments
    “One Team” approach - systems, symbols, behaviours
    Key Stakeholders
    Induction Program
    Reward and Recognition Program
    Innovations Program
    Opportunity and risk approach Value for Money approach KRAs and KPIs
    Management Plans
    Performance champions program – ALT, AMT, WPT Refresher Program
    Succession and emergency replacement plan

Project specific communications

    Communication approach and expected outcomes
    Internal Communications (within alliance and to parent companies)
    External Communications (including client’s requirements and expectations) Critical success factors

Evaluation, feedback mechanisms and metrics, implementations of actions

Accountabilities and commitments

    Accountability Matrix

Figure 23 High Performance Management Plan elements

Leadership as a tool in driving the desired team culture

One of the key elements in winning alliance projects and in the success of alliances is the role that leadership plays across a range of constructs including building and maintaining team culture. Leadership is not only found at the top of an organisation or team; leadership often comes from within an organisation or team. The presence of culture leaders throughout the team is an important factor in successful alliances as these people act as visible symbols of that culture living what the alliance values and is working towards.

Alliance leadership is about awareness; first and foremost awareness about yourself. This is one of the fundamentals of emotional intelligence, a competence that is desirable for alliances – discussed in more detail in the next section.

Secondly, you need to be aware of others, and to be able to see and interpret the patterns in thinking and behaviours that occur within a team – all this as a precursor to leading and leveraging the kinds of thinking and behaviour that will drive and deliver great project outcomes.

Effective leadership in alliancing is also about being a good coach and mentor; providing constructive feedback and motivation for the team to deliver the project outcomes – and providing the kind of project environment that empowers people to be the best they can be. Real leadership is a selfless pursuit – it is about empowering others, not showcasing self.

Connectivity and culture

This chapter deals with the behavioural and attitudinal aspects of alliancing, so it will necessarily require an appreciation that human beings, and teams in particular, cannot be completely understood using linear models and linear thinking.

Drawing on a substantial literature in organisational and management theory, Stacey (*Strategic management and organisational dynamics*: 1996) established that teams in particular and organisations in general are non-linear feedback networks that are continuously involved in ongoing processes of positive and negative feedback. These networks can not be fully understood using linear models because linear models fail to capture the complex dynamics inherent in the strong interaction processes that prevail in teams and organisations.

The interaction among the parts – their connectivity – is essential to understanding any phenomenon whose complexity cannot be fully explained by a linear approximation. Alliancing, with its principle of co- locating different organisations together under one roof to create a new team, and the emphasis on open communication and knowledge sharing, opens up enormous potential for greater levels of connectivity – both in terms of quality and quantity - and therefore, potentially, higher levels of performance in teams.

Achieving high levels of positive interaction among the parts (connectivity) combined with creating a culture around those parts based on principles which support the team to think and work innovatively and in a forward moving, solutions focused way, begins to make the concept of a high performance team very real and achievable.

High performance team development – the power of connectivity and relationships

Peter Senge, the American scientist (aerospace engineer) and author of the book *The Fifth Discipline: The art and practice of the learning organization*, spoke about this concept of connectivity when he wrote:

"When you ask people about what it is like being part of a great team, what is most striking is the meaningfulness of the experience. People talk about being part of something larger than themselves, of being connected, of being generative. It becomes quite clear that, for many, their experiences as part of truly great teams stand out as singular periods of life lived to the fullest. Some spend the rest of their lives looking for ways to recapture that spirit." (Senge 1990: 13)

Senge's work is very valuable in understanding how alliance teams learn to function powerfully. On the concept of team learning Senge asserts that such learning is viewed as, 'the process of aligning and developing the capacities of a team to create the results its members truly desire' (Senge 1990: 236).

It builds on personal mastery and shared vision – but, he asserts, these are not enough. People need to be able to act together. When teams learn together, Senge suggests, not only can there be good results for the organisation, members will grow more rapidly than could have occurred otherwise.

The discipline of team learning starts with 'dialogue', the capacity of members of a team to suspend assumptions and enter into a genuine 'thinking together'. To the Greeks, *dia-logos* meant a free-flowing of meaning through a group, allowing the group to discover insights not attainable individually…. [It] also involves learning how to recognise the patterns of interaction in teams that undermine learning. (Senge 1990: 10)

This concept of people speaking, thinking and acting together is at the core of great team development and is essential in alliancing.

In a similar vein as Peter Senge, John Syer and Christopher Connolly in their book *The Dynamics of Effective Team Development (1996)* point to three critical elements in creating great relationships within teams: contact, complexity and contribution.

"People form teams and work together because together they have the potential to create something they can not create alone. By maximising the relationships between team members, teams maximise their performance." (Syer and Connolly, 1996).

Even though we may not have been aware of the theoretical bases of it, this is a fundamental premise of the alliance model (of course not confined to alliancing). It therefore makes all the sense in the world to spend time and effort in creating an alliance environment that focuses on connectivity and quality relationships.

Syer and Connolly assert that the quality of *contact or connectivity* between team members affects all aspects of their relationships and the team's overall performance. Without contact, people misunderstand each other, information and opportunities are lost and relationships fail to express their potential. With contact, or connectivity, communication can become meaningful, understanding of others is increased, insights are shared and the abilities of people are acknowledged. Trust takes root.

It is not surprising, therefore, that the alliance model strongly recommends co-location of team members into a dedicated project office, where quality 'connectivity' and where the 'thinking and acting together' that Senge speaks of can take place and where it becomes an important tool in optimising the team's performance. Many alliances even design the physical layout of the office to ensure contact between different disciplines (for example constructors, designers, architects and community consultation) to maximise meaningful conversation and increase the thinking, understanding and doing together, across disciplines.

Conversely, there are lessons to be learned from alliances where co-location has not occurred, or where it has occurred only in part, with some team members remaining in the parent organisation's office. Tales of misunderstanding, poor communication and lack of information sharing are not uncommon in this latter scenario.

The alliance model utilises a lot of workshops, meetings, thinking and innovation sessions, once again as tools to encourage collective thinking and acting as per Senge's model whereby you 'suspend assumptions and enter into a genuine thinking together'. Workshops are important culture tools, but obviously these should be planned to align with the program so that the appropriate workshop is scheduled when it is going to effect the greatest outcome with the least amount of negative impact in terms of people's time.

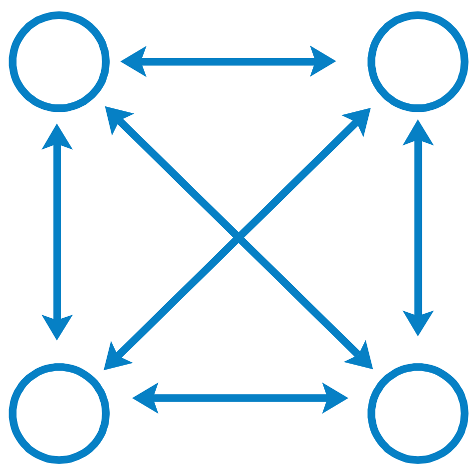
Co-locating an entire team for the project duration is not an easy thing to do. It is just not that simple. Competing demands from other projects, company restructures, relocations, retention and the project program itself all impact on this organic, ever-changing project delivery landscape. However, it is preferable to have as many as possible of the project team co-located under one project roof to allow for as much quality connectivity to take place, and therefore add to the team's potential for high performance.

The second element of Syer and Connolly's model for team development is complexity. People are *complex* systems and so are the teams of which they are a part.

The relationship between two individuals in a partnership, marriage or friendship is a complex system, let alone the relationships in a large project team! As shown in Figure 24, a team of four individuals has six relationships. A project team of 20 has 190 relationships and is a system so complex that it is unlikely ever to discover its full potential.

But if the right kind of positive intra-team connectivity and communication is occurring within a project culture that aims to amplify or expand the types of dynamics possible for that team, then the power of that team's untapped potential is enormous – and exponential!

Figure 24 Four individuals, six relationships



Peter Senge also explores the Systems Theory of team dynamics, adding to this the recognition that people are agents, able to act upon the structures and systems of which they are a part. All the disciplines are, in this way, "concerned with a shift of mind from seeing parts to seeing wholes, from seeing people as helpless reactors to seeing them as active participants in shaping their reality, from reacting to the present to creating the future" (Senge 1990: 69).

This resonates well with alliancing, as the setting of aspirational goals and stretch targets is intrinsic to the way alliances go about achieving exceptional project outcomes. How often have we listened to facilitators encourage teams to go beyond the usual thinking and to imagine what might be achievable. This type of aspirational thinking is founded in the systems theory of team dynamics, which allows people to shape their own realities, to create their own futures.

The third element of Syer and Connolly's model is contribution. People also have an innate need to *contribute*. They want their community to grow and thrive; they want their network of friends and colleagues to have meaningful work, and they want the personal and extended team community to be happy and to prosper. "Without the ability to contribute, people slowly lose touch with their essence". (Syer and Connolly)

So it follows that when teams have these three elements in place, they have the environmental tools they need to create great relationships that produce better thinking and that optimise project outcomes.

For alliancing, the great opportunity (and challenge) is to create the kind of cultural environment where teams can manage their own relationships and processes, where they can manage their own communication and interactions, and where they can manage their own connections and contributions to achieve their own and the team's potential.

The power of positivity

The complex interplay among human connections (positive and negative), emotions and actions within teams has already been discussed in this chapter. The research work of Losada and Heaphy (2004) suggests:

> *"Qualitative observations of teams showed that high performance teams were characterised by an atmosphere of buoyancy that lasted. By showing appreciation and encouragement to other members of the team, they created emotional spaces that were expansive and opened possibilities for action and creativity. In stark contrast, low performance teams operated in very restrictive emotional spaces created by lack of mutual support and enthusiasm, often in an atmosphere charged with distrust and cynicism. The medium performance teams generated emotional spaces that were not as restrictive as the low performance teams, but definitively not as expansive as the high performance teams.*
>
> *They did not show the distrust and cynicism of low performance teams, but they also did not manifest the mutual support and enthusiasm characteristic of high performance teams."*

> *"We need to have teams that are able to tap into the liberating and creative power of positivity. Not the excess positivity of Pollyannaish optimism, but the grounded positivity where measured negative feedback has a necessary place in keeping things going within agreed objectives. We need to have organisations with teams that are highly connected with the kind of durable resources that strong and lasting nexi (a connected series or group) generate. We need to have organizations where the polarity of other and self, of you and I, is integrated into a sense of **we**; where the polarity of inquiry and advocacy, of questions and answers, can drive a **productive and ongoing dialogue**; where the abundance of positivity, grounded in constructive negative feedback, can generate the state of **realistic enthusiasm** that can propel organisations and teams to reach and uphold the heights of excellence."*
>
> Losada and Heaphy (2004)

The team connectors – treasure them!

Some people seem to bring this positivity and energy to a team – they are constantly connecting with people and sharing their realistic enthusiasm for communication and connection. These people are a gift to the world and invaluable in a team – inspirational players who elevate the team's energy and communication to a level where connectivity, contribution and productivity rises, happiness increases and motivation becomes infectious. These people cascade their energy across the whole team environment, and help to create an energy and spirit that supersedes the norm. The team environment becomes an enjoyable, rewarding place, and people actually love coming to work. The team's culture is tangible. Every alliance needs some of these people.

Contact, or connectivity as a tool in building strong relationships in an alliance environment, is really what it is all about. People need to understand each other to be able to effectively work with each other, and you can not achieve that without connectivity. It enables each of us to see and then appreciate the differences that exist between us. It is the quality of the contact that constitutes the quality of the outcomes – across all project constructs. How often do people say they can not deliver this, or produce that because they have
to wait until they receive something else? That 'something else' is really just the necessary contact not

happening, in the guises of a phone call, information, a report, an equation, a formula, a visit – whatever. And that is why such a lot of emphasis is placed on facilitating opportunities for people to connect with each other on alliances – from the team building activities, through the physical layout of the co-located office, to the workshops and meetings that are convened to bring and keep the team connected.

As Charles Garfield (Peak Performance: Mental Training Techniques of the World's Greatest Athletes, *and* Second to None: Business One 1992:33) wrote:

> *"Many of the peak performers of my research were managers whose team-building skills enabled them to reach levels of performance that they would not have reached on their own. Far from being radical individualists, they were collaborators, who valued relationships and understood the importance of connection."*

Syer and Connolly continue this theme: "Recognising the initial need for members to laugh off opportunities for increased awareness, these leaders will gradually establish a sense of safety that allows everyone to make contact with each other. This includes giving ample opportunity for individuals to check out what they imagine about other members, for without such checking there is no way of knowing who
is there. Eventually, as contact increases, new ideas, new paths of action and new patterns of interaction emerge and the team's identity becomes clearer to all."

Alliancing encourages this high level of connectivity and communication to serve as vehicles to generate stronger relationships, more information sharing and ideas generation - all with a view to enhancing project delivery.

Leveraging diversity

Our behaviour as individuals typically depends on the group we happen to associate with.

In the world of alliancing, the cultural diversity of the team is one of the most challenging, yet opportunity rich, aspects of this project delivery methodology.

The fact that the team's behaviours depend in part on the particular cultural context they find themselves operating in presents a real opportunity in alliancing. The alliance can create the kind of culture they believe will deliver the best possible project outcomes – breakthrough or game breaking are words often used in alliancing to describe these elevated project outcomes.

Creating a culture that embraces the richness of the team's diversity, and maximising the opportunity to have different disciplines working together side by side is a fundamental principle of alliancing. Creating an environment that recognises and works in an holistic way, within a total project context will enhance project outcomes.

Emotional intelligence and alliancing

Back in the 1990s Daniel Goleman, a psychologist and journalist, created debate when he published a book called *Emotional Intelligence*. In the book he suggested that emotional intelligence (EQ) can matter more than IQ, that it was the 'missing priority' in an organisational sense, and that there was indeed 'a different way of being smart.'

His book, which was an international bestseller and led to thousands of other books being written on the subject (not to mention the dinner party conversations it generated), was based on the premise that an individual who is able to develop his or her personal competencies, such as self-awareness, self-regulation and motivation, as well as social competencies such as empathy and adeptness in social skills (such as communication, influence, conflict management and collaboration), is far more likely to be a star performer in a 'future business' sense.

To cut a long story (study) short, Goleman studied competence models for 181 different positions drawn from 121 different companies and organisations worldwide, with their combined workforce numbering in the millions. The models showed what management in each organisation agreed captured the particular profile of excellence for a given job.

The results of his study showed that 67% – or two out of three – of the abilities deemed essential for effective performance were emotional competencies. Compared to IQ and expertise, emotional competence mattered twice as much. This held true across all categories of jobs, and in all kinds of organisations.

To verify his results, Goleman then commissioned an independent study (by Hay/McBer). This study reanalysed raw data from 40 different corporations to determine how much more of a given competence star performers demonstrated compared to average – a slightly different way to answer Goleman's original question.

The Hay/McBer analysis again found that emotional competencies were found to be twice as important in contributing to excellence as pure intellect and expertise.

"In the new workplace," wrote Goleman, "with its emphasis on flexibility, teams, and a strong customer focus, this crucial set of emotional competencies is becoming increasingly essential for excellence in every job and in every part of the world."

So what does all this mean within the context of alliancing?

The possibilities you create when you combine high IQs (the logical, rational, cognitive competencies) with high levels of EQ (the personal and social competencies), are amazing. The outcome from this combination is only limited by the opportunity and ability of individuals and the team to realise their full potential.

This is great news for alliances, because it means that all the time and effort that goes into the development of individual and team competencies builds significantly, and greatly contributes to the project's success.

This focus on emotional intelligence is not meant in any way to demean the importance of IQ. The engineering and construction industry is based upon people's ability to think logically, quantifiably and in absolute terms. And we do this extremely well. What it does mean, however, is that when you *add* a good dollop of emotional intelligence (manifest in personal and social competencies) to the mix, then you have really got great human potential.

Why we raise the subject of emotional intelligence is to highlight that we each have the potential to build on to the enormous value we already bring to the world of the built environment through a slightly altered (hopefully enhanced) approach to our engineering projects.

Emotional intelligence provides us with a window of opportunity to take our work to another level. The good news is that in the world of alliancing, where an individual's capacity to work relationally within and across teams is highly valued, there is plenty of opportunity for further development for those who are open to the notion of self-development in the area of personal and social competence.

I'll have what they're having!

The role of culture and relationships in teams should not be underestimated, and this aspect of project delivery is becoming more valued as people in our industry understand more about how and why it all works.

Alliances are putting considerable time and energy into culture and team development, with many reaping the rewards of outstanding project outcomes through productive, happy people.

It is not surprising, therefore, that the industry is looking at these alliances and saying, "I'll have what they're having."

Step 2.3 Building Trust & Teamwork

The Ladder of Trust

Trust must be established between the partners in order to have value-creating negotiations. However, it's first useful to recognize that there are many different levels of trust. For an alliance champion, two key challenges in creating a productive environment are to first understand what the existing level of trust is in a relationship and then to determine how to improve trust.

Think of trust and distrust as a ladder: starting from the bottom, characterized by destructive behaviors, and moving to extraordinary possibilities at the top, as illustrated in Figure 000. We've overlaid the Trust Ladder on the Four-Drive Leadership Compass, and plotted the *behaviors* that people engage in when they are either "trust building" or "trust busting." "Neutral" trust we refer to as "transactions."

Most everyone has experienced interactions at every level on this ladder. Early in life, parents serve in a guardianship role, while a broad range of family relationships are created. The closest relationships can become friendships. As we grow older, other highly cooperative relationships emerge, such as those on sports teams or friendships with loved ones. These occur when the drives to *Create* and *Bond* are manifested and supported.

At the lower end of the ladder are highly distrustful interactions, where people attack one another either verbally or physically, and manipulate or deceive one another. In this zone people often retaliate tit-for-tat with equally or more intense forms of distrustful behavior, thus escalating distrust. These tend to occur when the drives to *Acquire* and *Defend* predominate.

When champions have a clear picture in their mind of the descriptions and names of trustful and distrustful behaviors, they are brought out into the open, and proactive action can be taken to wipe distrusting behaviors from the repertoire of organizational culture. With a *language* of words and pictures and a systematic *architecture* (framework), a leader can discuss in vivid detail what type of trust is desired, as well as the actions required to eliminate distrust.

In this section we will build out the Ladder of Trust, first with a description and symbols of the behaviors associated with the types of distrust. (Later we'll explore the upper zones of trusting behaviors.)

Negative Zone of Distrust: Trust Busters

The multiple ways we've learned to "bust trust" are so well defined in our society they should be considered art forms. These are all terribly expensive habits to support, and a massive drain on human energy. Here's a brief description of each of these types of Trust Busters (there are more than these six, but these are the most prevalent):

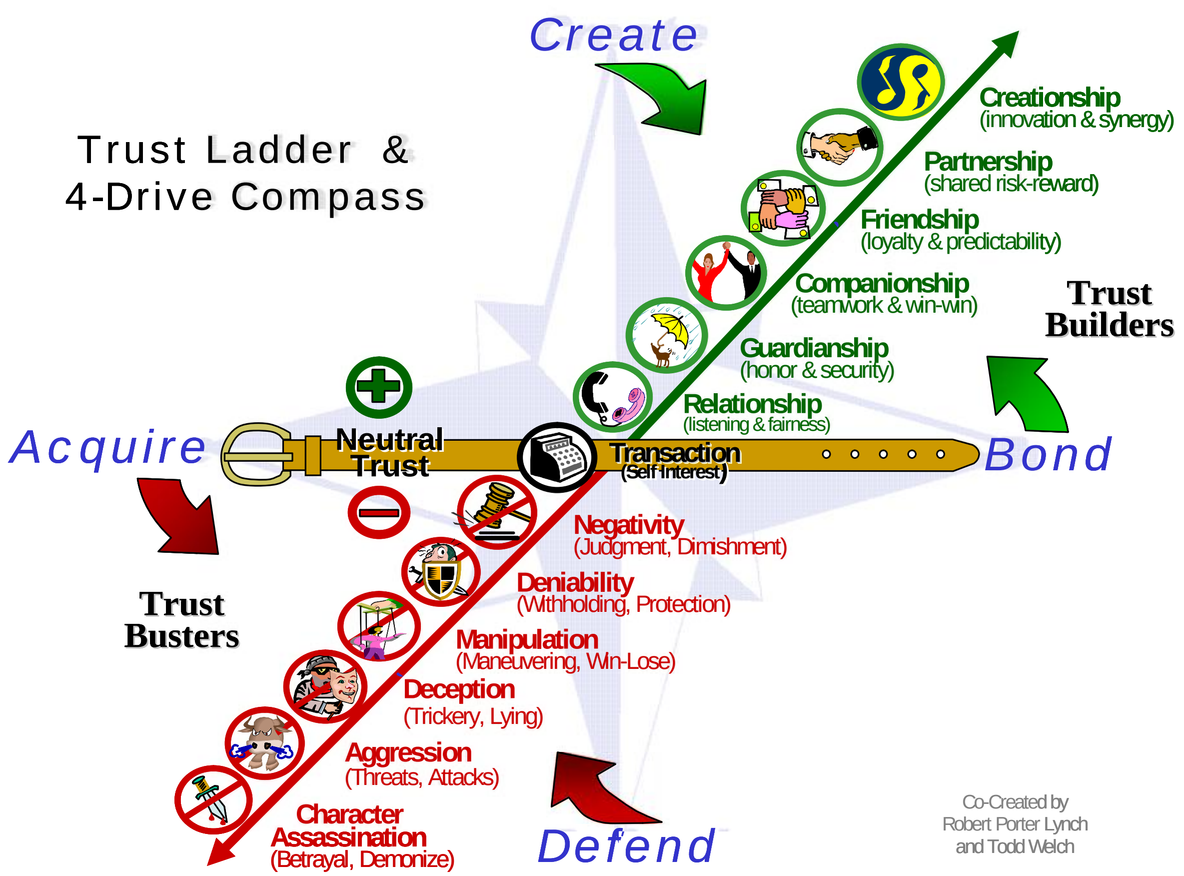


Figure 4 – Trust Ladder with Four Drives of Human Nature

Character Assassination and Betrayal

While murder may be the ultimate distrustful action, the more common version in organizations is *character assassination*. This takes the form of persistent efforts to destroy another's reputation, to scapegoat or demonize. *Betrayal* is an even more extreme form of character assassination.

Talk to anyone around you and ask, "Have you ever been betrayed?" Then watch their response. Usually it's one of intense emotional pain. Their hurt is carried around like a private wound, often as they suffer in guarded silence. Many respond to betrayal with revenge or demonization.

Aggression

Aggression is the use of someone's power in a way that seeks to threaten or harm. It represents the extremes of the drive to *Defend* (attack) and the drive to *Acquire* (dominate). The aggressor believes the best defense is a good offense: take the initiative to demonstrate superiority, strength, and power.

Because outright aggression is pretty obvious, highly intelligent people quickly learn that it's frowned upon. So they develop a trickier game: they become obstructionists by offering resistance that shows up as helplessness, procrastination, upsets, hurt feelings, resentment, or inaction even after multiple requests to stop. It's called "passive-aggressive" behavior.

The victim of the passive-aggressor may become angry, but because there's no overt attack, they don't fight back. Instead they clam up, shut down, and just obey. Commitment and creativity die; caring and learning halt; despondency and cynicism prevail.

Deception

The purpose of deception is to twist the truth. Lies are nearly always the base of deception, which takes a variety of forms, from the innocuous to the sinister. Sometimes it's so subtle it's hardly noticeable. Subtle forms of deception create illusions that something is totally true when it's not. Not giving all the information one should have is deception. Making others believe something with a half-truth is another example. Twisting the truth makes others insecure, uncertain, and unconfident.

Fraud is another form of deception, with the clear intent to swindle someone.

While lies are always dishonorable and destructive, in their worst form they can be downright evil, intending to harm, hurt, or damage another person. Lies often place the victim in the unenviable position of having to defend themselves against some allegation that was never true in the first place. The victim then has to go to inordinate lengths to prove that something never happened.

Manipulation

The mind of the manipulator has determined they cannot trust their world to respond in predictable and reasonable ways, so they have to trick other people into responding opportunistically to their advantage, which usually sets up a circular, self-fulfilling prophecy. Low-balling one's estimates is a form of manipulation.

The most typical manipulation game is whining or complaining. This method attacks others by focusing attention on how everyone else is wrong, bad, guilty, or incompetent. The whiner is seeking to get their own way by maneuvering others into the "bad guy" role, with themselves as the "rescuer." They often get away with it because it is easier to placate them than to confront their dysfunctional games.

Deniability

Deniability (part of the drive to *Defend*) typically comes in two forms: active and passive. Active deniers will often hide behind mountains of legal agreements, nondisclosures, red tape, and anything that will cover them in the event of a collapse or blame from above. By being overly protective, they actually create the very distrust that they attempt to protect themselves from.

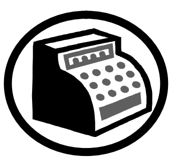
Passive deniers withdraw, flee, hide, or remain silent—making no commitments, avoiding interaction, and taking no risks. Passing the buck is a good way to keep out of the line of fire. Ducking issues is a form of protection. Bureaucrats are professional protectors, deflecting responsibility with obscure rules, convoluted processes, and abstract reasoning.

Negativity

Negativity comes in many forms: the chronic evaluator, the overly judgmental and critical, and the cynical. Negativists are quick to judge something wrong, play holier-than-thou, or subtly find a way to make others look reckless, inexperienced, or unworthy and thus make themselves seem stronger.

Unfortunately, people have a tendency to weigh negativity far more heavily than praise. Negativity triggers people's defensive drive (*Defend*), becoming a corrosive force and eating into the emotional fabric of people who crave to have their drives for collaboration (*Bond*) and learning (*Create*) reinforced. Idea killers will knock the energy out of an organization as their negativity quickly quashes the creativity drive.

Transactions Are Neutral: Neither Trust nor Distrust



To understand a transaction, think of going through a tollbooth on the turnpike or bridge or paying the attendant at a parking garage. That's a transaction, an exchange of value: money for use of their road, bridge, or parking lot. But what was the name of the tollbooth attendant? Easily forgettable, if you ever knew, because it was a transactional experience, one based simply on exchange.

It's at this level we have placed a "belt" on the Ladder of Trust to indicate that any action below the level of a transaction is off limits: "below the belt."

Bottom Line: Alliances that operate in the negative or neutral trust zone are probably doomed before they start. Distrust will corrode relationships, poison operational integration, and make leadership an agonizingly impossible task.

Positive Zone of Trust: Trust Builders

People yearn for trust because of their innate drive to *bond*; it's the natural state of human interaction. We were born with trust in our primary caregivers, our parents, and with any luck this trust was confirmed for most of us by our early experiences. People who had reasonably happy childhoods often remember a time when the world felt safe.

Relationship

The trust journey begins simply with building a relationship with other people by *listening*—not judgmental listening, but connected listening that validates the other person's point of view. When we listen with compassion, learning, and constructive inquiry, we begin to build trust. People feel like they are receiving support because they are heard.

Listening and inquiring with interest and compassion means you start with an open mind (*Create*) and a caring heart (*Bond*)—no assumptions and no expectations, which impair our ability to see things as they really are.

When building a trusting relationship, the minimal boundary conditions must be satisfied: both parties must feel respected, and each must understand the personal interests, needs, and concerns of the other, which gives the assurance that both will be better off from having met. If this does not happen, then the relationship is broken and falls below the line into the Zone of Distrust.

However, leaders who only engage their teams at this first relationship level, while appreciated for their compassion, are not going far enough.

Guardianship

The next level of trust provides *safety* and *security* (*Defend*) to the other person. A guardianship can be one-way, as a parent provides for a child, or a mutual guardianship like soldiers on a battlefield. Every employer has a duty and responsibility, both morally and legally, to protect his or her employees' safety on the job, provide a fair, living wage, pay their unemployment taxes, protect their civil rights, and provide a work environment free of harassment. In return, employees are expected to maintain a guardianship over the workplace by not stealing, reporting hazards, contributing ideas to improve competitive advantage, and ensuring the well-being of their coworkers.

At a deeper level, it's about mutual *reliance*—knowing that you will be there to protect me from harm, you will be there when I need you, you won't sacrifice or betray me for your own self-interest, you can be counted on to protect my best interests as well as your own, and you won't be negligent. In the end, we can count on each other to protect our mutual safety.

Companionship

Being a companion means trusting enough to work productively in teams. Each individual must know that breakdowns will not be destructive; that thoughts, work space, and concerns can be shared without fear of retribution, disrespect, or dishonor.

Confidence stems from placing mutual interest on a par with self-interest to create the essential win-win. Every decision embraces not just what's in the interests of the individual, but the greater good of the organization, the team, and the future of the business.

At this level the world is seen through a common vision and aligned interests. We expect reciprocity: shared ideas, giving at least as much as, if not more than, we expect to take back. Everyone begins to give more than they expect in return. Individuals come to the realization, sometimes painfully, that they win or lose together, as a team—in the same boat, facing the same storm together.

Friendship

For a friend, we are always present and always committed to *their* best interests. When they're in difficulty, we help; when they're hurting, we give them support; when in doubt, counsel; when confused, clarity; when self-deceived, honesty.

The power of friendship lies not just in the bond of familiarity, but in the mutual commitment to each other's well-being.

When our friend is attacked or harm comes their way, we respond with aid. If they have done something wrong, we stand by them to help them right the wrong. When they are unfairly accused, we defend them. This is what loyalty is all about. Friendships grow up in organizations alongside trust, but leaders should be watchful that they do not break down into favoritism.

Partnership

A partnership is designed to respect and cherish the differences in thinking and capabilities between two or more people or organizations. It is the combination of *differing* strengths with the *alignment* of common purpose that makes a partnership effective. For example, one person does outside sales, another keeps the finances on track, while another runs operations. Great partnering relationships require a number of things to make them work effectively:

- *Shared Vision:* Trust is built by the power of the commitment to a shared view of the unfolding future. While making today's dollar is essential in any business, great partnerships are always looking one step ahead to find the new opportunity, to design the future, to turn adversity to advantage.
- *Shared Planning:* People support what they help create. This builds trust because those thus engaged are consulted and their ideas are valued, which in turn builds even stronger commitment to the future.

- *Shared Resources, Risks, and Rewards:* By sharing risk and reward, people have "skin in the game." The more everyone shares risks and rewards, the more powerful the level of commitment.

It is at this base-level your alliance should be operating.

Creationship

For this level of trust we had to create a new word. A "creationship" implies that we can do something extraordinary: we can co-create together. A creationship embraces prior elements of trust building, and then, secure in the absence of fear, unleashes a connection between the hearts and minds of the co-creators—new ideas generate like spontaneous combustion.

How does the leader foster creationships? Here are some ways:

- *Purpose and Destiny:* Some of the most co-creative people on the planet are those with a deep central sense of personal purpose or destiny. This kind of purpose gives meaning and value to whatever we do—there is a reason for *being* and *doing* in our daily lives.
- *No such thing as Failure, Only Learning:* Be careful not to punish what might look like a failed attempt at a creative solution. Be sure to encourage learning from failures. Remember, high-performance teams fail more often than low-performance teams; the difference is how they learn—then innovate from what they have learned.
- *Use Conflict to Advantage:* Whenever there's change, conflict is inevitable as systems, strategies, roles, and perspectives shift, even in a trusting environment. Don't shove conflict under the rug, but use it as a learning mechanism. Focus on shifting perspectives; prevent people from becoming entrenched in one point of view.
- *Laugh! C*reationship teams are not all grinding labor; they're having fun with what they do and laughing a lot, spontaneously creating in the moment. Research shows that laughter releases endorphins that trigger creativity. Laughter also expresses the absence of fear.

It is this level your alliance should be operating when it is optimally performing!

Using the Trust Ladder

We've found that one of the most effective uses of the Trust Ladder is simply to make it visible and accessible so that people can do an honest assessment of where their relationship now exists on the scale (it can exist on multiple points), and where they want it to be. Later, address which actions must stop, and which actions need to prevail to meet the goal.

Alliance champions need to identify what types of behavior are prevalent in their experience, specifically what actions are either above or below the neutral line. A discussion often reveals that people are trapped in the Zone of Distrust, with no means of escape.

It's disheartening to learn how many groups report that the preponderance of business is stuck in the levels of distrust. In fact, this has been the norm for so long that it's considered acceptable behavior and has become an art form in the business world—one of the symbols of modern capitalism.

Do Not Respond in Kind

When even one person engages in the first level of distrust, it is tempting to respond in kind—"tit-for-tat," or worse, go one level deeper. This, of course, can trigger a never-ending downward spiral of deepening distrust, which must be avoided at all costs.

By opening a discussion of how one distrustful act triggers another, we can then address what must change to head in the right direction. Those who courageously resist the tit-for-tat and make the commitment to engage in higher-level discourse will unearth disarmingly productive discussions. But such action is not easy—we are so programmed to retaliate, not reinvent.

Alliance champions must play a proactive role in reframing engagements, and ferret out those interactions, including their own, that reinforce distrust. Shifting out of the distrust mode for deeply distressed organizations is by no means an easy task; it's like trying to cure advanced cancer, because by this late stage distrust has become deeply embedded in the organization's culture.

Leadership Actions

Our advice to champions who want to move their organizations (as well as their partnerships) up the Ladder of Trust is quite specific: start every interaction assuming that the other parties have all four drives intact as the ultimate motivators of their psyche—that is, they are motivated by opportunities not only to *acquire* more resources and *defend* themselves, but also to be *creative*, and to develop *bonds* of trust with others. With this in mind, leaders can in fact address all four drives in their followers by mutually practicing an Honor Code developed by the alliance members (see Phase 4 – Operating Principles). We find this amazingly simple— ~~--~~ but it works. Read over the rules again. Of course they may be hard to follow, but if a leader can stick closely to these rules, it will move the group up the Ladder of Trust, releasing energy for collaborative innovation that's off the charts.

Nonetheless, an alliance champion must be alert to identifying distrustful behavior, calling it out, and making it unquestionably clear what won't be tolerated. Taken together, these are the acts of leadership that will build a strong structure of trust.

Step 2.4 Collaborative Innovation

What Is Innovation?

First it is important to address what we mean by *innovation*.

We define innovation as

"People co-creating strategies, systems, structures, services, products, and processes that generate new sources of value and growth for an organization."

It's important to understand that innovation is not a mechanical process, it's a people process that requires a high level of interactive engagement.

As described earlier in this Phase, innovation requires a grounding in a collaborative culture rooted firmly in high levels of trust.

Many innovation programs fail because the collaborative culture is missing. This is why so many Lean initiatives are abandoned early in their evolution. (see article by Gary Loblick)

The Collaborative Imperative as an Innovation Engine

[RPL Note: this section needs major trimming and refocusing on ABC]

An interesting thing happened on the way to the future, and many of us didn't recognize it when it was happening, we were so dizzied by the speed and complexity of the change.

In surveys done in the last ten years,[7] senior executives (45-65 years of age from every size and type of business) were asked to fill out the following graph given a simple set of instructions – on the graph, using 1970 as a baseline, as time has progressed to the present "what does the rate of change, complexity, and speed (illustrated on the vertical access) *feel like?* The participants were instructed to give their own personal point of view, not what they had read or been told by someone

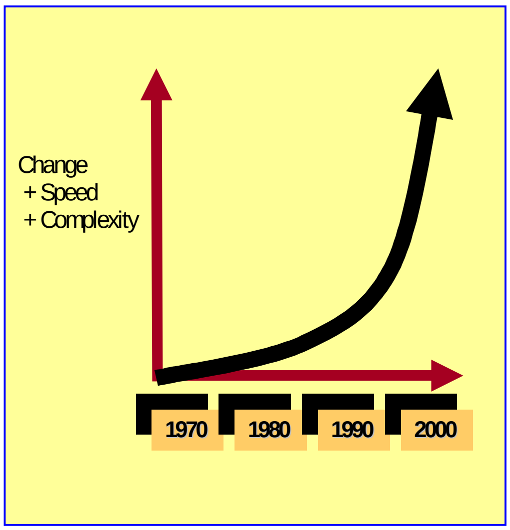


Figure 1: Rate of Change, Complexity, & Speed

[7] During the last ten years, RPL, in speeches, seminars, and workshops, asked over 10,000 executives across the US and Canada about how change, speed, and complexity has changed. Between 80-90% of all audiences responded with the curve noted. Universally executives said they did not expect the rate of change to slow down or stabilize anytime in the near future.

else.

Advanced Manufacturing, June, 2008, p 16

LEANINSIGHTS BYGARYLOBLICK,P.ENG.,MBA~ __

Collaboration is the key to unlocking Continuous Improvement

Collaboration is *a structured recursive process where two or more people work together toward a common goal. Typically an intellectual endeavour that* is *creative in nature; by sharing knowledge, learning, and building consensus.* - Wikipedia

One of the most commonly over- looked precepts of lean manufacturing is the principle of collaboration. It never ceases to amaze us in our consulting and coaching roles with clients undergoing a transformation to lean is how they overlook the importance of establishing collaborative relationships within and across their organizations and both up and downstream from their organizations. Collaboration is merely assumed, not addressed as key to their lean journey. Yet without the collaborative gene, the lean transformation journey deteriorates to nothing more than a set of tools and methods providing mediocre results at best and very little likelihood of sustaining even those small gains. The reason why collaboration is so important lies in the fundamentals of "lean" itself.

Lean is all about people. Our objective is to create a sustainable culture of continuous improvement. This is only doable if we can harness the hearts and minds of our associates, no matter where they reside in our organization. Only by creating an environment that encourages collaboration will we ever enlist the sum of all of the creative genius that lies within our organization. Pulling this together is key to greatness. It is the key to finding innovative solutions to productivity challenges and then taking them to even greater improvements in our ongoing journey of continuous improvement.

So why is collaboration so important? Let's look at our operations from a number of perspectives. First, at the cell level we are looking to capture the ongoing day-by-day improvements that can be generated by an involved and committed workforce. Such team dynamics only exist where we have a collaborative, no-blame environment. Next, consider the individual value streams within our organizations. Here we look to overcome the traditional boundaries of departments, career paths, functional disciplines and internal empires to create a harmonious, focused team effort to continuously improve our productivity, quality, and overall customer service. Without the ability to collaborate, tearing down the traditional walls separating our in-bred departmentalized thinking is impossible.

From the corporate strategic level, taking our lean initiatives outside our organization by looking both upstream at our supply chain and downstream via our customers, requires collaboration. To get to this stage takes time, perseverance and effort. But the rewards for this level of collaboration are huge. Yet companies continue to ignore this opportunity.

Collaboration in its purest form is a driver of innovation. Great ideas are generated by people. Even greater ideas come from the sharing of ideas. Break- through thinking does not happen in isolation. Consider what might be accomplished in your organization if y o u could get your associates to think and act collaboratively. Such power is not easily achieved and almost impossible for competitors to emulate. Just imagine the magnitude of results that aloe available to those who can collaborate internally and externally to their organization. We are talking about innovative improvements in product development, production and operational processes and systems, and leveraging technology to further increase competitiveness. This truly becomes a powerful attribute that will have sustainable competitive advantages over its more traditional rivals. As described by Robert Porter Lynch,

> "In a fast-paced, rapidly changing world, the most successful and sustainable source of competitive advantage is through collaborative innovation."

Since a "lean" transformation is a top-down driven process, it is critical that the collaborative gene reside in the organization's leadership DNA. Because as the leadership goes, so does the rest of the organization. Therefore, we challenge every organizational leader to explore and adopt for their organization "best practices" in collaboration.

Coming together is *a beginning) keeping together* is*progress) working together* is *success.*
--Henry Ford

Gary Loblick (P. Eng., MBA) is *President of The Winslow Group) a networked organization of industry professionals experienced in the implementation of productivity improvement processes.*

Astoundingly, 80-90% responded with a curve that looked like Figure 1. [8]

In the first half of this era (1970-1990), the business world was slower moving, a period of relative predictable change, characterized by five and ten year strategic plans and three year sales forecasts. Organizations were stand-alone and predominantly hierarchical. The rules of management in this era had been developed from years of experience, handed down through generations of tradition and the esteemed learning from our business schools.

Then hell broke loose. Upon the world new driving forces and technologies changed the face of business: computers, the Internet, cell phones and fax machines helped drive an information explosion and globalization of business.

Fired by the forces of change (see footnote #2), what was once a somewhat predictable world almost instantaneously suffered a tectonic shift, becoming fast, discontinuous, and unpredictable. Long term strategic plans were suspended, sales forecasts scaled into shorter horizons, and alliances burgeoned to enable adaptation to the shift.

There is no time in the history of the world when this type and magnitude of sustained change has occurred in such a short period of time.[9]

In the face of this massive shift in speed, complexity, and change, everyone in business needs to ask the question: “So what? What is different today that wasn’t true or important ten or twenty years ago?” (If you haven’t asked this question, you and your team are strongly urged to do so, because the answers may astound you.)

A new world emerged on the way to the future, with a new rule (you might say the business derivative of Einstein’s law of Relativity):

As Speed Shifts, Paradigms Change

No longer does the linear world of hierarchical, stand-alone companies dominate the business landscape. Why? Because the forces have changed: breakthroughs are now common, everything must be inter-connected, complexity and uncertainty are the norm, simultaneous and synchronous interaction is demanded, paradoxical shifts occur regularly, ambiguity and non- linearity are expected in planning where multiple futures must be accounted for. The

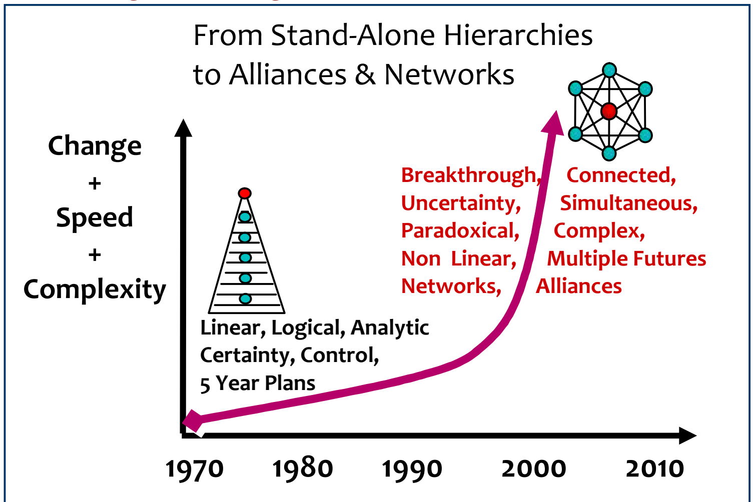


Figure 2 Shift to Alliances and Networks

[8] The only difference among these 90% was the point of inflection where the curve changes direction radically. For those in very rapid change industries, such as high tech, the point was generally between 1986 and 1990. For those in slower changing businesses, such as petro-chemicals the point tended toward 1995-7. The primary reasons for the shift cited by executives were: computers, faxes, globalization, cell phones, then the internet, each compounding upon the other.

[9] The only possible exception to this type and magnitude of change might be the Second World War. However, the difference is that after the war, the world basically resumed its prior ways, whereas in this current change, the entire world is shifting its perspective, behaviors, priorities, and rules of engagement. George Santayana’s admonishment that “Those who do not learn from history are doomed to repeat it,” may not prevail in this environment where there is no precedent for the change.

only organizational structures capable of handling such situations are networks joined by alliances. (see Figure 2)

The implications of this shift are enormous on organizations, whether they be in manufacturing or service, public or private sector, large or small in scale.

In Table 1, a few of the differences are outlined. Each of these issues are sufficient to fell an organization, which explains in part why so many once-strong companies have been laid to their knees in our new era. No one is immune. Every company must carefully assess how it needs to shift its thinking about its future, its relationships, and its sources of competitive advantage.

Table 3 - Implications of Shift from Slow to Fast Moving World

Pace	**Slow**	**Fast**
Key Planning Characteristic	Predictable, Linear, Logical	Innovative, Simultaneous, Proactive
Command System	Control and Direct	Coordinate and Synchronize
Organizational Structure	Hierarchical	Alliances & Networks
Supplier Relationships	Component Cost, Vendor-Based, Transactional	Total Cost of Ownership, Systems Integration, Relational
Organizational Relations	Stand Alone, Separate	Integrated
Intellectual Property Strategy	Protect & Defend	Multiply and Regenerate
Source of Competitive Advantage	Size and Financial Muscle	Collaborative Innovation

Challenge to Traditional Thinking – Key Factor for Success

Too often, we revert to their "proven" playbook to solve current problems. Experience may be extremely valuable, but challenge what you think you know. One thing is for sure, the old system of value chains where customer beats on supplier for the lowest price is being rapidly jeopardized by competitors who see the competitive battle as one of constructing the best value network to compete against rivals who use fragmented chains to construct slow, inefficient competitive products and services. One just has to look at how Toyota and Honda have crucified Ford and GM, or how Procter & Gamble has continued to innovate and remain highly profitable even with Wal-Mart as their largest customer. The new mantra of value networks is:

If there is an Adversarial Process in-between organizations that must be collaborative to succeed, GET RID OF IT!!

We cannot always revert back to how things were done in the past to solve new problems of the future; we must innovate with new ideas if you need to be a leader in the field. Here are a few things to consider:

1. Need for Innovation, Integration, and Acceleration: Rapid change is the compelling reason to focus on innovation. Without innovation, any business is faced with becoming extinct, and faster than ever before. Thus innovation becomes essential for business survivability. We believe there is new fundamental rule for businesses today – both large and small:

In a fast moving, rapidly changing world,
the most sustainable source competitive advantage is collaborative innovation, acceleration, and integration.

2. Hierarchies are dinosaurs: The hierarchical organization as we've known it was a hand-me-down from the Roman legions. It worked well in slow moving environments. However, in a fast moving world, connected networks that function more like the neural networks of the brain are more efficient. Even the Canadian and U.S. military commands understand this – the role of a private in a combat-centered battlefield network is far different than the private's role back at the base during peacetime.
3. Need for Collaboration: With the advent of the internet, powerful communications, and a major shift to greater connectivity between customers and suppliers, our new world of global enterprise is now far more integrated, connected, and thus cooperative. This calls for a new type of business – one that is highly cooperative. For the prior generation, this may come as a shock. The premise of the past was that the John Wayne style hero was the epitome of the heroic entrepreneur. Independence is no longer a sustainable strategy for success. This doesn't mean we think the individual is obsolete or that individual initiative is a relic of the past – quite the contrary! But it does require the individual entrepreneur to think in new, connected and strategic ways.
4. Entrepreneurship is more Important than ever: Rapid action, less bureaucracy, and working on intuition is more prized now than in the days of slower bureaucratic corporations. Quick decision-making, agility in organization, creative solutions, flexible roles, fast alliances, and willingness to take calculated risks are the hallmark of the successful future business.
5. Information is a Commodity: In the past, access to deep knowledge was the privilege of the college educated. Today the internet has changed all that. Any young child with a computer and access to the world-wide web can have just about as much information as the Harvard MBA. So it's not about the information; today it's about ambition, creativity, organizational ability, and willingness to take risks.

Implications of this change

Simply put:

The future isn't what it used to be!

We are in a period of business evolution that requires massive readjustment and reassessment of our priorities, styles of leadership, assumptions about people, and methods of interacting. Here are some of the shifts in thinking entrepreneurs and executive alike must consider:

1. Revolution in Innovation: Massive advances in computer and telecommunications technology have driven powerful shifts in business and economics. We are still trying to absorb the meaning of these changes. But, to the chagrin of many who seek a stable world, the old rules are being rewritten daily. Some of the new rules will astound the older generations, but, ironically, there are some rules of the past that will be more important than ever.

> Ideas are the fuel of innovation engines. Best of all: the fuel is *free*.

2. Strategic Alliances & Networks: Unlike the prior age, where stand-alone companies could produce nearly everything they needed to sell, the new era demands that we focus on what we do well. Successful companies are now learning the importance of being integrated, connected, networked, and allianced with their customers, their delivery systems, and their suppliers. Even giants like P&G, IBM, and Cisco Systems now pride themselves in the innovation flows that come from their alliance partners.

3. Power of Intellectual Capital: Information is now a commodity – highly available, cheap, and accessible by anyone. Money is more prevalent than ever (even though we never seem to have enough of it). What becomes most *valuable* in the new era of *innovation* is the single thing which creates the most *competitive advantage* – and that's *intellectual capital.* The game every entrepreneur must play is establishing a sustainable competitive advantage to keep his or her business alive. The way this is done is different today than it was a generation ago.

4. Collaborative Innovation: If innovation is the most important means of creating sustainable competitive advantage in a fast moving, rapidly changing world, then how do we maximize our competitive advantage? Obviously by out-innovating the competition. But any entrepreneur will soon run out of ideas. All the brain-power of Edison and Einstein combined would not be enough to produce the quantity of innovation required, given the rate of change around us. This should lead anyone to the inevitable conclusion: we must *collaboratively* innovate to win in the game.

5. Leveraging Resources: Amazingly, if you ask any business, from the largest multi-billion dollar global corporation to the smallest local sole proprietorship, about resources, they will all say they don't have enough resources – money, people, time, or whatever. In fact, studies have shown that companies with too many resources usually squander them – it's the resource constrained companies that tend to be most successful. (just look at how the lack of resources forced Apple Computer or Toyota to be resourceful). Companies, from large to small are now learning to cooperate to compete, thus leveraging their resources enormously.

6. Teamwork Inside and Outside: Leveraging Resources and Generating Intellectual Capital requires a little rethinking of what we do and how we do it. Teamwork used to mean things we did within our organization, usually within a small part of our business, to get people to work together. While this is still true, a larger truth prevails today: we must make teamwork fulfill the goal of making our organizations more efficient and effective – more innovative and more agile. But we can't limit the idea of teamwork to something within our companies – teamwork has to happen across boundaries: with our suppliers and our customers. Without seeing our company as part of an alliance network of suppliers and customers, we run the risk of thinking too tactically if our competitors are jointly playing a strategic game.

7. Teamwork & Trust Create Competitive Advantage: In the game of business, where resources are limited, risks are many, and the competition is fierce, we look for the greatest means of creating competitive advantage.
   – First is Think – create innovative ideas.
   – Second is Teamwork – building a group of highly energized, coordinated people.
   – Third is Trust – engaging people so that they feel more than safe together, but so they can synergize together, co-create, and coordinate with utmost precision (what we call *synchronicity*). Without trusting, the thinking and teaming parts of the equation won't compute. What's interesting about trust is that it was much more a part of capitalism during the pre-industrial (agrarian) age, and it will be an even greater asset to a business in the future, because it enables high levels of speed, innovation, and integration – all major assets in our new, fast moving world.

Caught Between the Gaps in the Era-Shifts

What has made this shift extremely difficult is the rapidity through which we have transcended major changes in capitalism itself.

Industrial Era: This period in the U.S. lasted from the early 1800's through the 1970's. (Note: different countries enter and exit eras at differing times and rates, and residue from one era often continues into the next) During the Industrial Era, it became clear that the two extremes: Dictatorial Communism and Exploitive Capitalism were becoming extinct because they did not work. The systems in the middle: Government Guided Socialism and Government Disciplined Capitalism were producing far better results for all people.

Labor strife diminished, people became conscious that the environment needed to be protected. Distinctions blurred between right and left wing ideas. The Russian communism collapsed, Chinese communism transformed, and European socialism became more symbiotic with capitalism.

Information Era: Many changes occurred as we shifted eras from the Industrial Era to the Information Era, which began to emerge in the 1980s. (see Figure) The technological innovations of the late twentieth century connected the world, enabling a globalization of economies. Developments in the banking system made great strides in smoothing out the boom and bust cycles. With the computer revolution came the Information Era where data was available, accentuated dramatically by the internet. Digital technologies made the replication of software, data, and communications far less expensive per unit than ever before.

With this shift came a globalization of economies, and also a reframing of the rules of business. Money was less a precious resource, information became a commodity, and educated people became more valuable as we shifted to a service economy.

A new entrepreneurial capitalism emerged that enabled small companies to grow rapidly (for example: Microsoft, Google, etc) and the owners accumulate great wealth because the foundation of competitive advantage shifted from large behemoths to agile, fast, and innovative entrepreneurs.

With this shift, many industries of the earlier Industrial Era were diminished significantly (for example, steel, railroads, textiles, etc.)

Innovation Era: Unlike past eras that enjoyed long lives, the Information Era proved to be short-lived, a twenty year transitionary step-stone setting the stage for the Era of Innovation.

This newest era is something uniquely different, but still remaining grounded on the capitalistic side of the fence. (see Figure below). New capacities and integrations between computers and telecommunications have enabled networking of companies. Competitors that used to be arch-rivals are now collaborating.

Financial capital, once the source of power in business, is being replaced by intellectual power. Workers, who once were treated like replaceable parts, are now being seen as a competitive advantage, being encouraged to work smarter not harder, using their ideas more than their brawn. The emergence of the service economy balances the manufacturing economy, thus encouraging more thought-generated ideas from the workforce. Social responsibility is considered to be an integral part of a businesses mandate. Environmental consciousness has evolved into environmental responsibility as the threat of global warming looms large.

It is this new era of capitalism we refer to as "Collaborative Commerce" to distinguish it from earlier forms of capitalism. It's new, it's unique, it's guided by somewhat different rules and principles, and it's actually very energizing.

Old Truths – New Myths

The rapidity of the shifts between the Industrial, Information, and Innovation Eras has caught many by surprise. This transition spanning three eras in such a short time confuses many because what was considered truth in one era becomes a myth in the next. Business leaders are often baffled by the seemingly contradictory philosophies as advice is coming at them from perspectives grounded in each of the three different eras. Many academicians are still teaching old management principles that were very true just a few years ago. For example, one esteemed professor of business confidently stated recently (referring to supply chains):

- *Power is the primary basis for relative strength of the buyer-supplier relationship….*
- *In a world of scarcity, win-lose negotiations is the best approach because win-win is a fuzzy fallacy ….*
- *It's not in the interests of buyer & seller to maximize their mutual benefit ….*
- *Exchange is at the heart of all human existence …*

He is clearly grounded in the thinking of the Industrial Era advocating strategies and practices that would fail dismally in the Innovation Era.

Being caught in the gap between the eras has also created some anomalies in thinking. Here are just a few examples of "truths" of the old era that are becoming "myths" in the new era:

1. *Old "Truth," New Myth: If It Ain't Broke, Don't Fix it:* This made a lot of sense in a stable, slow-moving world where innovation was negligible. Big manufacturing plants ran on vast systems that were designed for efficiency, thus any change would cause major ineffiencies. In today's world of rapid innovation, if it's not broken, someone in the world is going to reinvent it and put you in a tough spot.
2. *Old "Truth," New Myth: It's always a battle between Labour versus Capital /Management*: This was always a half-truth, half lie, and is so outmoded, that it's not worth discussing the problems Communism had making the numbers work. The Russians and Chinese abandoned it, and only a few hold-outs like Cuba think it has any value. Sadly, the battles over this type of thinking lasted over a century, started wars, killed millions of people, and overturned governments. It became the realm of zealots and fanatics, just like a religious war. Some labour unions in a few isolated countries still hold this as a truth.

3. *<u>Old "Truth," New Myth</u>: The Purpose of Business is to Create Shareholder Value*:– Another half truth, this one from Wall Street, which makes a lot of money from this mythology essentially because their focus is on publicly held companies. But small and medium sized businesses are usually guided by more purposeful people who find the reason for their business is to provide a product or service they believe at a profit. Their businesses run not on shareholder value, but on cash-flow (just ask anyone who's had to make a payroll). What's more, try motivating an employee on Monday morning with a rousing speech about how he or she is going to work all week just to serve some unseen and unknown shareholder. Reality: Making money for shareholders is just one measure of our success. – it's not the purpose of the business, nor is it the motivation of entrepreneurs or employees.

The Challenges to the Future of Business

It's within this new Era of Innovation that cooperative entrepreneurship will flourish. The future of business will be not how large you will be but how well you can collaborate to innovate, integrate and accelerate.

What can we expect to be the major obstacles to the shift into more integrated organizations and value networks? While there are many blockages, we see four major difficulties, all of which can be overcome.

1. Shift in Thinking and Culture
2. Procurement and Financial Metrics
3. Intellectual Property Ownership
4. Distrust and Adversary Relationships

Let's explore these to see what must be done.

1. <u>Shift in Thinking and Culture</u>: This is probably the most difficult of the all the shifts because it is so engrained into the foundations of our institutions, our laws, our daily lives, our rewards systems, our interactions with others, in our rewards, and our response patterns. Thinking and culture drive actions, which makes it extremely important to make changes here first. There are several leverage points any organizational leader must utilize to begin making this shift:

   – <u>Awareness & Beliefs</u>: No change will ever occur unless people are aware of another approach, have data to support the conclusion that changing is less risky than staying the course, and are committed to the belief that something new must occur.

   – <u>Architecture & Champions</u>: Having a plan and a system that enables will produce results consistently and predictably is essential. This, coupled with a cadre of champions, supported and mandated by senior level executives, to initiate the new strategy will be required to initiate the change.

   – <u>Action & Results</u>: Typically companies will launch pilot projects to establish concrete results that will verify their expectations and legitimize their beliefs. Adjustments in the architecture, strategy, and plan can then be made to fine-tune results.

- <u>Metrics & Rewards</u>: No change is ever complete and permanent unless the measures of success and rewards systems shift to match the new requirements. If old measures and rewards are left in place, then behavior will be either entirely dysfunctional as people are torn between old and new, or they will revert back to their old thinking and behaviors, because what get's measured gets done.

2. <u>Procurement and Financial Metrics</u>: In relationships between companies the interface between buyer and seller is frequently based on some very old and often archaic thinking about cost, price, specifications, and expectations.

   - Few companies look for innovation flows from suppliers.
   - Seldom is total cost of ownership or systems cost considered
   - Procurement Professionals are measured on Component Costs, not Total Cost of Ownership (TCO, which is the only way real cost can be calculated across a value chain or value network)
   - Integrated Solutions are a rarity
   - Speed, Cycle Time, and Time to Market are not factored in buying decisions
   - Finance constantly puts short-term pressure on companies to cut cost, often at the expense of higher warranty costs later
   - Bargaining and other forms of negotiations trickery are standard operating procedure

   These and a number of other factors have poisoned the relationships between companies; these relationships are filled with distrust, legal barriers, thus becoming transactional at best, and highly manipulative, protective, and adversarial at worst. This can be addressed by the architectures of collaborative innovation and strategic alliances, but only if senior management mandates the change.

   The metrics of success must shift from component/unit cost to a systems cost for the entire value network. Most old value chains have massive amounts of non-value added work that's the residue of old processes, fear, risk aversion, and barriers (both internal and external) between organizational units. This non-value added typically adds 40-90% to the cost of goods and services.

3. <u>Intellectual Property Ownership</u>: In the fading world of stand-alone companies, the legacy strategies of defend and protect intellectual property is one of the massive blockages to collaborative innovation. Lawyers will wrangle over joint ownership of property rights, while competitors rush into the market, making any victory pyrrhic. (In Silicon Valley, the half life of IP is typically only 3-6 months.) The Defend and Protect approach encourages hording and litigation, with the hope that IP will become the competitive advantage of a company. While this can be true to an extent, it increases the chances of costly litigation, which can wipe out many the strategic and financial advantages.

   Companies like IBM have begun to rethink this approach and replace it with a more network-centric approach that builds both IBM and its related network of suppliers, appliers, and customers.

   The emerging new school of thought is a more focuses on a regenerative strategy that is designed to propel to co-create the next generation, proliferate to gain advantage, license old IP, cross license to avoid litigation, and use a combination of open and closed systems to optimize value and speed to market. This approach also seeks to maximize the use of joint development agreements, tech transfer, and joint ownership. Companies like IBM, Cisco, and P&G have been successful using this strategy, which works in a fast moving world where technology has shorter lifetimes.

However, the installed base of legacy legal systems is proving extremely difficult to supplant with newer thinking, principally because lawyers are tasked with a "protective" role for their clients, and outside counsel can have a lucrative practice in litigation.

4. <u>Distrust and Adversary Relationships</u>: Centuries of bargaining and bickering over price, coupled with sophisticated negotiations techniques and procurement management systems has left the business world with a tradition of distrust. This cannot be allowed to prevail in a value network. Distrust is corrosive, and destroys alliances and collaborative innovation, which are the underpinnings of value networks.

   Distrust is also expensive. Mistrust causes everything to be more complicated, slower, and far more fragmented. Distrust adds extra costs to everything. (for example, in health insurance – distrust adds at least 20-30¢ to every dollar of health cost, for which we receive no health value in return.) What's more, distrust puts a big limitation on collaborative innovation and teamwork. In other words, distrust is a major competitive disadvantage, whether it is manifesting internally inside our companies, or externally in our relationships with suppliers and customers.

   Ultimately, no amount of pages in a legal contract can substitute for or replace weak trust. If trust is the key to rapid decision-making, building teams, and creating competitive advantage through collaborative innovation, why, then is, trust so low, and what can we do about it? We think there are several reasons:

   - We've distrusted for so long, it's become a business habit. To change is risky, making us vulnerable.
   - As a civilization, we really don't have a good concept about trust itself. Reading over the literature, one is somewhat shocked to see how few refinements we have in our daily lives, at home, and at work that make empower trusting relationships. Just look at television – show after show is fraught with betrayals, lying, cheating, stealing, crime, personal manipulation, and greed, but little to show how to cure the illness.

   What causes distrust? In a word: *fear*; in particular, *fear of being taken advantage of* or *fear of being put in a disadvantageous position*. To have trust, at a minimum, one must sense that there is a level of safety in the relationship that I will not be worse of for having this interaction.

   Just as the elimination of a disease does not cause happiness, neither will the elimination of distrust create solid trust – it just brings everything to "neutral." The lack of ethics will cause distrust, but the presence of honesty and ethics does not necessarily cause trust. Good ethics implies "I won't do something wrong;" it takes the fear out of the picture. But it doesn't mean "I'll be effective," nor "use sound judgment," nor "be collaborative," nor "compassionate," nor "spontaneous." Other things are necessary.

The basis for trusting someone is not simply ethics and honesty, rather its also how they deal with self interest. We trust people who we can count on to look out after our interests as well as their own – our “mutual” interests, or put another way, the “greater good.” Balancing self interest with the greater good is the starting point to begin trust.

When each person or organization acts to maximize the amount they get from negotiations with their customers or suppliers, without consideration of another person’s or organizations interests, they are working in their self interest. There is nothing inherently wrong about self interest, it’s part of any capitalistic system. But if everyone works strictly in their narrow self interest, severe problems can erupt: oceans get over-fished, park lands become developed, unions and management lock horns, air becomes polluted, societies and communities fall apart; economic systems and civilizations break down as each entity is out to maximize for itself.

In this kind of a dog-eat-dog world, trust diminishes as everyone withdraws into their turtle-shells to protect their individual interests. In the old paradigm of exploitive capitalism, government was compelled to step in to “referee” when labour strikes threatened to shut down the country or discipline big businesses created monopolies that endangered the greater good of the public. Self-centered decision-making created untenable societal situations.

In the new paradigm of collaborative commerce, to keep the system running fast and efficiently, trust-building is essential. With trust, businesses are empowered to cooperate more, make interactive decisions, form teams and forge alliances to make use of their respective strengths and weaknesses, and take risks that are impossible in low-trust environments.

In other words, our internal organizations, and our external value networks run far more productively and creatively with trust. When trust withers, the people are forced withdraw into their shells to protect their self interest.

Because we haven’t a solid approach to either maintaining high standards of trust, or fixing trust when it’s broken, we stay trapped in a small game when the stakes are high. This does not advocate for blind trust, which would be foolish in today’s world, but instead “designed trust,” which will enable companies to reach new heights in relationships, while staying safe against those who should not be trusted. We need a design for trust, a working “architecture” that provides a framework for design, strategies for use, along with best practices and tools for application in daily life. By understanding the basic architecture of trust, companies and individuals can then discuss it intelligently with others and make choices openly to engage in productive relationships, or disengage from poisonous ones. By becoming fluent in designing trust, we can take trust from the vagaries of intuition to new level where we can have highly insightful conversations with others.

Step 2.5 Development of People

One of the most overlooked aspects of alliances and developing a collaborative culture is the impact of choosing the right people and developing their collaborative capabilities in teamwork and creativity, not just their professional competences in areas such as engineering, financial analysis, and so forth.

Power of Trust on Employees

The vast majority of people flourish in a high trust, high team environment. Research by University of British Columbia economist John Helliwell demonstrates that if a leader increases trust by 10%, from a the standpoint of personal well-being, it is equal to a 40% pay raise. This means "high trust" has a massive impact on employee retention and productivity.

A recent international survey of executives showed the following characteristics to be the most important as the new world unfolds:

Tactics to be most effective in attracting, retaining and rewarding the best employees over the next 10 years

- Providing flexible work arrangements (40%)
- Providing meaningful work with clear purpose in meeting the organization's objectives (40%)
- Providing a culture of trust, open communication and fairness (37%)
- Offering a higher total rewards package than competitors (26%)
- Providing career advancement opportunities (26%)

Robert Overton, has been a Vice President of Human Resources for several construction companies. Here's what he advocates;

HR Value Proposition

The majority of today's construction industry leaders assert that productivity has either improved only slightly, remained the same or decreased substantially over the past number of years. These feelings confirm the suspicion that significant profitability increases can be gained with productivity improvements. Some estimate that they could garner a 5-10% labor cost savings with structured processes and associated metrics to improve productivity.

This extrapolation is supported by the fact that integrated companies that wisely invest resources in the development of people, especially leaders, out perform the S&P Index by 17% to 35%. **(FMI Corporation)**

Further, emphasizing the identification of people's competencies and aspirations with tailored follow-on development activities and specialized training has proven to increase productivity (8.6%) and gross profitability (37%). **(Society for Training & Development)**

While not as dramatic, it has also been demonstrated that investing a mere 10% more in reward systems can spike productivity by 3.4%.

HR leaders need to be true business partners to the project alliance and make sure that all people-related issues are thoroughly examined and innovations crystallized on the front end. Thereafter, they must maintain some degree of "ownership" for the people who are transferred into the alliance to help monitor their performance against the metrics for success of the IPD process.

Human Capital Vision Statement

A collaborative alliance of businesses and their employees to harness the talents, knowledge and energies of all participants to optimize productivity to achieve project objectives, increase value to the owner, while promoting professional and personal success of all involved participants.

Critical Objectives of HR Strategic Plan

The HR competency team will facilitate this vision through the development and implementation of the following critical employee-centric processes accompanied by expert coaching throughout the duration of the project.

1. Training at Management & Field Levels
   - Clearly define the roles and responsibilities of management team members with position descriptions.
   - Assess individuals to ensure they have the skill sets and relationship building attitudes to set up and manage the project.
   - Create development/training programs and measure with defining metrics of transfer to workplace behaviors.
   - All project managers and field managers attend field productivity improvement classes.
   - Implement multi-skill craft training programs on- and off-site.
   - Carefully crafted mentoring relationships

2. Enhance Communications Between
   - Owners, designers, architects, engineers and contractors
   - Project Management and Field Leaders
   - Field Management Level
   - At all levels: determine needs and interests; develop communication objectives and strategies; implement; and, evaluate & refine.

3. Embrace Change
   Identify major issues and challenges facing people management leaders confronting the dizzying pace of change, along with proven practices and processes proven successful to advance cultural change efforts.

4. Reward Systems

Many contractors have traditionally held that the simple way to improve productivity is to provide a monetary incentive. If it were that simple, all other productivity initiatives could be put back on the shelf. Unfortunately, that is not the case.

To influence productivity in a positive manner, rewards must be based on objective criteria. Potential programs fitting that criteria:

- Gain sharing for labor performance (work put in place)
- Based on contributions to effectiveness of team
- Pay for Performance

5. Trust Building
   Alliances require a great deal of trust between the partnering companies and all members of the alliance management cadre and project teams. This can be a complicated process requiring a guiding hand because trust may not be a predominate value in the corporate cultures that have aligned themselves for a common purpose.

6. Team Building
   - Assist leaders build team around them to accomplish project goals
   - Encourage and reinforce nimble, market focused and innovative culture and discourage "command-and-control" management
   - Respect organizational and individual differences by tapping into strengths and shoring up weaknesses
   - Establish open and clear communications
   - Share resources and knowledge in a collaborative manner

7. Staffing – Fill the Pipeline
   - Establish dynamic employee value proposition (EVP) that will be compelling in attracting high performers from secondary and post-secondary education, industry competitors, and other professions and convinces them that a move to the industry makes good sense from a career standpoint. (Program elements include: pride; upward mobility; compensation; benefits; perks and recognition; and, employment security.)
   - Build partnerships with secondary education to inculcate craft apprenticeship training and construction developed curricula into the classroom during junior and senior years.
   - Form partnerships between Alberta construction industry contractors, both union and non-union trade associations, school districts and Provincial government to promote construction careers.
   - Participate in K12, Technical Center and University advisory committees.
   - Support teacher/career counselor recognition programs.

- Procedures, processes and work environment that attracts and trains young talent at the field management level. ("Old dogs" don't necessarily learn "new tricks."
- Intern programs

8. Leadership Development

   New research (1867 leaders in 13 countries) identifies the competencies needed by leaders to be successful, especially those in multi-company alliances with individually unique cultures or doing business globally. The special challenge of assisting leaders to become proficient in competencies required to lead across cultures falls largely to the HR professional. Success in this area will do much to unleash the power of assigned talent and to propel alliances to success.

   At least six intercultural competencies essential for successful leadership are:

   1. **Instilling Trust**. Represents a leader's ability to build and maintain trusting relationships. It is the one glue that holds diverse teams together.

   2. **Adapting Socially.** Represents a leader's ability to socialize comfortably with new people in unfamiliar social situations and to demonstrate genuine interest in other people.

   3. **Demonstrating Creativity.** Represents a leader's ability to enjoy new challenges, strive for innovative solutions to social and situational issues, and learn from a variety of sources. The quality includes the ability to predict outcomes and act despite uncertainty.

   4. **Even Disposition.** Represents a leader's ability to remain calm, not to be critical of him- or herself and to learn from mistakes.

   5. **Respecting Beliefs.** Represents a leader's ability to demonstrate respect for the political and spiritual beliefs of people in other cultures. It also includes a good sense of humor to diffuse tensions in tense situations.

   6. **Navigating Ambiguity.** Represents a leader's ability to see through vagueness and uncertainty, not become frustrated and figure out how things are done in other corporate or global cultures.

9. Employee Engagement

   The alliance must be thoughtful about how it will drive employee engagement and what types programs will support the envisioned alliance brand.
   - Team-based
   - Total employee (business understanding, technical, interpersonal)
   - Quality of life and flexibility

Leadership and Professional Development

[RPL: from AECOM Manual]
Organisations are also changing in response to the alliancing industry. Some organisations now have internal alliance specialists who not only prepare project teams for bidding, winning and delivering alliances, but also extend those principles and behaviours into the organisation as a whole. Companies including Abigroup, AECOM, John Holland, Leighton and Thiess all have core teams of alliance specialists continuously building internal capability within their organisations.

Alliances have played an important part in developing the personal and professional competencies of industry personnel – building competencies in how to work in integrated teams. Through coaching and on- the-job experience, alliance teams have come a long way in honing the skills required to achieve shared goals in high performance teams that value communication, openness, trust, respect and innovation.

Part of that professionalism has included the emergence of the Alliancing Association of Australia (AAA), established as a vehicle for promoting and supporting alliancing in Australia. More and more organisations are gaining membership of the AAA. With links to the international Association of Strategic Alliance Professionals (ASAP), it is providing a much-needed professional reference point for alliances in Australia.

The AAA aims to:

- Act as a central forum for the collection and dissemination of experience and information to support the professional development of its members
- Advance the state of the art of alliance formation and management
- Provide networking opportunities for both individuals and organisations and professionals interested in alliancing
- Share and disseminate best practices in the development and management of alliances
- Raise awareness of the contribution that alliancing has made to companies and their employees
- Be a public voice representing and supporting the interests of its members.

The lessons from alliancing are also being taken back into parent organisations. Companies are introducing alliance principles into their Business As Usual (BAU) performances, and encouraging their staff to adopt the more integrated, collaborative approach to project delivery.

Industry skills development

Alliancing is helping to develop some industry sector skills.

The rail industry in New South Wales and in Queensland particularly is in a period of growth. Through the Transport Infrastructure Development Corporation (TIDC), such projects as the Kingsgrove to Revesby and Quaker's Hill to Vineyard Alliances, for example, have helped to reinvigorate the rail sector whilst developing and enhancing important rail infrastructure. Partly as a result of the rejuvenation breathed into it through the South East Queensland Infrastructure Plan Rail Program (SEQIPRail) Queensland Rail (QR) has spearheaded major improvements in the rail network including the TrackStar, Horizon and S2K Alliances. One of the key drivers for those alliances was the desire to rejuvenate the industry and build greater industry capability by helping to showcase rail as an exciting and sustainable career choice and to strengthen the skills within the sector through training and exchanges.

The TrackStar Alliance, for example, works hard towards positive interaction with key QR interfaces such as engineering, ISG etc. They encourage the rotation of QR staff through TrackStar to assist with an integrated culture and business exposure, and as a catalyst for cultural change. There are a lot of good processes developed and shared with QR, and vice versa, so that knowledge transfer is a tangible outcome and benefit to the industry as a whole. No doubt there are many other alliances doing similar great work in knowledge transfer.

Alliances have given an injection of greater professionalism into our industry, providing an opportunity for the engineering profession (in particular) to step up on to a broader platform. Not only do constructors and designers have the opportunity to work more closely with owners, and therefore experience the view from the owner's perspective, but owners get the opportunity to work in a contracting environment as well. Building a greater understanding of each other's drivers, operating environments and challenges has to be a good thing for owners, constructors and designers – the whole industry in fact.

Although obviously not restricted to alliancing, the principle of co-location of project teams under one roof has helped to bridge the discipline gap with all industry professionals all having a greater appreciation and respect for each other's specialties, having walked a kilometre or two in each other's shoes along the project delivery road.

Alliance principles are also helping to drive culture change throughout the industry. Alliance-like features and sub-alliances are being used to manage risk in PPP, D & C and ECI projects. The incorporation of alliancing features into hard dollar contracts and the use of sub-alliances has occurred on such major projects as the Gateway Upgrade and North South Bypass Tunnel in Brisbane, Eastlink in Melbourne, and the Great Northern Highway in Western Australia

Train for Success

Strategic alliance relationships often require people to acquire new abilities and skills. It is important to consider the use of training for key individuals. For example

- Alliance managers should be trained in successful leadership and management techniques, conflict resolution, negotiation, as well as alliance skills and relationship management.
- Teams should cross-train with their counterparts in the other organization, particularly in the areas where sales, technology development and service delivery must be highly integrated.
- Key managers should be given short- to medium-term assignments in the partner company to learn how things work at that organization.

Conclusion

While productivity in the construction industry is influenced by many variables, it is important to note that the allied companies in an Alliance Based Construction program cannot identify or control all of them. Therefore, it would be wise to put our arms around those productivity issues that we can identify and take responsibility for favorably impacting and improving.

Ultimately, contractors who recognize the advantages to be gained through dynamic “best practice” human resource processes will be willing to make the necessary investments in their people and will see significant and sustainable results in productivity, project success and profitability.

Step 2.6 Alignment of Metrics & Rewards

One of the most common mistakes leaders make when they attempt to shift organizational culture is forgetting to change the metrics (measures) and rewards systems associated with the old culture.

People will behave based on how they are measured and rewarded, regardless of the admonitions and exhortations of senior executives.

Therefore it is necessary to cull through all the performance measures to be sure collaboration and innovation are being measured and rewarded.

Collaboration Metrics

Collaboration Metrics ensure cross-functional and cross-organizational cooperation and synchronicity. Some of the things to consider measuring include:

- *Examples of Collaboration Metrics*

  # Cross Boundary Meetings

  # Pre-Research / Early Stage Collaborations

  # Common Metrics across Boundaries

  # Shared Rewards for Joint Effort (low licensing, variable royalties)

  # Speed of Quality Transfers from Research to Development to Commercialization

  # Private/Public/University Secondments across Boundaries

  # Joint Fundings

  # Cross Functional / Cross Boundary Teams

  # Ideas Exchanged Across Boundaries

  # Frequency of Joint Steering Committee Meetings

  # Speed of Joint Decision-Making & Problem-Solving

  # Senior Executive Sponsor Meetings

Innovation Metrics

In addition to collaboration metrics, it's imperative to measure the amount of innovation that actually occurs. Here are some considerations;

- *Performance Metrics: Set for improvements & new innovations to maintain competitive advantage*
  - *Product Improvements*
  - *Service Improvements*

- *Technology Improvements*
- *Forecasting Improvements*
- *Productivity Improvements*
- *Quality Improvements*
- *Speed/Cycle Time Improvements*
- *New Processes*
- *New Products*
- *New Services Delivery Capacity*
- *Integration of Solutions & Systems*
- *New Core Technologies*
- *New Delivery Mechanisms*
- *Technology Breakthroughs*
- *Faster Adaptation*

In establishing the metrics and rewards structure, it's also vital to understand the value equation for your customers to keep a handle on the cost side of the equation

- Total Cost of Ownership
- Customer Value Equation & What is the Innovation Worth to Them -- Not You
- Partner and Supply Infrastructural Change Management – what is the Cost/Benefit for the suppliers
- Design Flexibility to maintain performance while adjusting cost

Risk Management

Often overlooked in the metrics/rewards scenario are the measures of Risk Management, which can often interfere with innovation. Risk Management traditionally prevents people from experimenting and exploring. Great companies that promote innovation actually reward people for experiments, even if the experiment 'fails,' (in which event it's called 'learning).

Some of the risks to examine:

- *Risk of Creation – Chances of Failure as a business if we don't create?*
- *Risk of Protection – IP and Knockoff if someone else gets our idea?*
- *Risk of Proliferation – Distribution of our methods is critical*
- *Risk of Acceptance – Consumer, Retailer, Corporate Buyer must want*

what we have

- *Risk of Timing – Too Late, Too Early—are we entering the market at the right time?*
- *Risk of Production – Have we designed our new product or system for ease of Production, Service & Operations?*
- *Risk of Obsolescence – If we don't shift to the Next Generation, will we be considered obsolete?*
- *Risk of Myopia – are we trapped in believing the Future will be a Reflection of the Past?*
- *Risk of Diversion – does this innovation divert our of energy, resources, and time onto something that will not produce rewards?*
- *Risk of Distrust – are we engaged with people or organizations where the level of distrust will doom any meaningful Collaboration?*

Step 2.7 Building Relationships with Potential Partners

While many alliances are formed after the issuance of a Request for Bid/Proposal/Tender Offer, the best approach is to begin building relationships early, not at the last minute.

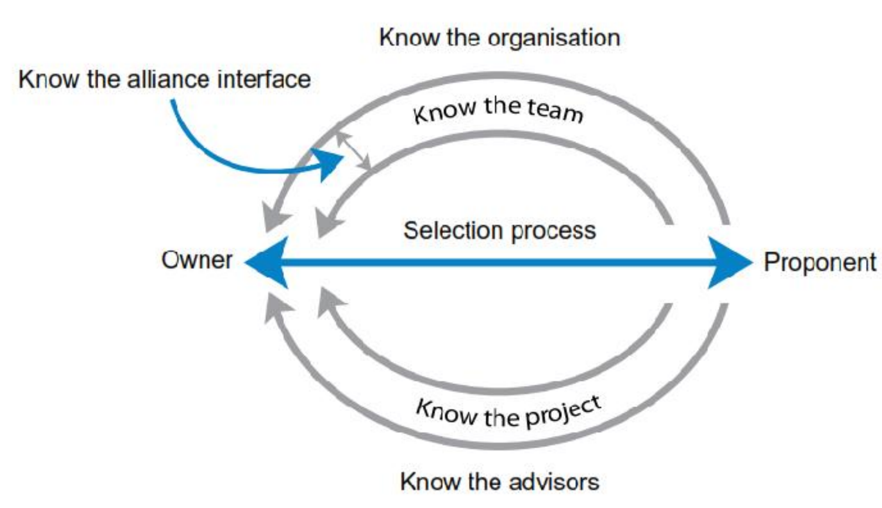
Owners, Contractors, and Designers have ample opportunity to meet at conferences, set up introductions between senior sponsors, and share best practices before a bid is released.

Building relationships with the owner

[RPL: Excerpted from AECOM Manual]
Understanding the owner's Strategic Drivers (see Phase 1, Step 1.2) as well as their Project Drivers and expectations is essential for a prospective Partner (Contractor or Designer) ~~Non-Owner Participant (NOP)~~ before committing resources to bidding a project, forming the team and responding to the Request For Proposals (RFP).
The best way for proponents to have this knowledge is to have good relationships at multiple levels within the owner's organisation. The other important factor to take into account is whether a particular project fits into the strategy and business plan of the companies considering bidding for the work.

Figure 16 illustrates the multiple levels at which owners and proponents need to get to know each other to be fully prepared for an alliance. Ideally, the owner has developed a rigorous selection process to get to know the proponents, taking into account the objective and subjective criteria. Similarly, the proponents should have a well-planned process to get to know the owner and their project.

Figure 16 Full alliance readiness



The owner's organisation

Do owners pick the successful Partners ~~Non-Owner Participants (NOPs),~~ or do the proponents pick the owner they would like to do business with? The truth is, it works both ways.

Most organisations now have well structured relationship management programs in place to identify those owners that they believe are aligned with their business goals. These programs and subsequent owner relationships can make a difference when bidding for and delivering alliances.

Owner characteristics

In establishing relationship management programs, organisations will identify the key characteristics of the owners. Typically, the owner characteristics that seem to rise to the top in these lists include:

- capability to embrace one-on-one relationships – they are relationship driven in their own right and are prepared to invest in long term collaborative relationships
- ability to trust the organisations that provide them with support and deal with them in a fair and respectful manner
- being value driven and recognising Value For Money (VFM) in the services provided
- being sophisticated, knowledgeable and educated about their own business and about the business of potential Partners ~~Non-Owner Participants (NOPs)~~, thus creating the potential to achieve win-win outcomes
- being a successful, winning business in their own right with strong growth prospects.

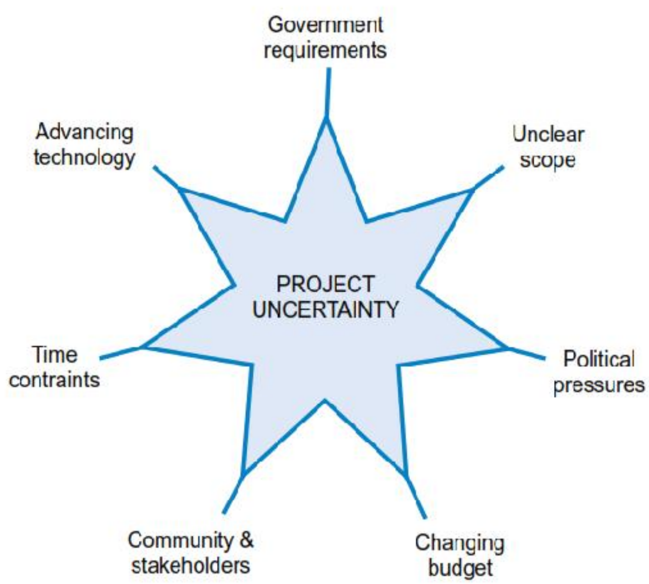
Interestingly, the majority of the owners that are prepared to embrace an alliancing form of delivery have these characteristics, as it is these characteristics that most commonly drive success in alliances.

Knowing the project

Once the Partners ~~Non-Owner Participant (NOP)~~ proponents have identified the owner that they want to work with, they must then identify a future project to bid on. Bidding, workshopping and winning is dealt with in Part C, Chapter 3, but at this stage the proponent must make the decision whether they want to bid for the project at all.

Alliances are frequently used as the preferred delivery method because the project is going to be challenging, and this often leads to overall project uncertainty. Figure 17 illustrates some of the many factors that commonly impact on alliance projects that proponents should try to understand.

Figure 17 Project drivers



If the proponent knows the owner well and has relationships at several levels in their organisation, then knowing the project will come more easily. Some of the questions they may want to ask include:

- Does it fit with core business?
- Is it a client they want to work with?
- Is it a client they currently have a relationship with?
- Is this a new target area for the businesses, such as a new business line or client?

Project needs, drivers and expectations

Well before the Request For Proposals (RFP) is issued, teams intending to submit a proposal should know the owner's needs, drivers and expectations in relation to the project.

Proponents should understand the owner's business operating context, that is, the political, program, financial and other influences that govern their response to situations that arise. They should also understand the owner's level of commitment to alliancing and the key drivers that are influencing their decision to use this as the delivery model.

Some of the questions proponents may ask owners to help generate an understanding of the project are:

- What is the project delivery context the owner is operating in?
- What are the issues and challenges that concern them?
- What is keeping the owner awake at night?
- What would constitute a great project outcome for them?
- What would an outstanding project outcome look like?
- Do they have sufficient resources to commit to the project team?
- What are the critical success factors for the project?

These are the kinds of questions that should be answered (or at least seriously thought about) well before the RFP is issued. The answers to these questions should then help to focus the proponent's efforts and preparation for the alliance selection process, which will ultimately be decided against the assessment criteria.

Owner's team

Understanding which organisational modes operate within the owner will benefit potential Partners ~~Non-Owner Participants (NOPs)~~. It is possible that the overall organisation mode will differ to the mode that individuals within the organisation are experiencing. The Chief Executive Officer could well be in growth mode looking to significantly increase revenue and profit, while the engineering manager could be in even keel mode with no real incentive to seek external help to get things done. Hence, the challenge for proponents becomes one of not only understanding the owner's organisation, but also appreciating the individuals within the organisation. When the owner comes to the market with an opportunity to participate in an alliance, proponents will need to appreciate what the alliance means to the owner's staff who are or will be involved.

The depth of relationships with the owner will also test proponent's ability to predict what will be important to the owner in an alliance, that is, what are the likely Key Result Areas (KRAs) and who they will put forward to participate in the Alliance Leadership Team (ALT), Alliance Management Team (AMT), and Wider Project Team (WPT).

Trustworthy Relationships

Successful business outcomes, including in alliances, are often achieved off the back of good relationships with the owner. Having several healthy point-of-contact relationships across the owner's organisation is
an indicator that the proponent organisation and the owner already have good communication

occurring. In essence, such communication provides the foundation for a thorough understanding and appreciation between the two of the project delivery landscape, drivers, deliverables and expectations. This augurs well for the future alliance.

Non-owner organisations will require people with a variety of skill sets to complement the relationships within the owner organisation. Examples include the requirements of the operations personnel, the financial personnel, the technical and leadership skills of the owner organisation etc.

Case note 16

Knowing the owner's team

Project: West Gate Bridge Rehabilitation
Owner Participant: VicRoads
Non-Owner Participants: Sinclair Knight Merz, Flint & Neill Partnership, John Holland
Value: $240m
Project start: December 2007

The project involves improving traffic carrying capacity (including extra peak period lanes) of West Gate Bridge, as well as strengthening, risk mitigation and rehabilitation of the existing structure. It will be delivered in four stages:

Stage 1: Structural analysis (calibrated computer

model) Stage 2: Scope development and business

case approvals

Stage 3: Detailed design and development of Target Outturn Cost

(TOC) Stage 4: Site works (construction and commissioning)

Key learning:

One of the VicRoads considerations during the evaluation of the proponent teams was that for one of the unsuccessful proponent teams, some of VicRoads' younger Wider Project Team (WPT) members were not confident that the proponent team would provide the leadership they expected to inspire their career development. When participating in these alliance selection processes Non-Owner Participants (NOPs) must be aware that everyone present is important to owners making their final decision.

The alliance interface

Partners ~~Non-Owner Participants (NOPs)~~ must gain an appreciation of the interface that exists between the owner's alliance team and the 'parent' organisation. The better the dynamics that exist between these entities and the communication channels that are established, the better it will be for the alliance.

Ideally all relationships should contribute to the capacity of the alliance to deliver the works successfully. The greater the Partners ~~NOPs'~~ understanding of these relationships, the greater their ability to help to effectively manage the interface to the benefit of all. The importance of this interface has become more evident to owners as they experience more alliances. For example, the News South Wales Government Roads and Traffic Authority (RTA) usually include the position of 'interface manager' in their alliances to help connect the alliance to the 'parent' organisation.

Knowing the owner's advisors

In preparing for an alliance, owners need to engage a range of external advisors to form part of their team. The role of the advisor is to lead conversations with the owner. It is for the benefit of all to 'get the conversations right'. Advisors help to 'construct' a particular mind-set, one which will illicit the best thinking and dialogue around a particular issue or topic. Similarly, the advisor needs to engage in the conversation skillfully to allow the appropriate conversation around the issues to occur.

The owner's advisors may include a facilitator or coach, a financial auditor or commercial advisor, a Probity (Ethics) advisor, a legal advisor, an independent estimator and an independent verifier. The Probity (Ethics) advisor has the responsibility to ensure a consistent, fair approach by the owner, and to heighten their awareness around this responsibility. From a Partner's ~~Non-Owner Participant (NOP)~~ perspective, the external advisors that will have greatest influence on the selection process are the owner's facilitator and their financial auditor. The role of the Probity (Ethics) advisor is discussed in Part B, Chapter 2, while Part D, Chapter 1 describes the role of the financial auditor, so this discussion will focus on the facilitator.

The role that the owner's facilitator undertakes depends on the depth of alliance experience in the owner's organisation. In organisations new to alliancing, the facilitator will most likely:

- coach their staff on what it takes to be involved in an alliance
- help prepare the Request For Proposals (RFP)
- facilitate the discussions within the owner organisation to determine the objectives for the alliance and the Key Result Areas (KRAs)
- establish the scoring framework for the alliance
- take the leadership role in the interviews and selection workshops with the NOPs.

As owners become more skilled in alliances, they often take on the responsibility for delivering more of these activities themselves. For example, the New South Wales Government Roads and Traffic Authority (RTA) procured the services of designers to form a design-only alliance without the support of facilitators.

It is important that Partners ~~NOPs~~ understand the approach and process that the appointed facilitator will take as it will assist greatly with preparing for and bidding on the project. Each facilitator has their own approach and process to the selection process.

A lesson learned: facilitators are continually looking for ways to evolve their approach to selection, so what may have been the norm in the past will not necessarily be the case in the future. As NOPs bid for more alliances, they will come across a variety of facilitators thus creating the challenge of constantly having to adapt and be flexible to best respond to the process being used.

Occasionally owners that are seriously short of internal staff to participate in the key roles in an alliance will engage consultants to participate on their behalf.

The important thing to remember is that if the proponent's team is thoroughly familiar with the project's requirements and has the capability and capacity to deliver, has good relationships with the owner, is collaborative and really keen to embrace the alliance principles in delivering the works, then their team will shine.

PHASE THREE: BIDDING AND SELECTION

Alliance Framework

Overview

As its name suggests, the Bidding and Selection phase is dual in nature. It is important to understand that in Alliance Based Construction, the bidding and selection are not necessarily sequential (linear).

> Select & then Bid: Some Owners will pre-select a team they trust, then engage in bidding which will start with tackling cost estimates
>
> Bid & then Select: Other Owners will send our Requests for Proposal (tender offers), and then screen the prospects, settling on 2-3 finalists.

In the first part of this phase -- Preparation -- performance goals for the alliance relationship are established. Those goals are used to determine the broad operational capabilities that will be required, and the targeted operational results that will be used to measure performance once the relationship is in place.

In the second part of this phase – Evaluation of Prospects – those performance goals are used as some of the criteria to identify and evaluate potential alliance partners. The selection process begins, and the list of candidates is narrowed to a short list of finalists.

The Bidding and Selection phase begins with assembling a core alliance development team, a group that comes together independently from Owners and from Partners, .which develops a broad understanding of what the organization can achieve through an alliance relationship, and how it plans to proceed with establishing this relationship. The team's work should be based on a clearly documented charter from senior management. These will function as the "alliance architects."

The core alliance development team is comprised of key stakeholders, alliance and/or business development and functional experts to explore specific aspects of the business requirements in question and to vett prospective alliance partner organizations. (It is understood, however, that in a smaller organization these functions could be carried out by a small team of people.) Precisely which functions to involve will depend on the business requirements. For example, an IT process would require expertise in information technology, while a financial administration process would require finance expertise.

The activities for the Analysis portion of this phase are:

1. Outline tentative performance goals for the business requirements that are to be met
2. Establish preliminary requirements and measures
3. Gather internal and external benchmarking data
4. Develop a summary of specific performance objectives, operating requirements, and measurement criteria to be used.

The activities for the Selection portion of this phase are:

1. Develop an ideal-partner profile
2. Create an initial list of candidates
3. Establish and communicate the partner selection procedure
4. Check the references of candidates
5. Conduct interviews with candidates
6. Perform due diligence
7. Pick the alliance partner.

Note: The process described here assumes that one partner selects another. In reality, partners often find each other and explore jointly whether a partnership may be beneficial. The logic and many of the success factors of the process described here remain valid, however. Most affected in this case will be activities 1–5 in the Selection portion. Even so, it makes sense to develop a partner profile, be clear about the procedure to follow, and validate and interview the candidate partner.

Purpose

- Establish potential alliance goals
- Identify quantitative goals
- Prepare market information through benchmarking
- Identify potential alliance partners
- Develop criteria by which to make partner selection

Goals

- Create analysis framework for evaluating the alliance
- Determine the risks and rewards
- Build internal support and commitment

Success Factors

- Finding the right alliance prospect
- Knowing your risk and reward thresholds
- Communicating goals and expectations
- Differentiating between a strategic alliance and a tactical relationship

Expected Outcomes

- Performance goals to be outlined
- Preliminary requirements and measurements documented
- Gather and document benchmarking data to be used in selection process
- Ideal partner profile for the alliance documented
- List of candidates identified and screened
- Candidate partner selected based on documented criteria

What the Experts Say...

Research[10] shows that companies that take a structured approach to partnering, as advocated in this chapter, form more successful alliances than companies that rely on informal ways of selecting partners.

[10] D. Duisters, G. M. Duysters, and A.-P. de Man, "The partner selection process: Steps, effectiveness, governance *International Journal of Strategic Business Alliances*, Vol. 2, No. 1/2 (2011), 7–25.

CONCEPTUALIZATION *[Programming]* .[this coincides with Phase 3]

Conceptualization begins to determine WHAT is to be built, WHO will build it, and HOW it will be built. Conceptualization begins to determine WHAT is to be built and Who will build it

1 **Involve all key stakeholders in the programming process at this point; obtain input from as many participants as possible**.

2 **Identify key technologies, such as Building Information Modeling, and begin to capture key parameters.**

2.1 Size
2.2 Time
2.3 Sustainable or green criteria or goals defined
2.4 Economic performance is based on the complete building life span including operation
2.5 Perform interoperability review including data transfer, level of detail and tolerances

3 **Cost structure is developed earlier and in greater detail than a conventional project. Costs may be linked to Building Information Model to allow rapid assessment of design decisions.**

3.1 The budget is developed with significant detail
3.2 Detailed by system
3.2.1 System component
3.2.2 Provide an understanding of where the variance is and the importance
3.2.3 Initial benchmarking comparison
3.3 Cost structure is available to key parties to assess areas where greatest improvements are possible

4 **Performance goals are developed, including metrics for determining performance.**

5 In alliance or incentive projects, successful outcome metrics (e.g. cost, schedule, quality, etc.) are developed and by consensus.

6 Preliminary schedule is developed and linked to developing model.

Outcomes

- Performance goals are developed by the team:
  - Size
  - Sustainable or green criteria or goals
  - Economic performance based on the complete building life span including operation
  - Successful outcome metrics (e.g. cost, schedule, quality, etc.)
- Cost structure is developed earlier and in greater detail than a conventional project.
  - Costs may be linked to Building Information Model to enable rapid assessment of design decisions
  - Costs are detailed by system, providing an understanding of the cost range and importance of each system
  - Key parties assess areas where greatest improvements are possible
  - Initial benchmarking comparison is performed to assess project costs against market rates
- Preliminary schedule is developed and linked to developing model
- Communication methodologies and technologies are identified and key parameters agreed upon
  - Building Information Modeling platform(s)
  - Administration and maintenance of BIM(s)
  - Source of truth for all data
  - Interoperability criteria
  - Data transfer protocols
  - Level of detail development by phase
  - Development of tolerances

Primary Responsibilities

- Owner
  - Establish goals regarding the function and performance of the building, schedule, and budget based on organization's business case
  - Provide project funding establish critical financial milestones
  - Determine method of project procurement
  - Lead selection of integrated project team
  - Provide site data such as topography, utility locations, soils condition, environmental impact studies and reports, Phase I mitigation reports
  - Provide parameters of owner construction policies and programs regarding insurance, safety and risk mitigation
  - Establish internal processes and organization for user input, reviews, approvals and decision making
  - Provide team with information about legislative or jurisdictional requirements affecting project
- Integrated Project Coordinator
  - Overall facilitation, coordination, organization and direction of the integrated team
  - Team's compliance with owner's requirements
  - Overall project schedule
  - Completeness of necessary project information
- Prime Designer
  - Validation of opportunities and options of the business proposition to the physical outcome of the project
  - Confirm space program meets code requirements and applicable standards and is aligned with overall project goals
  - Visualize massing of building and adjacency concerns on its site
  - Identify sustainable design outcomes that have a cost impact to the project
  - Design schedule
- Design Consultants
  - Feedback on building systems relative to achieving project performance goals
  - Identify unique project and system requirements that will effect project outcomes
- Prime Constructor
  - Cost information: comprehensiveness and integration into model.
  - Constructability
  - Initial procurement and construction schedule, including integration into model
- Trade Contractors
  - Initial cost data for their scope of work
  - Cost options for applicable scope of work
  - Constructability for applicable scope of work
  - Initial schedule data for applicable scope of work
- Suppliers
  - Specific cost data
  - Identification of long lead items
  - Product data sheets
  - Life cycle and energy efficiency data
- Agencies
  - Input regarding project constraints, code requirements, and testing and inspection requirements
  - Validation of application/review schedule

Step 3.1 Preparation -- Preconditions for Success

RPL: From AIA-ID Manual

Although Integrated projects can proceed using various business models, some approaches are better suited to an integrated project, than others. The benefits of integrated practice are
built on early collaboration between designers, contractors and fabricators. Under design-bid-build key participants can not be identified until bids are received – far too late to meaningfully participate in developing the integrated design. For this reason, traditional design-bid-build is inconsistent with an integrated approach and can not achieve the efficiency and performance benefits of an integrated process.

Thus, integrated project delivery projects are best suited to business models that:

1 Promote early involvement of key participants.
2 Equitably balance risk and reward.
3 Have compensation structures that reward "best for project" behavior, such as "open book" or incentives tied to achievement of project goals.
4 Clearly define responsibilities without chilling open communication and risk taking.
5 Implement management and control structures built around team decision making with facilitation, as appropriate.

Not every alliance we engage in will achieve our level of expectations. Some alliances will fall short of our revenue goals; some will not achieve market share, customer satisfaction levels, or other metrics we have established as our measure of success. While we should never expect failure, we should be aware that it can occur. In order to reduce the number of nonperforming alliances to a minimum, the following rules of thumb should be followed.

Rules of Thumb

Rule #1: Ensure That an Alliance Is the Best Alternative

Create an alliance only if it is the best alternative and it would be foolish to go it alone. Have you considered other nonalliance alternatives (e.g., licensing, tactical collaboration, etc.)? If in doubt, first test the waters with a narrow or more limited approach. If successful, consider a deeper plunge with a broader alliance. And be sure to consider the leadership/management issue—alliances without leadership and management will fail.

Rule #2: Minimize Ambiguity

The higher the future ambiguity in the relationship, the higher the probability of failure.

Alliances are the stepchildren of uncertain risks and opportunities. Uncertainty breeds ambiguity, and ambiguity is the seed of business failures. Do everything possible to limit the chance of the unexpected ruining the likelihood of success. Lower risk by building governing and decision-making processes for resolving unanticipated consequences.

Rule #3: Conduct a Comprehensive Due Diligence

Know your competition and your potential partners thoroughly. Due diligence is vital to deciding whether a collaborative venture will indeed be fruitful. In particular, a good track record of collaboration, both internally and externally, is one of the best indicators of future success.

Rule #4: Ensure That ROI Surpasses Threshold

The return on investment should be significant and generally should be measured over at least a two-to-five-year period. It is key to set appropriate and realistic expectations on the investment and time to achieve performance goals. Alliances that have no measurable return will come under scrutiny (see Step 2.5, Metrics).

Keep It Strategic

Alliances established primarily for operational rather than strategic reasons will have a far greater likelihood of failure. Too frequently, operational (tactical) issues change rapidly in the near term, placing pressures on the alliance that it was never designed to endure. Without a shared strategic vision, the partners will march to the tune of different drummers with no unifying and aligning objective.

Rule #5: Be Adaptable

Business conditions are changing constantly. As the venture matures, be willing to address new risks and transform the structure as strategic and operational conditions change. Identify alternatives and develop implementable contingency plans. As the alliance is formed, ensure that mechanisms are put in place for future joint planning.

Rule #6: Ensure a Positive Impact on Market Share

If the alliance won't enable us to at least hold existing market share, the strategy is probably wrong, and the venture will not be to our advantage.

Rule #7: Take Advantage of Emerging Channels

Global competition is changing distribution channels throughout the world. Previously exclusive channels are opening up, and customer service is becoming critical to establishing alliances as a competitive weapon.

TRAP

Don't Consider an Alliance If These Conditions Exist

- Top Management of either partner in the alliance does not fully understand and give unqualified support to the venture.
- Poor Communications and lack of Teamwork are present within the corporate structures of either of the partners.
- The critical "Driving Forces" are essentially missing.
- There are adversarial relations between internal production and design teams, characterized by comments like "assemblers are dopes," "manufacturing can't do it right," or "engineers are eggheads with no conception of reality."

Checklist 3.1

Preconditions for Success

Alliances are most advisable when conditions are right within your company, within the prospective partner company, and within the target industry segment. The more "yes" answers you have to these questions, the better the chance of success.

Company Conditions:

___1. Our company has something very valuable to offer to a prospective partner and something valuable to gain from another company.

___2. Our company has a cooperative corporate culture.

___3. Our company has insufficient resources or a prominent but not debilitating strategic weakness.

___4. Our company is ready to jump into a leadership position in the marketplace.

___5. Our company knows that pursuit of a particular strategic objective is too risky to undertake independently.

___6. Our company is very doubtful of its ability to complete an important project or to obtain customer acceptance of a new product without the name recognition or support of another company.

Style of Operations:

___7. The prospective partners have similar goals, rewards, methods of operations, and corporate cultures.

___8. Both companies have a similar style of decision making (both are either decentralized/collaborative companies or centralized/hierarchical).

Support:

___9. The top executives of the partners are in full support of the alliance.

___10. There is no apparent threat of unfriendly takeover that could jeopardize trust and a cooperative working relationship. (This should not prevent discussion of a buyout of the venture by one of the partners.)

Checklist 3.1 (continued)

Industry Conditions:

___11. High capital costs and/or direct costs result in the need to share financial risks.

___12. Rapid changes are occurring in technology, customer traits, and the need for product differentiation.

___13. Decline or maturation of an industry requires consolidation to protect market share.

___14. High entry costs or entry risks make risk sharing advisable.

___15. Major competitive realignments (mergers, acquisitions, foreign entry into the market) are occurring or there is uncertainty about a response by major competitors.

___16. The market is expected to respond positively to the "best product," which can only be produced by a superb team combining excellent resources.

___17. There is a need for rapid market entry and acceptance.

Time Perspectives:

___18. Our definition of "long-term" is the same as our partner's.

___19. The pace of our business is similar to theirs.

Financial Goals:

___20. The financial goals of the alliance partners are similar or compatible in terms of time frames and metrics of success (e.g., to seek increased market share, profit, and gains resulting from customer satisfaction, rather than simply quarterly earnings).

Past Working Relationship:

___21. There is a history of collaboration between the companies that enables top and middle management to build trust and communications on an existing foundation.

Step 3.2 Owner's Guidelines for Selection Process

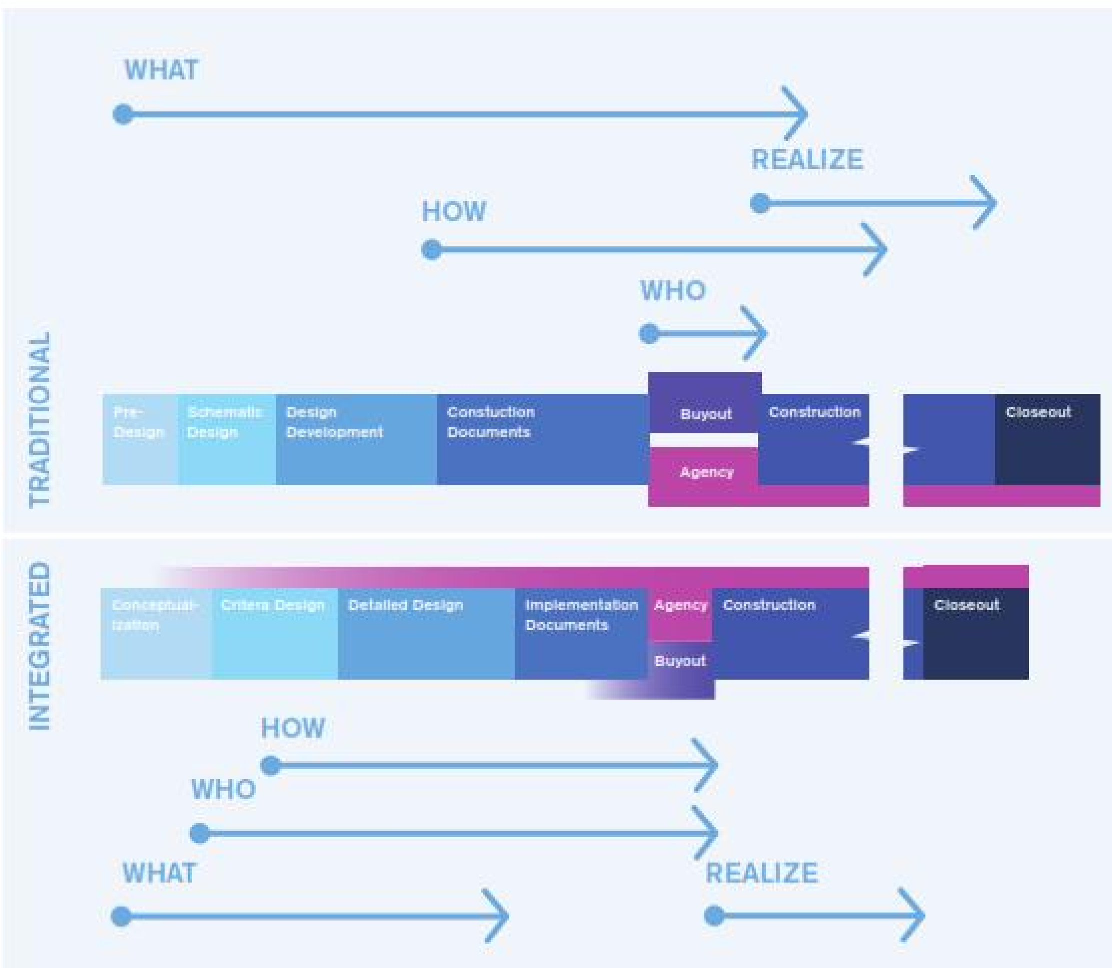
Project suitability

[RPL Note: Excerpted from Integrated Project Delivery Working Definition AIA 2007]

Differences between Integrated and Traditional Project Delivery

In a truly integrated project, the project flow from conceptualization through implementation and closeout differs significantly from a non-integrated project. Conventional terminology, such as schematic design, design development and construction drawings, *creates workflow boundaries that do not align with a collaborative process.*

In general, integrated project delivery will result in greater intensity with increased team involvement in the early phases of design. In the integrated project, design will flow from determining what are the project goals, to what will be built to how the design will be realized. To provide a basis for comparison, however, the description below uses conventional project terms and phases to highlight the differences between a conventional and an integrated project. Terms in brackets throughout this document are the traditional equivalents, and are provided for context.

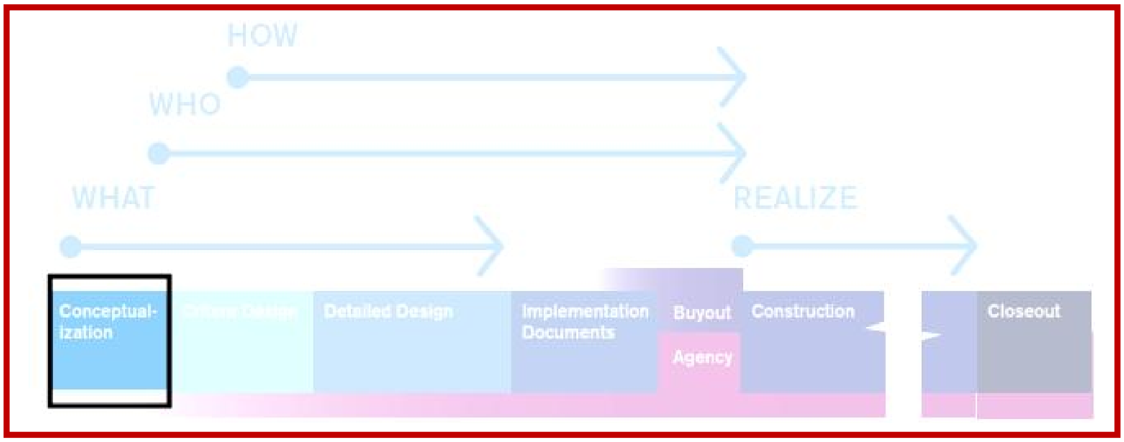


Input from the broader integrated team coupled with BIM tools to model and simulate the project enable the design to be brought to a higher level of completion before the documentation phase is started. Thus the Conceptualization, Criteria Design, and Detailed Design phases involve more effort than their counterparts in the traditional flow.

This higher level of completion allows the Implementation Documents phase to be shorter than the traditional CD phase, and the early participation of regulatory agencies, subcontractors, and fabricators allows shortening of the Agency review and Buyout phases. The combined effect is that the project is defined and coordinated to a much higher level prior to construction start, enabling more efficient construction and a shorter construction period.

CONCEPTUALIZATION *[Programming]*

Conceptualization begins to determine WHAT is to be built and Who will build it.[this coincides with Phase 3]



1 **Involve all key stakeholders in the programming process at this point; obtain input from as many participants as possible**.

2 **Identify key technologies, such as Building Information Modeling, and begin to capture key parameters.**

- 2.1 Size
- 2.2 Time
- 2.3 Sustainable or green criteria or goals defined
- 2.4 Economic performance is based on the complete building life span including operation
- 2.5 Perform interoperability review including data transfer, level of detail and tolerances

3 **Cost structure is developed earlier and in greater detail than a conventional project. Costs may be linked to Building Information Model to allow rapid assessment of design decisions.**

- 3.1 The budget is developed with significant detail
- 3.2 Detailed by system
    - 3.2.1 System component
    - 3.2.2 Provide an understanding of where the variance is and the importance
    - 3.2.3 Initial benchmarking comparison
- 3.3 Cost structure is available to key parties to assess areas where greatest improvements are possible

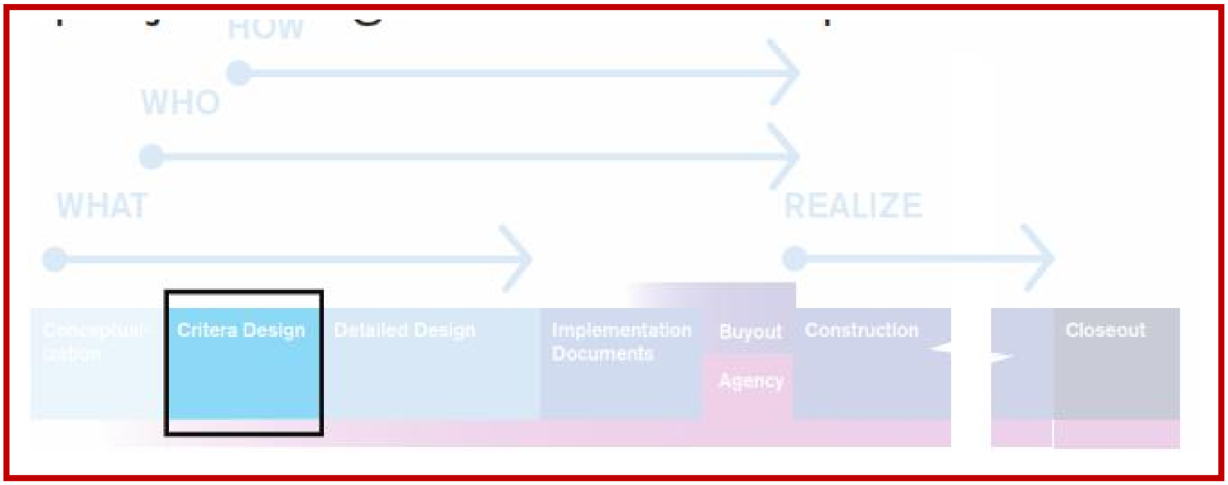
4 **Performance goals are developed, including metrics for determining performance.**

5 **In alliance or incentive projects, successful outcome metrics (e.g. cost, schedule, quality, etc.) are developed and by consensus.**

6 Preliminary schedule is developed and linked to developing model.

CRITERIA DESIGN *[Schematic Design]*

During Criteria Design, the project begins to take shape. [RPL: The Integrated Team addresses the questions of Who will be the best for project, and How will this project unfold to meet design criteria, cost, and schedule? [this coincides with Phase 4]



During this period, different options are evaluated and tested. In a project using Building Information Modeling, the model can be used to test “what if” scenarios and determine what the team will accomplish. During this phase, the following tasks will be accomplished:

1 **Design decisions are made on a “best for project” basis.**

2 **Visualization of building model is tied to cost model.**

3 **Scope is fixed, price is fixed, owner signs off on what will be built allowing the team to evolve and optimize the design.**

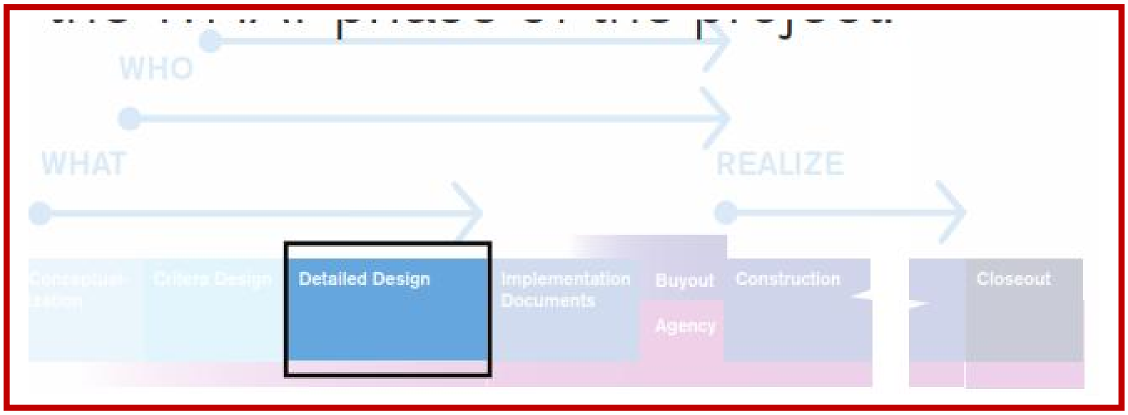
4 **Further develop preliminary schedule – schedule is better informed due to collaborative approach and commitments to schedule are more firm.**

5 **Earlier recognition of inadequate building performance, but assessing responsibility is more difficult because of the number of participants and overlap of roles.**

6 **Agreement is reached on tolerances between trades to enable prefabrication.**

DETAILED DESIGN *[Design Development]*

The Detailed Design phase concludes During this phase, focus shifts To the WHAT phase of the project [this coincides with Phase 5]



During this phase, all of the key design are finalized.

1. **At the end of design development, the design intent is fully, unambiguously defined, coordinated and validated.**
2. **The integrated detailed design phase period is longer and more intense than traditional design development because more is accomplished.**
3. **All major building systems are defined, including furnishings, fixtures and equipment.**
4. **By the end of integrated design development all building elements are coordinated and fully engineered, representing a significant change to current practices. The team will collaborate to resolve any inconsistencies or conflicts.**

If Building Information Modeling is used, the following will likely occur.

Each group that is contributing to the model will be responsible for their piece of the model.

4.1 Models and tools must be interoperable to support checking for inconsistencies/conflicts.

4.2 Protocols must be developed to control data interchange. The prime design professional should determine the acceptability of changes to the model and lead coordination and performance checking of the Building Information Model with assistance from integrated team stakeholders.

4.3 Third parties may administer the central models or other collaborative information store(s).

4.4 In some instances, control of the model will transfer from prime design professional to the contractor at the conclusion of design development. Subcontractors might complete full 3D model of building systems. Everything related to their system will be detailed, excluding fabrication data.

4.5 Estimating is done by extracting accurate information from the model at quantity survey level (no longer conceptual). The confidence in the cost estimate is greater and the model is repeatedly checked to determine cost impact of changes and support "cost tuning."

4.6 Specifications for the building become prescriptive since the objects in the model are representations of the real object.

5. **Subcontractor and vendor insight is integrated into design and used for coordination and conflict resolution.**
6. **Quality levels should be established.**
7. **Specifications are developed based on prescribed and agreed systems**.

IMPLEMENTATION DOCUMENTS *[Construction Documents]*

During this phase, focus shifts from WHAT is being created to documenting HOW it will be implemented. [This coincides with Phase 6]

The traditional shop drawing process is merged into the design as contractors, subcontractors and suppliers document how systems and structure will be created. In addition, this phase generates the documents that third parties will use for permitting, financing and regulatory purposes.

1 **At the beginning of Implementation Documents (ID) the entire building and systems are fully defined and coordinated and therefore, the construction document phase is significantly shortened.**

2 **The goal of ID phase is to document how the design intent will be implemented, not to change or develop it.**

3 **Where a Building Information Model is used, the "shop drawing" phase that typically occurs later in the process will be substantially reduced or eliminated. Technically sophisticated subcontractors and vendors will augment the design model in lieu of preparing separate shop drawings, or will create a synchronized model for fabrication or installation purposes.**

4 **Prefabrication of some systems can commence because the model is sufficiently fixed (object sizes and positions are frozen) to allow prefabrication to begin.**

5 **Rehearsal of construction is enabled through 4D.**
- 5.1 Allowing the building team to validate the baseline schedule
- 5.2 Allowing the building team to explore and validate sequencing and logistics
- 5.3 Allowing the building team to offer refinements that will improve efficiency

6 **Cost is finalized through 5D**.
- 6.1 Component costs of the building are demonstrated in the model
- 6.2 All trades on the team (based on project type) finalize their costs in this phase based on the certainty of the building information model

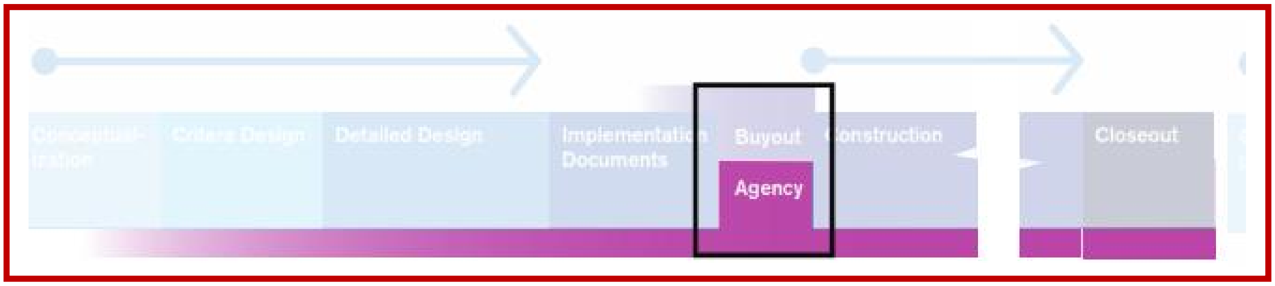
7 **The specification provides narrative documentation of the design intent wherever necessary.**

8 **Implementation Documents visualize the project for participants who aren't involved in the development of the model.**
- 8.1 A "financiable" project (a completed model "the bank" can see to finance the project)
- 8.2 Created as a bid document for parties involved outside the integrated process

9 **Implementation Documents include information for**
- 9.1 Procurement
- 9.2 Assembly
- 9.3 Layout
- 9.4 Detailed schedule
- 9.5 Procedural information (testing, commissioning)
- 9.6 Legal requirements (whatever needs to be included to be legally binding)

AGENCY REVIEW

Use of BIM, early involvement and validation by agencies shortens the final permitting process. [This coincides with Phase 6]



Under current practice, reviewing and permitting agencies require traditional deliverables. However, Building Information Models have the ability to provide information either directly or through linked databases that enhance and streamline a reviewing agency's ability to check the design for building code or regulatory criteria. In addition, analysis software can use the model information to generate performance or criteria analyses that validate the design. With these developments in mind, the integrated agency review will differ from current practice as follows:

1. **Performance-based code analysis within the Building Information Model, if regulatory agency supports, can allow for communication and processing of plan checking electronically.**
2. **The integrated process will require builders and trades to be involved in preliminary and submittal reviews of documents and responses to comments because they will have developed portions of the model.**
3. **Agency review commences in criteria design with increased intensity in the final review period.**

BUYOUT

Complete buyout of remaining contracts. [This coincides with Phase 6]

The fully integrated project assumes early involvement of key subcontractors and vendors. In most instances, this cannot occur unless the subcontractors and vendors have some assurance they will be selected for the project. With this understanding:

1. **Project definition during criteria and detailed design allows early commitment for procurement of long lead, custom, or prefabricated items.**
2. **Key participants prices will already be defined. Bidding and negotiation will primarily occur with parties that were not included in the integrated team.**
3. **The integrated model provides an opportunity to bid to a quantity within the model.**
4. **The integrated model employs a variety of negotiating strategies based on the level of participation in the integrated model.**
5. **Early contractor involvement requires some guarantee that the contractor participants will actually construct the project.**

CONSTRUCTION [Construction Administration]
The Construction phase is where the benefits of the integrated model are realized.[This coincides with Phase 7]

For architects, construction has traditionally been considered the final stage of design where issues are addressed and solutions achieved to actual real-life problems. But in Integrated Project Delivery, this “final design stage” is completed during Detailed Design and Implementation Documents phases. Thus, construction administration will be primarily a quality control and cost monitoring function. Because of the higher intensity of preceding phases, integrated construction will have:

1 Less on-site construction administration effort because conflicts have been resolved virtually.

2 Fewer RFIs because contractor, subcontractor and vendors have been involved in developing the design intent and construction documentation for their respective portions of the design. The model maybe used to
augment, manage or enhance the RFI process.

3 Less office construction administration effort is required because submittals have already been integrated into the model.

4 Better understanding of design intent because consistent information and documentation will be available to all participants.

5 More pre-fabrication because the design was developed earlier and in collaboration with the fabricator.

6 Less waste because more material is factory generated.

7 Less injuries because work is being performed in a controlled environment.

8 An adjusted model based on “as built” conditions.

9 A schedule tied to the model to allow visualization of deviations from planned sequences and durations.

10 Warranty operation and maintenance information may be added into the model.

11 Some elements of current construction administration will remain similar to current practice.

For example:
– Quality control, inspection and testing will be relatively unchanged
– Change orders, particularly for owner directed changes, must be formally negotiated and documented
– Scheduling and progress will be subject to periodic review

CLOSEOUT

~~An intelligent 3D model~~ A completed project can be delivered to the owner on-time, one budget, (or better) [this coincides with Phase 8]

Closeout of an integrated project will greatly depend upon the business terms agreed by the parties. For example, if the business structure contained compensation incentives (or penalties) the closeout will include calculation of appropriate credits and bonuses. Some issues, however, such as warranty obligations, occupancy and completion notification, will, in the short term, remain unchanged due to statutory and legal requirements.

Other issues, such as punch list correction, will not be significantly affected by integrated project delivery. Some issues that will be different are:

1 A more complete building information model will be provided to the owner for their long term use for building maintenance and up-keep.

2 Traditional warranties will remain for installation quality and defective products.

3 The BIM model will be integrated into the building operating system.

4 The BIM model can be used to compare actual to planned performance.

Project Suitability from AECOM

[RPL Note: Excerpted from AECOM MANUAL] Projects will generally have the traditional time, cost and performance drivers.

Alliances, because of their focus on setting hard targets and building an integrated, collaborative team and project environment, lend themselves to solving non-cost value drivers as well, such as community issues and achieving outstanding safety outcomes. The project should have some, or all, of the non-cost drivers present.

Many public sector owners have developed tools to support the assessment of the most appropriate delivery method for each project. The structure of these tools varies considerably across the various states of Australia and New Zealand. These tools seek to identify likely risks and opportunities, and determine the significance of these to the owner through weightings against the project objectives. The higher the weighting of these risks and opportunities, the more appropriate a relationship-based contracting method. Where the risks and opportunities are generally rated as being low, lump sum design and construct may be a more appropriate delivery method.

Figures 9 and 10 show charts from the Australian Constructors Association and Main Roads Western Australia that have been used for project suitability assessments.

Figure 9 Suitability matrix – project delivery systems

	Weight	Low rating	1	2	3	4	5	6	7	8	9	10	High rating
1. Is early delivery of project of value to owner?	20%	No value at all											Of great value
2. Nature of work - green field versus brown field?	15%	Total green field site											Many critical interfaces with existing operating facilities
3. Technology - proven or radical?	10%	Well proven stable technology (will not evolve during project)											New and/ or evolving technology
4. Risk culture of owner?	10%	Totally risk averse - risk transfer culture											Strategic management of risk - sophisticated view of risk
5. Tight guaranteed maximum price (GMP) essential for project sanction?	10%	Tight GMP essential											Owner flexible within range
6. Industrial relations environment?	10%	Very low risk											Very high risk
7. Proven relationship contracting record with potential engineering contractors?	8%	No track record or bad track record											Good track record
8. Sensitivity to disruption from aboriginal/heritage/ environmental issues?	7%	Very low risk											Very high risk
9. Owner's understanding/ experience of project delivery process?	5%	Little experience											Very experienced
10. Will construction require single (multi-discipline) or many	5%	Will require many different contractors											Could be constructed by one contractor

contractors?								
100%	Drop-down totals	-	-	-		-		-

Source: "Relationship Contracting", Australian Constructors Association, February 1999

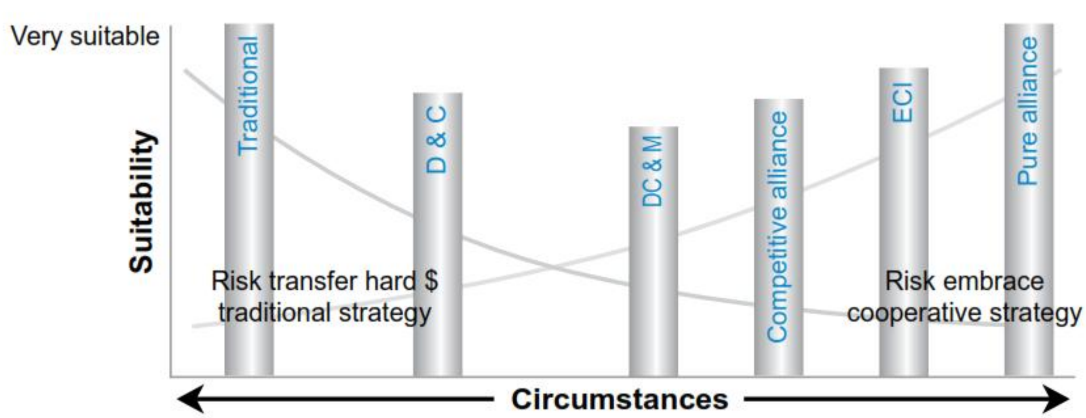
Figure 10 Assessing project suitability

	Weight	Low rating	1	2	3	4	5	6	7	8	9	10	High rating
Importance of project to owner		Minimal											Critical
Owners risk culture		Risk averse											Mature
Scope definition		High											Minimal
Budget constraints		Low											Highly constrained
Schedule constraints		Minimal											Highly constrained
Project complexity		Low											Highly complex
Industry and Stakeholder risk		Low, known											High, unpredictable
Community risk		Low											High
Totals													
			Traditional			More investigation				Relationship			

Source: "Relationship Contracting - The Main Roads Experience", Menno Henneveld, Commissioner, Main Roads Western Australia, 7 August 2007 (PowerPoint presentation)

Figure 11 shows a continuum of project characteristics against suitability for a particular contracting method. The line showing risk transfer on a hard dollar traditional strategy indicates that as the project circumstances become more complicated, its appropriateness decreases. On the other hand, the line indicating the risk embrace cooperative strategy shows that pure alliances are best equipped to handle complex project circumstances.

Figure 11 Project delivery versus project circumstance



Source: "Relationship Contracting - The Main Roads Experience", Menno Henneveld, Commissioner, Main Roads Western Australia, 7 August 2007 (PowerPoint presentation)

Owner intentions

The owner, at this very early stage, must be clear in their intentions when selecting an alliance delivery framework. The first meeting between the owner and the owner's facilitator should be an opportunity to drill down to see if the owner has the appetite and context for alliancing.

Some industry observers believe that the drivers in the public sector are stronger than in the private sector. However, the demands on the private sector in the area of approvals, particularly in community, stakeholder and environmental outcomes, have taken on more significance in the past twenty years.

The private sector is looking to alliancing as an opportunity to deliver on these demands.

The Australian market has experienced 'alliance' projects, where it would seem that the owner has really wanted a relationship-based design and construct project. In this instance, the owner should be clear in stating this in the Request For Proposal (RFP), so that proponents can make bid/no bid choices in full knowledge of the owner's intention and expectations.

Project budget

Owners will sometimes select the delivery method for their project at the same time as the business case is being prepared and submitted for approval. As part of the business case, a project budget is often estimated based on the limited scope definition (particularly for a complex project) and design that is undertaken in this concept development phase.

The alliancing Value For Money (VFM) proposition has been at the centre of a lot of discussion. Sometimes Target Cost Estimates (TCEs) and the original project budget estimates do not align. This can be the result of a number of factors, including incomplete project scoping, cost escalations and changed market conditions. Some projects can take significant time (years in fact) to go from the original development phase to the market. Many things can change during this period.

In more traditional delivery methods (such as design and construct) a difference between the project budget and final tender may be easier to explain as a price competitive tendering process has been adopted. In either case the project budget should be derived to the right level of accuracy.

The owner's team must critically consider, at this early stage:

- Is the initial budget being driven by political pressures?
- Has the budget been underestimated to get the project approved?
- Has the project been fully scoped?
- Has contingency been included to cover the known unknowns and the unknown unknowns, and balanced with the known opportunities and unknown opportunities (based on experience)?
- Has the right allowance been made for escalation in costs?

While budgets may be influenced by pressures other than purely project factors, this should be acknowledged and considered when assessing the project outcomes.

[RPL: From AIA-IPD Manual]
Initial Steps in Building an Integrated Team

1 Identify, at the earliest possible time, the participant roles that are most important to the project.
   1.1 Owner
   1.2 Operator/user
   1.3 Designers (architects/engineers)
   1.4 Contractors
   1.5 Subcontractors
   1.6 Suppliers
   1.7 Equipment manufacturers
   1.8 Systems integrators
   1.9 Lenders
2 Pre-qualify members (individuals and firms) of the team based on:
   2.1 Technical competence
   2.2 Commitment to integrated practice
   2.3 Experience and track record
   2.4 Proven integrity
   2.5 Commitment to a collaborative process
3 Consider interests and seek involvement of select third parties, such as building official(s), local utility companies, insurers, sureties, and other stakeholders.
4 Identify the organizational and business structure best suited to Integrated Project Delivery consistent with the participants' needs and constraints. The choice should not be bound to traditional project delivery methods, but should be flexibly adapted to the project.
   4.1 Design-build
   4.2 CM at risk
   4.3 Single purpose entities
   4.4 Multiple prime
   4.5 Design assist
   4.6 Bridging
   4.7 Alliancing

RPL: This begins to outline who needs to be part of the Alliance "network"

Must distinguish between AT RISK Partners, and other members of the Integrated Team.

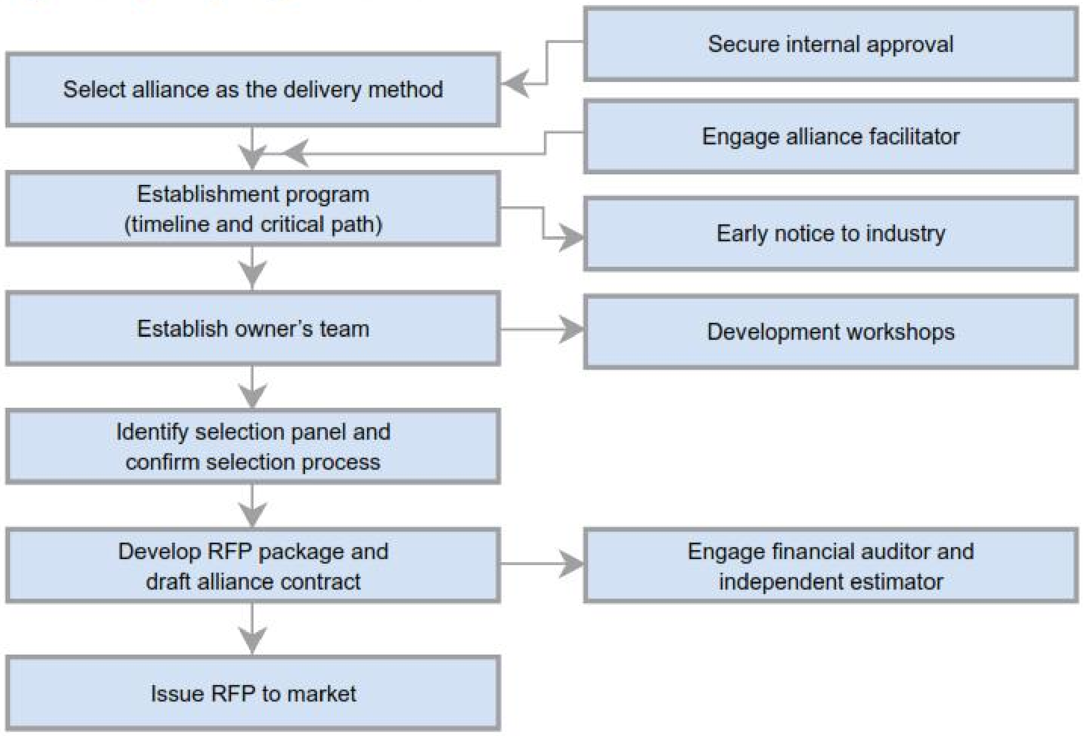
Note the mention of Systems Integrators, although nothing is said about them later in the manuals.

Preparing for the alliance

Once the decision has been made to use an alliance as a project procurement method, the owner needs to undertake considerable work before engaging with the market. When the owner goes to the market, it sends a clear message about the style and culture of the organisation, so it is important that this is a positive message.

The major steps are illustrated in Figure 12. Internal approvals processes must be clear and in place to ensure smooth alliance progress. A detailed program must be developed and the owner needs to form its team of people, while also developing the Request For Proposals (RFP) and evaluation procedures. These steps are discussed in more detail below.

Figure 12 Major steps to get to market



Internal approvals

The owner's team should establish the requirements for internal approvals early. This will vary from organisation to organisation, and particularly between government bodies and the private sector.

In the public sector, internal approvals may require endorsement by a series of project and expenditure review committees prior to final approval. These will most likely come from the relevant treasury department. In many cases treasury will, amongst other things, insist on the demonstration of competency within the owner's team to participate in an alliance.

In the private sector, the approvals process may well require an internal project controls group and possibly a senior executive group to sign off before the board formally approves the proposal.

Board/minister/mayor signoff on the decision-making process is important. If the process has been structured carefully, the approvals that are required will be evident. The implications of a particular sign-off and commercial process must be fully explored. Some considerations include:

- Are there interim reporting requirements?
- Does the selection panel have the support and endorsement of the board/minister to make decisions? That is, will their decisions be questioned or not supported, throwing the process into disarray?
- Who should/should not be on the selection panel to gain the board/minister's support?
- Does the owner's organisation have the resources to support the desired delivery method?

- Is the end user engaged in the process?
- Are those with particular commercial or contractual expectations included?

In almost all cases the greatest potential for success is produced by broadly engaging with all internal stakeholders during the approvals process.

Establishment program

Planning is essential for the effective delivery of an alliance project. This starts with the owners when they initially decide to use alliancing as a procurement method. The program is the engine of the process. The owner's commitment to the program is also a measure of their commitment to the alliance and hence it is important for milestones to be achieved.

To support the development of the program, owners will most often appoint an alliance advisor or coach as their first priority. Experienced advisors will normally insist on a further project delivery analysis being undertaken even if the business case has been done and the decision has been made to adopt an alliance delivery method. This process draws out the drivers of the project and hence confirms the most appropriate delivery method. It should also challenge the risk equation to determine which variation of the alliance model best suits.

While every project is different, the major items in the establishment program for the Inner Northern Busway Alliance (provided by Project Control International PCI) are shown in Figure 13. A detailed breakdown of these items is provided in Figure 14. In other alliances, owners have elected to appoint the establishment auditor following the issue of the Request For Proposals (RFP), and the independent estimator once the preferred proponent is selected.

Figure 13 Inner Northern Busway Alliance establishment program major items

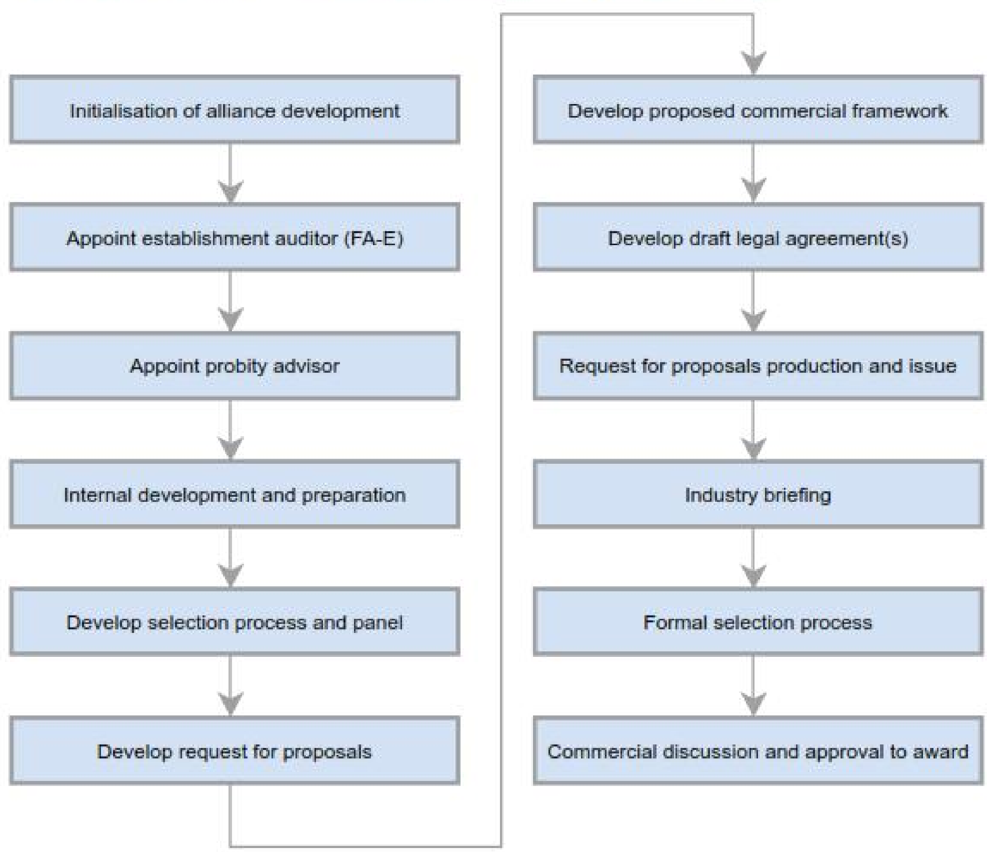


Figure 14 Inner Northern Busway establishment program detailed breakdown

Initialisation of alliance development

Appoint alliance advisor
Appoint Probity (Ethics) auditor
Initial meeting with alliance advisor and Probity (Ethics) auditor
Prepare draft establishment program
nitial review and comment on draft establishment program
Decide QT representatives to be involved
Probity (Ethics) session for team
Appoint legal advisor
Detailed briefing of legal advisor

Appoint establishment auditor (FA-E)

Prepare brief for establishment auditor
Request proposals from establishment auditors
Appoint establishment auditor (FA-E) Brief FA-E

Appoint Probity (Ethics) advisor

Prepare brief for Probity (Ethics) advisor
Request proposals from potential Probity (Ethics) advisors
Appoint Probity (Ethics) advisor
Brief Probity (Ethics) advisor

Internal development and preparation

Internal team workshop 1 – detail, team building Internal team workshop 2a – further detail, team building
Internal team workshop 2b – focus on 2-day development workshops

Develop selection process and panel

Develop draft selection criteria
Develop draft assessment and scoring methodology
Decide panel members
Panel preparation session 1 – role/criteria/process
Review draft selection criteria and assessment methodology
Panel preparation session 2 – finalise selection criteria/methodology

Develop RFP

Develop preliminary outline of main text
Review preliminary outline and add detailed context
Obtain photos, logos, cover RFP review meeting
Develop main text to draft 2
Finalise RFP ready to issue

Develop proposed commercial framework

Develop preliminary outline of text and spreadsheet mode
Review preliminary outline and add detailed context
PCF review meeting
Develop to draft 2
Finalise PCF ready to issue

Develop draft legal agreement(s)

Prepare first draft
Review first draft agreements Meet to review/discuss issues Review by legal advisor
Finalise draft legal agreement(s) ready for issue

RFP production and issue

Prepare summary CVs for team nominees
Finalise communications plan
Collate supporting technical material
Prepare draft advertisement
BCC E&C meeting
Decision to proceed with RFP issue
Place advert
Advert lead time
Produce RFP document/disk ssue RFP

Industry briefing

Notify industry participants
Advert lead time
Prepare materials for briefing session
Conduct detailed industry briefing session

Formal selection process

Proponents prepare written submissions
Closing date for submissions
Prepare briefing note to Minister
Panel read written submissions & develop possible interview questions
Check references (if needed) for short listed proponents
Panel review/selection shortlist of 2 – 4
Advise all proponents of initial short list
Facilitator reads submissions from initial short list
Panel session – prepare for interviews
Interview short listed proponents
Decide final 2 and notify successful and unsuccessful proponents
Prepare update briefing note to Minister Issue briefing note to Minister Proponents prepare for workshop
2-day development workshop – proponent A Lay day
2-day development workshop – proponent B
Prepare briefing note to Minister
Endorsement of preferred by delegated officer Notify both final short listed of decision Commence early works under interim order

Commercial discussion and approval to award Initiate FA-E/IE audits of preferred proponent Financial establishment and IE audits Commercial discussion meetings
Prepare final recommendation for approval by Minister
Approval to proceed into iPAA Sign iPAA

Owner's team

The owner's team should be selected based on their skills, but also on their cultural fit and orientation (attitudes and behaviours) aligned with the principles of an alliance culture. The degree to which this occurs varies across owners and is very dependent on the availability of staff to participate. The owner's team has historically been involved within the Alliance Leadership Team (ALT) and Alliance

Management Team (AMT), although there is a trend towards more vertical integration.

Ideally there would be an owner's end user of the project on the ALT. If this is not possible, then an end user must be on the selection panel. The owner's end user could come into an ALT role in the 'asset proving stage' (defects liability).

In some instances, owners experience difficulty in populating alliance teams effectively. With limited staff resources, it can be hard not only to find the right person to contribute at the ALT and AMT level, but also to allocate sufficient time to properly fulfil this role. Clients often recognise that they could be more effective and efficient if they had more people.

Occasionally owners will substitute their own staff in an alliance with external contract staff.

It is extremely important for the owner representatives who participate in the alliance to facilitate dealings between the alliance and the owner to achieve exceptional outcomes.

One of the legacies of alliancing that owners are experiencing by placing their own staff into the alliance is the career development and industry exposure that these projects provide.

Experienced alliance advisors will normally work with the owner's team once selected to guide them in coming to terms with the level of rigour that has gone into the project, such as the concept design and budget. They will also aim to do an early assessment of the Value For Money (VFM) outcomes to focus on what is most important to the owner.

Selection panel

The owner should consider carefully who should be on the selection panel.

Selection panels should typically include people who are ultimately accountable along with those who will carry on participating in the alliance post selection. Panels should also include people who are important to the approval process. For example, in some organisations a project may not be awarded unless the 'contracts group' is involved.

If a key person in the approval process is not on the selection panel, how is that person going to be kept informed and kept abreast of the alliance journey in all its intricacies?

The selection panel will generally consist of four to five people with a mix of internal stakeholders. Sometimes the make-up of the panel is based on who is available - but this should be discouraged. Involvement of the people who will live with the outcomes post completion is preferable.

Request For Proposal

The selection panel will be tasked with establishing the selection and scoring methodologies, including the assessment criteria and preparing the Request For Proposals (RFPs). It is important that it happens in this order. If developed in a hurry, with the scoring methodology and assessment criteria being developed retrospectively, it can result in a mis-match between the information collected in proponent's proposals versus the information that is required to properly assess the proponents. The selection process is discussed in more detail in Part B, Chapter 2.

In preparing the RFP owners must also define their initial expectations of the commercial framework and the KRAs that are important to them. Some owners are becoming very prescriptive on this, with almost no room for movement. For each of the KRAs the minimum expectations on performance should also be established. These items will provide guidance to proponent teams in their proposal preparation and support the owner's selection of the team that has the greatest potential to deliver their needs.

Case note 7

Successful client involvement

Project: TrackStar Alliance
Owner Participant: Queensland Rail
Non-Owner Participants: Thiess United Group JV, AECOM, Connell Wager
Value: $800m
Duration: 2006 onwards

TrackStar Alliance is delivering a range of rail projects, initially including rail and station works, along with state-wide traction power upgrades:

- Caboolture to Beerburrum duplication
- Robina to Varsity Lakes extension
- Corinda to Darra upgrade
- Beerwah grade separation
- Beerburrum to Landsborough duplication (design)
- Traction power upgrades.

Comment:

TrackStar operates with 24 Queensland Rail (QR) people embedded in key roles across all disciplines within the organisation to facilitate integration with QR.

A number of design and construction planning forums have been established with key TrackStar and QR leaders. Integration with QR and close relationships with key managers has led to resolution of difficult scope situations such as the Robina to Varsity Lakes landfill treatment (moved the station location after the Target Cost Estimate was submitted), Robina to Varsity Lakes stabling yard (scope undefined) and Corinda to Darra early works (start up works commenced while awaiting full project approval).

One of the Key Result Areas (KRAs) for TrackStar is “Building industry capability”. TrackStar reinvests gain share to build capability in the rail industry and offer opportunities for team members to improve their skills. The KRA benefits both QR and rail industry participants with the following:

- legacy and undergraduate program
- workforce development
- staff development.

Increasingly owners are placing strict page limits (in some instances 15 pages plus supporting information) and format constraints on the proposals submitted by proponent teams. There is some suggestion that there may be information overload from the owner’s perspective in selection processes. These constraints are primarily designed to reduce the time required for owners to assess written submissions as well as to limit the effort required by proponent teams. To ensure that owners receive the information they need in these constrained proposals, it is critical that the RFP is very clear on the expectations in response to the selection criteria. This is best achieved through a thorough explanation of the criteria and their application and identification of the weighting of these criteria.

In finalising the RFP, owners will generally involve their alliance facilitator or coach and their Probity (Ethics) auditor to ensure they draw the required information from proponents and establish a level playing field.

Typically the structure of an RFP will include:

- introduction – an overview of the project and the selection process
- project description – greater detail of the project, its status, the objectives and the scope of works
- alliance approach – the basis for using an alliance, its structure, commercial framework, KRAs and owner participation
- selection process – expected outcomes of the various stages

- selection criteria – both mandatory and comparative
- proposal requirements – what the owner expects to see in written submissions
- owner's advisors – who they are and their roles
- tendering conditions – obligations proponents must meet in submitting a proposal.

Draft Project Alliance Agreement

The draft Project Alliance Agreement (PAA) is critical to establishing the underlying alliance principles. In most cases owners will prepare a draft agreement for inclusion with the Request For Proposals (RFP).

The draft PAA should provide proponents with the comfort of knowing that the alliance principles will be applied and adhered to within the alliance.

While owners may spend considerable time developing the draft PAA, it should not be mandatory that the Partners ~~Non-Owner Participants (NOPs)~~ accept it unchanged or unchallenged. In fact, owners should encourage constructive comment as it shows at an early stage the willingness of all parties to engage in the hard discussions in a constructive manner, something that will be critical in the future of the alliance.

Compensation model

A conventional alliance will normally have a three Limb (or part) compensation model as described in Part D, Chapter 4.

The fundamental drivers for the commercial framework have to mirror the owner's aspirations for the outcome. Typically these include:

- Pain share and gain share on the financial (cost) outcome of the project. Pain share is typically capped at the Non-Owner Participant's (NOP's) corporate overhead and profit (Limb 2) with this sometimes mirrored in the gain share model.
- Key Result Areas (KRAs) and their Key Performance Indicator (KPI) measures which are financially incentivised with both pain share and gain share and which need to reflect the real value of the positive and negative outcomes for the owners.

In earlier alliances the commercial framework was completed from a blank sheet of paper based on first principles, with establishment audits taking place after this. This process resulted in very constructive conversations between participants and true alignment of goals.

More recently owners have become more prescriptive with their draft commercial frameworks, some would say that in so doing, constraining the opportunity for open discussion to achieve true alignment.

Some owners try to make the compensation model too complex, or try to modify the underlying drivers in the conventional model. Too many KRAs and Key Performance Indicators (KPIs) can reduce their effectiveness in influencing outcomes. Owners do this at the risk of undermining the fundamental principles which lie at the heart of an alliance.

The KRA framework must be supportive of the alliance principles, not give contra indications. For example, some alliances have severe downside pain such as all margin lost in one event. While there may be highly critical driving factors, such as safety, severe downside pain will result in protective behaviour, rather than collaborative behaviour, constraining the effectiveness and potential of the alliance.

Conversely however, owners should only recognise the KRAs of most importance to them in the commercial framework. Other KRAs can be included as performance measures for the alliance but not be incentivised in a commercial sense.

The sharing ratios for gain and pain are also an area where owners may unnecessarily overcomplicate arrangements.

Overall, the compensation model should reflect an equitable sharing of the gain based upon positive drivers, and an equitable sharing of the pain with appropriate, but not demotivating, negative drivers.

Participating in the alliance

Principles for participation

As indicated in this chapter, the owner's team must be selected on the basis that they have the right skills and alignment with the alliance culture. Considerations for owner participation include:

- owner's negotiators need to be engaged with the project
- people involved need to have real ownership of the project
- Alliance Leadership Team (ALT) representatives must have good relevant experience and line accountability
- all should be willing to listen to the financial establishment auditors to get confidence that the audit of proponent teams will achieve transparency in the commercial negotiations
- inclusion of an independent person who can play the "devil's advocate" role
- vertical representation in the alliance from the owner's side including representatives for the ALT, Alliance Management Team (AMT) and Wider Project Team (WPT) and particularly someone in the key areas of concern, for example community and stakeholder engagement.

The PEPPR Map developed by Jim Ross and Ken Lowe (PCI) based on the work of Peter Senge can be used to generate alignment in the owner's team. The team members will most likely come from diverse backgrounds so it is important to have them aligned on what is most important to the alliance. The components of the PEPPR Map are:

- **Purpose:** what we want
- **Essence:** who we are
- **Principles:** what we believe
- **Practices:** what we do
- **Results:** what we get

The practices and results outcomes flow from the first three items which must be aligned around alliance
principles. For example, the essence could include truthfulness, commitment and equity.

These outcomes are then used to shape the commercial framework for the alliance along with the criteria used for selecting the right Non Owner Participants (NOPs).

From the owner representative's perspective a shift in purpose, essence and principles will occur when the team stops thinking about building the owner's facility, and starts to think in terms of designing and building their 'own' facility. Full understanding comes when the team understands and takes ownership of the project and sees it as 'their' facility. Just as most people would hope to live and work harmoniously within communities, so too should the team want to make a positive contribution to the environment they find themselves operating in, in line with a 'guests in the community' context.

Case note 8

Owner participation

Project: Southern Link Upgrade Alliance
Owner Participant: Transurban Ltd
Non-Owner Participants: Abigroup, AECOM
Value: $106m
Duration: 2006 to 2009

The Southern Link Upgrade forms part of the larger Monash-CityLink-West Gate Upgrade in Melbourne.
The project is primarily intended to increase traffic capacity and improve safety on the freeway corridor. It generally involves adding a traffic lane to the inbound and outbound carriageway along 5 km of the CityLink tollway, from the tunnel portals to the CityLink boundary just east of Glenferrie Road. It also includes development and construction of a Freeway Management System involving lane management and ramp metering.

Key lessons / outcomes:

- The owner made a significant commitment to having their people in the team at all levels with up to seven actively involved
- Owner representatives took key roles in the ALT, AMT and WPT for community and stakeholder engagement and traffic operations - two of the Key Result Areas (KRAs) with greater importance

Owner's drivers

Quality

Some owners struggle with the concept of quality management in the alliance framework. In particular this applies to the roles that quality auditors, certifiers or independent verifiers would provide on more traditional delivery methods. These practitioners tend to work within industry statutory requirements that are not necessarily aligned with alliancing. Alliances typically provide their own design and construction verification which does not deliver the independence that the owner's organisation may seek.

Most recently, some owners are seriously considering the use of independent verifiers to support their intent to demonstrate that quality outcomes and Value For Money (VFM) are being delivered through alliance frameworks. In the case of private sector owners there are already alliances underway where independent verifiers have been engaged directly by the owner to verify the alliance is delivering in accordance with their expectations.

Value For Money

Demonstrating Value For Money (VFM) is a necessity in an alliancing environment where the Non Owner participants are typically selected without price competition.

Sensitivity around this issue also occurs in instances where target cost estimates derived by the alliance have significantly exceeded the owners pre-alliance budget (for whatever reason).

Further discussion on this issue is included in Part E, Chapter 3. The Project Control International (PCI) web site (www.pci-aus.com) also contains information and discussion around VFM.

Step 3.3 Candidate Research and Preliminary Due Diligence

Preliminary Due Diligence

Due diligence is the technical term for looking into the background, capabilities, and operations of a potential ally before beginning negotiations. It means doing more than a credit check. It maximizes the chances of a successful venture, avoiding entering into a deal that will eventually sour. Some companies perform a basic level of due diligence before even proposing the venture. That way they screen out inappropriate candidates without expending resources on negotiations, travel, and lawyers.

Critical "Hard Issues"

Traditionally, lawyers and accountants have been tasked with due diligence. Because of their training, they look for "hard" evidence, and "measurable" data, such as legal and financial data, to analyze. Others may look for hard data such as rigorous company processes or ISO certifications, facilities, technical capabilities, etc. These should be evaluated to the extent that they are relevant to the performance of anticipated alliance objectives.

Critical "Soft Issues"

However, the hard data very often tells only a part of the story, and may not be indicative of the way an alliance will proceed. Therefore it is highly advisable to engage in discovering those "softer" issues that also have a high likelihood of predicting future success. These include:

- Strategic alliance track record
- Alliances with other suppliers and competitors
- Industry reputation
- Core organizational values and policies
- Company culture

Both "hard" and "soft" issues have been incorporated into the checklists and tools in this section.

Checklist 3.3a

Due Diligence Issues

___ Product Line: Is it competitive or complementary to our company?

___ Service Offerings: Are they unique, competitive with our company, or duplicative of our line?

___ Corporate Ingenuity: Are there core competencies and attributes that our company would gain by if we had an association with this company?

___ Corporate Strategy: Is their long-term strategy likely to be aligned with ours over the foreseeable future?

___ Financial Condition: Are they financially stable? If not, are they profitable? Are they likely to be serious players in the future?

___ Industry Reputation: What do other industry leaders and customers think of this company?

___ Alliance Prospects: If we do not form an alliance with this company, are they likely to form one with one of our competitors?

___ Impact on Existing Alliances: If we form this alliance, what will be the impact on other alliances we have (our alliance portfolio)? What are the implications for us of our partner's existing alliances? Will any of our important customers or suppliers be placed in an awkward position?

___ Recent Sales History: What has been their sales history in the last three years?

___ Synergy: What are their strengths and weaknesses? How well do these match our company's? Are there any key areas of overlap? Are there any critical missing elements (especially from the customer's perspective) in this alliance?

___ Customer Reaction: How will customers respond to this alliance?

Checklist 3.3b
Sample Partner Profile

Management Style and Culture
___ Strong management team
___ Compatible structure, philosophy
___ Compatible work ethic, operating style
___ Strategic planning, culture, and long-term view
___ Responsiveness to opportunities and threats
___ Track record of putting strategic thinking into action
___ Compatible values and beliefs
___ Continuous learning/organizational improvement

Marketing
___ Consumer marketing expertise
___ Development and maintenance of competitive advantage
___ Consumer orientation, market driven
___ Innovative market leader
___ Understands brand management and market mix
___ Proven new product success

Trade and Customer Services
___ Strong trade relationships
___ Customer service driven

Product Development
___ Consistent high-quality producer
___ Production capabilities
___ Efficient state-of-the-art producer
___ Technical and R&D expertise
___ Willingness to invest in new products
___ Develops high-quality long-term suppliers

Finance
___ Strength
___ Solid long-term growth
___ Realistic ROI
___ Pricing
___ Cost structure

Joint Ventures/Alliances
___ Successful joint venture and/or alliance experience
___ Enthusiastic about our company
___ Views our company as a high-priority partner profile
___ Acceptable level of past litigation

Step 3.4 Fit Analysis

Three-Dimensional Fit

All successful alliances exhibit a set of alignments in three critical dimensions:

1. Strategic Fit
    - Future Vision and Value Proposition
    - Ability to Create Competitive Advantage
    - Attention to Customer's Needs
    - Long-term Strategy and Goals
    - Values and Beliefs
    - Core Strategic Assets
2. Operational Fit
    - Alignment of Systems and Processes
    - Systems Integration
    - Performance Processes
    - Fast Time Implementation
    - Complementary Process Capability
3. Chemistry/Culture Fit
    - Trust, Integrity, and Ethics
    - Collaborative Culture and Teamwork
    - Collaborative Innovation
    - Integrating Structures
    - Collaborative Decision Making
    - Work Ethic
    - Quality of Relationships

Figure 2.3a- Three Dimensional Fit

Getting this three-dimensional architecture right at the outset is essential, because it's easier to design it correctly at the beginning than to try to fix it later on the fly.

Both strategic fit and operational fit have long been thought of as the essential elements of good acquisitions, but in the world of alliances, there is one additional "fit" that must be included in the formulation: "chemistry fit" (see Figure 3.4b). Chemistry inherently measures the quality of the relationships between the people involved in operating the alliance, particularly trust and integrity. Moreover, chemistry fit describes how well the two corporate cultures will interact. According to virtually every veteran of a successful alliance, chemistry is essential. We will describe why chemistry/culture fit is so critical below.

Evaluating a Prospective Partner's Strengths and Weaknesses

No one would ever consider hiring an employee without a clear job description. Similarly, it's vital to have a profile of a prospective partner before beginning the search. Understanding the nature of three-dimensional fit ensures a strong probability of future success.

Strategic Synergy: Figure 3.4b depicts how two organizations may compare in key areas of their organization—with the strengths of one partner augmenting and complementing those of the other strategically. However, this ideal strategic configuration is seldom found in the real world. In fact, the better the strategic fit, the higher the likelihood that there will be a poor operational fit, as depicted on the right-hand side of Figure3.4b Why?

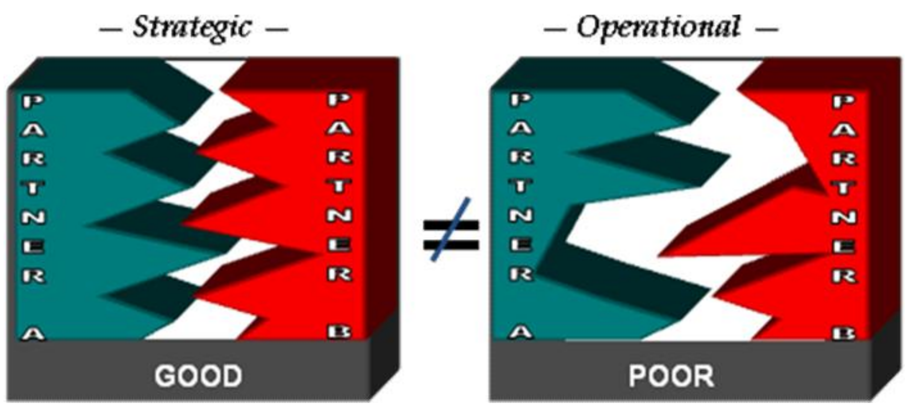


Figure 3.4 b Good Strategic but Poor Operational Fit

accentuate the point that one should not eliminate good strategic fit partners because the operational fit it off. - One could make the point

The very differences that give the alliance strategic power can make operational issues difficult. For example, if one company has great technology, and the other has a global sales and distribution system—and thus strategically they may be ideal partners—on the operational side it is quite probable that technology-driven concerns will clash with customer-driven imperatives. This is usually a manageable problem, but the dynamics must be identified early and the proper operating principles put in place early on to bridge the differences in approach.

Potentially good partners will have core strategic strengths that complement each other's weaknesses (e.g., contiguous geographic markets, products that fill gaps in a portfolio, new technologies to complement more mature ones). However, companies with similar strengths are likely to disagree over the relative value of their contributions, and companies with similar weaknesses will suffer from a lack of the essential complementarities that give an alliance its vitality.

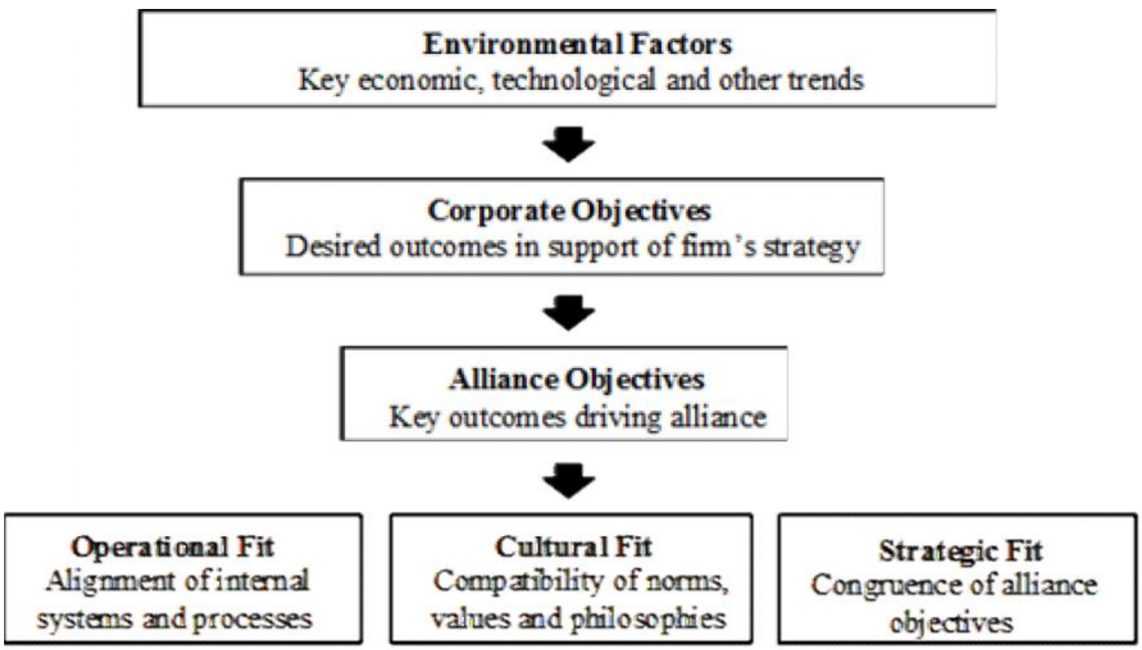
For these reasons, chemistry fit is absolutely crucial, for without qualities such as the right work ethic, a collaborative mindset, and mutual trust, the natural strategic and operational tensions would blow the alliance apart. These qualities serve as both the "grease" to overcome friction, and the "glue" to hold differences together.

Advanced Research: *Before* actually courting a partner, performing a careful evaluation of their strengths and weaknesses is imperative. Do a Value Analysis (see Step 3.4 Checklist),(Note: Due diligence check list is more appropriate to the value question). make a list of the value elements you can provide, and determine the value you expect the potential partner to provide.

Be sure your prospective partner is sufficiently different from you to make a profitable match, but sufficiently similar to permit a harmonious working relationship.

Figure 3.4.a depicts the traditional model of partner selection through alignment of strategy and evaluation of the dimensions of fit.

Figure3.4a **Partner Selection Framework**



Checklist 3.4.a Network Fit

Some companies include network or portfolio fit as a fourth dimension of fit. Depending on the size of the company and the number of its alliances, including this dimension may be valuable. Relevant questions from this perspective are:

- Is a prospective partner a competitor to an existing partner?
- Does the choice of a particular partner generate possibilities for synergy with other partners in the company alliance portfolio?
- Does the choice of a particular partner generate possibilities for conflict with other partners in the company alliance portfolio?
- In choosing a particular partner, are there synergies in alliance management?
- In choosing a particular partner, are there additional costs in alliance management—for example, because firewalls need to be erected between alliance teams? (note: if the Systems Integrator has multiple clients, firewalls should be put in place)
- Does the choice of a specific partner lead to reactions by competitors?

Checklist3.4.b

Three-Dimensional Fit

◆ **Strategic Fit**

- ✓ Shared vision
- ✓ Alignment of growth objectives
- ✓ Customer value
- ✓ Alignment and matching of mission
  - Clear
  - Direct
  - Realistic
- ✓ Commitment to continuous innovation
- ✓ Little possibility of becoming direct competitors
- ✓ If currently a competitor, do we have sufficient firewalls or new value to be created?
- ✓ Powerful synergy (1+1>3)
- ✓ Partner will be competitive in 3–5 years
- ✓ Threats and opportunities are similar for both companies
- ✓ Planning contingencies and future scenarios keep us aligned

Checklist 3.4.b (continued)

Three-Dimensional Fit

◆ ***Chemistry Fit***

- ✓ Compatible work ethics
- ✓ Trust and Integrity (institutional and personal)
- ✓ Long-term commitment to the industry, community, company, and people
- ✓ Stability of personnel
- ✓ Articulated and well-understood corporate values
- ✓ Clear rules of engagement with alliance partners
- ✓ Capacity for flexibility and innovation
- ✓ Committed champions, persistence
- ✓ Predictable, consistent behavior in a crisis
- ✓ Ability to communicate in a meaningful way
- ✓ Respect for cultural differences
- ✓ Willingness to advocate for the partner
- ✓ Commitment to "fair play"
- ✓ Senior management relationships
- ✓ Personality dynamics of leaders
- ✓ Differences in corporate culture

◆ ***Operational Fit***

- ✓ Geographic coverage
- ✓ Distribution/transportation
- ✓ Distributed physical plant
- ✓ Sales force composition, qualifications, and integration
- ✓ Complementary technologies
- ✓ Market reputation/visibility
- ✓ Field technology
- ✓ R&D, production facilities
- ✓ Headquarters operations
- ✓ Complexity of functions (especially infrastructure)
- ✓ Composition/skills of workforce/work groups
- ✓ Leadership
- ✓ Decision-making approaches
- ✓ Technology platform
- ✓ Performance measures/incentive schemes
- ✓ HR policies and procedures
- ✓ Reporting systems
- ✓ Rewards and compensations
- ✓ Complementary client portfolios

Assessing Partner Adaptability

While initial fit is important, it is also essential to determine how well a potential partner is able to deal with challenges that may arise during the alliance. Should there be a gap exposed with respect to operational fit, for example, what counts is not that there is a gap but that the partners are willing and able to overcome the gap. Thus, a thorough assessment process for a potential partner needs to involve an assessment of the partner's ability to change and adapt—in other words, the partner needs to be mature enough to cope with the dynamics of alliances. Put differently: the maturity of a partner's alliance capability is an important partner selection criterion. Here we will focus on the selection elements that can help you assess whether a partner is willing and able to adapt to changing circumstances.

The following four sets of alliance partner selection criteria capture the major elements that support a good selection decision, as they represent what needs to take place between the partners—over time—in order for them to accomplish their alliance objectives, regardless of initial fit conditions:

- *Strategic Objective*–based success factors are the specific strategic outcomes the partners will seek to accomplish;
- *Learning*-related success factors include any knowledge-sharing activities necessary to enhance learning outcomes;
- *Partnering*-related success factors are the relational activities that can be used to enhance how the alliance unfolds; and
- *Risk*-related success factors are any of the risk factors that often arise from the interdependent nature of alliances and for which specific response actions may be required.

Strategic Objective–Based Success Factors

Table 1 provides a number of guiding questions to assist analysts in identifying the partner's ability to react to strategic changes. Perhaps most fundamental to this assessment is being convinced that the strategic value the partner gains from the alliance is significant enough to stimulate the partner to stay engaged. As has been discussed previously, an organization's alliance strategy needs to consider the fact that business conditions will vacillate between being favorable and unfavorable over time. However, if it is evident that the partner is sufficiently committed to key strategic gains, then it is more likely they will remain a strong partner.

Note: These are meant as guiding questions; under each one there can be many subquestions as well that need to be addressed. For example, with respect to filling resource gaps, more specific subquestions might include: What specific gaps need to be filled, in what order, and by whom? A thorough selection analysis should include development of as many subquestions as needed to better discern important differences among alternative potential partners. This same caveat applies equally to each of the other sets of guiding questions in Tables 2–4.

Table 1. Strategic Objective–Based Guiding Questions

What do we seek to accomplish?	To what extent is the potential partner firm favorably disposed to and capable of working with us to:
Gain synergy advantages	. . . build critical mass? Does it have the ability and will to continue to commit resources if conditions are less favorable than expected? Has it demonstrated a track record of ongoing commitment in rough times? . . . build powerful, central positions in key coalitions? Has it demonstrated the ability to remain a part of other value networks and relationships when changing conditions have put those coalitions under stress? . . . build new competencies and synergies? How adaptive has the partner been in the past? Has it shown the depth of capability to respond successfully as business and/or market conditions have evolved?
Achieve greater specialization	. . . reduce internal barriers to achieving new capabilities? Can the partner show how over time it has rethought its internal processes to make them more efficient and conducive to responding to external forces?

Access new capabilities	. . . fill resource gaps? Has the partner had any situations where it had to backfill capability? If so, how did that process work? Did the partner demonstrate the ability to commit the needed resources, and was it able to do so in a well-executed manner? . . . strengthen market positions? Has the partner shown ways in which it has developed, protected, or recaptured markets when initial forecasts were not met? . . . develop technologies? Has the partner demonstrated a track record for innovation and bringing new products to market successfully? How has the partner acted when it has been behind in meeting its product development objectives? . . . expand or enter new markets? Has the partner been able to broaden its footprint into new industries or new geographies through partner relationships? . . . strengthen customer positions and relationships? How has the partner managed its market perception in the past? How strong is its brand and reputation among customers and other partners? Has it demonstrated the ability to either improve or repair weak positions? . . . acquire new customers? Has the partner been able to drive incremental revenue through collaborative marketing and sales? . . . assess capabilities and remedy any deficiencies in pricing, marketing, production, and other areas? Is the partner willing to react to unexpected market conditions, and if so, is it able to adjust with the right measures?
Increase speed	. . . do any of above with increased speed? What has the partner done in the past that suggests it is able to respond quickly in the event of a pressing need?

Learning-Related Success Factors

For many firms, learning through alliances has become increasingly important, both to gain access to R&D and knowledge about emerging trends and issues as well as to facilitate effective management within alliance settings (for example, allowing a given set of partners to learn how to work better together). Learning-related success factors refer to the knowledge-sharing activities known to contribute to both types of learning. The first learning success factor is fundamental; namely, the partners must be willing and able to locate the certain, specific knowledge that each identifies as needed to support its corporate and alliance objectives—in other words, does each have the knowledge that the other needs? Next, the alliance partners must be able to obtain the needed knowledge in a timely and efficient manner. This often requires the partners to overcome various issues related to where, exactly, the knowledge resides with each firm's routines, systems, documents, and social networks, figuring out how to expose unwritten, tacit knowledge, tapping into each other's informal networks, and overcoming significant differences in the knowledge bases of the parties.

Moreover, it also requires the firms to learn *how to learn* from and with each other. Finally, an alliance should also provide the partners with improved strategic soothsaying outlook, forecasting, and research inputs and capabilities. As alliance managers frequently lament, difficulties have consistently arisen in alliance operations because of the inability of selected partners to perform needed knowledge-sharing activities, such as segmenting joint customer files or forecasting sales, any of which could have been addressed more effectively had potential partners' learning capabilities been properly evaluated during the selection process.Table 2 provides a number of questions for use by analysts in evaluating learning success factors.

Table 2. Learning-Related Guiding Questions

What do we seek to accomplish?	To what extent is the potential partner firm favorably disposed to and capable of working with us to:
Locate certain, specialized knowledge	. . . identify their and our possession of desired knowledge? Has the partner displayed an appropriate level of transparency during discussions? More important, how has it responded in those situations where it was unable or unwilling to provide necessary information?

Obtain knowledge in a timely and efficient manner	. . . overcome knowledge embeddedness issues (i.e., identify the various systems, routines, documents, and social networks in which the knowledge may be embedded)? What has the partner done that demonstrates a mature sense of self-awareness? For example, is the partner able to effectively categorize the way it operates, suggesting that it presents a picture of itself that coincides with your perceptions to date? . . . share both explicit and unwritten, tacit knowledge? How effectively does the partner transfer knowledge internally and externally? Can the partner point to cases where it was able to transfer or jointly develop processes and routines to or with partners? . . . leverage its knowledge network? How active is the partner in interacting and sharing information with others? Is it merely a member of a network, or can it show that it is proactively utilizing that network? . . . overcome significant gaps in the parties' knowledge bases? What has the partner done in the past that has shored up a significant knowledge gap? More important, does the partner have processes that enable it to do this in an effective manner over time? . . . figure out how best to learn from and with one another? Does the partner work to tailor its approaches so that they enable it to learn from others? Are there specific examples of how the partner did that?
Improve knowledge , forecasting, and research	. . . provide desired knowledge on evolving and future developments in R&D, technologies, customers, foreign markets, distribution areas, etc.? Can the partner point to processes that suggest it is able to adapt to market changes in a coherent manner? Or does it appear to respond in nonprocedural and/or random ways? . . . devise means and methods to generate accurate sales, revenue, R&D, and other forecasts? Rather than present its projections, does the partner tend to focus on its methodology for making forecasts? Can it provide a level of assurance that it can refine this process should it prove to be inadequate?

Partnering-Related Success Factors

In order to accomplish the various strategic outcomes and learning activities discussed above, alliance managers must develop trusting, personal relationships with other participants in the alliance and, more generally, work toward a positive collaborative environment in which the parties can perform.

Partnering-related success factors are the relationship factors that can affect such environments. According to the alliance and collaboration literatures, the key aspects of partnering that managers can affect include: developing shared goals and values, joint rules and norms of behavior, strong convergent interests, similar situational awareness, and relational harmony between the parties; and establishing effective administrative controls and personnel practices and policies.

In combination, these factors may determine what is acceptable and unacceptable in a workplace, which priorities are assigned to different tasks and types of interactions, whether high-quality working relationships are established between the parties, and which coordinating mechanisms get used.

Table 3 provides a number of questions for use in evaluating partnering-related success factors.

Table 3. Partnering-Related Guiding Questions

What issues do we need to address?	To what extent is the potential partner firm favorably disposed to and capable of working with us to:
Shared goals and values	…develop, communicate, and reinforce shared goals and values—that is, define what success looks like—at appropriate intervals by executive sponsors? Can the partner point to past situations where it had to reset goals mutually with a partner? Is it possible to project how the partner would act if objectives needed to be modified in the future?
Joint rules and norms	…support joint development of rules of conduct and norms of behavior between the parties? Have the joint value discussions to date been one-sided and/or conducted with a lack of flexibility? Has the partner attempted to dictate behavioral norms rather than allowing them to be mutually determined?
Convergent interests	…commit to formal comarketing endorsements, margin stacking, ROI targets, or other joint activities? Have the partner's business interests taken precedence over mutual business interests? Can the partner demonstrate other relationships where it has worked hand in hand with its partners to reconcile interests? …overcome any limits or barriers, act to support operational interests, and reset expectations when needed? Can the partner point to prior cases where it reset its own interests in order to further collaborative relationships?

Situational awareness	…facilitate each party's appreciation for the other's operational and cultural situation? What evidence from current discussions suggests that the partner has been observant of your culture and norms? Could the partner accurately describe how you operate?
Administrative controls	…put in place structures to address administrative and contractual differences? Does the partner have a track record of "sticking to its guns" in disputes, or can it demonstrate that it has effective processes to deal with such differences?
Relational harmony	…engage in relationship-building activities? How much time has the partner been willing to devote to team-building activities with your organization? Does the partner tend to approach alliances and similar relationships as transactions, or can it produce references that confirm it has a relationship-building mentality?
Personnel practices	…manage appropriate combinations of personnel involved in the resource-sharing/learning arrangement? How experienced are the partner's operational people at working in alliances? Does the partner have a policy that favors employee skill development? Does the partner have a lessons learned process for its existing alliances and similar relationships? Is that process effective?

Risk-Related Success Factors

Risk-related success factors can be any of a host of known or emergent risks that may affect alliance outcomes. While there are almost always idiosyncratic risks unique to a given alliance situation, research has identified six major risk categories that deserve full consideration.

These major risk categories are:

1. *Performance risks*, due to unrealistic performance goals or expectations;

2. *Relational risks*, stemming from politics and increased coordination and communication costs;

3. *Unequally shared risks*, such as asymmetric rather than reciprocal knowledge sharing;

4. *Emergent competition risks*, where a partner inadvertently or purposely de-skills the other partner and becomes a competitor;

5. *Quality control risks*, where the partners have differing ideas or capabilities with respect to what is acceptable quality; and

6. *Customer-relationship risks*, where customer service issues can lead to damage to either party's customer relationships.

Table 4 provides a number of questions for use by analysts in evaluating alliance-focused, risk-related success factors.

Table 4. Risk-Related Guiding Questions

What alliance risks do we need to address?	To what extent does an alliance with the potential partner expose our firm to:
Performance risks	. . . unrealistically optimistic initial alliance performance goals based on factually and/or politically derived performance goals and metrics? Can the partner point to substantive processes it uses to define its goals, or does its process appear to be random? . . .unrealized revenue and/or profit performance? How has the partner compensated for past shortfalls in financial performance? Is it reasonable to assume that it will operate in a similar manner in the future? . . .unrealized expenditures and/or higher subsequent alliance investments than accounted for or anticipated? Does the partner have both the means and the will to remain in the alliance if additional needs require funding?
Relational risks	. . .insufficient understanding about each other's businesses? . . .individual firm politics? . . .significant unanticipated time and costs of increased coordination? . . .poor internal and cross-alliance communication? . . .unanticipated changes in the other firm's strategies? . . .additional responsiveness needs? Is there any reason to believe that the partner will not be able to adapt to any of these potential issues? Is there evidence that these risks have proved problematic in the partner's previous relationships?

Unequally shared risks	. . .unequal sharing of knowledge between the firms? Is there reason to believe that in the future the partner will opportunistically try to “learn” more than it “teaches” in the relationship? . . .undesired sharing of proprietary knowledge about the firm’s core skills? Is there reason to believe that the partner will act unethically by using proprietary knowledge gained during the alliance for its own benefit?
Emergent competition risks	. . .intentional “de-skilling” of the firm? Has the partner demonstrated a tendency to drop out of previous relationships or underresource them when challenges emerged? . . .inadvertently helping to create a competitor? Is it possible to clearly determine why the partner would continue to value this relationship with your organization over and above the perceived benefits of competing with you? Has the partner demonstrated a track record of competing with partners? . . .unintended innovation spillovers by the firm? Does the partner have sufficient dependency on the partnership that would prevent it from trying to exploit such spillovers?
Quality control risks	. . .failures in establishing proper quality controls and metrics? What is the firm’s reputation for quality? What actions have demonstrated its ongoing commitment to quality? . . .failures in establishing systems to document and measure quality? . . .insufficiencies in developing quality training and implementation systems? Can the partner point to existing processes and methodologies that will ensure it has the discipline to overcome quality issues?

Customer relationship risks	. . .potential damage to customer relationships or ineffective customer relationship management? Has the partner operated in a manner that suggests it values its market reputation over any other criterion? . . .insufficient mechanisms to share customer contacts/lists or conflicting strategies for customer sales calls? In the past, has the partner effectively resolved issues involved with sharing customer information or control? What evidence suggests that the partner will actively work to ensure harmony during such joint activities? . . .conflicting tactics to resolve customer product/service problems or uncoordinated strategies for continuous quality improvements? Can the partner point to instances in the past where it has prioritized correcting product or service problems, especially when its partners have been involved?
Idiosyncratic risks	. . .other risks unique to the particular situation? Overall, does the partner demonstrate a cautious or overly aggressive attitude toward new ventures? Can it convince you that it has an appropriate appetite for risk while still knowing how to exert proper caution? Has the partner indicated anything that would suggest it does not want to push undue risks on your organization?

Relative Candidate Rankings

As described above, effective alliance partner selection involves determination of appropriate factors against which to evaluate potential partners, and these factors should be consistent with the firm's broader alliance and corporate objectives. The success factor guiding questions should help to establish your partner selection criteria, and can also enhance your efforts in partner recruitment.

As an alliance manager, you should use these success factor guiding questions to compare potential partner targets against one another. We would recommend a four-step process:

1. Tailor the success factor guiding questions. Review the questions in each success factor category and determine which are most relevant to your business (business model, company culture, etc.)
2. Weight your success factors. You will need to determine which of these factors are more important than others. For example, your firm may be more risk averse and therefore you may need to consider weighting the risk success factors more heavily than the others.
3. Determine a rating system. You could employ a simple 3-point rating system, with 1 being "low" and 3 being "high." You'll have to decide how many "yes" answers would be required for a "high" score in each category.

4. Assess relative strengths of one partner versus another. Once you determine your scoring model, you should compare the scores of all the partner candidates. Table 5 provides an example (assuming a simple 1–3 unweighted rating: Partner Candidate C would be the best fit depending upon your company's weighting of the success factors).

Table 5. Candidate Ranking

CSFsCritical Success Factors	Partner Candidate A	Partner Candidate B	Partner Candidate C
Strategic Objective–related success factors	1	2	3
Learning-related success factors	2	3	3
Partnering-related success factors	2	1	3
Risk-related success factors	1	3	2
Total points	6	9	11

Partner Recruitment

Once you have used the process outlined above to select and prioritize your partner targets, you now need to recruit them. You only get one chance to make a first impression, so you should invest the time to prepare for these discussions. The Partnering Proposition Worksheet (Figure 000) is a tool that can be used to facilitate partner recruitment and organize your thinking prior to conducting your first exploratory call with a partner candidate. Use this document as a working document to manage the recruitment process. Doing so:

- Enhances your credibility with potential partners;
- Facilitates an organized pitch to the prospect, leading to a more productive discussion;
- Captures status of discussions leading up to the due diligence and business terms negotiations; and
- Provides a document for educating internal stakeholders at both companies about the status of the partnership discussions and ensures that everyone is on the same page.

Figure 000. The Partnering Proposition Worksheet

Prospective Partner:
Date:
<u>About Your Company</u>
Product or Service:
Target Markets:
Value Proposition to Clients:
<u>About Partner Prospect</u>
Products and Services:
Target Markets:
Value Proposition to Clients:

<u>Partnering Proposition</u>
Tactical Opportunity:
Strategic Opportunity:
Statement of Customer Need and Value of Joint Solution:
Your Company's Value Proposition to Partner Prospect:
Partner Prospect's Value Proposition to Your Company:

Potential Joint Value Proposition to Clients:
The Business Case:
Costs/Investment Required:
Next Steps/Issues to Address (Be sure to include items identified as part of the initial partner assessments under the various success factors):
Key Contacts:

Name: **Title:** **Phone:** **E-mail:** **Fax:**	**Name:** **Title:** **Phone:** **E-mail:** **Fax:**

Step 3.5 Risk and Business Case Analysis

Why Risk Is So Vital to Success

It should not be the intention to eliminate risk entirely from the alliance. The proper division of risk and reward not only serves the doctrine of fairness in an alliance, but creates the proper long-term motivation, an absolutely essential ingredient for success. It is important that the potential rewards are commensurate with the risks being taken.

For example, the banker protects his loan and dramatically increases his chances of getting his loan repaid in full by ensuring that the entrepreneur borrowing funds puts his possessions at risk (for example, by requiring a second mortgage on the borrower's house); thus the business owner will work twice as hard to avoid losing his home and material gains. This illustrates the value of "Vested Interest Motivation" (commonly known as "skin in the game"). It is one of the vital principles that increase an alliance's chance of success.

Vested Interest Motivation

Essentially, an uneven risk posture creates its own conditions for conflict. The late Professor Paul Lawrence of Harvard Business School advised: "If long-term motivation by top management is desired, then be sure both long-term risk thresholds and long-term reward thresholds are sufficient to keep the partners engaged." Take away the risk from one of the partners, and the chances are great that the venture will fade away, particularly if one of the individuals who created it must leave the parent company.

Before striking an agreement, be sure both you and your partner have vested interest motivation sufficient to give the entire team the desire to win.

Business Case Analysis: Examining Risks and Rewards

A Business Case is a Vision + Assumptions
It must be transformed into a Business Operations Plan later (see Phase Five)

As an alliance manager, you must determine if there is a strong business opportunity from creating a successful alliance with a prospective partner in a particular market segment.

A typical business case will consist of eight components:

Together with the sponsoring business unit, build the business case, ensuring that all the components work together as a whole.

This Business Case will determine to a rough order of magnitude whether it is advisable to move forward with negotiations. The business case will be refined later with the candidate partner if an alliance progresses. It will also evolve over the life of the alliance in response to changes in strategic driving forces, and as the alliance adapts to emerging business opportunities and changing market conditions. The Business Case will address such key issues as:

- Description of the business model and value proposition.
- Will the strategy translate into implementation?
- Is an alliance the best alternative?

- Is it possible to derive a powerful Win-Win-Win for our customer, company, and alliance partner?
- Determine what resources will be required and from whom.
- Preliminary financial analysis, including:
  - Potential Sales Forecast
  - Probable Risks
  - Capital Requirements and Operational Expenses
  - Sensitivity Analysis on Key Assumptions and Variables
  - Possible Financial Returns
  - Pro Forma Financial Statements

Ultimately, the "hypothetical" case will be later compared against a more detailed business & operations implementation plan which is created with the other partner,(during Phase Five) once all the critical risks, requirements for performance, and resource issues can be fully analyzed.

Definitions: Risk and Uncertainty

This sets the foundation for making more distinctions, which we should perhaps elaborate upon. "Risk" is often attached to "discount factors" which can be quantified. Insurance companies do this with extreme precision – such as the risk that a flood will happen in a specific location. Uncertainty is not nearly as precise, being unquantifiable and statistically unverifiable. Uncertainty, because it is a psychological phenomenon, has greater impact on contingency planning, trust building, and clarity of roles & responsibilities.

RISK: Variance with precise probabilities for well-defined activity.

UNCERTAINTY: Unknown probabilities for ambiguous activities.

Risk Management requires careful planning, analysis, and continuous measurement.

Uncertainty Management requires scenario analysis, optional pathways, opportunity assessment, flexibility, and decentralized decision -making.

Evaluate Critical Risks

Checklist 3.5 will help you collect information that will be used in assessing the risks inherent in any new product introduction, technology development, or acquisition. Too often in the haste to introduce a new product or service, there is a tendency to skim over all of the risks in favor of the obvious rewards.

In an alliance relationship, we may be compounding our risks if the potential partner sees only the upside of the relationship and not any of the potential shortcomings, especially if both organizations overlook the commitments required for a successful relationship.

Do not take on any type of alliance relationship based on the assumption that there will be appropriate capital and human resources made available at a later date. Be sure to build all of the requirements for success into the business plan and the financial pro formas that should be developed.

The information to answer the questions on the following pages will come from your market research, your due diligence of potential partner(s), and your customers. Populate Task 3.5 with the appropriate information determined from your market research effort.

Checklist 3.5

Evaluate Critical Risk

There are generally dozens of excellent opportunities in the field at all times. Which ones should be chosen? The process of selection should start with a risk-reward analysis. Each of the following risks should be examined:

___ 1. Market Risk: Will the market continue to provide opportunities for us to sustain our growth? (Beware of entering new markets with new products utilizing new technology—the "compounded risk"—see note below.)

___ 2. Competitive Technology Risk: Will a competitor develop a technology that will make ours obsolete? Are margins sufficient in the event of a price war? Are technologies supporting our value proposition approaching obsolescence in the near or immediate term that may eliminate or reduce the benefits we seek from the alliance?

___ 3. Cooperative Environment Risk: What is the chance that someone or something (partner, government, subcontractors, transportation, etc.) will stop or slow down the venture?

___ 4. Management Risk: Are sufficient personnel available to carry out the venture? Can proper resources be obtained on a timely and cost-effective basis?

___ 5. Political Risk: Are there governmental regulations, now or pending, that will interfere with success?

___ 6. Resources Risk: Will the supply of materials or products remain available? Will the partners have the required financial, human, and intellectual resources?

___ 7. Capital Risk: Will inflation, exchange rates, or government policy change the investment's value?

___ 8. Prospective Partner Risk: Is the partner strong enough to withstand competitive pressures? Will it be stable and cooperative over the long haul? Will it maintain a strategic perspective?

Note on Insurmountable Risks: Some risks are insurmountable, regardless of the care taken in the formation of the agreement. This is one of the principal reasons for the failure of high-risk alliances. Explorations into new technologies, development of new products for new markets, and introduction of unique, untested services can present insurmountable risks—unfortunately, often unrecognized until after the fact.

Task 2.4

Risk Analysis

1. Market Risks ________________________________
2. Competitive Risks _____________________________
3. Cooperative Environment Risk _____________________
4. Management Risk _____________________________
5. Political Risk ________________________________
6. Resources Risk______________________________
7. Capital Risk _________________________________
8. Prospective Partner Risk_________________________

Business Analysis

1. Marketing Study Identified:

Key Factors for Success_________________________

Market Characteristics__________________________

Market Size_________________________________

Top Ten Customers:

1.____________	6. _______________
2.____________	7. _______________
3.____________	8. _______________
4.____________	9. _______________
5.____________	10. ______________

Top Five Competitors:

1.____________
2.____________
3.____________
4.____________
5.____________

2. Sales Forecast

Units ________________________

Frequency of Sale _________________

Sales Projections _________________

to a “Rough Order of Magnitude” of (±%)______

Key Sales Forecast Assumptions ________

3. Projected Capital Expenses ______________________

4. Projected Operating Expenses: ___________________

5. Business Planning Model Completed and

Forecasts/Projections done _________

Sensitivity Analysis done _________

Contingency Analysis done _________

Alliances Between Large and Small Companies

When large and small companies come together to form an alliance (sometimes referred to as the “mating of the elephant and the flea”), some special considerations should be taken into account, because size does have a major impact on how the companies experience each other and what each wants from the alliance. There are also special considerations in managing risk in these mismatched alliances.

First, let’s examine the motivations and fears of a “typical” large corporation (the elephant) when considering an alliance with a small, entrepreneurial company (the flea):

The Elephant Looks at the Flea:

Sees Value:

- Innovation
- Acquisition
- Speed
- Low Cost of Business
- Passion
- Visionary Thinking
- Entrepreneurship
- Fast Decision Making
- Fearlessness
- Breakthroughs

Fears:

- Lack of Control
- Looking Slow
- Not Invented Here
- Missed Deadlines
- Cost Overruns
- Missed Budgets
- Insufficient Resources
- Running Out of Money
- Poor Quality

The Flea Looks at the Elephant:

- Sees Money
  - Venture Capital
  - Cash Flow
  - IPO Status
  - Licensing Fees
  - Acquisition
- Sees Market
  - Channels
  - Customers
  - Sales Revenue
- Sees Technology
  - Development
  - Missing Pieces
  - Next Generation
- Other?

Fears:

- Control
- Being Stomped Upon
- Bureaucracy
- Takeover
- Excessive Resource Allocation
- Theft of Technology
- Short-term Relationship
- Lack of Understanding
- Inattention
- Lack of Attention or Commitment

These differences in perspective need to be discussed and worked through by both parties, and not pushed under the rug; otherwise these issues may later emerge explosively.

What Large Companies Must Do

Large companies must be alert to these issues and take proactive steps:

1. Assign an entrepreneurial (nonbureaucratic) management team to oversee the alliance
2. Use fast time processes
3. Eliminate bureaucratic layers
4. Assign a powerful champion that will act as an advocate for Little Co.
5. "Be willing to adapt to the speed, flexibility, and innovative spirit of the smaller company, enabling the alliance to be a means of injecting new ways of thinking and operating into the larger company's culture."
6. Use only the minimum control points needed to prevent failure—focus on empowerment first, control second

What Small Companies Must Do

1. Use alliance managers/liaisons with large corporate management expertise
2. Connect at senior level to gain agreement on procedures, processes, and practices
3. Establish top-level relationships with Big Co. to resolve issues when they occur
4. Assign a powerful champion that has the ability to work within the structure of Big Co.
5. Accept reasonable (pared down) control systems by the large company
6. Be sure to commit sufficient resources to ensure success

What Both Companies Must Do Together

1. Engage in careful due diligence of each other's culture before signing agreement
2. Agree on all aspects of 3-D fit
3. Agree on operating principles and alliance culture
4. Set clear expectations
5. Mutual assessment of key factors for success and failure
6. Establish separate organization for the alliance (e.g., a joint venture) if necessary
7. Co-locate critical people
8. Cross-train in each other's functional specialties
9. Determine management systems, staffing commitments, and resource allocations before commencement
10. Examine critical interfaces and breakdown areas *before launch*

Step 3.6 Team Selection & Formation

Selection process

[RPL: Excerpted from AECOM Manual]
The owner has carefully evaluated the procurement options and decided to use an alliance. They now need to set up and implement the methodology and process to select the team who will join with them to form the alliance.

This chapter will explore the decision making methodology and process for a conventional project alliance, concluding with a discussion of selection processes for alternative alliance procurement strategies. But first, the chapter will consider some industry implications of the owner's selection process.

Industry considerations

The owner's selection process should be rigorous and comprehensive. This will mean that proponents will go to great lengths (and often expense) to participate in the process.

To assist in minimising the use of industry resources, there are four critical areas that the owner *must* be absolutely certain about before embarking on the selection process. These critical points are:

- **Intention** – the owner must be committed to the alliance process. If the owner really wants a variation of another contract style with a relational element bolted on, or a variation of an alliance model, then that should be stated firmly in the Request for Proposal (RFP), so that Partners ~~Non-Owner Participants (NOPs)~~) have absolute clarity about the owner's intent, and make their choice whether or not (or how) to proceed in full knowledge.
- **Criteria** – the owner must carefully select the criteria that will be applied during the assessment, and be transparent about those criteria.
- **Evidence required** – the owner must agree the type and quantum of evidence required in the proponent's response to the RFP.
- **Selection process** – the owner must agree and adhere to the selection process established (with the assistance of the owner's facilitator) and this must be stated clearly in the RFP.

Providing information to the market and the selection process is discussed in more detail below.

Before the Request For Proposal is issued

Owners who choose to deliver their project through the alliance model generally flag this intent to the market well before the Request for Proposal (RFP) is issued.

Given the highly competitive nature of the business development process, in most cases proponents will begin to prepare themselves organisationally for the process to come, particularly in relation to teaming arrangements, resource allocation, bid management, and team development. Proponents also use the period before the RFP is issued to build an appreciation of the owner's requirements, and start to put together the team with the right fit to deliver on all the owner's critical success factors.

Partners ~~Non-Owner Participants (NOPs)~~ who have been through alliance selection processes will know that, while they all follow a template of sorts, there are always variations to the theme depending on the owner, the project, the industry, time pressures and the owner's facilitator. Proponents will therefore need to reference their preliminary thinking against the actual RFP contents when it is issued.

The more clarity that the owner can give the market before the formal issue of the RFP, the less wastage will occur and the better prepared proponents will be. This typically extends to nominating the owner's team, commercial framework and sometimes the draft Project Alliance Agreement (PAA).

Selection process

Many industry participants are concerned about the demanding nature of the alliance selection process, from both a human capital and a financial point of view. Some say that the cost of producing benchmark submissions, then committing key people to a selection process that can occupy a significant amount of their time for a number of months, is a very high price to pay.

On the other hand, some say that the investment in people development during the selection process and the relationships developed with the owner's team is such that parent organisations benefit regardless of whether they win or not. They believe that benefits transfer into the company through things like better team work, people development and deeper owner relationships.

Industry expert Jim Ross refers to the 'Psychology and Physiology' of the alliance framework. Many agree that one of the benefits of the selection process is that it helps prepare proponent teams psychologically for what will be a very different type of delivery model. The elements of self-awareness, awareness of others, team development, communication and the principles of high performance are all central to success in alliancing. The process also prepares teams in a physiological sense as assessment of mechanical and physical workings of the team provide evidence of the team's vital functions, including growth and development. The selection process is designed to help develop these competencies (and more) in teams.

The strength of an organisation comes not only from its systems and procedures but also from the quality of its people. The initial stage of the alliance selection process assesses the essential but tangible organisational criteria (track record, systems, procedures, financial capacity) while following stages are geared significantly towards assessing individuals. It is the quality of the relationships of the people in the team which will have the greatest impact on the success or failure of the alliance, so proponents should be prepared to put the most suitable and qualified people in their team. Their individual and collective impact on the selection panel, not just the company's reputation, is very important.

To achieve an overall assessment of potential Partners ~~Non-Owner Participants (NOPs)~~, and to develop the Owner's team, the selection process requires a focus on both the objective (skills, experience, track record) and the subjective (behaviours, attitudes) criteria, and will necessarily therefore be a demanding, time-consuming process.

Balance is the key, and in recognition Owners are generally moving towards shorter submissions and shorter selection time-frames. Industry just wants to 'get on with the job', so Owners are tending to tailor their selection process to achieve more in less time.

Owners and advisors should still ensure that adequate submission length and selections process are adopted for proper assessment outcomes.

The written submission – keep it short

The emphasis on the written submission should be, and in some cases is being, rationalised, in particular eliminating that which should be assessed face-to-face and circumventing to a large degree the dreaded 'cut and paste' approach.

Ideally, submissions should be between 30 and 50 pages with supporting information. Any shorter, and proponents find it difficult to fully address the criteria (particularly project experience) and differentiate themselves. Any longer, and proponents spend too long in the writing stage.

Owners also need to take great care in putting their Request For Proposal (RFP) together so that they are absolutely clear about stating their expectations. Many proponents have participated in bid strategy meetings dissecting the RFP ad-infinitum with endless discussions on semantics in the quest to find out what an Owner is really asking for.

Selection interview and workshop

Following the review of the written submissions by the selection panel, a number of proponents will be short listed and invited to a half or three-quarter day interview. Owners should be careful to shortlist the minimum number of proponents to properly compare competing capabilities – usually two to four teams. In the event that only a small number of proponents have submitted proposals, all may be invited to the interview.

The interview is part of the typical alliance selection process, and is a precursor to the main event, the selection workshop. The Owner will normally shortlist from the interviews down to two teams for the selection workshops – again, the minimum number of teams to properly compare competing capabilities without wasting industry resources.

Proponents must carefully consider how much preparation they put into the interview and workshops. But from the Owner's side, the emphasis should be on evaluating team capabilities. And beware any over- coached performances.

Selection preference

Partners ~~Non-Owner Participants (NOPs)~~ appreciate that sometimes Owners may try to achieve certain industry or government objectives through their selection processes. This may include such things as encouraging a greater number of middle sized constructors into the 'space', or perhaps up-skilling or refreshing sections of the private sector. These are all valid objectives and should be declared so that proponents can be fully informed when deciding to bid, and preparing their submissions and presentations.

Systems Integration

[RPL: New Insertion]

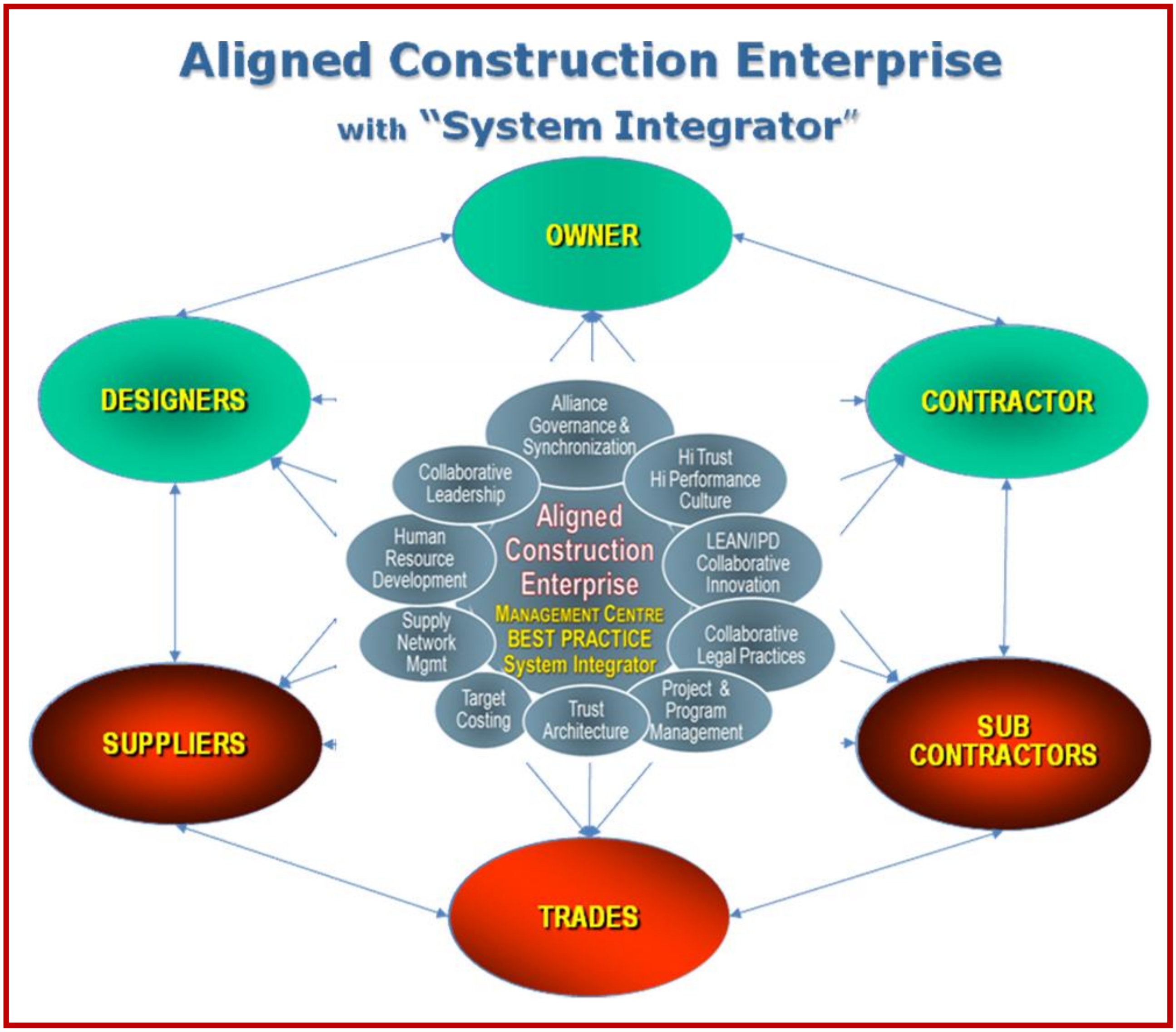
In large scale, long-term, highly complex projects with multiple parties, it is advisable for a high degree of 'systems integration,' ensuring that the myriad of moving parts stay in synchronization and alignment. Most Owners, Designers, and Contractors are not skilled as systems integrators, lacking many of the unique skillsets for this function.

The systems integrator can be as small as one person, or a group of several people.

There are three options for bringing in a Systems Integrator.

1. Owner specify the Systems Integrator in advance of the bidding and selection process and put the Systems Integrator on the selection panel.

2. Each of the Bidding Teams select a Systems Integrator and make them an integral part of the delivery team selection
3. Once the Bidding Team has been selected by the Owner, together they select a Systems Integrator, who will participate in Phase Four: Value Creating Negotiations and thereafter.



Selection panel

The make-up of the selection panel is critical to achieving the best outcome at the end of the selection process.

The selection panel should include Owner's representatives and, ideally, an external person able to bring objectivity to the process. These people must be fully conversant and aligned with the principles of alliancing.

The Owner's representatives on the selection panel should ideally comprise people who will continue to work within the project – in particular, the senior people who will ultimately take on Alliance Leadership Team (ALT) or Alliance Management Team (AMT) roles. This ensures that they will have a level of Ownership from the beginning and a vested interest in ensuring that the right proponent is chosen.

At least one panel member should ideally have the skills to bring a broader viewpoint to the panel, rather than all panel members having only a technical focus.

The selection panel should be aligned through workshops before the evaluation interviews and workshops are conducted. The panel must agree on the types of questions to be asked, the scoring system, weightings and ranges. The panel must have real alignment, not begrudging agreement, particularly on the issue of what happens if two scores are close.

Above all, panel members must do their utmost to bring an open mind, clear of any baggage or personal bias to the process to ensure the best possible outcome for all.

Facilitator involvement

The Owner's facilitator is not part of the selection panel. The role of the facilitator is to guide the decision- making process, not to shape the decision or influence the selection process. There are many good facilitators in the market and these facilitators will ensure that the selection intent, criteria, evidence required and selection process are rigorous and valid, and then let the process run its course with the selection panel.

Probity (Ethics) advisor

A Probity (Ethics) advisor may be appointed by the Owner. These practitioners provide an advisory service to give confidence to senior executives, boards, parent organisations and government ministers that the Owner's representatives have undertaken the selection of the successful proponent with procedural fairness and without bias. This is particularly important given the alliance selection process typically excludes price competition.

The Probity (Ethics) advisor will give advice on matters of Probity (Ethics) and may sit in on interviews, workshops and meetings of the selection panel. Again, their role is to guide procedural fairness and to ensure that the process is transparent and conducted without bias, not to influence the selection panel's decision.

The Probity (Ethics) advisor should be involved early in the process, and ideally prior to the Request for Proposals (RFP) being called, so that fairness and equity can be ensured. However, the advisor must not take over the process. The right person can make a difference by ensuring a level playing field is in place, but the team should always be in control.

Selection methodology

The selection methodology, process and procedures must be decided early and adhered to. Alliance facilitators base their selection methodologies on an historically similar approach that has evolved different features over time. Owners with significant experience with alliances have also started to influence the evolution of, and simplify, the selection process. It is a good thing that this evolution continues to ensure proponents (and facilitators) are challenged to continually improve.

Intention

A robust selection process is needed that enables the Owner to make an informed decision about the people who will be joining them in the alliance.

The fundamental thing for the Owner's team to align on early is, "What is the intention of the process and what are the success factors that will drive the process?" The PEPPR Map discussed in Part B, Chapter 1 can be used to drive this alignment.

The Owner's intentions must be clearly stated in the Request For Proposal (RFP), and the briefing documents for the follow up selection interviews and workshops, so that proponents are able to respond with the information that the Owner requires.

Above all, the Owner needs to be absolutely certain about what they want to achieve and how they want to achieve it, and to clearly state that to the market via the RFP and the selection process.

Criteria

The main criteria and weightings should be confirmed by the Owner and included in the Request For Proposals (RFP) document. Each of the main criteria will also have multiple sub-criteria, which are also normally disclosed, although it is not usual to disclose the sub-criteria weightings.

Importantly, the criteria should drive a process which is repeatable, consistent, fair and able to be monitored.

The criteria will typically include a combination of mandatory and comparative evaluation elements. Proponents that fail to address the mandatory criteria are generally excluded from further consideration. The comparative evaluation criteria are used to differentiate the proponent teams and allow the Owner to select the team they believe is best suited to work with them to deliver the alliance.

The criteria should be structured to assess that the Owner is getting the best team for the job through:

- proven track record of people
- what they are capable of doing on this job
- what it will be like working with them
- commercial elements
- organisational support and commitment.

As the industry evolves, consideration should be given to applying further criteria in the selection process. These could include:

- insurance implications of particular proponents
- interfaces between parent organisations and the alliance systems support
- what is included or excluded from Limb 1 and Limb 2.

Evidence required

Based on the intention of the process and the selection criteria, Owners must consider the evidence that is required to effectively assess the proponents. Evidence may be provided through:

- written submissions
- site visits
- reference checks
- interviews
- workshops.

Each stage of the selection process will suit a different style of evidence, both the objective and subjective. The written response to the Request For Proposal (RFP) will provide basic information on the proponents,their capability and personnel. The claims made in the response may be referenced checked. Calling referees often provides insightful information on the proponents' key staff - some intended, some not. The majority of this evidence is objective.

However, it is not until the selection interviews and workshops where evidence of team dynamics, individual working styles and commitment to alliance principles will become evident. These sessions are principally designed to test the attitudes and behaviours of the proponent teams, to varying degrees their knowledge of the project and their ability to complete the project successfully.

As William James, a pioneering American psychologist and philosopher said,
"A great many people think they are thinking when they are merely rearranging their prejudices."
The alliance interviews and workshops are constructed to test these prejudices and determine the capability of the individuals in the proponent teams to be flexible in their thinking, thus unleashing the potential to achieve outstanding results.

Case note 9

Selection criteria

Project: Kingsgrove to Revesby Quadruplication Alliance
Owner Participant: Transport Infrastructure Development Corporation
Non-Owner Participants: Leighton Contractors, AECOM, SKM, MVM Rail, Ansaldo STS
Value: $450m (estimated pre-TOC)
Duration: 2007 - 2010

The project is part of the NSW Rail Clearways Program designed to improve capacity and reliability on the CityRail network.

The project involves the construction of two additional railway tracks between Kingsgrove and Revesby to allow the separation of local and express services on the East Hills Line. The alliance was awarded in 2007. Construction commenced in 2008 with major construction works scheduled to be completed in 2010 prior to commissioning.

Selection criteria:

The selection criteria defined in the Request for Proposal (RFP) document were:

Mandatory criteria

- satisfaction of the prequalification conditions
- provision of fee expectation and project financial data
- adequate evidence of the required core capabilities.

Comparative evaluation criteria

- experience and track record of proponents
- people – individuals for nominated positions
- resource strategy.

For each of the above criteria, detailed sub-criteria were provided in the RFP to guide proponents. Selection criteria were also nominated for the second stage of the selection process as:

- individual and team capabilities
- potential to be a high performance team
- potential to achieve commercial alignment
- readiness to proceed
- corporate support and track record.

Scoring

Each of the main criteria is generally scored using the sub-criteria on a scale of one to 100. There may be six to 10 sub-criteria for each of the main criteria. A scoring sheet must be used to consistently evaluate all the proponents. Cost is not considered until the commercial alignment stage of the evaluation process. This ensures that the evaluation process is focused on the quality of the team, rather than the proposed fee structure.

While evaluation of the written response to the Request For Proposals (RFP) will result in an initial score, subsequent stages of the selection process will either confirm or moderate this initial score. Selection methodologies may progressively adjust the initial score from the written response during subsequent interviews and workshops. Alternatively, the method used may retain scores for selected criteria for the short-listed proponents following assessment of the written submissions and progressively assess other criteria from that point on.

One of the potential flaws in the evaluation of evidence is different panel members scoring on different scales. For example, one panel member may consider a response to be a ‘9’, while a different panel member may consider the same response to be only a ‘6’. Both consider themselves to be right, but they are scoring on different scales!

One way to overcome this inequity is to define levels of scoring very early in the process using word pictures so that all panel members clearly understand what a particular score means in terms of the visual referencing. Alignment of the selection panel around those measures must be gained to ensure that the scoring system is standardised and consistent.

The facilitator and selection panel should not lead the proponent while gathering and assessing the evidence. This can be unwittingly done by asking leading questions. This possibility may arise when conducting workshops for the second proponent, where conversations already conducted with the first proponent may (subconsciously) influence the questions. The Probity (Ethics) advisor should be aware of these issues and ensure that the second proponent is not given an unfair advantage.

The selection panel should not know the progressive scores as each stage of the process unfolds. The alliance facilitator should decline any requests to see the progressive scores, and should encourage the panel to say what needs to be said at the time. This prevents bias creeping into the process via panel members modifying their scores, and encourages the panel to be open and honest in the evaluation.

After each stage of the selection process, the score should be revealed and alignment reached by the selection panel as to whether the initial score goes up or down. This is not about averaging the scores of the individual selection panel members, but reaching full alignment on the score. It is worth noting here that if there is a robust process, the selection panel should trust the process no matter how close the scores. This notion is discussed further below in the selection of the preferred proponent.

Selection process

The selection process should allow the selection panel to make an informed decision about the team that will deliver the project.

A typical selection process is shown in Figure 15, although each alliance facilitator will bring his or her own particular version or nuances. The process must also be tailored to the special characteristics of the project and Owner.

Request For Proposals

Proponents respond to the Owner’s Request for Proposals (RFP) with a document addressing the nominated criteria. These proposals are then assessed by the selection panel and collectively scored with the objective being to shortlist a small number of participants to proceed to the interview stage.

Note that this initial assessment is largely objective, based on the proponent's capabilities, experience and track record. It is meant to assess the mandatory criteria thought to be the minimum pre-requisites for successfully delivering the project.

The shortlist to the interview stage would usually comprise the three highest scoring proponents, but this depends on how many proponents have submitted a proposal.

The RFP stage may take up to eight weeks (usually less, but again, depending on the Owner's process) from the initial issue of the RFP to the notification of short-listed proponents to proceed to the interviews.

Interview

The purpose of the interview is to provide an opportunity for the selection panel to meet and critique the core team nominated in the proponent's proposal, and to assess their capability to deliver an outstanding project.

This assessment is more subjective, building on the information provided in the proposal, and helps the panel to gain a greater appreciation of:

- the breadth and depth of relevant skills and experience
- the proponent's level of project understanding
- individuals' intrapersonal and interpersonal skills
- individual and team potential to form a high performance team.

Ideally, the interview is more of a discussion than a presentation, and therefore circumvents the possibility that a team delivers a 'performance' – something to be avoided as it is not a good indicator of real knowledge and capacity to be part of a high performance team.

The scoring for the interview should not generate an entirely new score. Instead, it should seek to confirm or moderate those scores already given in the assessment of the Request For Proposal (RFP) response. In some instances the interview and the following workshop are combined into a single process.

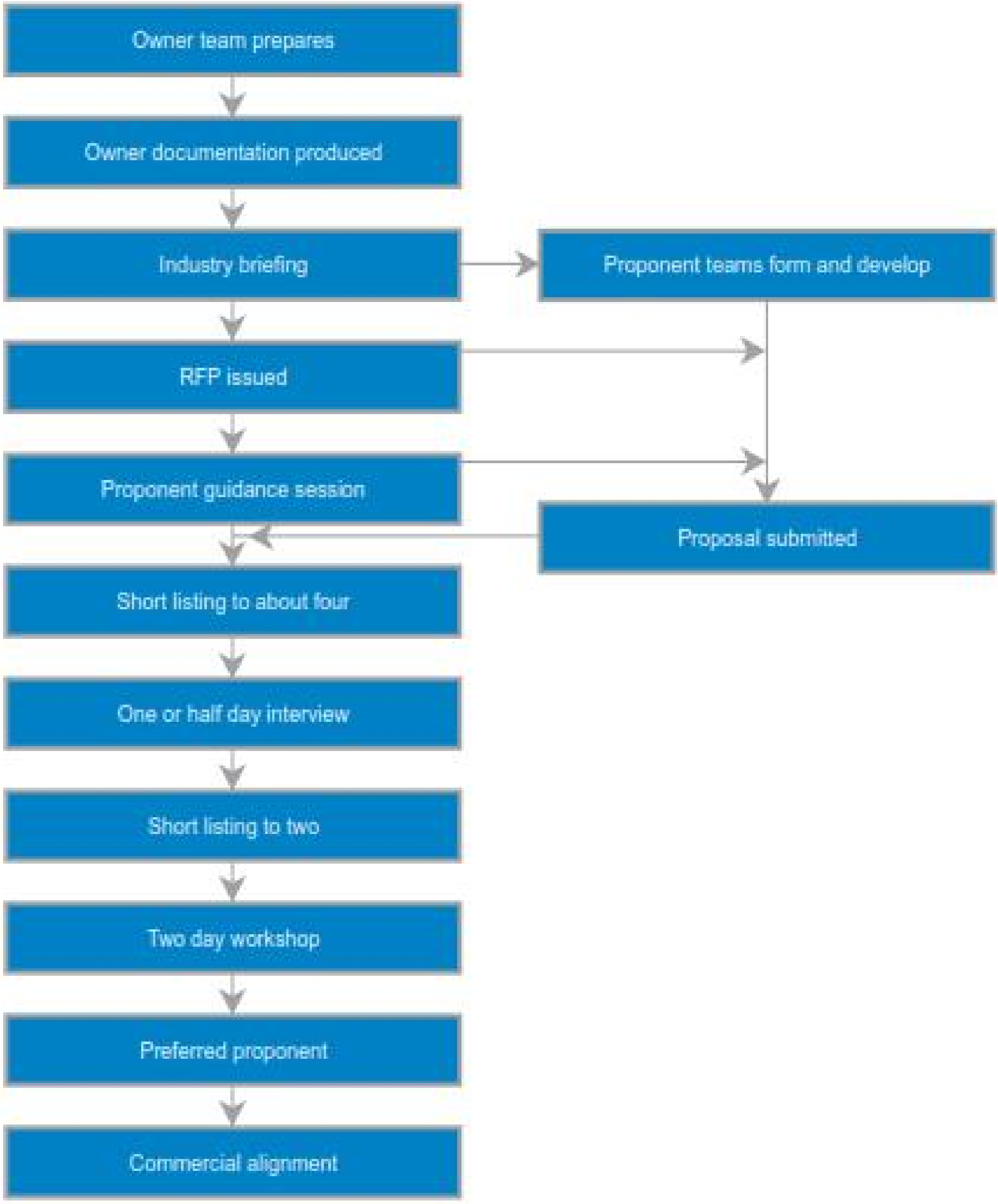
Workshop

The main purpose of the workshop is to simulate the start of the alliance and to continue to build relationships amongst the team, including the Owner Participant (OP) and Partners ~~Non-Owner Participants (NOPs)~~. This is done as the team works collaboratively through the processes of establishing:

- the vision statement
- project objectives
- alliance principles
- alliance behaviours
- roles and responsibilities: particularly the Alliance Leadership Team (ALT), Alliance Project Manager (APM) and Alliance Management Team AMT)
- the mobilisation plan
- the organisation structure
- Key Result Areas (KRAs)
- approach to key technical challenges
- other alliance matters as directed by the Owner.

Like the interview stage, the scoring for the workshop should not generate an entirely new score. Instead, it should seek to confirm or moderate those scores already given in the assessment of the Request For Proposal (RFP) response and the interview. However, there have been selection processes where scoring has re-commenced from the interview stage.

Figure 15 Typical proponent selection process



Generally speaking, participants are encouraged to enter the workshop stage with the mind-set that they have already 'won' the project, and are in fact commencing 'Day One'. This enables the conversations and activities to be more realistic – to be more like the kinds of working sessions that you would expect during project start-up.

Given the importance of Value For Money (VFM) to Owners, some are introducing the initial phase of the commercial alignment discussions into the selection workshop to provide an element of margin competition between proponents. The difficulty with this is that Owners can not guarantee that they will achieve an 'apples with apples' comparison of the proponents.

The selection panel will then make a determination following the workshop on which proponent/proponents will be invited to the commercial alignment workshop.

Selection of the preferred proponent

The final decision before commercial alignment *should* be easy, but it can be very hard.

One school of thought is that if proponents' scores are within 2%, then the proponents are deemed to be the same and a deadlock breaking process is entered into. This can include risk assessments of each of the proponents or sensitivity tests of the selection criteria weightings. If there are differences in what panel members think, then it can be a very late night.

However, an alternative (and preferable) approach is to consider that the selection process has been carefully and diligently developed and carried out, and that any difference in the scores, no matter how small, provides an outcome of a winning proponent. To achieve this, the selection panel must be aligned at the elemental level, and agreement that the panel will select the proponent with the best score, even if the panel has a bias towards a different proponent.

Commercial alignment

The commercial alignment phase is the first stage that the actual cost of a proponent is considered in a conventional alliance framework.

Preliminary commercial alignment may be run with the final two proponents. However, in a selection process this discussion is only partly about the actual multipliers, margin and gain share/pain share, but more about the quality of the conversations and attitudes of the proponents displayed during the discussions. The Owner's financial auditor will provide their opinion on the openness of the proponents to

the commercial principles for the alliance.

Total acceptance of all the Owner's recommendations in relation to the commercial discussions is not necessarily evidence of 'best for project'. In fact, proponents who have the capacity to constructively challenge (where they feel challenge is genuinely required) and the ability to engage maturely and respectfully in critical conversations, show that they are ready and able to have the critical conversations which will inevitably arise throughout project delivery.

The negotiations on the commercial framework should be supported by a set of commercial principles that are agreed by all participants. Owners may take the opportunity to commence the discussion on these principles during the selection workshops. This supports their assessment of the willingness of proponents to be flexible in their expectations. The principles will be finalised as the first component of the commercial alignment workshop and then form the foundation for all discussions that follow.

During the commercial discussions, Owners and proponents should aim to:

- build strong and mature relationships that will underpin the ability to have very constructive, critical conversations
- discuss and obtain agreement around the commercial alignment process
- consider critical issues such as terms and conditions, Limb 1, Limb 2 and Limb 3 including the margins, percentages put 'at risk' through the commercial framework and the pain/gain arrangements
- discuss the interim Project Alliance Agreement (iPAA) and Project Alliance Agreement (PAA)
- consider the audit process going forward.

The conversations that take place around the commercial arrangements are critical and can assist Owners to gain a real insight into the organisational culture, mindset and behaviours of those with whom they are about to embark on the alliance journey.

Case note 10

Selection process

Project: Roe Highway Stage 7 – Roe 7 Alliance **Owner**
Participant: Main Roads Western Australia **Non-Owner**
Participants: AECOM, Clough Limited **Value:** $66m
Duration: 2003-2006

This alliance was the last stage of the construction of Roe Highway – a freight route that connects the State's rural highway system (Great Northern Highway, Great Eastern Highway, Toodyay Road, Brookton Highway, South Western Highway and Albany Highway) to key destinations (such as Kwinana Port, Canning Vale Industrial Area, Kewdale Industrial Area and Perth Airport). The highway has been delivered in stages over 20 years.

The physical infrastructure involves approximately 4.5 km of dual carriageway with three interchanges, three bridges and a grade separated principal shared path. Roe 7 Alliance was responsible for design, construction, community and stakeholder engagement, and environmental approval through the habitat of the Grand Spider Orchid (a declared rare flora).

Lessons learned:

The proponents were shortlisted to four after evaluation of responses to the RFP, and then to two through a half-day workshop. A two-day workshop with each of the two shortlisted proponents was then used to select the preferred proponent.

Experiences from the selection workshops were:

- Main Roads included potential alliance project team members who were not part of the evaluation team and they needed to be included by the Non-Owner Participant (NOP) team in activities undertaken during selection.
- The selection process was designed to test the ability of the proponent team to make the owner's potential alliance members feel welcome and part of an integrated team.

Alternative selection strategies

This chapter has so far discussed the selection methodology and process primarily used for a conventional alliance. However, if a variation on the conventional alliance is chosen, then a different selection process may be used.

Multiparty sequential alliance selection process

In a sequential, or staged alliance selection process, the Owner selects one of the Partner ~~Non-Owner Participants (NOPs)~~ first and forms a working alliance with this party before selecting the second. The Owner may or may not include the first NOP in the selection process for the second.

Where lack of clarity surrounds the scope of a project, Owners can typically team with the designer first to develop concept designs for the works and hence, improve the understanding of the scope. With clearer definition of the scope, the constructor with the most appropriate skills can be selected. Alternatively, if

Case note 11

Principles for commercial alignment

Project: Southern Link Upgrade Alliance
Owner Participant: Transurban Ltd
Non-Owner Participants: Abigroup, AECOM
Value: $106m
Duration: 2006 to 2009

The Southern Link Upgrade forms part of the larger Monash-CityLink-West Gate Upgrade in Melbourne. The project is primarily intended to increase traffic capacity and improve safety on the freeway corridor. It generally involves adding a traffic lane to the inbound and outbound carriageway along 5 km of the CityLink tollway, from the tunnel portals to the CityLink boundary just east of Glenferrie Road. It also includes development and construction of a freeway management system involving lane management and ramp metering.

Key lessons:

Prior to negotiating the fee structure for each of the Non-Owner Participants (NOPs) in the alliance, a set of principles for commercial alignment were agreed. These were:

- gain and pain is linked to real risk and benefits that affect the value of the project to Transurban
- the only way to exceptional return is outstanding performance
- Transurban is committed to NOPs earning 100% of their possible gain share entitlements for outstanding performance
- each alliance participant has meaningful financial incentives
- the separate elements of the gain share regime are interdependent to provide no incentive to sacrifice performance in one Key Result Area (KRA) to secure reward in another
- the commercial framework must drive the right behaviour - the right behaviour is the behaviour consistent with the alliance principles
- simple and easy to understand
- outcomes must be win/win or lose/lose between all participants
- the framework must be able to withstand independent scrutiny
- equitable reward commensurate with performance
- all transactions based on an open book process subject to external audit.

the key challenges for the project are construction related, the constructor can be chosen first. Hence for sequentially selected alliances, the key project challenges typically drive the Owner's decision as to which NOP is initially engaged.

Some outcomes of a sequentially selected alliance can be:

- a level of dominance may develop in the first selected proponent if it participates in the selection of the second proponent
- the alliance culture may need to be built twice
- not enough diversity in the team in the initial stages to stimulate innovation
- can be hard to create a culture when there is only one organisation involved – lose the excitement of creating a new multiparty culture!

Dual Target Outturn Cost

Alliance selection processes incorporating a dual Target Outturn Cost (TOC) are often called competitive alliances. These selection processes involve the two short listed proponent teams each being paid to develop a TOC. The notion of competitive alliances has arisen from the Value For Money (VFM) debate – if two proponents both develop a TOC, then there is a price component in the final selection decision.

It is interesting to note that the organisations that have used the dual TOC selection processes have typically not adopted them as their general selection method although may have been used them more than once.

The Owner does not achieve integration in the two competing teams as would be the case in a conventional alliance. As a result, the same level of closeness and intimacy that is a hallmark of the early stages of culture development may be compromised.

Consideration needs to be given in assessing 'like for like' in the TOC of each proponent team. The risk profile of each team needs to be normalised to make a fair comparison.

The dual TOC process also keeps two high performance teams involved for up to four months potentially at zero margin rates.

On a purely commercial basis, the numbers also can be questioned. In a conventional alliance with development of a single TOC, between 60% and 70% of the project cost is typically procured in a market tested competitive environment. Therefore, savings can only be found in 30% to 40% of the project cost. The cost of the dual TOC process may exceed any cost benefit found in this part of the TOC if cost minimisation is the driver for selecting the dual TOC process.

Despite these reservations, there are good reasons why an Owner may choose a dual TOC alliance process. For example, if the technology offered by two proponents is significantly different, it would be prudent to obtain a TOC from each before making the final selection. In other instances a dual TOC process may be mandated by the Owner.

Case note 12

Multiparty sequential alliance selection process: designerfirst

Project: West Gate Bridge Rehabilitation
Owner Participant: VicRoads
Non-Owner Participants: Sinclair Knight Merz, Flint & Neill Partnership, John Holland
Value: $240m
Project start: December 2007

The project involves improving traffic carrying capacity (including extra peak period lanes) of West Gate Bridge, as well as strengthening, risk mitigation and rehabilitation of the existing structure. It will be delivered in four stages:

Stage 1: Structural analysis (calibrated computer model) Stage
2: Scope development and business case approvals
Stage 3: Detailed design and development of Target Outturn Cost (TOC)
Stage 4: Site works (construction and commissioning)

Comment:

VicRoads has adopted a sequential alliance selection model that establishes an alliance between design participant(s) and VicRoads for the first two stages of the project. A constructor was then be invited to join the alliance during Stage 2. A separate agreement will be established between VicRoads, the design participants and the constructor for Stages 3 and 4 of the project.

VicRoads elected to use this approach as the scope of the project was very unclear. Significant structural modelling, option assessment and business case analysis was required before the construction contractor could be selected and commence. VicRoads also wanted to ensure it got the most skilled and appropriate designer to complete the initial structural analysis.

Case note 14

Dual TOC alliance #1

Project: Windsor Road Alliance
Owner Participant: NSW Roads and Traffic Authority
Non-Owners Participants: Leighton Contractors, AECOM, Coffey Geosciences
Value: $108 million
Duration: 2005 – 2006

To complete the dual carriageway between the M2 Motorway and Old Windsor Road, the New South Wales Roads and Traffic Authority (RTA) set up a dual Target Outturn Cost (TOC) alliance framework and engaged two teams to derive a TOC and project scope for assessment. The proponent teams were judged on the following criteria:

- proposed approach to undertake and deliver the project
- capability and past performance in delivering similar projects in an alliance delivery mode
- proposed approach to community and stakeholder concerns
- experience and expertise of the key personnel
- Value For Money (VFM) offered by the proposed TOC.

Comments:

The selection process involved a registration of interest stage followed by a Request For Proposals (RFP) stage from two short listed proponents. The Roads and Traffic Authority (RTA) had intended to go to the market with 'construct only' contracts, however the level of concept design for the two sections of the ultimate project differed significantly. During the preparation of the TOC, the RTA provided a project representative to assist each proponent. Given the competitive nature of the bidding process it ended up apparently feeling more like a typical design and construct contract than an alliance.

The proposed performance regime proved to be a challenge in driving high performance by the alliance team. The bonus pool was coupled to the outturn cost with zero bonus paid if the Actual Outturn Cost (AOC) exceeded the TOC by 10% or more. At one stage in the alliance the forecast AOC looked like it may exceed the TOC by more than 10% which challenged the teams's motivation to deliver on other Key Result Areas (KRAs). In reality, the alliance team produced an exceptional project outcome delivering it ahead of program and budget with a non-cost KRA outcome described by an independent auditor as somewhere between breakthrough and outstanding performance, despite the above commercial model shortcomings.

Overall, the RTA concluded that the Windsor Road Upgrade was an exceptional project outcome which represented a Value For Money (VFM) result far in excess of what could have been achieved through traditional lump sum procurement methods. Nevertheless it was conceded that although the dual (or competitive) TOC alliance model satisfied the need to demonstrate market price testing, it fell short of achieving an equitable 'best for project' outcome, fully mobilising the resources of both the government and private sector.

Case Note 15

Dual TOC alliance #2

Project: Tugun Bypass - PacificLink Alliance
Owner Participant: Queensland Main Roads
Non-Owner Participants: Abigroup, SMEC Australia
Value: $543 million
Duration: 2006 to 2008

The Tugun Bypass provides a high standard road link between the southern Gold Coast and northern New South Wales. The project includes:

- four lanes with the provision to be upgraded to six
- grade separated interchanges at both ends
- 334 m tunnel underneath the Gold Coast Airport's runway extension
- twin bridges over Hidden Valley
- preserved rail corridor allowing for a future rail line from Robina to the Gold Coast Airport.

Tugun Bypass was completed six months ahead of schedule in June 2008. The project had been under investigation for more than 10 years and had a number of false starts. Originally to be delivered as a design, construct and maintain, in early 2005 Queensland Main Roads converted the delivery model to a competitively bid alliance.

Lessons learned:

Known as a 'dual TOC' or dual parallel alliance process, two consortiums were selected to commence this model in September 2005 and were required to submit a final proposal in December 2005. Main Roads set up a 'Chinese wall' and placed personnel in each consortium for the bidding process. This gave Main Roads, RTA and the Federal Government a high level of certainty of completing the essential tunnel works by 10 November 2006. Main Roads contributed towards each of the bids, thus allowing the intellectual property from the unsuccessful consortium to be used in the final detailed design.

The dual TOC parallel alliance process worked well for this project allowing a fully detailed design for the tunnel, the development of sub alliances for the critical aspects of the tunnel construction and the combined input of Main Roads into each bid. For Main Roads, this approach required extra resources and therefore it is not suited for every project.

Step 3.7 Teaming Process

One of the greatest challenges for Partners ~~Non-Owner Participants (NOPs)~~ is forming the right team to meet the expectations of the Owner. This is first tested during the selection process, and often strongly influences which team the Owner chooses to deliver the project.

Conversations with Alliance Leadership Team (ALT) and Alliance Management Team (AMT) members, and Alliance Managers (AMs) indicate that one of the key learnings from alliancing is that a degree of focus and rigour should be applied to team integration and communication, not just at the beginning of an alliance, but throughout the project's life.

Alliances are frequently used as the preferred delivery method because the project is going to be difficult. In these complex, multi-disciplinary projects 'critical moments' will occur throughout the project's life. Building a team that is able to face these critical moments with courage, open conversations and determination to align around a solution or way forward is key to a successful alliance. Providing the team with the tools and techniques to have these hard conversations and move on positively is a necessity, and should be the responsibility of the ALT and AM.

Of course, there must be a balance struck between developing people's skills in these areas and allowing them to get on with the job. Nobody wants to waste time in meaningless workshops and meetings. But equally, not all people inherently have the skills to be able to work in integrated, communicative teams. The challenging part is getting the balance right.

Importance of the team

Before even beginning to consider which organisations to team with, let alone which staff will be nominated for the project, prospective (proponent) Partners ~~Non-Owner Participants (NOPs)~~ must fully understand the Owner, the project, and their drivers and motivators.

As described in Part B, Owners carefully structure their selection process to make sure they choose the right organisations and people to deliver on their expectations of outstanding results for that particular project. Through a combination of objective and subjective assessments, the Owner will progressively shortlist proponent teams until there is only one remaining. Although the Owner may have worked with the organisations previously, they may not have worked with the particular people nominated and hence their decision can still be, in part, a leap of faith.

How can Partners ~~NOPs~~ 'second guess' what the best (and winning) team will look like? Proponents need to convince the Owner though the selection process that they are the right organisations to work with in delivering the works. This is largely about the steps taken putting the right team together and consideration of the project.

The corporate track record of the organisations in the team and their reputation with the Owner is important to success. However, it is not the companies that do the work but the people from those companies who deliver the outstanding results expected. Hence, teaming decisions – including which organisations to go with and which team members to nominate – are critical.

Determining the composition of the team presented to the Owner will be based around an early judgement of what is important to the Owner. The important thing to remember is that the goal is to assemble a team that will best deliver what the Owner needs and wants for that particular project. Hence, the decision should be driven by the Owner and their requirements for optimum project delivery.

Forming the alliance proponent team

Alliance success usually results from the right blend of team skills, experience, appropriate resourcing and behavioural characteristics; that is, the objective and the subjective criteria talked about so often in this book. Teaming with the right proponent companies and then choosing the individuals who will form the core team is very important, and involves both an objective and subjective assessment.

How should proponents go about this task? Should they assume the relationships that are strongest between their own company and a prospective partner are the ones to choose in bidding for the alliance? Not necessarily. Different alliances will require a different capability mix. Teaming with another proponent team with complementary capabilities is what really matters.

Other factors to take into account are:

- the relationship that exists between a potential partner and the Owner
- the relationships between potential partners that may benefit the project
- understanding of another proponent's systems, processes and people (as this can and does provide a good springboard for project start-up)
- resource capacity of another proponent.

Choosing partner organisations

The key issues to be considered when selecting a partner to form the best possible alliance proponent team include:

- technical skill sets that are essential for delivery of the alliance objectives and the organisations that can best deliver these skill sets
- aligned corporate culture between the organisations, ensuring that this culture allows for flexibility to embrace the Owner once selected for the alliance
- an understanding of what the Owner really wants in participants
- availability of people within the organisations to deliver on the Owner's expectations – this is particularly challenging in a resource-constrained market place
- the right balance of skill sets at the Alliance Leadership Team (ALT), Alliance Management Team (AMT) and Wider Project Team (WPT) levels.

Ultimately, the proponents must be able to show the Owner that they have the resources and key team members to produce smart solutions and deliver the project.

The number of proposed alliance partners and sub-alliance partners is important to think about at this stage. Most ALTs consist of six to eight people. It is not advisable to have large ALTs (more than eight) as these can become cumbersome and unwieldy. Some ALTs have more than one member from an organisation, depending on the individual characteristics of the alliance. At times it may be necessary for the designer or constructor partners who are taking a supporting role on the project to be nominated as sub-alliance partners. All of these possibilities should be given careful consideration before determining what best suits the particular alliance and the delivery of the Owner's project objectives.

Case note 17

Bidding challenges

Project: SAFElink Alliance (Ipswich Motorway – Wacol to Darra)
Owner Participant: Queensland Main Roads
Non-Owner Participants (proponents): Leighton Contractors, BMD, Arup, AECOM
Value: $800m
Duration: 2007 to 2010

The project involves widening the Ipswich Motorway to six lanes between Gailes and Darra, upgrading the Centenary Highway interchange, bridgeworks, and new pedestrian and cyclist paths. Additionally, earthworks and bridgeworks for the Darra to Springfield rail line, passing through the Centenary Highway interchange, will be constructed.

Lessons learned:

SAFElink Alliance was bid at a time when the outcome of tenders for the major Gateway Upgrade project was unknown and the tender for Airport Link was being prepared.

Given the potential for competing demands for resources, Leighton Contractors decided to team with BMD, a growing mid-size constructor not normally involved directly in these tenders. Leighton also chose a lead designer from each of the finalist Gateway teams (AECOM and Arup) to demonstrate that whatever the Gateway outcome, one of the designers would be able to provide the bulk resources, with the other designer supporting with specialist resources. This resourcing strategy was carefully mapped out in the bid and demonstrated with wall charts and presentations in the selection interview and workshops.

In building the bid team with four participants, Leighton Contractors and AECOM, who had worked together on other alliances, had to ensure that BMD and Arup had consistent knowledge of:

- commercial framework and audit requirements
- team expectations
- Target Cost Estimate (TCE) and delivery expectations
- the key individuals from all participants.

The process was assisted by the fact that the BMD Alliance Leadership Team (ALT) and Alliance Manager (AM) nominees had worked with all participants on other projects (and at least one alliance) while working for another contractor.

One of the conference rooms in Leighton's office was set up for the bid team. A specialist team coach was appointed to develop the relationship in the team both on site and at external locations.

Selecting team members

When proponents construct their teams, a key challenge is the identification of the individuals who will be nominated to participate as part of the Alliance Leadership Team (ALT) and Alliance Management Team (AMT) and, critically, who should be the Alliance Manager (AM). From an internal perspective, this is important to the participant organisations because it defines expectations around the roles and responsibilities that each takes on. It is also important from the Owner's perspective when demonstrating the appropriate 'fit' or 'match' of the team to the Owner's expectations. However, flexibility is required as the Request For Proposals (RFP) may contain unexpected details that require changes to the team structure.

In selecting the ALT, the discussion starts by identifying the organisations that will form part of the main alliance with the Owner and those that will support the team either as a sub-alliance or subcontract role. Those organisations that will have 'skin in the game' are usually represented on the ALT. Most Owners seek to limit the size of the ALT, so the primary focus must be on identifying the key challenges the Owner faces and matching the organisations that are in the best position to manage these challenges. The organisations represented on the ALT must also have a meaningful contribution to make to the works in a financial sense given they actively participate in the gain share/pain share arrangements.

Once the organisations at ALT level have been defined, the representatives from those organisations must be chosen. These representatives will generally either have a responsibility within their organisation to manage the resources available or will have a specific skill or experience that is relevant to the Owner's challenges. The ALT will be acting as a nominee team, so they need to be able to make some decisions during the bid process. More is said about the ideal characteristics of these representatives in Part D, Chapter 1.

The AM in many alliances can be the most critical person to select. This individual takes the primary leadership role for the team delivering the day-to-day requirements of the alliance so it is essential to get the right person for the job. Part D, Chapter 1 describes the characteristics of this person to assist with their selection.

Case note 18

Finding the right Alliance Manager

Brisbane Water issued a Request For Proposals for three wastewater treatment plants at Sandgate, Oxley and Wacol for Brisbane Water.

Key lesson:

Abigroup, Connell Wagner and AECOM came together, hired an alliance coach and commenced team building and technical review activities to bid for this project. Part way through the Request For Proposals (RFP) response writing process, the Alliance Leadership Team (ALT) nominees identified that the team did not have a strong enough Alliance Manager (AM) candidate fully available to deliver the alliance and win the bidding process.

After much deliberation on a variety of candidates and despite having completed a lot of team preparation work (and costs spent), the ALT decided not to proceed with the bid.

The structure of the AMT and the selection of representatives from the participant organisations are driven by the issues that the Owner sees as being important – reflected in their Key Result Areas (KRAs) – and what is needed to deliver the works.

In other delivery methods, such as design and construct, the equivalent of the AMT will have a strong focus on the design and construction management skills that are required to get the job done.

In an alliance, however, other functional areas which are important to the alliance's success are represented. These functional areas may include community and stakeholders, environmental, traffic operations, culture and relationships, and systems and controls. The structure and representation on the AMT must also include candidates the Owner will put forward. The roles the Owner's representatives perform will depend on the outcomes that the Owner ultimately seeks from the alliance. Again, the characteristics of AMT representatives are described in Part D, Chapter 1.

Following selection of the alliance proponent team, the focus then shifts to building the team's understanding of the Owner's project challenges and identifying how the team will solve them. During the process of bidding for an alliance, it is very important that the team develops the mindset that delivery of the alliance works has commenced. Adopting this mindset will ensure that all of the conversations held with the Owner in the lead up to final selection are focused on the specifics of the works and exclude, to the extent possible, an emphasis on 'sales' or 'performance' language. This approach opens the opportunity for authentic conversations that build rapport and ultimately trust in the relationships between Owner representatives and those from the proponent.

Once the team has been chosen, the proponent must commit their best team and honour that commitment by ensuring the team remains in the alliance for the required duration. This can be a very serious challenge in a resource constrained market. Sometimes it is appropriate to change personnel for different stages in the alliance; ideally this should be identified early in the program, and the Owner should be part of the discussion on the appropriate use of resources for different alliance stages. If there are any legitimate reasons for a late starter, the proponent must have identified the mechanisms that will seamlessly handle their introduction. A compelling induction for all new starters throughout the project life is a critical tool in maximising the team's potential to be fully functional all the time.

Beginning team development

In a typical selection process Owners will give proponents a limited amount of time to submit their proposal following issue of the Request For Proposal (RFP). Generally, this will be somewhere between four to six weeks. From submission of the proposal to the initial interview Owners will again try to keep the timeframe as tight as possible, generally no more than one to two weeks. So when do proponents find the time to construct deep, productive relationships within the team while all of these other activities are occurring?

The activities involved in bid preparation do a lot to support team development. However, it is becoming far more common for proponent teams to begin team development well in advance of Owners issuing their RFP. In most instances this will benefit the bidding team, although it does present a risk as well.

Part C, Chapter 3 explores development of the team throughout the bidding process.

Case note 19

Early preparation risk

In South Australia an owner had proposed an alliance for delivery of upgrade works to a major road in Adelaide. The Non-Owner Participant (NOP) proponent organisations came together well before the Request For Proposals (RFP) was issued to commence team development and initiate their thinking on the issues that were (potentially) important to the owner.

Unfortunately, a mix of both external and internal influences led the owner to cancel the proposed alliance, leaving the proponent teams high and dry. Even though there is residual benefit to team members from the activities that take place in these circumstances, the cost to the NOPs is significant.

Commercial arrangements between Partners ~~Non-Owner Participants~~

The early and potentially difficult conversations that take place between NOPs about the commercial arrangements are generally about how to handle the bidding costs and how to deal with sharing the gain and pain in the alliance with the Owner, should the team be successful.

Bidding costs

The costs involved in bidding for an alliance include:

- alliance coaches, whether external or internal, can be expensive depending on the nature of the alliance, the existing capability of the proponent team members and the expectations of the Owner
- direct costs associated with the workshops that are used to build the team (for example travel, accommodation, venue hire and meals)
- cost of the time team members allocate to the team development workshops
- cost of time that is invested in 'starting' the alliance – proponent teams are increasingly placing much greater emphasis on having the team undertake technical work to:
  - improve their understanding of the Owner's proposed works
  - identify potential innovations and therefore demonstrate to the Owner their capability in delivering a game-breaking performance
  - demonstrate well advanced thinking on systems and procedures
- cost of time that is spent on preparing the proposal and the direct costs of proposal production including specialist writers and editors, document design and printing.

In response to concerns expressed by proponents, Owners are attempting to reduce these bidding costs by limiting the size of proposals. This will help with the direct and indirect costs of the proposal. However, because the emphasis during selection is on demonstrating capability as a team and ability to deliver game-breaking performance, the effort (and costs) required in team building and developing potential innovations will remain.

The question of how to appropriately allocate bidding costs between the Partners ~~Non-Owner Participants (NOPs)~~in the proponent team requires consideration of the relative inputs and ultimate benefits. In most cases the majority of the technical thinking committed during the bidding phase is delivered by the designer participants in the alliance. Reimbursement would be made for this thinking in a design and construct bidding process, albeit at a discount to normal charge rates. Quite often the designer participants will carry these costs in an alliance bid and hence, it is common for the constructor participants to accept a greater share of the direct costs of the bid as an offset to the cost invested by the designers.

Gain share/pain share pre-agreement

The way proponents deal with bidding costs is an agreement that does not involve the Owner. However, the follow-on conversation about how the Partners ~~Non-Owner Participants (NOPs)~~ in the proponent team share the gain and pain associated with the alliance (should they be successful) is important to the Owner. One may think that Owners should only be interested in how the split will occur between themselves and the Partners ~~NOPs~~ collectively. However, if the split between the NOPs does not result in equitable win-win or lose- lose outcomes for all participants, the Owner may suffer the consequences through less than optimal performance. More detail about how this sharing may work is provided in Part D, Chapter 4.

Partners ~~NOPs~~ will align on their sharing arrangement during the bidding phase and will bring this to the table with the Owner, either during the selection workshop or the commercial alignment workshop. However, it is unwise for Partners ~~NOPs~~ to remain fixed in their views on this as the Owner may bring a completely different perspective.

Case note 20

Non alignment of commercial expectations

Project Aqua was a major hydropower project in the south island of New Zealand. It consisted of a major river diversion and six hydropower stations. Meridian Energy selected an alliance framework because of uncertainty with the approvals process outcome.

Key lesson:

Meridian Energy selected the constructor participant first and then the designer. AECOM teamed with two specialist designers: one for the river diversion structures, and one for the turbine infrastructure. This team was successful all the way to the final selection workshop where one of the issues that lost them the job was misalignment of the NOPs' commercial expectations. During the critical commercial alignment Alliance Leadership Team (ALT) meeting at the selection workshop they had to ask for 'time out' to get a consistent answer to the question, "Are you willing to put your entire Limb 2 at risk?"

Joint Ventures

An alternative that is now sometimes used is the creation of bid, win and then deliver Joint Ventures (JV) between Partners ~~Non-Owner Participants (NOP)~~. Opinions are divided on whether these formal joint ventures between Partners ~~NOPs~~ are consistent with 'best for project' and transparency commitments made by all alliance participants. One view is that the JV agreement potentially creates obligations between the JV parties which are in conflict with alliance principles.

One way that has been used to overcome this concern is for the JV parties to hand over to the Alliance Leadership Team (ALT) the management and decision making powers which are usually given to a JV managing committee. Of course, that might not always be possible where the JV was not set up exclusively for the alliance project and has other projects in progress.

Step 3.8 Bidding, Workshopping & Winning

The focus for prospective Partners ~~Non-Owner Participants (NOPs)~~ so far has been on building relationships, understanding the Owner ~~Participant (OP)~~ and the project before the Request For Proposals (RFP) is issued, and forming the right team to bid for the project.

Now it is time to write a focused and targeted submission that captures the attention of the Owner's selection team (at least as much as is possible with the written word) and then prepare the proponent's team to demonstrate without question its ability to integrate with the Owner's representatives and deliver a 'game breaking' performance.

Maximising success

Bidding, winning and delivering alliances requires a lot of hard work by many very dedicated and talented people. It is never the result of just one thing or person. Completing the following actions will all contribute to the proponent's success.

- Appoint a bid manager so there is a very focused approach to the submission delivery.
- Establish agreed budgets, timeframes, team membership and the desired culture for the bid phase.
- Achieve clarity around roles and responsibilities.
- Select the best systems and processes.
- If teaming with other organisations, ensure everyone is aligned on the agreed vision, goals and behaviours that will serve them well in the process, complement the Owner's own culture and help to win the work.
- Inspire, encourage and document innovative thinking and design processes that will showcase innovation through the bid phase and help to deliver value for money for the Owner.
- Do not leave team development or culture to chance. Use process and methodology to build integrated teams – external coaches are valuable in this process.
- Build the team's competencies in commercial framework knowledge, insurance coverage, incentivisation and Key Result Areas (KRAs).
- Build the team's competency in effective communication and relationship building.
- Do not assume leadership just happens – help build this competency through a targeted development program.
- Build a clear project delivery strategy to present to the Owner.
- Make 'best for project' team appointments using both objective (core technical competency) and subjective (attitudinal / behavioural) criteria.
- Consider a relationship manager or culture and peak performance manager to drive the leadership, strategy and implementation of an authentic alliance culture. This is particularly relevant for major projects with a large number of participant organisations.

This may all sound quite daunting. However, with the right strategy, preparation and guidance, it is entirely possible to deliver on these objectives. All it takes is a firm commitment by the organisation and the individuals involved to being open in their thinking, and to embrace and trust the process.

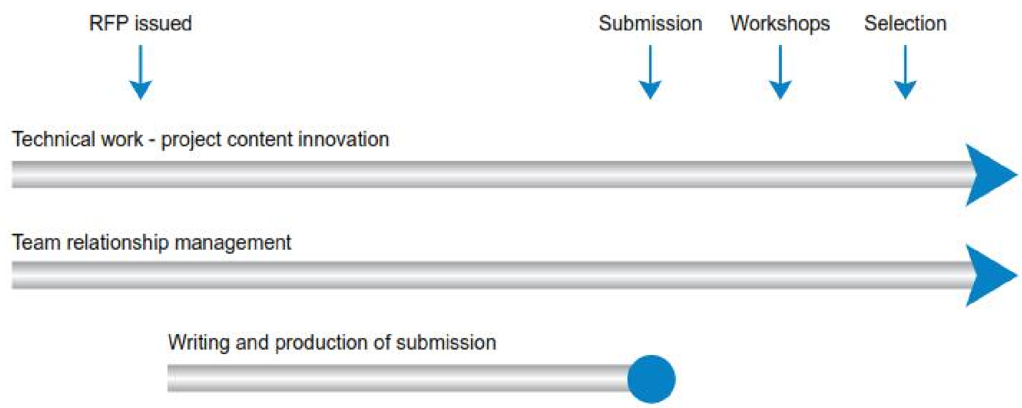
Following is further discussion of some of the critical areas to maximise the chance of success.

Bid management

In contrast to many other delivery methods, the bidding process for an alliance is more than just the production of a written proposal. As shown in Figure 18, the process includes three primary streams of activity:

- technical work to build appreciation of the Owner's project, innovation and the critical success factors
- coaching the team to build relationships and an authentic understanding of, and connection with, the alliancing principles

Figure 18 Three streams of activity



- writing and production of the proposal in its own right.

Bid team

The only way to be successful in the production of the response to the Request for Proposals is to carefully project manage the submission. This means having a team of people to complete the nominated tasks on time and budget.

There are a number of significant roles in preparing a successful bid, including:

- **Bid manager** – this person should have excellent project management skills (it is not good if the bid team are working past midnight in the final days before the submission is due!), be the conduit for technical and writing resources as required, and have the final say on content questions.
- **Nominated Alliance Manager (AM)** – ultimately charged with delivering the project, this person must be fully involved in developing the proposal document, be completely familiar with the content and comfortable delivering on the promises made. If the nominated AM is not part of the bid process, it will become evident during the interview and workshop stages. This is true also for the design manager in the case of a split process.
- **Technical experts** – a small team of people with the expert knowledge, skills and experience to contribute the main technical content of the submission. It is important that this group also has a holistic appreciation of the project (such as community, stakeholder and environmental; not just the technical elements).
- **Editor** – another set of eyes with technical proofing and editing skills will ensure that the submission
is written with a consistent style. This person may also help the team develop their key messages and

themes, and normally would be intensively required for the final three weeks of writing.

- **Document designer** – develops the physical look of the document to ensure that it is visually appealing and easy to read. They may also be involved in creating an overall branding look and feel. The designer is generally required early to set up the overall look and feel, and then required intensively in the last two weeks of the submission.
- **Approvals team** – senior leaders from each of the Partner ~~Non-Owner Participant (NOP)~~ teams who will ultimately sign off on the submission. They should be involved in the document production journey to ensure that all critical content is approved progressively, not at the last minute which may lead to the entire submission being scrapped! These people often end up being the Alliance Leadership Team (ALT) members.
- **Commercial/legal** – contributes content and approves the commercial and legal aspects of the document to ensure the proponent's legal and financial status is appropriately represented.

In the case of smaller bids, a number of these roles may be undertaken by one person.

The role of the bid manager deserves some special examination because of their crucial role. The bid manager must establish a rigorous bid management process and manage the team in delivering on their commitments.

The bid manager should:

- establish the budget for the bidding process
- facilitate the process of document structure/construction
- facilitate the key messages/themes workshop
- develop a critical path and determine the timeframes and the resources for tasks/actions to be delivered
- assist the Alliance Leadership Team (ALT) and Alliance Manager (AM) nominees in establishing the team membership
- identify the roles each will undertake during the bid phase
- help determine what systems and processes will be used
- help with writing/constructing the document.

The production of the bid document typically runs in parallel with team members delivering other project work, the proposed team being involved in team development workshops, and other technical workshops to scope out the project and develop innovations and methodologies.

Senior leaders within Partners ~~Non-Owner Participants (NOPs)~~) who would be nominees for the ALT will also find the bidding period very challenging. A significant proportion of their time will be required to:

- make the critical decisions on the structure of the team
- nominate people for key roles
- prepare for the commercial discussions
- be committed and available for team workshops
- be effectively operating as an ALT for the alliance, providing the leadership to the team whilst also dealing with other issues that arise
- deliver on their normal day job.

If ALT nominees are nominated on a number of alliances being put to the market within a short space of time, it can be a very busy period. As a result, some companies limit the number of ALT nominations for each senior executive to two.

The writing room

One of the principles of alliancing is to co-locate the alliance team to maximise the opportunity for collaboration, sharing of information and knowledge, problem solving and innovation, thus assisting in generating a culture of peak performance. Ideally, this should start during the bid phase, with the bid team being based in one room for the duration of the preparation of the response to the Request For Proposals (RFP).

The submission

The background preparation has been done and the proponents are now ready to respond to the Owner's Request For Proposals (RFP). A well structured RFP will (mostly) identify the project goals and will provide details of the key objectives and result areas that have driven the Owner to select an alliance framework for the delivery. But how well has the proponent read and understood the RFP, and how well do they know what the Owner's real expectations are?

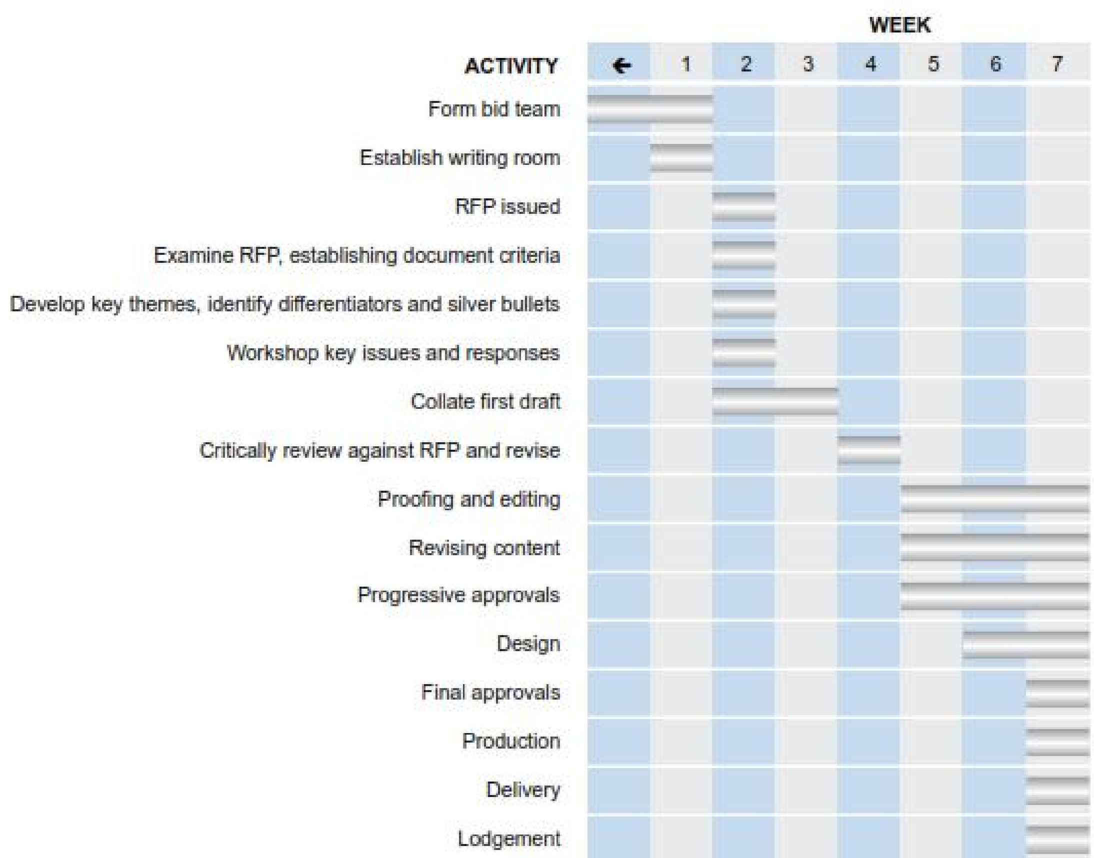
Given price is not a key determinant in the selection of most alliance teams, other elements assume much more significance in the proponent's success … or failure.

Proponents must be able to state their company's case clearly and definitively against the nominated selection criteria, while also providing a point of difference to maximise their chance of making it through the submission phase to the interview.

Those who have been through the process will know that is easier said than done. Many in the industry believe that most constructors and designers are capable of delivering the majority of projects that Owners put to the market. Stating a team's case and making the team stand out from the other proponent as the ones who will excel is a skilful art.

The bid manager must ensure that the tasks required of the team to prepare a good submission

Figure 19 Bid process and timeline



are managed and executed well. Time management is critical. A typical bid process and timeline is shown in Figure 19.

RFP requirements

Owners are normally highly prescriptive in their requirements for the response to the Request ForProposals (RFP). Items detailed may include:

- pre-qualification
- financial capacity
- Probity (Ethics) declaration
- code compliance
- core capability
- appropriate Limb 2 fee
- page limit, including what is counted within the page limit, font sizes and page margins
- number and labelling of copies
- response schedules and required information
- lodgement instructions (including time for delivery).

Non-compliance with the requirements of the RFP shows a lack of understanding of alliance principles and may lead to the submission being excluded from the selection process.

Owners usually place a page limit on proposals, in part to try to restrict the amount of effort that proponent teams need to invest to respond, but also to reduce the volume of material that needs to be assessed during selection. Page limits have been reduced significantly over time from what used to be between 60 and 100 pages, to most recently a limit of between 15 and 50 pages.

Although it may not sound like a significant challenge to produce a 15 page proposal, it can be difficult to adequately state the proponent's case and profile their experience in such a limited number of pages. Clever thinking in terms of information presentation – and a judicious editor – are essential.

Assessment criteria

Even though the alliance selection processes for Partners ~~Non-Owner Participants (NOPs)~~) typically do not involve pricing, they are still very competitive. Without 'price' the Owner's key determinants in choosing the 'best for project' proponent include both objective and subjective assessment criteria including:

- quality and suitability of personnel for the required scope (such as the right 'fit')
- company reputation and, importantly, alliance reputation and/or affinity
- experience and track record in delivering similar sized, scoped projects
- attitudinal/behavioural attributes – Owners want to see positive, solutions-focused team attitudes and behaviours which will contribute greatly to the alliance culture and form the basis of the alliance's ability to work through the challenges that will occur during project delivery
- the right capability, skills and experience to deliver the works
- thorough understanding of the Owner's business operating environment and drivers
- quality of the communication that takes place between the NOPs and the Owner during the bid phase –and historically from previous working relationships
- capacity to work together – does the Owner feel comfortable that they can join with the NOP personnel as an integrated team?
- an innovative approach to ideas generation and opportunity and risk management.

While Owners typically have a highly structured set of schedules to respond to, proponents must also consider the weighting of the assessment criteria. For example, if track record and experience is 25% of the assessment criteria, then it would be normal that a sizeable part of the submission (around 25%) is about track record and experience.

In an alliance selection process, these key criteria are measured through several distinct stages by objective and subjective processes. The more the Partners ~~NOPs~~ know of the Owner's drivers and key concerns, the greater the probability of success.

Submission branding

Branding of the alliance proponent team and the submission depends on a few factors. If a staged process (with constructor and designer bidding independently) is being used, then it is probably best not to brand the team. This would be best done when the preferred proponents come together with the Owner to form the alliance.

If constructor and designer have joined forces to bid together, then there is an opportunity to brand the team and the document and, if successful, take that idea to the alliance for discussion.

As an aside, Owners who are not interested in branding may not fully appreciate the power of a brand for the newly formed 'virtual organisation'. A brand helps to create and maintain project and team identity with both internal and external stakeholders and is critical to alliance members leaving their company hats at the door. If people are still wearing their home company logos, then the alliance may not achieve complete personal buy-in.

No matter what level of branding is incorporated in the submission, ultimately the branding of the alliance may be dictated by government style guides and corporate branding requirements.

Team development

The foundations of team development are laid when selecting the right partners to bid with for the alliance. Proponents make 'best for project' team appointments, using both objective (core technical competency) and subjective (attitudinal/behavioural) criteria (see Part C, Chapter 2).

While undertaking the bidding phase, the proponent team will begin team development activities. When they meet the Owner's selection panel in the selection workshops, they should be a team which shows the potential to be part of a high performance team. The team must leave the selection panel in no doubt that they have what it takes to deliver the project and will be a great team with which to share the journey.

Further development of the team will occur during the bidding and workshopping stage when Partner ~~Non-Owner Participant (NOP)~~ proponents start to work with the Owner ~~Participant (OP)~~. The first cultural building blocks are being laid for the future alliance.

Team development must not be left to chance. Most organisations will engage a coach to help them through this process, although some constructor and designer organisations may have these skills in- house.

While each coach has their own process, generally the coach will guide all members to be aligned around the shared vision, goals, and behaviours that will complement the Owner's own culture, or indeed to help build a new culture, which will in turn empower the alliance to deliver the project successfully.

Through the process the coach will develop the team in such a way as to build an appreciation within individuals of how to contribute their best in the pursuit of the alliance's goals and objectives.

Part D, Chapter 2 addresses the concepts of relationship management, team development and culture in greater detail.

In this process, the team will also consider the systems that will be adopted from the relevant organisations for the alliance. This includes quality, environment, community and stakeholder, health and safety, design management, construction management and IT.

The coach should also drive the process of building the team's competencies in areas such as commercial framework, insurance coverage and innovation, and the Key Result Areas (KRAs).

Selection interviews and workshops

Based on the written submission, two or three proponent teams will be asked to undertake selection interviews and/or workshops. The format and flavour of the selection workshops will vary by Owner and be particularly influenced by the preferences of the Owner's facilitator. It is important to understand the Owner's perspective, which is discussed in Part B, Chapter 2.

Preparation and participation in the selection workshops will require absolute commitment from all involved.

Preparation

Proponents should anticipate and prepare for the selection workshop structure. They must consider the purpose behind the structure and respond accordingly. This will naturally lead to considering the likely scenarios that will be used as an opportunity to watch and assess the team at work.

An inquisitive approach will keep the proponent team asking the questions: "What are they really looking for here? Why are they really asking us to do this? What is the real point behind this?"

Presentation skills

Workshop preparation will include presentation skills and scenario planning.

While it is important that team members are able to stand in front of a selection panel and deliver a message, they should not be over coached. Some of the things to consider are:

- presentation skills – the team should be themselves; if individuals have a thorough appreciation of the project and the part their skills can play in it, then their presentation will be authentic, not rehearsed
- team energy matters – maximise and manage it
- self-awareness in the team will manifest in team members knowing what and how their colleagues will contribute and how they will integrate their skills so that the whole is much greater than the sum of the parts
- build confidence in team members
- if the team really has it covered, then over-rehearsal becomes redundant.

Being Trustworthy ~~authentic~~

A key attribute required to participate in the selection process and ultimately win an alliance, is to be trustworthy ~~authentic~~.

Strong relationships within the proponent team in the first instance, and then with the Owner's team, is central to success both during the selection process and in the delivery stage of the alliance itself.

Team development is about helping (and coaching) people to be the best they can be in that team – not to be something they are not, nor to 'put on a performance'. There is definitely a place for a well considered, well executed team development plan, and it is a question of balance and authenticity.

Different industry coaches have different approaches and put emphasis on varying aspects of the workshop regime. Usually a proponent's team is being coached by one facilitator, while the Owner is being coached by another facilitator with a slightly different view of the world.

Case note 21

Expect the unexpected

Project: SAFElink Alliance
Owner Participant: Queensland Main Roads
Non-Owner Participants: Leighton Contractors, AECOM, Arup & BMD
Value: $750m
Duration: 2007 – 2010

The project involves widening the Ipswich Motorway to six lanes between Gailes and Darra, upgrading the Centenary Highway interchange, bridgeworks, and new pedestrian and cyclist paths. Additionally, earthworks and bridgeworks for the Darra to Springfield rail line, passing through the Centenary Highway interchange, will be constructed.

Key learning:

During the final selection workshops for the SAFElink Alliance, Main Roads decided to test the team support and depth of skills in an unusual way. They set a scenario for the team which had community, technical, and time and cost pressures and allowed the team response to begin. After about an hour one of the owner representatives quietly asked the nominees for Alliance Manager and Communications Manager to step outside – and then took them for a two hour lunch!

The assessment panel were asked to observe how the team responded to this “real life” situation in managing the scenario.

What is important is that the intent and attitude of all involved is authentic, and the team’s behaviours show a deep understanding of and a genuine commitment to the fundamental principles of alliancing.

The winner and the losers

We are all competitive to a degree as we live in a world that is very competitive. Telling the team that they have been successful in winning the right to partner with the Owner to deliver the works is a task that anyone would take on with pleasure. Winning is great – it is rewarding for all involved and a clear demonstration that they have come together very well as a team.

But how does a leader of an organisation or business unit tell their team (who have put their heart and soul into trying to win an alliance) that they have been unsuccessful?

This is when true leadership comes to the fore. Leaders must quickly deal with their personal emotions as the journey they have participated in will have raised expectations of what could have been a great opportunity for the team and for the business. Their team will have also generated their own expectations of success through the positive attitudes and approaches their leaders have displayed and through their own personal and professional development. This is the time when a true leader will learn the lessons
from being unsuccessful on this occasion, bring those lessons back into the organisation, acknowledge the team’s efforts and take them onwards and upwards towards the next opportunity.

It is worthwhile contemplating that there are three types of losing team responses:

1. teams that criticise the Owner
2. teams that believe the Owner has made a mistake
3. teams that take their hats off to the Owner and selection team and say ‘we were excellent, so the winning team must have been exceptional’.

The third type of team is generally the one that takes a positive approach to identifying the lessons learned, and then moves on to be successful bidding future alliances.

Step 3.9 Metrics

Why Metrics Are Important

Everyone talks about a Win-Win, but without putting metrics on the idea of Win-Win, it stays a philosophy, not a business process. The discipline in this step discipline the Alliance Professional to extract precision about what winning really means. This is a critical step when we move to the next Phase: Value Creating Negotiations. Being able to measure a win, the alliance members can be assured they have created the mutual win.

Metrics are the means by which we measure whether an alliance is functioning effectively. We all know that alliances must be "win-win" arrangements. Metrics are the means of defining a "win." Thus, the way we measure the alliance soon becomes the standard to gauge its ultimate success.

Metrics keep the alliance aligned with its planned strategic destiny. If you do not establish clear criteria for success, the results will be elusive.

As an alliance leader, if you can't *measure* the alliance, you can't

- *See It*
- *Drive It*
- *Manage It*
- *Change It*
- *Resource It*
- *Value It*
- *Reward It*
- *Negotiate It*
- *Celebrate It*
- *Sustain It*

Alliance Strategic Return on Investment

Strategic Return on Investment (STROI) is a tool for estimating the results that an alliance strategy will bring to your company and for determining how your company and its partner derive value. It contains metrics in a number of areas relevant to the alliance. Later these STROI elements will be incorporated into an alliance scorecard along with metrics for leading indicators, which enable the alliance manager to proactively manage performance. The essential insight behind the scorecard is that success should not be measured only in short-term financial results, but should also take into account other elements. In addition to financials, the classic scorecard measures results from a customer perspective, process perspective, and learning and growth.

In the practice of alliance management, the scorecard method has been adapted to fit the individual demands and diversity of alliances. In general, however, the STROI model analyzes five basic dimensions that measure the outcomes of a successful alliance (see Figure 3.9a).

Figure 3.9 a Strategic Return On Investment

Notice that "Financial Return" is only one of the five dimensions. Because the primary purpose of an alliance is *strategic*, its rewards must be more than financial. Financial gain is not just a result of strategy, but also a measure of the combined strategic success of the other four dimensions.

Describing the five dimensions enables the measurement of expected strategic results. The allies then know whether or not the alliance may be expected to achieve its strategic goals. In this way, the allies look for the key strategic benefits and can then measure these returns against their "investment," which can include time, people, technology, and money.

Using a balanced metric system is a far more effective method for measuring success than simply using financial return methods. Four indicators (Market Impact, Organizational Effectiveness, Innovative Capacity, and Competitive Advantage) are *strategic outcomes,* and are therefore more important in predicting future success than the financial element, which is a *lagging* indicator.

Leading Indicators
In a fast-moving world, leading indicators of success are far more important than lagging indicators.

Market Impact

This is a form of "top line" (versus bottom line) management. It can indicate market share growth, expansion into new markets, capturing niches that show promise of future growth, locking up key distributors, pumping more product through existing distribution channels, and becoming more responsive to the customer, to name a few. The possibilities are as broad as the driving forces and inspirations of the alliance creators.

Organizational Effectiveness

Ultimately, all organizational strength is based not on the money in a company's coffers nor on its technology, but on its ability to marshal its human resources. Strength is not measured in the numbers of people, but in their effectiveness.

Among the components of this element of strategy can be new knowledge, heightened loyalty and commitment, teamwork, new career opportunities, adaptability to change, and utilization of resources, among others.

Innovative Capacity

Peter Drucker wrote that there are two basic functions of a business: marketing and innovation. Without innovation, there is no adaptability for the future. Innovation can take a variety of forms, ranging from new technical capabilities, to development of better manufacturing processes, improved service delivery capacity, new products, better quality, higher productivity, to highlight a few. Look for opportunities where the enterprise can leverage its innovations and current assets or capitalize on the innovations of its alliances.

Innovation should not be viewed simply from a technical perspective. Innovations occur everywhere: in marketing, in using human resources, in strategy and other areas. Our alliance partners, if they are world-class, will invariably have created innovations that could benefit our company. The corporation that does not see continuous improvement as a fundamental component of business strategy will soon fall to the fast-advancing armies of international competitors (and should probably not be one of our alliance partners).

Eight Types of Innovation

Innovation is not simply the formulation of new technologies. Innovation is any *strategy, system, service, product, process,* or *model* that produces new value for an organization, including:

1. New Technology
2. Systems Solutions
3. Product Improvements and Integration
4. Process Improvement
5. New Business Models
6. Market Extensions
7. Socio-Organizational Relationships (such as alliances themselves)
8. Strategic Adaptation (see Alliance Stratagems in Phase 1)

Competitive Advantage

All strategy must give major consideration to enduring competitive advantage if it is to be successful. Business is a chess match; there is never a single "best move." Strategy is relative to the customer, the responses of the competitor, and the forces of the environment.

By designing an alliance to be the best at every step in the value chain, we create a substantial hurdle that becomes a barrier to entry to potential competitors. And by creating efficiencies of scale that make market entrance costs excessive, we can create further hurdles.

Financial Return

Notice that this dimension does not necessarily measure return, but rather gain, which is a broader factor. This is because the financial results can be garnered in a variety of ways through an alliance. The typical American manufacturing corporation purchases goods and services from outside suppliers that make up nearly 60 percent of all final sales costs. In this case, adding value by going further than just cutting costs can significantly improve profits, thereby securing a long- term relationship.

Both alliance partners should develop a matrix similar to the one in figure 3.9.b. By developing the scorecard analysis together, the allies become unified in their goals and the methods by which they will be gaining their return on investment. Over the course of alliance formation, operational and relationship metrics will be added as these aspects of the alliance are developed in subsequent phases.

What a Metric System Does

1. Takes strategy from the warm, fuzzy stage to a clear, crisp state.
2. Checks underlying assumptions.
3. Builds/establishes a clear common vision.
4. Defines results—the end state.
5. Provides the bridge between strategy and operations for the design of an operations plan.

6) Takes a holistic, systems perspective

A scorecard not only sets the criteria for assessing a potential alliance and evaluating its results, but also becomes the framework and underpinning for an annual audit of the alliance.

STROI Scorecard Tools

***Alliance Scorecard Matrix* -** Figure 3.9b and 3.9c

Figure 3.9b reviews the five elements of the STROI model by providing examples of the types of responses you will need to have in order to determine what are the most strategic aspects of the relationship. It also assists you in identifying whether or not your expectations are reasonable and achievable. Later this scorecard will be augmented with operational and relationship metrics, which will be important to managing an alliance but are premature to determine in this phase.

Alliance Scorecard Checklist - Figure 3.9d

The Alliance Scorecard Checklist provides you with another tool to ensure that you have covered all the necessary points to establish and measure a successful alliance. Remember, not all of the points indicated here are required for every alliance. Use the list as a memory aid to be sure you do not miss anything of significance while evaluating the risks and returns of the potential arrangement.

Figure 3.9 b Example Alliance Scorecard Matrix		
Strategic Element	**Measurable Return Expected**	**Resources Invested**
1. Market Impact	Double sales, increase share from 10% to 20%	Existing sales force, plus establish base in office market $150,000
2. Organizational Effectiveness	Increase sales with no rise in fixed costs Shorten new product development Cycle to 12 months by Nov. 2014	8 individuals (100% dedicated) Assign 3 engineers and 1 technician
3. Innovative Capacity	Initiate joint product development program Introduce 3 new products in Yr. 1, and 5 in Yr. 2	6 individuals (50% dedicated) 1 design engineer
4. Competitive Advantage	Lock up key distributors before competition enters Hold position of highest equipment, plus TQM program producer	$100,000 (variable costs) $50,000 in new quality, lowest cost
5. Financial Return	Double return on sales Lower unit marketing cost	Total of above

Use Checklist 3.9c as a starting point and the example in Figure3.9b, to create an Alliance Scorecard.

Checklist 3.9c

Alliance Scorecard

Rewards from an alliance may be measured in numerous dimensions. Strategic rewards should be more than strictly financial. How each reward is evaluated will be custom tailored for each venture. Be sure to use a quantifiable metric for measuring each of these dimensions. The following are sample strategic issues—your alliance will generate its own unique scorecard.

Market Impact
__ Penetrate into new market niches?
__ Expand market share?
__ Broaden product line?
__ Access best lines of distribution?
__ Respond faster to customer needs?
__ Raise customer satisfaction?
__ Increase sales closing rate/shorten sales cycle time?
__ Develop strong brand recognition?

Organizational Effectiveness (not necessarily measured in quantities of people)
__ Organize talent more efficiently?
__ Improve productivity?
__ Shorten product development cycle?
__ Lower absenteeism?
__ Broaden or deepen core competencies or knowledge?
__ Increase capacity to convert ideas into new products?
__ Provide faster/more accurate decision making?
__ Heighten levels of synergy between business units?
__ Improve commitment, teamwork, and vision?
__ Improve service delivery capacity?

Innovative Capacity (more than just technical)
__ Provide new or broader technical capacity?
__ Improve manufacturing processes?
__ Access financial innovations/continuous improvement?
__ Integrate systems for added value?

Competitive Advantage
__ Enable us to become "Best in Class" competitor?
__ Create new barriers to entry/exit?
__ Enlarge market to maximize production efficiencies?
__ Become better at every step in value chain?

Financial Return (more than simply "profit" or standard return on investment)
__Lower total cost of ownership
__Asset reduction/utilization efficiency
__Line or longevity extension
__Elimination of non–value add
__Leverage of current asset base
__Added value without added cost
__Risk mitigation/reduction
__Lower transaction costs
__Margin & Profit Improvement

Confidentiality

The analysis you have done is very valuable, and could be used against the enterprise if it falls into the hands of a competitor. Be sure to follow all guidelines for transfer of confidential material.

Partner Selection

Selection of the best partner should be based on that partner's filling in the missing pieces of our organization. We would not have a need for an ally if we had similar strengths and weaknesses.

WHAT IF you determined you had the…

- Right Partner
- Right Attitudes
- Right Strategies
- Right Culture

But insufficient...

- Skills
- Quality Control
- Alliance Experience, etc.?

Effective alliance partners often *contribute* missing elements.

Beginning Value Creating Negotiations

Once the business analysis, business strategy, and your company's strategic goals are clear, and the internal team is in concurrence with the analysis and goals, then it is time to begin negotiations with prospective partners.

PHASE FOUR: VALUE-CREATING NEGOTIATIONS

Alliance Framework

Overview

Phase 4 – Value Creating Negotiations, is the first test of the alliance, after the Owner has preliminarily awarded the contract to the Partnering Design and Construction team. It is at this stage the foundation of the alliance will be built – co-created – including the joint Value Proposition, the Operating Principles, the Target Cost, Commercial Terms, and Building a System of trust.

Trust is the essential foundation for any successful alliance. Without trust, interpersonal chemistry will collapse, no innovation will manifest, operational teams will fight, and any form of negotiations will end in bickering , ill will, and distress.

Trust will begin to be established by engaging in Value-Creating Negotiations, using a concept that is called "C*o-Creation*." Co-Creation marks a key departure from the typical head-to-head negotiations of traditional negotiating styles. Instead of behaving as adversaries, potential alliance partners work to understand each other's requirements and find approaches that will benefit both parties. The output of the Co-Creation phase is a memorandum of understanding that describes the broad goals and nature of the relationship.

In the Co-Creation phase, work is done primarily by a small Co-Creation team that is formed at the beginning of the phase. Co-Creation team members should have excellent communication and business

What's in a Word?

'Negotiations' conjures images of battling, bullying, bargaining, & blame; where 'the whole is never more than the sum of the parts;' where everything is a 'deal' composed of 'trans-actional exchanges;' where maneuvering and holding back are just part of 'the game.'

'Value Creation,' on the other hand, brings forth images of imagination, cooperation, free exchange of ideas, reciprocity, and fairness; where the 'whole much greater than the sum of the parts;' where is synergy is the result of trusted inter-action; where the 'difficult is made easy;' where trust, respect, and fair play compose the foundation for innovation.

skills, as well as skills in the business segments that are to be developed. If possible, the team should also include members who have been involved previously in other alliance or strategic relationships.

One member of each of the teams representing the Owner, Designer, and Contractor (and others where appropriate) must have decision making authority. This means that each organization must have as a key members of this team a senior person with the power to decide for his/her organization, and not constantly be referring back to someone not present for permission. Often this person is the CEO, or Executive Sponsor. In other cases it is the Alliance Champion. (Remember, these roles are often “double hated,” especially in smaller companies.)

The champion provides leadership, vision, and forward momentum to the process of co-creation. The champion is often a self-selected role and can represent any function. Ideally the champion is a key stakeholder of the alliance. Alliance managers and executive sponsors should be passionate advocates of the alliance.

Finally, it’s important to note that although co-creative negotiation is treated here as a separate phase of the strategic alliance process, it may actually overlap several other phases. From the initial meetings with a potential partner through the signing of a contract and ongoing operations, the two organizations should be working to understand each other’s needs and to find ways to combine their competencies to create new opportunities.

The activities that are included within the process steps of this phase are:

1. Establish Trusting Relations
2. Plan the Co-Creation approach.
3. Conduct joint exploration and design of the venture.
4. Create a memorandum of understanding and principles

Purpose

- Build a sustainable system of trust & foundation of innovation for the future
- Establish an effective negotiating team
- Prepare a negotiating strategy in order to achieve a win-win relationship
- Ensure that a compatible relationship exists between organizations
- Satisfy ourselves that the partner organization meets our due diligence
- Finalize a business document called the Alliance Agreement and Operating Principles (Rules of Engagement)

Goals

- Build a Relationship Between Key People
- Develop Agreement Between the Companies
- Begin examining the Target Cost Estimate and Commercial Risk Framework
- Determine Key Issues addressed during Operational Planning (next Phase)

Critical Success Factors

- Create a Win – Win -- Win Condition
- Align Expectations, Establish Operating Principles
- Know the chemistry and culture of each organization
- Create value through Co-Creative Negotiations
- Develop a team-building process

Expected Outcomes

- Select Champion and Assemble Negotiations Team
- Develop Negotiating Strategy Based on the Co-Creation Approach
- Create an working Alliance Agreement (to be refined in Phase 5 and formalized in Phase 6)

What the Experts Say...

… Don't let lawyers act as key negotiators.
Ultimately the venture's success lies not in the Legal agreements, but in the fundamental strategy and the success of day-to-day operations.

Phase 4: Value Creating Negotiations Process Steps

Step 4.1 Shift to Co-Creative Negotiations
- The Win-Win Strategy
- Cooperative Negotiations
- Co-Creative Negotiations

Step 4.2 Building the Integrated Team
- Role of the Champion & Executive Sponsors
- Key Participants – Operational & Commercial
- Support Roles

Step 4.3 Aligning Expectations
- Critical Points for Negotiations Agenda
- Vision & Value
- Collaboration & Innovation
- Clarification of Ambiguities & Uncertainties

Step 4.4 Foundations of Trust
- Operating Principles
- Rules of Engagement Boundaries
- Protocols for Interaction
- Consequences for Breach of Trust

Step 4.5 Creating Mutual Value
- Joint Value Proposition & Value For Money (VFM)
- Metrics of Winning for each Partner
- Innovations Required
- Joint Agreement on
    - Key Factors for Success,
    - Key Results Areas,
    - Mutual Metrics of Winning

Step 4.6 Target Cost/Time Estimate
- Scope, Specifications, Requirements, Time-Money Trade-offs
- Innovation Requirements
- Integration of Design and Delivery

Step 4.7 Commercial Terms & Risk/Reward Framework
- Comprehensive Due Diligence
- Pain Share/Gain Share Framework

Step 4.8 Draft Alliance Agreement
- Operating Principles
- Mutual Assurances
- Contractual Provisions
- Governance
- Business Plans

Phase Four: Value-Creating Negotiations

CRITERIA DESIGN **[Expanded Schematic Design] [RPL: Include in Phase 4]**

During Criteria Design, the project begins to take shape. Major options are evaluated, tested, and selected During Criteria Design, the project begins to take shape. [RPL: The Integrated Team addresses the questions of Who will be the best for project, and How will this project unfold to meet design criteria, cost, and schedule? [this coincides with Phase 4]

During this period, different options are evaluated and tested. In a project using Building Information Modeling, the model can be used to test "what if" scenarios and determine what the team will accomplish. During this phase, the following tasks will be accomplished:

1. **Design decisions are made on a "best for project" basis.**
2. **Visualization of building model is tied to cost model.**
3. **Scope is fixed, price is fixed, owner signs off on what will be built allowing the team to evolve and optimize the design.**
4. **Further develop preliminary schedule – schedule is better informed due to collaborative approach and commitments to schedule are more firm.**
5. **Earlier recognition of inadequate building performance, but assessing responsibility is more difficult because of the number of participants and overlap of roles.**
6. **Agreement is reached on tolerances between trades to enable prefabrication.**

IPD Criteria Design – Detailed List

Outcomes

- The following aspects of the project are finalized, allowing the team to proceed with confidence to the next level of detail:
  - Scope
  - Form, adjacencies and spatial relationships
  - Selection and initial design of major building systems (structure, skin, HVAC, etc.)
  - Cost estimate (at appropriate precision)
  - Schedule (at appropriate precision)
- Agreement is reached on tolerances between trades to enable prefabrication.

Primary Responsibilities

- Owner
  - Final arbiter, after consultation, regarding project goals and standards
  - Establish decision criteria to evaluate proposals with respect to current and future operations
  - Decisions based on available options
  - Facilitate site specific/user input and coordinate it with the team
  - Facilitate user group reviews and feedback to team regarding revisions
  - Reviews and approval of criteria documents
- Integrated Project Coordinator
  - Overall facilitation, coordination, organization and direction of the integrated team
  - Lead selection of integrated team members
  - Coordinate assignment of responsibilities, actions and completion requirements
  - Coordinate and track integrated team's performance
  - Coordination of overall project schedule
- Prime Designer
  - Integration of design input from all team members
  - Confirm user experience of building as it relates to project goals
  - Form, adjacencies and spatial relationships of the project
  - Coordinate selection of major building systems and performance requirements
  - Regulatory requirements for the building (i.e.: fire/life safety plan)
  - Sustainability targets and proposed systems
  - Outline or Performance Specification
  - Refinement of design schedule
- Design Consultants
  - Selecting major building systems and setting performance requirements
  - Locate major pieces of equipment and routing in the project
  - Identify unique conditions that need to be addressed in the next phase as the systems are being detailed
- Prime Constructor
  - Continuous cost feedback using information extracted from the model. At this phase many items may be conceptual, i.e., based on floor area or unit counts
  - Validation of target cost
  - Refinement of construction schedule
  - Constructability issues
  - Initial discussion of tolerances and prefabrication opportunities
- Trade Contractors
  - Validate target cost for applicable scope of work
  - Validate schedule for applicable scope of work
  - Provide input for tolerances, prefabrication opportunities
  - Assess compatibility with the design and work of other trades
- Suppliers
  - Validate target cost for specific items
  - Validate lead times for long-lead items
  - Provide input for tolerances, prefabrication opportunities
- Agencies
  - Permit application requirements and schedule
  - Validation of fire/life safety plan
  - Performance-based code analysis can begin using the BIM

Step 4.1 The Shift to Co-Creative Negotiations

[RPL: from AECOM Manual]

The Value Creating Negotiations Phase ~~Target Cost Estimate (TCE) phase~~ is the first real test of a new alliance! It typically follows a selection process where the Owner has had to make their choice of Partners ~~Non-Owner Participants (NOPs)~~ over a relatively short timeframe.

This Phase ~~chapter~~ will consider the typical ~~TCE phase~~ process and challenges the participant organisations and alliance face. Risks and opportunities will be examined, along with the importance of managing expectations. Finally, we ~~the chapter~~ will consider the required outputs of the Value Creating Negotiations ~~TCE~~ phase.

The Value Creating Negotiations Phase ~~Target Cost Estimate (TCE) phase~~ of the alliance is the initial period after award by the Owner. The Owner ~~Participant (OP)~~ and Partners ~~Non- Participants (NOPs)~~come together to develop the scope of the works to a level such that a rigorous estimate for implementation can be developed. This phase of the alliance may also be referred to as the project development phase or the interim ~~Project~~ Alliance Agreement (i~~P~~AA) phase.

Win-Win: Critical Point for Negotiations[11]

Negotiating an alliance is not like buying a house or a car. It is more like arranging a marriage. It is far more important to determine if "1+1≥3" than to "squeeze the last concessions" out of an opponent.

Your objective is to create a "win-win" condition, not a "win-lose." You are trying jointly to create as much value as possible, and not to extract as much value as possible. Remember, you will have to rely upon your alliance partners when problems occur. Make sure your alliance partner is with you, and not anxious to regain the advantages they perceived were lost in original negotiations. Win-Win results from having enough sales to satisfy both alliance partners' revenue needs.

What's vital to understand is that alliance negotiations does *not* embrace bargaining, a multitude of compromises, or strong-arm tactics. It's more like problem solving, collaborative innovation, or designing bold new futures.

Ultimate Goals

Above all else, the most important aspect of the negotiations process is to determine if your company and the alliance candidate can achieve a mutual Win-Win arrangement to:

1. Develop and then attain a powerful Value Proposition for the Customer/Owner;
2. Determine if there is proper strategic synergy; and

[11] Portions of this section have been excerpted from Robert Porter Lynch, pp. 110–39

3. Ensure that the Alliance Scorecard enables each alliance partner to attain its own objectives.

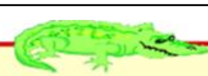
There can be no reasonable chance for a successful alliance, if these factors cannot be determined satisfactorily.

Complete Negotiations

Techniques used during negotiations to create the win-win include:

- Brainstorm options
- Treat deal elements as potential trade-offs
- Set performance measures
- Set non-performance consequences
- Consider using a third-party facilitator that both parties trust
- Use one, iterative agreement document
- Know when to call a time-out to caucus
- Take extensive and detailed notes
- Summarize repeatedly and listen for understanding
- Remember that patience and persistence are vital
- Keep initial agreements short.

As in any relationship, you must communicate, listen, give feedback, and probe. Assumptions and claims should build trust and be consistent, and you should be able to deliver on commitments. The people involved should show respect, as well as command respect. Always attack the issues, not the person.



~Trap~

Deadly Negotiations Sins

Of the Deals That Fail...
Executives lament that during negotiations, time was allocated to:

50% on legal and tax work;

30% on selecting products to produce, market or develop;

20% on strategic issues;

0% on operations planning;

0% on building trust and teamwork;

0% on management and personnel selection;

0% on developing a strong team;

0% on practical decision-making procedures; and

0% on maintaining good communications.

To avoid these problems, allocate time during negotiations for these discussions, and designate key team members to take individual responsibility for each of these factors.

Thoughts on Cocreative Synergistic Negotiations

The idea of Co-Creative Negotiations implies that there will be a commitment to an alliance between the negotiating parties. The alliance implies that each will be committed to serving the best interests of the other, hence there will be a synergistic relationship between the two, where the whole is far more functional and valuable than the sum of the parts.

Traditional Responses

- Blaming and defending
- I'm right, you're wrong
- You're different, therefore bad
- Diversity is scorned
- Emphasis on importance of knowledge and having the right answer
- Constant evaluation of right and wrong
- Desire for predictability and control

Synergistic Responses

- Turn breakdowns into breakthroughs
- Ask "what's possible?"
- Can we use differences to:
  - generate new paradigms?
  - turn diversity into unity?
- Emphasis on importance of creativity and asking the fundamental questions
- Ask "what's missing?"
- Desire for flexibility and coordination

Far Beyond Win-Win

These thoughts on synergistic negotiations are represented graphically in Figure 3.6a. The graph depicts a spectrum of differing relationships, and the negotiating styles required to address them (based on the Four4-Drive Behavioral Model, p. 000).

Figure 3.6a: Range of Negotiations Based on the Four Drives

1. **Cooperative Negotiations:** Designed to achieve a win-win relationship. This is appropriate for alliances that are based on achieving a set of goals that are in the best interests of the alliance partners. If, however, there is substantial innovation required, or the marketplace or technology is rapidly

changing, then opt for the fourth alternative.

It's based on each party's obtaining something it wants based on its own unique interests. It implies a fair exchange and reasonable give-and-take, but does not imply that a large amount of trust or innovation is necessary in the future. This approach may be effective in a project-oriented relationship that would be for a defined time period, and to be successful it requires good cooperation, competitive pricing, good quality, and a high level of competency on the part of the parties. This approach may evolve into something more impactful, but is just as likely to devolve into something less effective.

Co-Creative or Synergistic Negotiations: As we move farther toward the upper right quadrant on the graph, we enter the strategic alliance approach to interactivity. It is in this area that we see the need for a more strategic relationship with high levels of trust and innovation—a relationship that is destined to be longer lasting and requires the alignment of strategic goals and objectives.

It is also in this type of relationship where we may become dependent upon our partner's willingness to invest in its competency to ensure longer-term success for the alliance. Figure 3.3b shows the perspectives we will need to apply as we shift our focus to a Co-Creative relationship. They are based on high trust and designed to engage in innovative "creationships" that will enable the alliance to achieve high levels of performance and adapt to rapidly changing environments.

Comparing the Models *Best Practice*

Combative Negotiations

Positioning Forces

- **Key Beliefs**
  - Negotiations is a "Psychological War Game"
  - The Other Side is the Enemy or Opponent
  - They are out to "squeeze" you, so be prepared to squeeze back
  - "Take No Prisoners" techniques let you "Move in for the Kill"
  - Win by Defeating the Enemy
- **Assumptions & Rules of the Game**
  - Pressure the other side
  - Winning is a result of Cunning & Craftiness
  - Push Very Hard
  - Force them to Reveal their Position
  - Psychological Manipulation
  - Use Ploys, Scheming & Maneuvering
  - Hyping the Sale

Collaborative Negotiations

Balancing Forces

- **Key Beliefs**
  - Negotiations can be a Difficult Game
  - Fighting will get you less in the long run
  - Create an Environment of Cooperation where fairness and an equitable balance of power will lead to a reasonable solution
  - Focus on Interests and Needs, not Position, Control, and Competition
  - Win - Win is Essential
- **Assumptions & Rules of the Game**
  - Negotiations is Integral to all Working Relationships
  - Winning is a result of Expanding the Zones of Possible Agreement
  - Find out what the other side Needs
  - Forcing Positions & Rigidity creates Long Term Problems
  - Seek reasonable ground that meets both party's needs
  - Balance Emotions with Reason
  - Educate, Don't Escalate, Build Trust & Honesty

Co-Creative Negotiations

Aligning Forces

- **Key Beliefs**
  - Win-Win is Just a Starting Point
  - Synergy is the Process of Co-Creation of a 1+1>3 Paradigm
  - Extreme Value in Generated when two parties Push the Envelope on the Design of a New Future
  - Focus on Super-Ordinate Vision, while satisfying short term Interests and Needs
  - Break-Downs & Conflict are Opportunities for Breakthroughs
- **Assumptions & Rules of the Game**
  - Purpose of Negotiations is to Design Synergistic Future
  - Change is Inevitable , Making Fluid, Flexible Agreements Essential
  - Winning is a Multi-Dimensional Value Proposition with Strategic & Tactical Elements
  - Trust is Essential to Flexibility, Creativity, and Long Term Success

Negotiation Tips

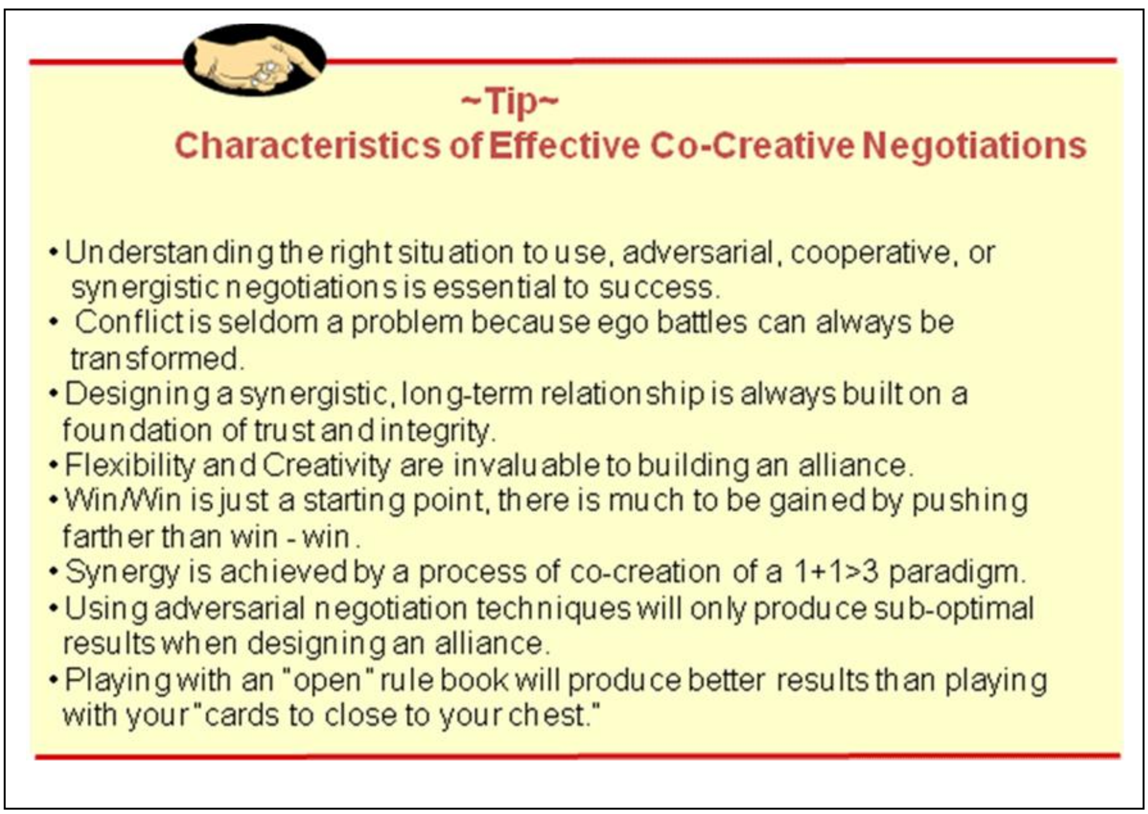
1. Start Negotiations with Strategic Alignment
   (this determines the basics of strategic fit)
   - Shared Strategic Vision:
     - Start with the value migration process outlined in Phase One.
     - Determine your shared strategic vision about where markets, technologies, and competitors are going to be in the future.
     - If, together, you can't create a clear and aligned strategic vision for the future, the alliance is already on very shaky ground.
2. What comes next? Trust Alignment
   (this determines the basics of chemistry fit)
   - Rules of Engagement:
     - Expectations clarified, aligned, verbalized, and made measurable
     - Commitment to a win-win
     - Boundaries and firewalls that must be respected
   - Operating Principles (see Figure 000):
     - By generating operating principles together, the potential alliance sets forth the foundation of its means of maintaining trust during the negotiations. This will begin determining the culture of the alliance from the outset.
3. Then you are ready to get into the more detailed issues of operational fit, governance, etc.
4. If lawyers are present at the negotiations, remember:
   - They seldom have any skin in the game.
   - Their number-one objective is to protect their client. This means they will be strong on the drive to Defend, but not necessarily on their drives to Bond and Create.
   - Be sure to get the strategic vision, value proposition, and Operating Principles done before trying to establish governance, structure any arrangement, or frame any legal issues (other than standard nondisclosure agreements).

Great Negotiators

Ultimately great negotiators are characterized

- Not by:
    - their techniques,
    - nor by their hard-nosed toughness,
- But rather by:
    - integrity and ability to build trust
    - breadth of interpersonal capabilities and business knowledge
    - depth of discovery/inquiry, listening and understanding
    - anticipation of needs and unarticulated fears
    - flexibility and creativity
    - insight into human dynamics and the Four Drives of behavior

Across a broad range of strategies and situations, conflict is seldom the problem. Rather, it is our reaction to fear and control that's usually the real problem.



Step 4.2 Building the Integrated Team

Alliance establishment

Human nature is such that first impressions have a big influence on perceptions of how successful a new venture will be. The early period of an alliance is no different and attention is required during its establishment to increase the potential for success.

Typical activities that are undertaken during establishment are:

- determine the organisation structure for the alliance and finalise membership of the Alliance Leadership Team (ALT), Alliance Management Team (AMT) and/or Systems Integrator(SI), including appointment of the Alliance Manager (AM), and Wider Project Team (WPT) for the Value Creating Negotiations and Operational Planning Phases ~~Target Cost Estimate (TCE) phase~~
- establish clear goals and accountabilities at all levels, that is, ALT, AM, SI, AMT and WPT
- prepare alliance policies, systems, procedures and management plans – a critical activity to avoid rework and wasted effort
- set up the integrated alliance team and office that includes staff from all participants (including the Owner)
- develop and commit to an alliance charter or some other set of agreed principles for working in the alliance.

Structure, accountabilities and systems

At the start of the Target Cost Estimate (TCE) phase the Alliance Leadership Team (ALT) will appoint the Alliance Manager (AM) and request an interim organisation structure be prepared for this phase for approval. Given that the focus during this phase and the following phase is on design development and cost estimation, the structure for the alliance will quite often be different to that used to deliver the project following approval. ~~of the TCE.~~

The ALT and AM/SI must recognise these differences and ensure that the Alliance Management Team (AMT) and/or the Systems Integration Team is appropriately staffed to deliver the needs of this phase. A typical inclusion in the AMT for this phase is a ~~TCE or Target Outturn Cost (TOC)~~ manager who comes from an estimating background. They will have the responsibility to drive the inputs that are required to deliver the most robust cost estimate possible.

Many of the team nominated for the key leadership positions (ALT, AM and AMT/SI) will have been involved in the selection process and will be generally aware of their accountabilities in the alliance. However, this will not be the case for those assuming leadership positions from the Owner's organisation. It is essential therefore that the alliance, led by the AM, invests the time up front to establish clear accountabilities for all.

At this early stage of the alliance the team must not solely dive into delivery of the technical requirements of the works. Instead, they must spend the required time to develop the necessary systems, management plans and procedures that will ultimately form the blue print for how the alliance will do business. Defining client interface requirements for information transfer within an electronic document management system, and commissioning and training needs for the information technology (IT) system are also essential early activities. This investment supports the need to manage the inherent conflict in short term interests that can arise due to the broad range of activities that need to be delivered. Delaying the technical works can be unpalatable for many and hence the leadership team should seriously consider how quickly team members come into the alliance to begin the works. The best approach is often to run the operational, technical, commercial, and support development simultaneously (in parallel) to ensure rapid creation of interrelated plans. This is often the role of the Systems Integrator.

Every alliance team is a new entity so it is important to resolve how IT and systems will be installed and managed as early as possible. This includes resolution of whether the alliance will own the IT (hardware and software) or whether member companies will purchase it and lease back, who will provide the main IT infrastructure and what will be the onsite IT requirements.

IT issues that will normally appear in establishment of an alliance (and therefore which need to be well managed early) include:

- difficulty with access to home office intranets for employees working in an alliance
- managing expectations of infrastructure provision and ongoing support of all participants, including the participants' IT departments availability of infrastructure
- demand for flexibility in the alliance versus the often inflexible corporate policies and procedures of the individual participants timely delivery that matches the arrival of alliance personnel.

One of the keys to managing all these expectations and issues is quality of the working relationships that are built between the participants' IT departments and onsite support personnel.

Early co-location of the team is extremely important to maximise the potential to achieve early integration. This can be challenging as project offices can take time to identify and fit out in preparation for the team. If the team is not able to co-locate at commencement of this phase, then extra effort is required to build relationships and trust once the project office is established.

Case note 27

The importance of a separate integrated project office

Project: Southern Link Upgrade Alliance
Owner: Transurban Ltd
Non-owners: Abigroup, AECOM
Value: $106m
Duration: 2006 to 2009

The Southern Link Upgrade forms part of the larger Monash-CityLink-West Gate Upgrade in Melbourne. The project is primarily intended to increase traffic capacity and improve safety on the freeway corridor. It generally involves adding a traffic lane to the inbound and outbound carriageway along 5 km of the CityLink tollway, from the tunnel portals to the CityLink boundary just east of Glenferrie Road. It also includes development and construction of a freeway management system involving lane management and ramp metering.

Key lesson:

The alliance team was co-located into space made available in the designer's office during the Target Cost Estimate (TCE) phase. Although together in one area, great difficulty was experienced in achieving true integration of the team because the team was unable to develop a true identity of its own. As a result, the team struggled to achieve its full potential during this period.

Ideally, a **separate** project office for the alliance team should be established as soon as possible. This allows the team to achieve its own identity without over-riding influences of any of the participant organisations.

Developing the alliance DNA

A Value-Creating Target Cost Estimate (TCE) foundation or launch workshop is typically run once the Alliance Leadership Team (ALT), Alliance Manager (AM) and Alliance Management Team

(AMT) are in place. The workshop has the key objectives of developing a shared understanding of the scope of the alliance and progress made by the Owner, and beginning the process of integrating a team of individuals from a diverse range of organisations and backgrounds. The foundation workshop usually includes:

- update on the current status of the project
- alignment on the roles, responsibilities and expectations of the ALT, AM and AMT
- discussion on how the TCE phase fits into the overall project
- review of the commercial framework, including the gain share/pain share regime – it is very important to again consider whether there are any elements of the framework that will drive perverse behaviours
- discussion on how to incorporate the Key Result Areas (KRAs) into the TCE – what are the Owner's Minimum Conditions Of Satisfaction (MCOS) or their minimum expectations and how should these be costed
- alignment on the overall TCE phase plan and timeline
- agreement on what deliverables would constitute a successful TCE phase
- conversations to strengthen relationships and commitments to deliver the outcomes expected of a highly successful TCE phase
- discussion on what constitutes high performance
- alignment on the operating principles to support collaboration across the ALT and AMT.

The activities undertaken in the foundation workshop are designed to help internalise total project Ownership amongst the team. It is very much about investing the time to have the right conversations at the start of the process and to avoid background conversations inhibiting early success.

This early phase is traditionally a golden opportunity for those in leadership positions to establish their presence in the alliance. Creating a 'culture' for an alliance is a significant challenge as was highlighted in Part D, Chapter 2. The early behaviours exhibited by the leadership team will clearly support the foundation discussions required to bring all of the individuals and organisations together into a powerful integrated team.

Distinguishing Between Alliance Champions and Alliance Managers

Champions tend to be Pioneers and Visionaries
Champions like to make things happen
Champions tend to be intuitive, highly passionate, empathetic, and emotional
Champions like to Create and Break New Ground
Champions entails spirit, courage, vision, drive, enthusiasm, imagination, inspiration, selling, breaking through barriers, overcoming obstacles, creation of something new and worthy of time and effort

Managers are Institution Builders and Risk Mitigators
Managers follow-through to continue to make things happen
Managers tend to be more logical and analytical
Managers are problem solvers and organizers
Management involves communications, planning, delegating, controlling, coordinating, problem solving, marketing, loyalty, choosing between alternatives, maintaining relationships, clarifying lines of responsibility

Optimally, the two functions are incorporated into the alliance

Assembling the Negotiation Team

Why a Negotiation Team?

There are several excellent reasons for using a negotiation team over the sole deal maker approach. The involvement of a negotiation team:

- Slows the process down to make sure all the details, contingencies, and opportunities are thought through.
- Enables middle managers to get involved, ensuring better operational integration.
- Does not commit either company too early to something it may regret later or cannot adhere to in reality.
- Provides an opportunity to gain full understanding and commitment among all those who will have to be involved in structuring and operating the alliance.
- Provides opportunities for experts within the organization to examine the alliance and determine if it makes sense from a multitude of perspectives.
- Builds the foundation for future teamwork.
- Allows the multidimensional aspects of the alliance to be viewed by internal experts for evaluation and commitment.

The most essential people on the Negotiations team will be the Alliance Champions from each of the companies. This is the leader who is advocating the alliance and willing to spearhead the initiative.

In the event the Champion is not senior enough to have executive decision making authority, then the Executive Sponsor with that authority should be on the team. The other will be the individual designated as the Alliance Manager(s) or Systems Integrator who will be handling the day-to-day responsibilities and operations of the alliance. Very early in the negotiating process, be sure the Alliance Manager is agreed upon by both sides. Failure to designate such individuals early on and not including them in the negotiations will invariably result in their not knowing the intent of many of the negotiation team's decisions. As future Alliance Managers they will at best be terribly disadvantaged, and more likely be uninformed, uncommitted, and unenthused.

Operational and Commercial Responsibilities

The core of the negotiation team should be both those experienced in operations and those in commercial terms, as both will be vital to the finalization of the Alliance Agreement.

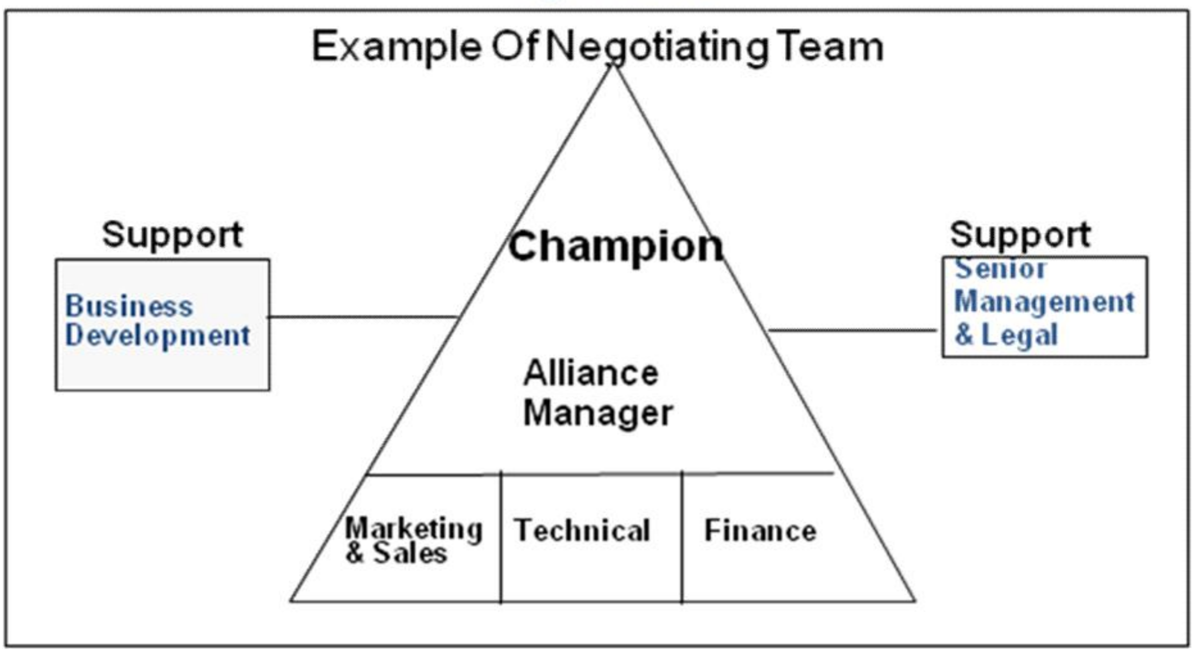
They both must “own” their creations and be committed to it so strongly that they are willing to see it through birth, adolescence, and maturity—unlike in the mergers and acquisition negotiation process, which separates the deal makers from those in the trenches.

The operations team comprises individuals who represent all of the construction-oriented functions that will be necessary to implement and maintain the alliance relationship. Since the core players on the negotiation team will continue on as the operations team, they are using the negotiation process as the first step in developing their personal linkages that will help to make future functioning effective.

Executive Support and Mapping

Do not forget to include in the negotiation team the key operational managers (Figure 0003.4a) who will be responsible for implementing contractual decisions, because their early commitment will be essential later. These operational managers will be a good barometer of whether the right chemistry exists below the CEO level.

Figure 3. 4a



In addition to a champion, all alliances need top-rank support. This requires an important investment of senior management time. Management sets the general tone for cooperation, and middle managers will look to senior management to determine if the alliance is really critical for their career paths. Unless senior management is willing to see the alliance as a fundamental part of their strategy, the alliance will struggle.

Just as an alliance is best served by active dialogue between stakeholder groups across both partners, the positive outcome of an alliance negotiation is also best served by creating similar connective tissue between key executives—even before the alliance is executed.

Foremost is the notion that a negotiation is the end of a process, not the beginning—as noted elsewhere in this section, you are endeavoring to build a flexible and enduring framework for a relationship of trust that will serve the needs of two or more parties over time, and it is very important for your respective executives, line-of-business leaders, and relevant department heads to build a collective vision for the purpose, goals, and methods of the alliance *before* pen is put to paper to codify the relationship.

When this approach is used, a second benefit also accrues. Not only does the contract fairly reflect the true interests of the alliance and its constituents, but those constituents are now fully aware of the nature and underpinnings of the agreement—and they feel personal ownership of and responsibility for the success of the alliance.

The executives to be connected across companies will vary with industry and company size. For example, in a typical large-company alliance in the IT industry, connections should be created between CEOs or their direct reports (to establish the joint vision), sales and/or channel leaders (to establish the commercial objectives and sales operational methods), product teams (to create the joint road map as appropriate), the product/service delivery teams (to trace the complete path from sale to customer success), marketing (to formulate joint positioning, messaging, and demand generation strategies and related funding expectations), and finance (to address differences in financial operating methods and revenue recognition principles).

Other industries will follow different models, but all amount to the same thing: ensuring that there is clear consensus and support for a joint mission from the top, and that the operational components of the relationship are well understood and anticipated in the resulting contract. Drafting language and negotiating to a final agreement should then be a straightforward matter of capturing this consensus view on paper, and negotiators will have the wind at their backs as all parties will already be deeply invested in the joint vision of the alliance and will be more flexible in finding common ground in order to reach agreement.

Of course, there will remain the perennial issues of negotiating limitations of liability, allowances for breach and default, nondisclosure agreements, and other typical elements that reflect purely legal rather than business issues—but these are areas where your legal team likely shines..

Legal Support

Do not let lawyers act as the key negotiators; this is the role of the alliance champions. However, lawyers should be involved in advising. Excessive legal documents typically result from ill-conceived back-of-the-envelope-style business terms, where a piece of paper is given to the corporate lawyer with vague instructions about converting it into a legally sound agreement.

Because of their expertise, lawyers' most valuable contribution and role is to protect their clients against unreasonable risks.

The legal department is not the first step in the process, but engaged as is appropriate to their required involvement; they are best used to craft mutually acceptable language to reflect a relationship that your cross-company teams have already defined. Certain addendum to the Alliance Agreement will be legal contracts, which only the legal department can sign-off.

What Frustrates Lawyers and Alliance Professionals

However, when presented with a vague idea of what the alliance is all about, instead of asking strategic and operational questions which are really needed to fill the void, the lawyer may be forced to plug the many glaring gaps with a vast amount of legal preconditions.

The partner will often see this as a sign of distrust. Some alliances have never gotten beyond the negotiations stage because lawyers began asking the difficult questions about the real risks and how those risks would be minimized. True, overly zealous or very conservative lawyers may occasionally "protect" their clients right out of an alliance, but more often than not, the probing analysis of a good legal counsel has saved an idealist from a poorly conceived venture.

~TIP~

Middle Management Support

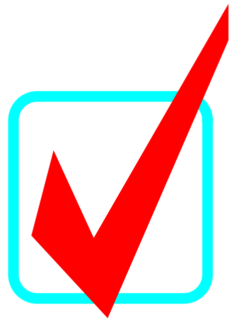
A cooperative venture will never work unless you have the support of Middle Management.

Any Senior Executive who closes a deal with a ceremonial handshake, then turns everything over to a manager who commences operations "playing it by ear," will soon meet disappointment or failure.

~TIP~

Good Management Begins at the Strategy Stage

Once operational, and presuming a reasonable strategic "fit," alliances succeed because of the quality of their management, not the quality of the legal agreements. Begin the alliance on the right foot to start -- make alliance management an integral part of designing the alliance strategy.



Checklist 4.2a

Champions and Negotiators

___ 1. Champions identified and committed.

___ 2. Negotiating team assembled and qualified.

___ 3. Negotiating team trained.

___ 4. Executive support ensured.

Task 4.1b

The Alliance Management Team

(Negotiation Team)

- Alliance Champion: ________________________________
- Services Manager: ________________________________
- Finance and Planning Manager: _______________________
- Business Unit Executive: ____________________________
- Members of Business Unit (possible): ___________________
- Technology Support Team: ___________________________
- Legal (involved when required): ________________________
- Strategic Alliance Manager: ___________________________
- Business Development Manager: ______________________

Note: *The core alliance negotiation team may include the above roles plus other key members who can make significant contributions.*

Step 4.3 Aligning Expectations

Alliances are about alignments; aligning expectations is an essential aspect of the beginnings of an alliance, because a small misalignment at the early stages becomes amplified are over time and distance.

Critical Points for Negotiations Agenda

Construct a Joint Agenda, including (such as)

- Expectations the Owner and Partners have of each other, and of themselves.
- Expected Time Line
- Key issues for the this phase
- Reasons for Selection
- Critical Factors for Future Success in this alliance
- What a 'Triple Win' really means
- The essence of Teamwork and Trust
- Expectations for the period after the project is complete
- What is required during Target Costing
- What the Draft (interim) Alliance Agreement might look like
- Roles of key people who are not in the room
- Etc. etc.

Vision & Value

Jointly develop a Vision/Mission Statement that clarifies what this project or program is in the minds of those who will be creating its future.

Then develop a Value Proposition for the Owner that all other members of the alliance can adhere to. (See Phase 1 for details on Value Propositions)

Finally, address the Value For Money equation. Clarify exactly what value means in terms of cost, time, quality, speed, functionality, etc.

Collaboration & Innovation

Outline the level and quality of collaboration that is expected among the partners. What does collaboration look like? What is expected among the partners?

How will that collaboration create innovation? What innovations are expected? Who will benefit from the innovations? What will be required to sustain the innovation effort?

Clarification of Ambiguities & Uncertainties

The larger, longer, and more complex the project the greater the number and type of ambiguities and uncertainties.

Identify Ambiguities and attempt to shed light on them, clarify them, break them down into component parts, and link them to causative factors.

Identify Uncertainties and connect them (if possible) to probabilities, timelines, key individuals who can influence the uncertainty, and alternatives that would lessen its impact.

~TIP~

Link Operational Managers to the Negotiation Team

In orchestrating the highly successful Dupont-Merck joint venture, the alliance champions ensured that core people from the negotiations carried over into the implementation, because only they knew the real intent of the agreement beyond the words of the legal agreement.

~Tip~

Train your negotiating team in alliance strategy and management, as well as in handling confidential material, before commencing negotiations.

Step 4.4 Foundations of Trust

Chemistry

Earlier the issue of chemistry was discussed as a key ingredient of the alliance. It's not intangible; it manifests when the human drives to *Bond* and to *Create* merge and "creationships" are formed (See Phase 2 for more detail on the human behavior drives). During negotiations and operational planning phases (discussed later in Phase 5) the chemistry of 'creationships' becomes paramount. You would have done a preliminary assessment of chemistry during Phase Three (Bidding and Selection), but it is only when you begin to work closely with your partner that you will truly have a good grasp of the chemistry of the relationship. Remember, negotiation is not a one-time event in the alliance—it happens every day, both with your alliance partner and inside your base of support in your own organization.

Chemistry has seldom been given its due as an important component in the architecture and processes of alliance formation and management. As we shall see, chemistry underpins the *human* side of alliance enterprise. Chemistry defines and describes the quality of the relationships between the people in the alliance. It is one of the three essential "fits"; take it away and the structure of the alliance will collapse. It's part of the "glue" that holds the two partners together.

Without chemistry, the energy, vitality, and trust of the alliance will be missing, and no matter how good the strategy or operations, the venture will fail. Chemistry is the psychological contract: the energy, the vision, the trust, and the commitment. It is far more important than the written legal contract.

Like the legs of a three-legged stool, there are three critical elements that will ultimately result in trust and therefore chemistry between organizations: teamwork, action values, and commitment. These three drive predictability, upon which trust and chemistry rely.

Figure 3.5a Predictability

Teamwork

Can the prospective partner work well with our company? The first question to ask relates to the company's own internal teamwork. (Recall Phase 2 – if the collaborative culture is not present in the partner's culture, it's nearly impossible to create it 'on the fly' while building an alliance.)

If dissension is high between departments, if edict is the principal means of leadership and control, then teamwork is probably lacking. A company that has poor internal communications and coordination is likely unable to maintain the level of external teamwork necessary for an excellent alliance. During the due diligence process, be sure to check this dimension. Also, a company with high personnel turnover rates at the middle levels will make it difficult to build the operational relationships necessary to maintain trust over the long term.

Action Values

Action Values demonstrate whether the corporate culture's deeds are in harmony with its words. Can it "walk the talk"? Organizational schizophrenia is a common malady in companies that espouse one set of values while acting in other, often contradictory ways.

Values make up the essence of a company's inner core. If values are nonexistent, vague, incoherent, or not congruent with actions, there simply can be no trust, and therefore no chemistry. After all, how can anyone trust something that is ambiguous or contradictory?

Successful people make up successful alliances. Their personal value structure is their inner core, their personal driving force, and it reflected in their actions.

Commitment

Commitment is the measure of desire, motivation, and integrity to honor promises and intentions. Without it, there can be no trust. The commitments of the CEO and the alliance champion are the most important to recognize here. Strong commitment also ensures that the alliance will be properly resourced and receive management attention to succeed. Commitment from the top is especially important when alliances falter. They will require the support of senior management organizationally to enable the operational

Commitment is what transforms a promise into reality.
******
It is the words that speak boldly of your intentions.
And the actions which speak louder than the words.
******
It is making the time when there is none.
Coming through time after time after time, year after year after year.
******
Commitment is the stuff character is made of;
the power to change the face of things.
******
It is the daily triumph of integrity over skepticism,
of vision over fear.
******
Courage is being committed to something larger than your fears.

teams to effect course corrections or transform the alliance into a more successful model.

Chemistry, like mortar between bricks, fills gaps between imperfect strategic and operational fits and helps keep the partners glued together when the alliance is under stress. If for whatever reason the alliance strategy fails the acid test of reality, or the operational plans show themselves to be faulty, it is then the chemistry factor that must be called upon to rebuild, reorient, restructure, and transform the alliance. One can count on markets changing, technology becoming obsolete, development processes being superseded, political forces intervening, and any number of unexpected occurrences interfering with the alliance. Without excellent chemistry, no amount of strategic planning or crisis management can substitute.

Creating Operating Principles[12]

It's essential for alliance managers to co-develop a set of operating principles that translate values such as trustworthiness into guides for their moment-to-moment interactions. These Operating Principles need not be long or legalistic; they serve as a "social contract" that respects and honors what each person and function brings to the whole. They represent the spirit of their agreement to work together. Operating Principles provide direction, maintain a unified focus, and enable people's interactions to be creative, bending and flexing when faced with adversity.

Why Operating Principles Are Important

While values are important in the design of a trust system, as we've stated earlier, they tend to be heady and philosophical, and thus esoteric from a practical perspective. What's more useful is to have the values brought down to earth by letting work teams and alliances develop their own day-to-day operating principles.

Legal contracts are the traditional way organizations attempt to regulate personal behavior. It's not very effective—just read a contract and ask yourself if it changes your attitude, or your respect for your counterpart, or your willingness to generate new ideas. Moreover, contracts are fixed in time, and thus not very adaptable to changes in operating environments. Most contract lawyers, seeking to protect their clients, will insert clauses that hold their client harmless from risks, and in the process often create distrust.

Legal contracts are best suited for establishing deliverables, and setting boundaries on what *not* to do, but they are ill suited to provide guidance on what *to do*, especially in the area of propagating trust. Moreover, contract law is typically based on adversarial enforcement and becomes a weapon that

[12] Portions of this section have been excerpted from Paul Lawrence and Robert Porter Lynch, The Structure of Leadership, European Business Review, May-June 2011

usually creates even more distrust.

Operating Principles, on the other hand, serve as a covenant or charter, transcending the contract in breadth of vision, time, and hierarchy of importance. Operating Principles set the “spirit of intent” of the relationship, becoming the foundation of the team’s or alliance’s culture of trust and cooperation. In addition, operating principles provide continuity across time, particularly bridging the transitions of new people into the relationship. These tend to embody values, ethics, performance standards, protocols, and hidden expectations which are now brought to light.

The Operating Principles should state how the founding leaders and operating teams envision the heartfelt relationship between the people whose futures will flourish because of the creativity and energy that flows between them.

A good set of Operating Principles should be concise, articulate, and soulful, embodying the intent of collaborative innovation that transcends any business relationship. This will ensure that each person and group must adhere to a set of standards aimed at honoring differentials between people, unity of vision, coordination of effort, achievement of breakthroughs, personal integrity, and a commitment to drive the shared vision into reality.

For example, when Procter & Gamble decided to outsource its Information Technology System to Hewlett-Packard, lawyers drafted a legal contract 1600

ALLIANCE OPERATING PRINCIPLES

IT Outsourcing: Procter & Gamble and HP

We Behave as Leaders of an Extraordinary Alliance:

- **Operate as One**
- **Serve P&G’s Global Business Units and Corporate Functions**
- **Look and Strive for Win-Win**
- **Plan Jointly**
- **Provide Visibility to make effective business decisions**
- **Deliver on our Commitments**
- **Anticipate, Confront, Discuss and Resolve breakdowns quickly**
- **Default to Innovation First, before trade-offs**
- **Make Principle-Based decisions**
- **Treat all Employees as Valued Partners**
- **Communicate Openly, Often and Clearly**
- **Share Accountability, Risk and Reward**

Figure 5: Joint Operating Principles between HP & P&G

pages long that none of the operational managers wanted to read. It was adversarial, cumbersome, and doomed to create nothing but friction in the $3 billion arrangement. Fortunately, intelligent minds began to foresee the enormous difficulties that would emerge from a legalistic transaction-based relationship in a service contract that was so strategic to both parties.

In a joint workshop that transformed the relationship from a vendor approach to a strategic alliance, the parties put together a very simple set of operating principles (see Figure 5). This serves as the foundation of their daily interactions. For all intents and purposes, the legal agreement, now aged and obsolete, sits in some filing cabinet, supplanted by this more nimble and flexible, principle-based agreement.

[RPL: From AIA IPD Manual]

IPD ESSENTIAL PRINCIPLES

Integrated Project Delivery is built on collaboration. As a result, it can only be successful if the participants share and apply common values and goals.

In its ideal state, the Integrated Project embodies, in varying proportion, many of the following attributes.

1 Mutual respect: In an integrated project, owner, architect, consultants, contractor, subcontractors and suppliers understand the value of collaboration and are committed to working as a team in the best interests of the project. To harness the collective capabilities of the integrated team, all key participants should be involved as early as possible with multiple disciplines and interests represented. Roles are not restrictively defined, but assigned on a "best person" basis.

2 Mutual Benefit: All members will benefit from integrated project delivery. Because the integrated process assumes early involvement by more parties, the compensation structure must recognize and reward early involvement. Compensation should be based on the valued added by an organization and risk should be equitably allocated. Integrated projects will use innovative business models to support, rather than discourage, collaboration and efficiency.

3 Early Goal Definition: Project goals are developed early and agreed upon by all participants. Insight of each participant is valued in a culture that promotes and drives innovation and outstanding performance. True value engineering is obtained by collaborative focus on the project goals, including system performance throughout the facility lifecycle.

4 Enhanced Communication: Focus on team performance is based on communication amoung all participants that is open, straight and honest. Responsibilities are clearly defined in a no-blame culture leading to identification and resolution of problems, not determination of liability.

5 Clearly Defined Open Standards: Open and interoperable data exchanges based on a disciplined and transparent data structure is essential to support integrated project delivery. Enhanced communications between all participants is made possible with open standards. All technologies used on an integrated project should use open standards to eliminate the costly practice of integrating every application (and version) with every other application (and version). Interoperability exists on the human level through transparent business exchanges, supporting these exchanges with open standards completes the goals of integrated project delivery.

6 Appropriate Technology: Integrated projects will often rely on cutting edge technologies. Technologies should be specified at project initiation, to maximize functionality, generality and interoperability.

7 High Performance: Integrated projects will lead to optimized design solutions, higher performance buildings, and sustainable design.

8 Leadership: Although each participant is committed to achieving project goals, leadership should be taken by the person or organization most capable with regard to specific work and services. Often, the design professionals and contractors

IPD BUSINESS MODELS

Although Integrated projects can proceed using various business models, some approaches are better suited to an integrated project, than others.

The benefits of integrated practice are built on early collaboration between designers, contractors and fabricators.

Under Design-Bid-Build key participants can not be identified until bids are received – far too late to meaningfully participate in developing the integrated design.

For this reason, traditional Design-Bid-Build is inconsistent with an integrated approach and can not achieve the efficiency and performance benefits of an integrated process.

Thus, integrated project delivery projects are best suited to business models that:

1. Promote early involvement of key participants.
2. Equitably balance risk and reward.
3. Have compensation structures that reward "best for project" behavior, such as "open book" or incentives tied to achievement of project goals.
4. Clearly define responsibilities without chilling open communication and risk taking.
5. Implement management and control structures built around team decision making with facilitation, as appropriate.

Rules of Engagement

The Critical Importance of Trust in Coopetition

In many Alliance Based Construction arrangements, several companies who have been competitors may become alliance partners.

Because of the competitive dynamics constantly at work in the background of coopetition, building and maintaining trust in a coopetition alliance will be one of the major factors making the difference between success and failure. For this reason, those partners that are highly ethical and honorable have a far greater likelihood of success than those who stretch the rules. (Dishonorable companies make horrible coopetors.)

Honorable Competition means:

- No Disparaging Words
- No Price Wars
- Disclosure Where Appropriate
- Interact Fairly and Honestly

Focus on shared goals rather than on the personalized goals of each of the prospective partners. When you demonstrate that you are aligned to accomplish shared goals and objectives, you will develop critical alignment and build trust. Realistically each organization has internal metrics that need to be met which may on the surface seem unaligned to the alliance goals. In order to collaborate on what may appear to be unrelated goals you need to understand what those metrics are and how and why those may benefit the alliance in the long run (see Phase 3).

By first focusing on the shared objectives, and using the above suggestions for building trust, you will be able to openly discuss how to achieve unique corporate goals. Focusing on *interests*—as opposed to *positions*—will be important in finding creative ways of satisfying everyone's objectives.

When highly competitive companies, or companies that have had a history of being uncooperative, form an alliance, in addition to the Operating Principles, they also develop a set of “Rules of Engagement” to help them live in a world of trust and teamwork.

The Rules of Engagement will also stipulate what they *won’t* do, such as no pilfering of employees or intellectual property, no disparaging words to mutual customers, sharing of information, business conduct guidelines, and so forth.

Protocols

Corporate culture establishes pathways and hierarchies for communications. Because each company has its own unique culture, what is perfectly okay in one company may be an absolute no-no in another. For example, one large contractor who was used to using his cell phone for emails sent an email about a very large potential offering to a large subcontractor. The subcontractor blew his top because he in his firm all discussions of clients starts more interpersonally either over a beer or with a personal phone call. It took several people’s intercession to calm things down, because, as it turned out, the developer was a buddy of the subcontractor. In another situation with another company, one senior person spoke about a problem with a junior person in the other company, violating protocols for communications.

As small as protocols sound, be aware and create a protocol pathway that works for all involved.

~TIP~

Values and trust become the internal guidance system that lets the alliance achieve its goals and keep the partners in congruent alignment. Without clear, mutually held values, the alliance partners will tend to act independently in their own separate interest, and eventually betray each other's expectations.

~Tip~

The Nature Of Values

Companies with mediocre values do not make good partners.

Mediocre values indicate an underlying lack of commitment to the customer, to the technology, and to the company itself.

Mediocre values usually indicate mediocre management, which will react in uninspiring ways as soon as the first crisis occurs.

Checklist 4.3a
Chemistry Questions

Ask these critical questions to determine if the chemistry will be positive. Do you:

- Trust the other partner?
- Have faith that your partner will do the right things strategically and operationally?
- Know that the other party will live up to the unwritten terms of the agreement?
- Have an unfailing commitment to create a win-win arrangement?
- Cherish their reputation as a hard but fair dealer?

Do you believe they:

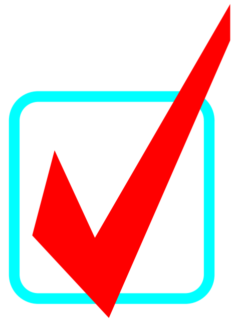
- Have integrity?
- Will do what they say?

~Tip~
When Examining Values

The alliance must embrace the highest values of:

- performance;
- customer service; and
- business ethics.

Regardless of whether our company or the alliance partner has the contract with the customer, the alliance is a reflection of our company. You must see values that reflect our Corporate Value Structure. If the prospective alliance partner is not familiar with these values, review them with the partner.



Checklist 4.3b
Does your prospective partner offer the right values to create good chemistry?

Values:

- Do they maintain the highest values worthy of our trust?
- Do their actions match their values?
- Are they committed to total quality management and continuous improvement?

Toughness:

- Have they been strengthened by years of competitive victories?
- Are they persistent in sustaining their efforts?

Knowledge:

- Are they thoroughly familiar with customer needs?
- Are their technological capabilities considered the best in their class?

Teamwork:

- Does their corporate culture reward and reinforce teamwork and coordination?

Consequences for Breach of Trust

Breaches in trust should not go unattended. Overlooking a breach of trust is the same as condoning it. Partners should establish some rules for dealing with a breach. For example, one long-standing alliance has an Operating Principle of no cussing, because it 'poisons the soul.' Anytime someone cusses at a meeting, they have to put a dollar in a bucket ('buck'-et). At the end of the month, the bucket is usually quite full, and the money is donated to charity.

The rule about breaches of trust is simple:

"It's not so much about the magnitude of the penalty,
it's about the swiftness and certainty."

Those who make Poor Partners

Not every company will be a good alliance partner, primarily because they lack the collaborative culture needed to work as a team. During this phase you should be doing a due-diligence check on your partner's ability to collaborate in an alliance. Here are some things to look for -- types of partners who are unlikely to have the right chemistry, no matter how good the strategic plan.

Those Not into Partnering

Some people just do not have the good luck, expertise, or desire to enter into alliances of any sort. Their experience and motivation require their sole control of the venture. No matter how well the deal is structured, their personalities simply do not lend themselves to a cooperative approach.

Dependent Companies That Need You to Survive

If a company is on the decline and needs you and the alliance for survival, they will make an impossible partner. Companies that latch on to an alliance to stay afloat might be better off being acquired or merged.

However, small, growing companies can be an exception to this rule. The equity alliances often serve the dual purpose of both short-term survival and long-term gain. But remember, this dependency at an early stage of partnering will send off warning lights in the executive chamber; small companies may decide to sell out, leaving our organization working with an unknown alliance partner.

Overdominant Ego

The ego makeup of corporate CEOs can be a very critical factor to success. Every good CEO will have a strong ego. But the overdominant ego may not be able to generate cross-corporate teamwork, or it may create one-upmanship, or lead to not hearing feedback that enables the alliance to make mid-course corrections.

A "strong ego" leader knows his strengths and weaknesses well, and is willing to deal with them openly. The one with a five-hundred-pound ego likely has a six-hundred-pound insecurity complex.

~Tip~

The executives who have the right chemistry will lead with vision, not coercion, they will be smart but not cold, and especially, they will be creative in the face of diversity.

Step 4.5 Creating Mutual Value

The issue of value is central to every alliance. The problem with value is that it is all relative.

For example, the value of water to a man dying of thirst in the desert is totally different than for the man whose clear brook flows freely next to his home.

Here's another example: What is the value of a cup-holder in a car or pickup truck? The *cost* to manufacture a cup-holder may be less than a dollar. But to a car dealer who just lost a $25,000 sale of a new car because the potential buyer didn't like the design or placement or functionality of the cup-holder, the *value* of the cup-holder was $25,000 (don't laugh, this is a real life example, just ask a few car dealers!)

It is most important to clarify what value means for each of the partners.

The Issue of Value

Value For Money (VFM)

The Partners must engage with the Owner to understand the Value for Money equation. The alliance cannot construct the Risk/Reward framework without understanding value. (similarly, if Lean Construction will be used by the alliance, one cannot do value-stream mapping unless one understands the fundamentals of value.)

Key questions should be addressed about value, such as:

- How is *cost* going to be measured? (Total Cost of Ownership is different from Component Cost. For example, I may pay $20 to buy a cheap pair of shoes, and get only 10 days of wear before they fall apart, while a $90 pair of shoes may give me 300 days of wear.)
- How important is *time*? What is the cost of an overrun? (in a large Oil Sands project, the cost of a day of overrun can be worth $10-30 million – about $1 million/hour!)
- How important is *design flexibility* to accommodate future new technologies? (think of building a hot-rod, where a new engine can be swapped in over a weekend)
- How important is *community involvement* in the project? (Very critical in community infrastructure or high visibility environmental projects.)

The list should be extensive, so that everyone has an alignment about how value is regarded, generated, and rewarded.

Value For Money

[RPL: From AECOM Manual]

What constitutes value?

This question is more complex and more important than most people think. The alliancing world seeks to define it in absolute terms, while owners and treasury departments around Australia continue to apply pressure on all to deliver it.

But what exactly is Value For Money (VFM)? Can it be formularised or even adequately defined? How does the industry know when alliances (or any other delivery method for that matter) have delivered it? The question of what constitutes value has challenged great minds for hundreds of years.

> Albert Einstein, the German-born American theoretical physicist, had a philosophical approach when he said, “Not everything that can be counted, counts. And not everything that counts can be counted”.
>
> Warren Buffett, American investor, businessman and philosopher cut right to the chase when he stated, “Price is what you pay. Value is what you get”.
>
> Peter Drucker, the American management guru, suggests that, “Quality in a product or service is not what the supplier puts in. It is what the customer gets out and is willing to pay for. A product is not quality because it is hard to make and costs a lot of money, as manufacturers typically believe. Customers pay only for what is of use to them and gives them value. Nothing else constitutes quality.”
>
> Vincent van Gogh, the Dutch painter, lamented, “I can’t change the fact that my paintings don’t sell. But the time will come when people will recognise that they are worth more than the value of the paints used in the picture.”
>
> And that Anglo-Irish dramatist and wit Oscar Wilde put it rather bluntly when he stated, “Nowadays people know the price of everything and the value of nothing.”

Of course, these reflections relate to life in general and not specifically to the engineering and construction environment.

But the question remains … what constitutes value in the alliancing context and how do you define it? Everyone’s definition (and therefore the drivers) of what constitutes value is different, so it is somewhat akin to comparing apples with bananas. Owners will view value in terms of achievement in their critical success factors; Treasury may look at VFM in a totally financial light; Auditor-Generals want to see traceability and demonstratability; politicians will take both financial and community outcomes into account.

Dr David Finch, AECOM Director - Technology and Risk, in his paper ‘Enterprise Risk Management in Project Procurement’ states that it should be remembered that risk management, opportunity management and value management are intrinsically and closely linked.

He suggests that in principle, value can be expressed as:

$$\text{Value} = \frac{\text{Benefits (environmental, social, financial)}}{\text{Costs (environmental, social, financial)}}$$

Assessing a financial benefit versus a financial cost is something most would consider relatively simple, while needing to recognise the risk associated with the inherent uncertainty in each of these numbers at various stages of the project. What is more difficult is assessing an environmental or social benefit versus a financial cost, or indeed a social benefit versus an environmental cost, and vice versa.

The Queensland Department of Main Roads Project Delivery System defines VFM as “The achievement of maximum overall benefit to the users of the facility and the wider community (including the broader social aspects) at an appropriate agency cost”.

The risk for governments and companies is that both voters and shareholders will make their own assessments using their own sets of personal value priorities. The challenge is to align decision making processes with these contemporary value systems. These issues must be covered in sufficient detail in the feasibility stage.

Key risk: Decisions are made based upon value judgements which are not aligned with stakeholder values.

Mitigation measure: Determine key success factors in advance, prior to deciding upon a procurement method or likely providers of services. Test these key success factors by engaging with stakeholders.

Value in the alliancing context

Demonstrating Value For Money (VFM) is a necessity in an alliancing environment where the Partners ~~Non Owner Participants~~ are typically selected without price competition.

To do this implies benchmarking against project specific value elements and potentially other projects. Broad whole project benchmarking can be particularly difficult as major projects delivered by alliances are typically unique in many ways. Each project is developed in a unique location with its own constraints, stakeholder requirements, owner requirements and whole of life operating requirements. As an analogy military procurement processes differentiate between COTS – "Commercial Off The Shelf" and MOTS

– "Military Off The Shelf" where the latter are non standard products requiring a different procurement strategy. In some instances MOTS may be prototypes that require elemental cost build up by both purchaser and provider to define the scope and value proposition in the final product. This is not dissimilar to the joint transparent Target Cost Estimate development process completed by owner and Non Owner Participants in an alliance.

The Victorian Government's Project Alliancing Practitioner's Guide devotes a chapter to the Value For Money (VFM) strategy, providing a set of specific VFM initiatives or steps that include:

- alliance suitability assessment
- getting the owner's budget estimate right
- commitment to an overall value for money strategy
- negotiated principles for establishing the Limb 2 fee
- establishment audits to provide transparency
- critique of owner's budget estimate
- interim procurement plan
- principles underpinning the Target Cost Estimate (TCE)
- nominated benchmark outturn cost data
- alignment on principles for alliance variations
- conduct a TCE launch workshop in the early stages of the project development phase
- advanced risk/opportunity valuation
- independent estimator TCE check
- financial auditor verification audits
- TCE report including VFM assessment
- Key Result Area (KRA) validation report
- progressive development of final VFM report
- executive completion report (discretionary item).

These elements describe a process that ensures that the value proposition of a project is clearly understood by all participants. This clarity comes from the fundamentals of the process that often get taken for granted in the current industry contemplation of this issue:

- All TCE and project costs are transparent because of the ‘open book’ commercial framework
- Once clearly scoped packages of work are defined they are put out to bid or benchmarked in the market (often around 60% of costs)
- All risk and opportunity items are openly debated by Alliance Management Team (AMT) and Alliance Leadership Team (ALT) to ensure that a consensus position on risk management or contingency allowance (positive or negative) is reached
- There is complete flexibility to respond to changing owners requirements (eg, scope, budget) or accelerate or mothball a project without protracted commercial negotiation
- All participants are financially incentivised to create value by producing the defined scope at least cost and share in a joint financial benefit (or joint financial disbenefit). This gain share/pain share regime is usually based on a simple equitable sharing ratio of 50/50 between Owner Participant (OP) and Non- Owner Participants (NOPs) sending a clear and simple message about joint responsibilities
- The process of engaging the independent auditor, estimators and verifiers and benchmarking components of the TCE against other projects provides a reality check
- Because the commercial framework and margins are set at the start of the project there is no distraction during the project as a result of positioning to gain commercial advantage relative to other participants
- Provided KRAs represent the real non-cost aspirations of the owner for the project, all components of the value requirements of the owner should be covered.

In some instances owners and their facilitators have experimented with adding complexity to the above fundamentals to drive better outcomes. Sometimes this has worked, but it has also driven unintended consequences. Some in the industry have observed that, “The projects are complex, the commercial frameworks don’t need to be. Keep it simple.”

Benchmarking Value For Money

Value For Money elements can be split into three categories:

- Cost Elements
  - TCE
  - External Cost elements
  - Whole of life operating cost elements
- “Hard” Elements
  - Functionality
  - Quality
  - Durability
  - Early / on time completion
- “Soft” Elements
  - Catering for the community
  - Key stakeholder management and meeting their expectations
  - Minimisation if impact on the environment
  - Sustainability

Benchmarking of TCE elements (eg. culverts, bridge beams, concrete etc) can be achieved by comparing with similar elements from other projects.

The other cost, “hard” and “soft” elements are typically project specific and need to have individual benchmarks for performance (eg. poor, minimum conditions of satisfaction, outstanding) set by the owner and the alliance. This is often done by setting up alliance Key Result Areas around these value elements.

Value For Money as a Key Result Area

Some alliances adopt a Value For Money (VFM) Key Result Area (KRA) and measure and report on it at regular intervals. The reporting focuses on the processes for continuously creating value as the project cost and its attendant gain share/gain share are reported independently. Typical performance indicators for a value KRA include:

- **Innovation & value** – innovations program implemented and working very well with a culture of innovation across most of the team. Value recognised for innovations with savings of up to 10% of TCE realised.
- **Lessons learnt** – lessons learnt from one project recorded and passed onto all team to allow continuous improvement to result.
- **Value reporting** – economic, social, environmental – alliance is recognised for 'step change' above industry.
- **Performance evaluation** – TCE submissions, cost plan report and planning report – timelines, comprehensiveness and accuracy.

The TrackStar Alliance in Queensland provides one useful reference point in relation to VFM.

The rationale is that VFM is a process, and at the conclusion of such a rigorous process, VFM can reasonably be said to have been achieved.

Organisations such as the AAA are compiling credible statistical data in relation to the VFM proposition for alliancing compared to other delivery methods. In each case the outcome will be different, and it is up to owners and NOPs to work openly and rigorously to achieve outstanding results in those areas that the owner believes to be the critical success factors for that project.

Case note 39

Value For Money

Project: Tullamarine-Calder Interchange Alliance (TCI)
Owner Participant: VicRoads
Non-Owner Participants: Baulderstone Hornibrook, Parsons Brinckerhoff
Value: $150 million
Duration: July 2005 - July 2007

The Tullamarine-Calder interchange upgrade involved reconfiguring the Tullamarine and Calder Freeway junction, adjacent to Essendon Airport 10 km north of Melbourne, in close proximity to the Western Ring Road and on the way to Melbourne Airport.

Key project objectives were to eliminate dangerous weaving and merging to improve safety, and to reduce travel times and congestion.

The alliance delivered the freeway upgrade more than $12 million under budget, with some new freeway lanes opening up to ten months ahead of schedule.

Key lesson:

'Cost' was identified as a Key Result Area (KRA) for the project. Achieving a Target Outturn Cost (TOC) accepted by stakeholders as outstanding Value For Money (VFM) was classified as Minimum Conditions of Satisfaction (MCOS). A gamebreaking performance target for the cost KRA was to deliver the project at less than TOC. This was achieved with the Tullamarine-Calder upgrade delivered more than 10% under the original alliance TOC approved by the State Government.

An Alliance environment provided the flexibility to adapt and respond quickly to issues and opportunities for innovation and for procurement during the design and delivery phases, which was critical in getting the new lanes opened earlier and thereby delivering extra value.

This was seen in the weekend shutdown of the Calder Freeway with a round-the-clock operation to remove old freeway lanes and construct new access beneath the Tullamarine Freeway bridge. This opportunity would have been unlikely but for an Alliance approach. The TCI model provided flexibility to consider alternatives which otherwise would have likely seen sidetracks in place for two to three months with significant potential traffic and safety impacts.

Innovation and flexibility by the Alliance helped achieve opening of inbound lanes ten months early and outbound lanes five months early.

Value beyond pure project dollar terms was achieved for VicRoads and the State Government by bringing forward project benefits to the community with savings in travel time and transport costs for all.

Safer road access delivered earlier by the Alliance further added value with the community enjoying reduced accident and social costs. At this critical location, delays, congestion and traffic diversions when accidents occurred imposed significant costs on road users and the local community.

For the Owner Participant (OP) some of the value achieved under the alliance form of contracting may not be immediately obvious as it will be realised in years to come as learnings and innovation flow on in future projects.

Case note 40

"Best Value" (KRA 1)

Project: TrackStar Alliance
Owner Participant: Queensland Rail
Non-Owner Participants: Thiess, United Group JV, AECOM, Connell Wagner
Value: $800m
Duration: 2006 to 2010

TrackStar Alliance is delivering a range of rail projects initially including rail and station works, along with state-wide traction power upgrades:

- Caboolture to Beerburrum duplication
- Robina to Varsity Lakes extension
- Corinda to Darra upgrade
- Beerwah grade separation
- Beerburrum to Landsborough duplication
- Traction power upgrades

"Value For Money" Key Result Areas:

Six program level Key Result Areas (KRAs) were adopted by TrackStar Alliance. KRA 1 is "Best value" and contributes 20% to the program score. The KRA measures nominated as Key Performance Indicators (KPIs) are:

- KPI 1.1: Triple Bottom Line performance (Social, Environmental, Economic)
- KPI 1.2: Lessons learnt captured and transferred through program and between projects
- KPI 1.3: Measurement of innovation and value-ideas captured, recognised and implemented to provide benefits
- KPI 1.4: Effectiveness of verification processes – turnaround times reduced.

All KRA's are scored by the Alliance Leadership Team (ALT), Alliance Management Team (AMT) and senior management team each month with action items listed in the monthly report. Scoring is assessed against descriptors for each KPI:

- failure (score 0 to 20)
- poor performance (score 20 to 40)
- business as usual (score 40 to 60)
- best practice (score 60 to 80)
- outstanding performance (score 80 to 100).

Joint Value Proposition

In Phase 1.3, we outlined the details of a Value Proposition. After defining the Value For Money parameters, the Partners should construct, with the Owner, a Value Proposition that excites, energizes, and inspires those who read it. The Value Proposition is the Owner's definition of a "win" in the "triple win" formulation.

Similarly, each of the Partners should construct a Value Proposition that reflects the value they will receive from the project. Those Value Propositions should be shared among all the members of the alliance, because the Value Propositions, collectively, will define the "triple win."

Metrics of Winning for each Partner

Be sure to consult the Strategic Return On Investment (STROI) framework (Phase 3.9) to understand more deeply the metrics of winning. These will provide firm guidance in generating a Value Proposition.

Innovations Required

Any spirited alliance of any magnitude should see itself as a proponent of innovations. Most Owners will want to know the Partner's commitment to innovation as one of the top selection criteria. Innovation is the pathway to productivity.

See Phase 2.4 to see the Eight Types of Innovation, and then jointly address that extent of innovations the alliance will be producing.

What financial investment will these innovations require? How could/should the innovations affect the Risk/Reward Framework? Who owns innovations used on this project?

Breakthrough Thinking: It's...

- First "Connecting the boxes," then Thinking "outside the box" of convention
- Thinking nonlinearly
- Thinking the unthinkable
- Suggesting the unreasonable
- Challenging one's own assumptions and prejudices
- Creating a new audacious possibility
- Hearing the Big Idea in what others dismiss

Joint Alignments of Success

Key Factors for Success

The Owner and the Partners should have a very clear understanding of what Key Factors for Success will prevail for them all to attain the 'triple win."

Key Results Areas

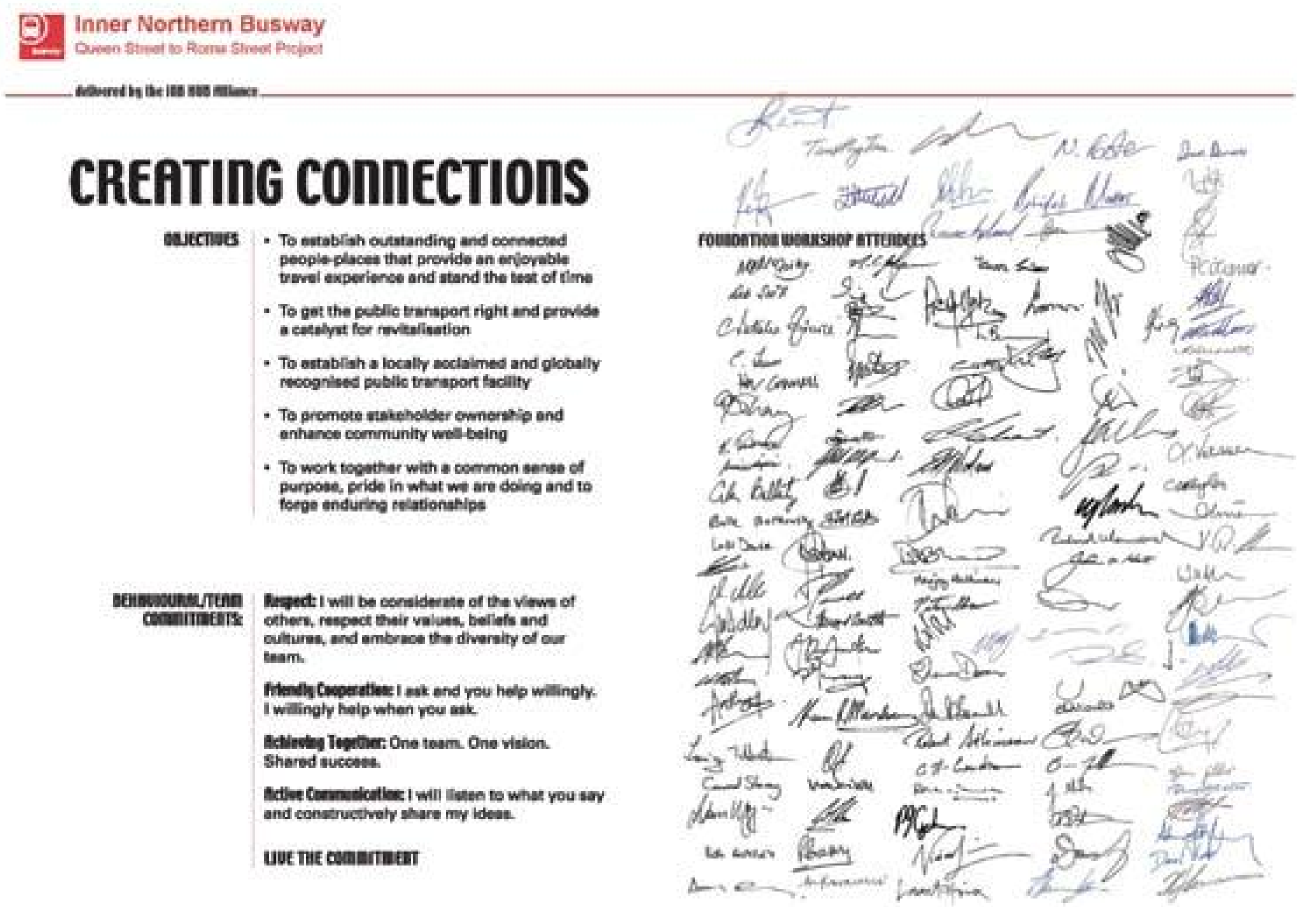
Similarly, the Owner and Partners should be clear about the Key Results Areas (KRAs) that must be achieved for the alliance to have achieved its goals.

Alliance Charter

The Vision, Value Proposition, Operating Principles, and Rules of Engagement typically are codified into an Alliance Charter, which becomes the frontispiece of the Alliance Agreement. Normally it is signed by all those who participated in creating the Alliance Charter, signifying their commitment.

Figure 26 shows the Alliance Charter that was prepared for the Inner Northern Busway Alliance, and which team members 'signed' onto, as their contract to work towards the alliance goals and objectives within the jointly developed and agreed behavioural commitments.

Figure 26 Inner Northern Busway alliance charter



Inner Northern Busway
Queen Street to Roma Street Project

CREATING CONNECTIONS

OBJECTIVES

- To establish outstanding and connected people-places that provide an enjoyable travel experience and stand the test of time
- To get the public transport right and provide a catalyst for revitalisation
- To establish a locally acclaimed and globally recognised public transport facility
- To promote stakeholder ownership and enhance community well-being
- To work together with a common sense of purpose, pride in what we are doing and to forge enduring relationships

BEHAVIOURAL/TEAM COMMITMENTS:

Respect: I will be considerate of the views of others, respect their values, beliefs and cultures, and embrace the diversity of our team.

Friendly Cooperation: I ask and you help willingly. I willingly help when you ask.

Achieving Together: One team. One vision. Shared success.

Active Communication: I will listen to what you say and constructively share my ideas.

LIVE THE COMMITMENT

FOUNDATION WORKSHOP ATTENDEES

Measuring the Power of Alignment

Alliances are, first and foremost, about alignments. Use Checklist 4.5 to assess your ability to achieve alignment on all of your alliance expectations. It is important to know where you can give in as well as how hard to push for what you want from your prospective partner.

Case note 29

Innovation

Project: Future Port Expansion (FPE) Seawall
Owner Participant: Port of Brisbane
Non-Owner Participants: Leighton Contractors, Coffey Geosciences, Parsons Brinckerhoff, WBM Oceanics
Value: $90 million
Duration: August 2003 – December 2004

The Future Port Expansion (FPE) Seawall is one of the largest marine-based projects ever undertaken in Queensland that allows the Port of Brisbane Corporation to cater for rapid commercial growth in the area.

The FPE Seawall involved approximately four months of construction planning and a total of 444 days of construction, with a peak workforce of 60 on-site construction personnel and up to 52 alliance staff members. Ten excavators, three dredgers and one barge moved 1.39m tonnes of rock, 420,000 m3 of white 'bay' sand and 375,000 m^2 of high-strength and filtration geotextile fabric.

Key lessons:

The alliance achieved a number of exceptional outcomes during the project that can be directly related to innovative construction management and design. The alliance structure encouraged the team to think outside the usual construction toolbox to deliver outcomes that set new standards for the project, the client and future marine construction projects in Australia.

An example of this was the rock transport. The majority of rock required on the project was delivered using existing rail infrastructure between the Beaudesert Blue Metal Quarry and the port. An 850 m long train transported rock from the quarry to the port daily, in purpose-designed, open-topped containers. From the port's rail terminal, the BMT, each container was transported a short distance of one kilometre by skel-tipper trucks to the construction site. Trucks could then immediately proceed onto the seawall to deliver rock directly to the construction face, minimising the need for stockpiling and rehandling. During

the construction phase, 400 train journeys (one way) delivered 45,000 containers of rock to the site via the BMT. Benefits included:

- saving around 8 million km of road haulage, reducing road infrastructure wear and tear, and minimising the impacts on the surrounding community and travelling public
- environmental benefits by avoiding burning 800,000 litres of diesel fuel if truck haulage was used
- reliability of delivery and ease of management, with only one train and four to six trucks making deliveries each day (to the construction face), rather than up to 35 trucks.

Another example of innovation was the rock choice. The use of clean rock in the construction process was a key economic and environmental outcome for the project. Rock sourced from the Beaudesert Blue Metal Quarry had low levels of fine material, such as sediment and silt. Any sediments present on this rock dropped out of suspension in the water quickly, minimising potential damage to adjacent seagrass

beds. This minimised turbidity plumes and the associated visual impact, from the highly trafficked Brisbane Airport and Brisbane River. This rock also provided a cost-saving benefit as washing was not required.

Checklist 4.5
Analyzing the Win-Win

1. Measuring the Power of Alignment

- How well does the prospective partner regard our company?

____

- Did the negotiations occur within a win-win environment, or was it a tug-of-war, with each party gaining at the expense of the other?
  ____
- As a result of your due diligence, were you able to determine how significant this relationship would be to your prospective partner?
  ____
- What areas did you identify as being crucial to the success of the alliance?
  ____

2. Watching for Critical Signs

- How did the prospective partner perform?
  ____
- How well would they rate you if they were filling out this questionnaire?
  ____
- Were the resources they promised going to be available or were they tied up on long-term projects?
  ____
- Did you determine whether their operating culture would be compatible with yours?
  ____
- Were critical individuals made available for discussion during the negotiations?
  ____

Step 4.6 Target Cost/Time Estimate

[RPL: from AECOM Manual]
The TC/TE, sometimes called the Business As Usual (BAU) estimate, is intended to be a built estimate of what the integrated team (both Owner and Partners ~~OP and NOPs~~) believe it will cost (or would normally cost) and the time it would take to deliver the scope of work that is being undertaken by the alliance, within the agreed time schedule, and using the normal standards of performance expected of that team. (Remember that expectation is likely to be high given that the team is typically selected as the best available through a competitive process).

The TC/TE phase usually lasts from three to nine months depending on the project. (This period extend s from this Phase through the next Phase 5: Operational Planning) There are many challenges during this phase of the alliance as the pressure is on all members of the team to do as much as they can within a relatively short period of time. Given these time pressures, it is critical to ensure that the process is consistent with the agreed alliance principles. Although difficult, the process usually strengthens relationships between the participants.

The key output from this phase is the TCE and its associated scoping documents. The TCE must be formally accepted by all alliance participants before the full alliance delivery can start.

All the elements of the TCE sum to the Target Outturn Cost (TOC) for the alliance. The TOC is the benchmark that is used to assess performance and to determine gain share or pain share for the Partners ~~NOPs~~.

The typical stages in a TCE phase are shown in Figure 25, although the process must be tailored to the special characteristics of the project and Owner. Each stage of the TCE phase is discussed in detail in this chapter.

Reaching commercial alignment

The conversation between the Owner Participant (OP) and the Partners ~~Non-Owner Participants (NOPs)~~) on
the commercial framework begins during the selection process and is completed in the first few weeks following award.

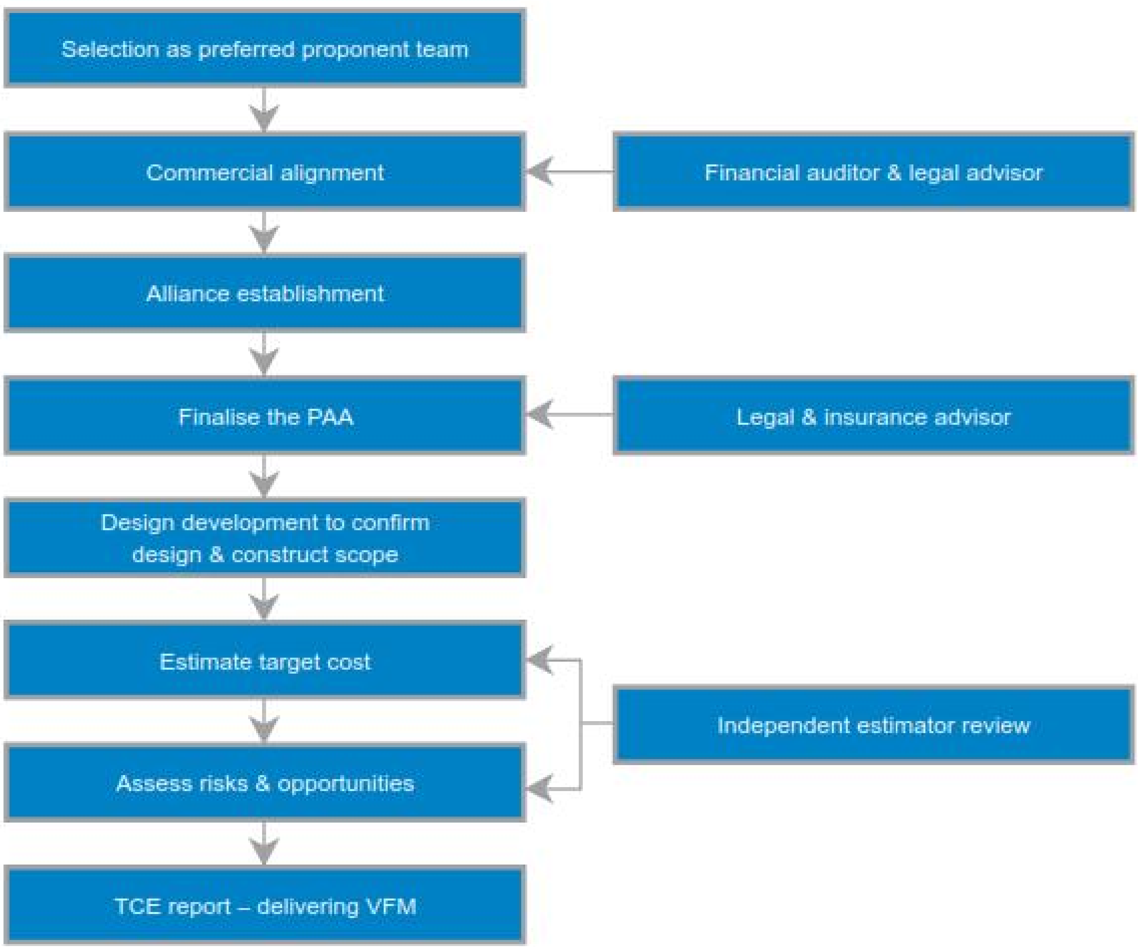
The Owner normally starts the conversation by defining their Key Result Areas (KRAs) and minimum performance expectations in the Request For Proposals (RFP) documentation. The Owner will also define their expectation of the structure of the commercial framework, including an overview of the gain share and pain share regime. The selection process will further explore this framework and will assist in differentiating between the proponents in terms of their preparedness to be flexible, to listen and understand the views of each other, and to work effectively as an integrated team.

The final details of the commercial framework are achieved through workshops and discussions aimed at achieving alignment between all participants.

Part D, Chapter 4 describes in much greater detail the components of the commercial framework, whereas this chapter discusses the process typically used.

Owners have historically taken an approach in the selection process that discussions on the NOPs' direct costs, corporate overhead and profit substantially take place after the preferred proponent has been selected. In these cases, the second placed proponent is kept in the 'race' until commercial alignment has been achieved with the preferred proponent. However, increasingly Owners are bringing these discussions into the selection process to try and achieve greater price competition between the short listed proponents. Proponents' expectations on corporate overhead and profit are sometimes requested in sealed envelopes that are only opened once the preferred proponent has been selected,

Figure 25 Typical TCE phase process



while in other cases expectations have been requested as part of the tendering process.

The time set aside for the commercial alignment discussions will normally be 1½ to two days, with a third day in reserve in case it is needed. These commercial workshops involve the Owner's and proponents' Alliance Leadership Team (ALT) representatives along with the Owner's advisors (alliance facilitators, financial and legal) and possibly advisors to the proponents. Owners have a realistic expectation that the proponents' ALT representatives will be able to make binding decisions on behalf of their organisation.

Owners will often enter the commercial alignment workshop with a premise that the outcomes of the workshop will support their requirement to demonstrate that the alliance will deliver Value For Money (VFM). Value is ultimately delivered in many ways through an alliance but the commercial discussions represent the first opportunity for the Owner to judge the preparedness of the proponent to deliver value in a commercial sense. This is complemented by the objective that the commercial framework must drive the right behaviours and support the alliance principles.

A typical agenda for a commercial alignment workshop will include the following presentations and conversations:

- Initial introductions, statement of expectations of the participants and the role of facilitators and advisors.
- Context of the commercial framework including validation of the alliance operating principles and alignment on the principles of the commercial framework.
- Outcomes of the financial audit (otherwise known as the 'establishment audit') including a presentation by the financial auditor on the process adopted, presentations by each of the NOPs on their audit results, alignment on the definition of direct costs (for inclusion in the Project Alliance Agreement (PAA)), and most importantly, a conversation to achieve alignment on the NOPs' overhead and profit for Business As Usual (BAU) performance.
- Alliance Key Result Areas (KRAs) including a conversation on the Owner's expectations; confirmation

Case note 26

Target cost estimate phase

Project: Middleborough Road Rail Separation Project
Owner Participant: VicRoads, Department of Infrastructure **Non-Owner Participants:** John Holland, Connex
Value: $72m
Duration: October 2006 - January 2007

The Middleborough Road Rail Separation Project involved eliminating a railway level crossing on this busy arterial road in Melbourne's eastern suburbs.

The works included lowering the railway line by up to six metres, construction of 1.5 km of dual electrified tracks, demolition and reconstruction of the Laburnum railway station and bridge, and building a new four- lane bridge to carry Middleborough Road across the rail line.

What would normally be an 18 month construction program was condensed into just five weeks to minimise disruption to adjacent residents, businesses, train patrons and motorists.

Works proceeded over an intensive 24x7 construction period with the rail line and road shut down over the January 2007 holiday period. During this time replacement bus services operated which were capable of transferring up to 7,000 rail passengers per hour between Box Hill and Blackburn.

Key lesson

The Middleborough Road Alliance (MRA) faced many challenges in delivering this project in such a short timeframe. Key to the success of the project were:

- allowing sufficient time for implementation planning and for the alliance to develop the Target Cost Estimate (TCE)
- completing and 'owning' the concept design before TCE signoff
- including the designer and the rail operator in the alliance
- minimising construction activities during the TCE phase as this can be a distraction for the team
- implementing a structure to speed decisions during the rail shutdown period
- including senior people in the ALT who were empowered to make decisions on behalf of organisations without the need for referral.

of the KRAs to be included in the gain share/pain share regime; alignment on the elements, weightings and sharing between participants in the gain share/pain share regime; confirmation of any cap that may apply to gain or pain; timing of payments; and modelling of various scenarios to validate that the regime embraces the principles of the commercial framework. Importantly, this conversation must address the potential for perverse behaviours being driven by the gain share/pain share regime. It must also identify and align on those KRAs for which only pain share will apply (for example, safety).

- Changes and variations benchmarking including developing a shared understanding of what constitutes a change or variation and discussion of various change/variation scenarios.
- Alliance agreement, including alignment on any outstanding legal issues.
- Agreement on next actions for execution of the alliance agreement and the process for aligning on the Target Cost Estimate (TCE).

The agreed commercial framework sets the foundation for developing the TCE and ultimately the Target Outturn Cost (TOC) which will be the benchmark on which the alliance's financial performance will be assessed.

Finalising the ~~Project~~ Draft Alliance Agreement

(see Phase 4.9 for more information on this process)

A really good alliance agreement is simple and straight forward, and ideally team members should be able to carry the essential alliance principles around in their heads. This is far more powerful than having an over-complicated document that tries to cover every circumstance. The underlying philosophy at Alliance Leadership Team (ALT) level should be one of, "I am trustworthy, and I, in turn, trust".

Alliance agreements do not just deal with contract administration. If the alliance leadership has collective responsibility and unanimous decision making, then there is no need for lots of administrative provisions in the contract. The administration should reside in the alliance management plan, not in the contract. And there really is no reason why bigger projects should have bigger contracts; there is no reason to clutter the agreement and every reason not to.

Setting up the commercial drivers correctly will drive the behaviours much more so than the contract. However, if the compensation regime is too aggressive, then that will inhibit the development of a powerful culture.

Needless to say, the PAA must embrace the alliance principles, commercial framework, and responsibilities and accountabilities of all of the leadership team members.

Although an important step, it is not enough for the Project Alliance Agreement (PAA) to be sent off to the internal legal counsels of the participant organisations for review and final agreement. Although this fulfils the obligation to execute an agreement that binds the participants to deliver the works under the alliance, it lacks the ownership of the alliance leaders to drive their behaviour in support of the agreement. The ALT must commit the time to have the required conversations to align on and own the PAA. These conversations will influence their behavioural response to the written word and is fundamental to developing the early (positive) dynamics of the alliance.

The PAA must encourage the desired behaviours while accommodating specific challenges that the Owner faces in their business. It should provide guidance to conversations required to develop the Target Cost Estimate (TCE) and deliver the works, including the need to resolve what will represent variations to the works.

The PAA needs to be prescriptive in certain areas, particularly where the Owner reserves powers to make decisions, where it deals with the protection of intellectual property generated by the alliance, identifies the liabilities and indemnities of defaulting parties, and establishes the path by which the alliance will deal with insurance.

Ultimately, the PAA needs to be a document that is really workable as the team focuses on its commitments to deliver exceptional outcomes.

Further description of the components of the PAA is provided in Part D, Chapter 4.

Scoping the works

Traditional contracts normally have a clearly identified scope. However, this is often not the case with an alliance. In fact, it is one of the reasons Owners choose an alliance delivery method – the scope is far too difficult for the Owner's team to determine. Often all that exists is a concept for the project or, as a minimum, a defined goal to improve, repair or reconnect a piece of infrastructure. In the case of the Lawrence Hargrave Drive alliance the Owner knew that their goal was to reopen the coastal road between Sydney and Wollongong, but no clear path as to how this was to be achieved.

Investing the time early in this phase is essential to confirm the scope of works along with the Owner's minimum performance expectations for these works and for the key objectives or Key Result Areas (KRAs) for the alliance. Although this may seem a straight forward task, there have been alliances that have progressively modified the scope during this phase only to find out that approval of the Target Cost Estimate (TCE) is compromised by the scope difference between the Owner's pre-alliance budget and the TCE.

Confirmation of the scope will require effort in both design and construction methodologies. Delivery of preliminary design during the TCE phase is normally undertaken to a level such that a rigorous estimate can be produced. There is always some question as to how much design is enough, but as a rule of thumb the design should be developed to at least 20% of the detailed design. Likewise, sufficient effort is needed to resolve the construction methodologies for the works to minimise uncertainty and therefore contingency in the estimate.

In one sub-alliance to the TrackStar Alliance, a two stage TCE was used. The first TCE was developed for budgeting purposes and with a commitment to cap costs at that level but then the complete TCE was developed at a lower figure once the risks were better defined.

Case note 28

Application of standards

Project: Roe Highway Stage 7 – Roe 7
Alliance **Owner Participant:** Main Roads
Western Australia **Non-Owner Participants:**
AECOM, Clough Limited **Value:** $66m
Duration: 2003-2006

This alliance was the last stage of the construction of Roe Highway – a freight route that connects the State's rural highway system (Great Northern Highway, Great Eastern Highway, Toodyay Road, Brookton Highway, South Western Highway and Albany Highway) to key destinations (such as Kwinana Port, Canning Vale Industrial Area, Kewdale Industrial Area and Perth Airport). The highway has been delivered in stages over 20 years.

The physical infrastructure involves approximately 4.5km of dual carriageway with three interchanges, three bridges and a grade separated principal shared path. Roe 7 Alliance was responsible for design, construction, community and stakeholder engagement, and environmental approval through the habitat of the Grand Spider Orchid (a declared rare flora).

Key lesson:

Roe 7 Alliance Agreement included a document titled, Basis for Design and Construction, which documented the standards for design and construction to a very detailed level (similar to design and construct contracts). As a result, the Roe 7 Alliance direct cost target report included a section on intended departures from the Basis for Design and Construction.

The process for approving these departures from the Basis for Design and Construction was not well documented or understood by the alliance or the owner representative which at times caused frustration and delays to implement these changes in design and/or construction.

To overcome this situation the alliance took the initiative to prepare a procedure for approval of departures from the standards and had this signed off by the Alliance Leadership Team (ALT) and the owner. The alliance also recommended that for future projects the standards should be performance based and less prescriptive and should not be written in to the Project Alliance Agreement (PAA).

Estimation of the target cost

The process of preparing a Target Cost Estimate (TCE) can potentially generate conflicting priorities and incentives for the alliance participants. Quite often the question arises as to how much time should be spent on preparing the TCE to achieve the greatest level of certainty.

Firstly, it is important to get the scope right and to ensure the alliance is geared towards delivering what the client wants and needs. To maximise Value For Money (VFM) the alliance must test the content of the client's scope requirements. This is similar to the process in a design and construct tender where alternative designs and delivery methodologies are investigated to ensure that the best tender is put forward.

Without question, all involved in an alliance should seek to ensure there is an intensive commitment to focus on innovation to provide the Owner with the best possible VFM proposition. This can potentially introduce conflicts as there can be a question whether the Partners ~~Non-Owner Participants (NOPs)~~will be committed to having all innovation come through the TCE phase. Of course, the degree to which all potential innovations can be defined during the TCE phase will be primarily dependent on scope, and on the time and effort allocated to this phase.

Owners wish to be confident that the preliminary design work undertaken as part of the TCE phase is sufficiently detailed such that it could form the basis of competitive tenders (if required to do so) for subcontract packages. Hence, this issue of the duration of the TCE phase is one of the most significant conversations required at the beginning of the alliance.

The discussion on the duration of the TCE phase is extremely important to the Owner for a further reason. In most alliances Owners will commit to paying the NOPs their full Limb 1 and Limb 2 costs, with Limb 2 at risk after the TOC is agreed for all the work they do to prepare the TCE. Owners will also reserve the right to terminate the alliance should the TCE make the project unviable. Hence, balancing the funds expended, the robustness of the TCE and the ability for the project to proceed adds a further dynamic to the decision process. Typically, the funds that Owners commit to preparing a TCE vary significantly from alliance to alliance and are normally 3% to 7% of the capital cost of the works.

Occasionally a two-stage TCE is used, with the first stage being an early indication 'not to exceed' amount. The 'not to exceed' amount then goes
to the ultimate client budget review process, and becomes the early TCE preliminary estimate. The driver here is to get an appropriate budget
allocation to ensure the alliance does not have to go back for a further budget allocation.

Figure 27 shows the tasks undertaken once alignment has been achieved on the effort to be put in to preparing the TCE. They are described below.

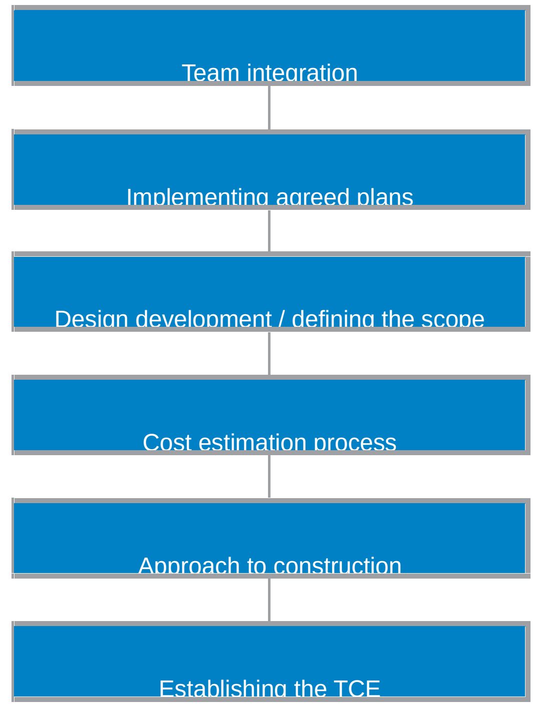


Figure 27 Estimating the Target Cost

Team integration

The early work undertaken establishing the alliance will need to be complemented by further activities to integrate all members of the team. The most practical way to achieve this is to conduct focused, integrated workshops and meetings that seek to further the works to be delivered by the alliance.

The theme for these workshops and meetings will include:

- Definition of a process for integrating design and construction to ensure the solutions identified are cost effective. This can be challenging during the TCE phase as many of the construction members of the alliance delivery team will not have started on the works and others will be required to represent their views.
- Definition of the Key Performance Indicators (KPIs) for all of the Key Result Areas (KRAs), including details of how each KPI is to be measured. These KPIs are determined for the full performance range of the gain share/pain share regime from poor, to the Minimum Conditions Of Satisfaction (MCOS), to outstanding. The KPIs at MCOS performance are then used as the basis for cost estimation.
- Proactive creation of the space for innovation by organising and conducting value management workshops.

Implementing agreed plans

Generally success comes from planning before doing. A very early focus of the alliance is on creating the plans that will support delivery of the works. Implementation of these plans will be the foundation for success and will include:

- Establishing and implementing the systems, management plans and procedures that become

the blue print for how the alliance will do business. These plans must be owned by all in the alliance and hence
it is critical that they are prepared by those who will use them and not by the alliance systems manager.

- Establishing the alliance project office and its associated IT and administration systems.
- Preparing and implementing a detailed program for the Target Cost Estimate (TCE) phase showing the work breakdown structure and the timing of design and constructability outputs for use in cost estimation. This program must also identify the process for Alliance Leadership Team (ALT) approval of the TCE along with the approvals required by the Owner.
- Setting up the induction procedures and, as a minimum, inducting all new members of the alliance in the vision, principles, objectives and Key Result Areas (KRAs).

Design development and scope definition

The designers in the alliance will have access to the concept work and data collected previously by the Owner. Their focus during this phase will include:

- Collecting data (including items such as feature surveys, geotechnical investigations and noise surveys) to gather information required for the design and constructability assessments
- Defining and agreeing on the scope of works for the alliance as mentioned earlier in this chapter
- Agreeing on the focus for the design effort, in particular identifying the components of the works that have greatest risk or cost uncertainty and that consequently, require greater analysis and assessment
- Detailed design to a stage sufficient for robust estimation (20% to 40% design)
- Identifying all outstanding approvals (planning and environmental) and land acquisitions that are required to allow the works to proceed and a process for obtaining these approvals and acquisitions.

Design is a creative and iterative process that requires time to achieve innovative outcomes. An over-riding focus on minimising time spent during the Target Cost Estimate (TCE) phase can lead to the potential for innovations to remain undiscovered. The alliance must find ways to provide the design group (including designers and constructors) with creative space without the pressure to continually push for outputs. Balance is also required as design needs to achieve outcomes that can be costed within the available timeframe.

One area which needs special attention during design development is ensuring that the design *meets* but does not *expand* the needs of the Owner. During this phase, the alliance can easily become engrossed in achieving outstanding outcomes and inadvertently expand scope or define specifications which are higher than the Owner desires. To reduce this possibility, some Owners and alliances use a person independent to the alliance team to review the scope and specifications. This will provide added assurance to the Owner that the design meets the objectives and provides the basis for a robust and Value For Money (VFM) estimate. The alliance task post TCE then becomes to better this design and achieve the outstanding outcomes that the alliance signed up for.

Cost estimation process

Agreement is required on the process that will be used to deliver the right outcome for the Owner prior to actually estimating the cost for the works. Issues that will need to be addressed include:

- Definition of how the alliance should engage with the independent estimator to ensure that they are fully informed of all of the elements of the Target Cost Estimate (TCE) and its associated design and construction whilst being sufficiently separated to allow independence in the estimate they prepare.
- Identification of the process for internal reviews, first principles versus unit price estimation, subcontract pricing of elements of the works, benchmarking against other similar works,

treatment of risks and opportunities, and the application of probabilistic assessment of the estimated cost.

- Agreement on what constitutes a change or variation to the alliance and what needs to be addressed as part of the risk and opportunities in the TCE. This would normally be complemented by a structured
approach to a series of workshops aimed at reviewing risks and opportunities for the alliance.

Approach to construction

An extremely important component in an estimate is identification of the approach that will be taken to constructing the works. The designers in the alliance will support this effort but fundamentally it comes down to constructors reviewing the works in sufficient detail to apply the right method to achieve the right estimated cost.

Reviews of construction methodology and resources required will also feed back into the design process where better, faster or more cost effective construction results in:

- staging and avoidance of stakeholders' impacts
- better management of risk areas on the project
- minimising supervision staff required
- resource levelling for staff and equipment
- protection of program float
- reduction of high escalation potential materials or work practices
- improvement in environmental outcomes
- realisation of opportunities within the Key Result Areas (KRAs).

The basis for managing these issues will require the development of a number of plans that set out the basis for the costing in the Target Cost Estimate (TCE) and completion of the project. Examples are:

- project management plan – an overarching plan that brings together the management requirements for all of the other plans below
- community engagement plan
- construction management plan
- project safety management plan
- environmental management plan
- procurement plan
- finance and administration management plan
- human resources management plan
- quality management plan
- project program
- mobilisation plan
- completion management plan.

Determining the Target Cost Estimate

A sequence of meetings will typically be required to finalise the TCE and it support documentation. These will typically involve:

- AMT reviews and recommendation
- Independent Estimator review and recommendation
- (participant Company Corporate reviews)
- ALT reviews and finalisation

Depending on the scope and size of the project these reviews can each take several full days. Topics covered will typically include:

- Scope reconciliation to original project brief
- Final option approval submission

- Project Organisation Chart
- Sustainability Initiatives
- Environmental issues outline
- Community Consultation outline
- Design verification sign off
- Compliance to standards
- Risk and Opportunity
- Insurance framework reconciliation
- Benchmarking – elemental costs and contingency comparison with other projects
- Rise and Fall Calculation
- Cost Plan
- Value for Money Framework
- TCE Assessment and clarifications
- TCE Summary sheet (for final signature by ALT)

Establishing the Target Cost Estimate (TCE) will involve consideration of the risks and opportunities for:

- construction:
  - opportunities to reduce scope of work or construction method during project implementation
  - detailed review of high risk items including engineering out the risks, setting up a detailed separate risk management plan or amending the construction methodology to avoid altogether
  - unknown services and final pricing of utilities relocations.
- commercial:
  - fluctuation in commodity pricing (for example, copper in copper cabling or fuel)
  - consideration of third party agreements or penalty regimes (for example, external ultimate client access agreements or performance incentives)
  - extent of actual insurance coverage and interface with risk management plans.
- design:
  - delays to statutory approvals
  - changes to externally issued codes or standards (who is best placed to manage these risks?)
  - consideration of 'design investment' for potential construction savings
- other:
  - environmental hazards (for example, unidentified asbestos and other hazardous waste)
  - skills shortages such as loss of direct skilled labour or staff or inability to source skilled persons

Managing expectations of the Owner's budget

Management of expectations during the Target Cost Estimate (TCE) phase will be a critical determinant of its success. Owners will enter this phase with a realistic expectation that the TCE will be very close to their budget estimate for the works. Partners ~~Non-Owner Participants (NOPs)~~ will have an expectation that the TCE is the right cost to deliver the works.

At times Owner's original budgets are based on limited scope information and can create a significant issue for many projects. The temptation is then to prepare a first pass estimate of the TCE very early in this phase to inform the alliance on where it stands relative to the budget. This can be misleading as the great majority of the elements that make up this first pass estimate will have significant variability associated with them (simply because insufficient design and constructability input has been completed). Hence, the quantum of the adopted amount for contingencies will be far greater than in the final TCE. Without sufficient explanation this could be the cause of great uncertainty and stress in the alliance. Consequently, the timing of the release of the first pass estimate of cost needs to carefully balance the need for the estimate with the availability of reliable information to prepare the estimate.

The alliance must also develop a complete understanding of the basis for the Owner's budget estimate so that any comparison between this budget and the TCE can be done on a relative basis. Commonly, clients and alliances will fill in scope to the works during the TCE phase as new issues are uncovered without a cross check back to the scope of the budget. To maintain credibility in the ultimate TCE, it is critical that these deviations to the budget scope are identified and either excluded from the TCE or included with an appropriate justification.

The Partners ~~Non-Owner Participants (NOPs)~~s must respect the Owner's need for independent industry experts to validate the work delivered during this phase. Demonstrating that the TCE represents Value For Money (VFM) for the Owner is paramount to the success of the alliance.

Dealing with risks and opportunities

The alliance team must take the time to fully understand the risks that the alliance faces and to create the opportunities that will deliver value to the Owner. The pricing and treatment of these risks and opportunities is often the biggest issue in the Target Cost Estimate (TCE) phase so it is essential that the alliance gets on top of it early. It is also extremely important that all participants make the effort to understand all the risks and opportunities, not just those that would historically be considered their own.

A series of structured Risk and Opportunity (R&O) workshops are typically held with members of the alliance and specialist advisors during the TCE phase. The objective of these workshops is to define all the potential issues that may arise and to determine whether they represent a risk to the alliance (with the potential for the TCE to increase) or an opportunity to the alliance (with associated cost savings). Each issue is assigned an estimated value and a probability of occurrence with the net value included in the TCE as a contingency amount.

Items that are normally covered when reviewing the risks and opportunities for an alliance include:

- contractual issues
- cost control, such as uncertainty in subcontractors' overheads and profit, design growth, escalation in materials costs and escalation in subcontractor costs
- program issues, such as delays due to weather, approvals, service relocations and land acquisition
- impact of weather on the estimated productivity of direct labour
- industrial relations issues such as site allowances, penalty rates and strikes
- stakeholder approvals and interfaces primarily focused on the key areas where requirements are uncertain (such as the impact of construction on adjacent residents) or approvals processes that may result in amended requirements (particularly the case for services agencies)
- engineering design related issues including accuracy of estimated volumes or areas, assumptions on the integrity of existing facilities, pavements or structures, uncertainty associated with existing stormwater drainage, architectural and landscaping uncertainties, and communications, lighting or control systems
- procurement issues, where uncertainties remain in subcontractor prices at completion of the TCE
- construction related issues such as variations to estimated productivity rates, changes to construction work methods, repair to damaged works, and uncertainties in the estimated scope of the works
- uncertainties during the defects liability period
- staffing issues, particularly in resource constrained markets
- safety issues
- environmental obligations unspecified during the TCE phase.

In addition to the R&O workshops the discussions that take place about the insurances for the alliance will also generally reveal and clarify other risks and opportunities that will need to be addressed. Most alliances engage an insurance advisor to facilitate these discussions. The outcomes will inform the procurement of insurance for the alliance as well as the development of the TCE.

When reviewing the issues that are identified from the R&O workshops the Alliance Management Team (AMT) and Alliance Leadership Team (ALT) must be clear in their understanding of the risks borne by the alliance and included in the contingency provision in the TCE, and the risks remaining with the Owner and therefore excluded from the TCE. Risks remaining with the Owner have the potential to become variations if later transferred to the alliance. Variation benchmarking workshops that test a range of scenarios can assist in clarifying who carries what risks.

All of these conversations are very important in establishing a platform for success, as the degree to which the Partners ~~Non-Owner Participants (NOPs)~~ are open and transparent with the information provided will influence the owner's perspective of the depth of the relationship. All participants must also recognise the significant time commitment required to gain greatest clarity around and align on the R&Os to be included in the TCE.

At the end of the day if the participants have unsatisfied concerns about risks and opportunities that the alliance faces then the alliance should seek to extend the TCE phase to further clarify these issues.

Does the Target Cost Estimate deliver Value For Money?

Demonstrating Value For Money (VFM) remains one of the most critical success factors for an alliance. Development of a robust and transparent Target Cost Estimate (TCE) is a critical input to this VFM equation. This is facilitated through discussions that take place within the alliance team along with advice the Owner receives from independent specialists.

Documenting the outcome

The key output of the Target Cost Estimate (TCE) phase is a comprehensive report that covers all aspects of the design, construction planning and estimation undertaken. A typical TCE report will include:

- introduction to the alliance and the participants
- scope of works for the alliance
- alliance objectives and agreed commercial framework including the gain share/pain share Key Result Areas (KRAs) and Key Performance Indicators (KPIs) and how the minimum expectations of the Owner have been addressed in the TCE
- details of the preliminary design including the investigative works undertaken, schedules, drawings or other documentation of the works, assumptions made, standards or guidelines used
- work breakdown structure for construction activities and the proposed method of construction for each element
- organisation structure for the implementation phase of the alliance with a description of the differences to the TCE phase structure
- agreed risk profile for the alliance as determined through the risk and opportunity assessment
- register of innovations delivered during the initial phase of the alliance
- strategy for dealing with key stakeholders, land acquisition, outstanding approvals, and issues related to health, safety and the environment
- details of the systems, management plans and procedures prepared including internal audits and surveillance activities during implementation
- Target Outturn Cost (TOC) being the sum of all of the line items in the TCE
- outcomes of the reviews undertaken by the financial auditor and independent estimator
- preliminary program for the delivery of the works.

The TCE report will also commonly include a comparison of the TCE and the Owner's budget estimate that had been prepared before the start of the alliance. In resource constrained markets, there can be differences between these estimates with the budget underestimating the value of the works. This situation can cause concern for the alliance participants as a TCE greater than the Owner's budget can be perceived to be 'fat'.

Equally, Owners must invest the required effort to ensure their budget estimates are as robust as possible to minimise this potential. This means that Owners need to understand the scope of the works as best they can at the time of preparing the budget, must consider what it costs to deliver on their minimum expectations for the non-cost KRAs and must invest the required resources and expertise to estimate the value of the works. Some Owners are now considering whether they should engage the services of the independent estimator prior to the alliance commencing to support the preparation of a more robust budget.

Robustness of the estimate

Commonly the Target Cost Estimate (TCE) will be prepared using a cost estimating process that establishes the detailed work breakdown structure for the alliance and then applies first principles pricing based on quantities from design and subcontractor quotes for confirmation. In some cases, such as utility relocations, the TCE is based almost entirely on subcontractor quotes. Generally, the greater the proportion of the works that are priced by subcontractors, the greater the certainty that the Owner has that the TCE is competitive. It is common for between 50% and 70% of the direct labour, materials, plant and subcontract costs to be quoted through subcontractor pricing well defined packages of work during the TCE.

The TCE will be thoroughly reviewed by the alliance, independent estimators within the alliance participant organisations, and the Alliance Leadership Team (ALT) through a series of structured workshops. The independent estimator will take an approach that involves a combination of collaborative interaction with the alliance team and independent assessment on their own behalf. They will normally progressively review components of the TCE as they become available from the alliance. The activities that they undertake include:

- collation of drawings and specifications of the works
- participation in alliance workshops to gain a full appreciation of design issues, risks and opportunities, the construction staging and methodology, and the proposed resourcing for labour and materials
- independent review of the quantities for the various elements of the works
- review of the commercial framework and confirmation that it has been embraced in the preparation of the TCE
- independently assess the areas of risk and opportunity and undertake a probabilistic analysis of the estimate
- where possible benchmark the cost of components of the TCE against other works
- documentation of their findings in a comprehensive report to the Owner.

The agreed price

All alliance participants' must feel comfortable with the final Target Cost Estimate (TCE) and the process adopted to get to this point. This can be challenging for participants who have not experienced a construction estimation process.

Owner and designer Alliance Management Team (AMT) and Alliance Leadership Team (ALT) members will typically not have the experience of a long history of project cost and risk assessments leading to bid prices and ultimately project outcomes. At the end of the process there is still a judgement call on the achievability of ambitious cost targets and the balance of risk and opportunity. This judgement call is made based on senior experience and at times leads to interesting conversations where the Owner or designer may wish to take a more risk averse position.

The benefit of these conversations (which can go on for many hours) is that when a consensus position is reached, a full understanding of the joint commitment is reached and all understand what is required to achieve it.

Step 4.7 Commercial Terms & Risk/Reward Framework

[RPL: From AECOM Manual]The various components of the commercial framework should reflect the alliance principles. This chapter will explore the process that is generally applied to achieve commercial alignment and finalisation of an alliance agreement. The chapter will also address the three 'limbs' of an alliance commercial framework, driving non-cost results with the Key Result Areas (KRAs) and Key Performance Indicators (KPIs), and allocating and managing risk.

Commercial framework

An alliance commercial framework is typically comprised of three parts:

1. direct costs and project specific overheads
2. normal profit and corporate overheads (non-project related)
3. a performance pool.

The three components are generally referred to as Limb 1, Limb 2 and Limb 3 respectively. Limb 1 and Limb 2 constitute the Target Cost Estimate (TCE).

The principles of pain share and gain share are applied to the normal profit and corporate overheads (Limb 2) along with the performance pool (Limb 3) as shown in Figure 28. The performance pool is made available by the Owner for non-cost related Key Result Areas (KRAs), and is measured through Key Performance Indicators (KPIs). Funding for the performance pool typically sits outside the agreed TCE and is separately provided by the Owner.

The commercial framework is agreed during the commercial alignment phase (see Part D, Chapter 3) and is clearly set out in the Project Alliance Agreement (PAA).

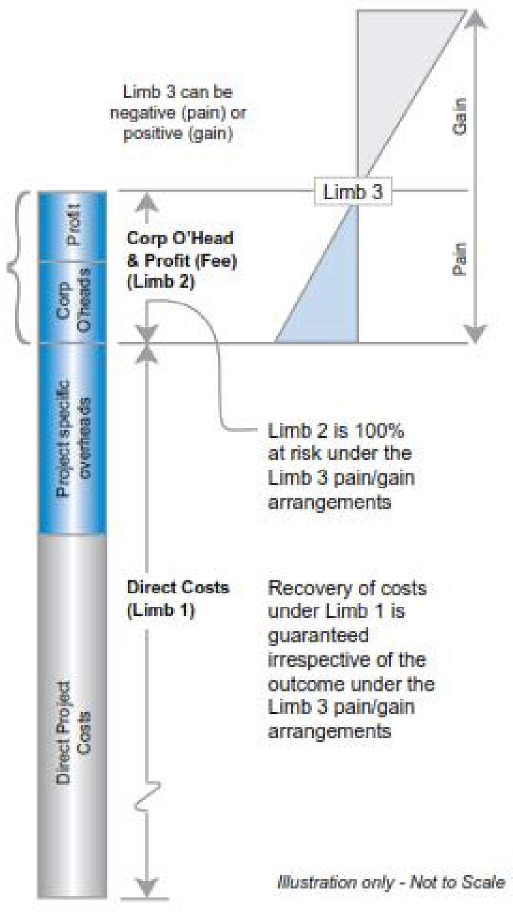


Figure 28 Gain share/pain share in an alliance

Limb 1 (direct costs and project-specific overheads)

A fundamental principle of all alliances is that Owners commit to reimbursing the Partners ~~Non-Owner Participants (NOPs)~~for the entire Limb 1 costs (direct costs and project related overheads hereafter referred to as direct costs) that are incurred in delivering the works, irrespective of the performance of the alliance and the outcomes of the gain share/pain share regime. This reimbursement includes rework where aspects of the work change, fixing errors or mistakes, and any wasted effort. Reimbursement of direct costs should make no contribution to administrative or support functions that are not directly related to the performance of the works.

The definition of what constitutes direct costs must be very carefully assessed such that the appropriate behaviours result. NOPs should be motivated to do whatever it takes to deliver on the total requirements of the works knowing that they will be reimbursed for all their direct costs. Reimbursement of 100% of a NOP's direct costs should not be an incentive to do more work than is necessary because those direct costs should not include any element of recovery of non-project related overheads and profit.

Audit of direct costs

Given the significant commitment by the Owner to reimburse all direct costs, the commercial alignment process must critically examine the financial records of each of the Non Partners ~~Non-Owner Participants (NOPs)~~ to clearly determine their historical project related direct costs (Limb 1) and the costs that should be classified as part of their corporate overhead and normal profit (Limb 2).

Owners will normally engage an independent financial auditor to support them in this assessment of NOPs' direct costs as part of the commercial alignment process and to provide ongoing auditing of costs during delivery of the alliance works.

One of the issues an Owner faces is determining the level of Value For Money (VFM) delivered through an alliance. The involvement of the financial auditor is an extremely important component in providing objectivity to this debate.

The conversations that are held between the NOPs and the financial auditor during the selection process and commercial alignment phase are critical to the success of the alliance. NOPs should be prepared to be open, honest and transparent in sharing their historical performance and understanding of the need to achieve a win/win outcome with the Owner as this will augur well for the alliance.

The NOPs should appreciate that participating in the commercial discussions is a privilege and this should be reflected in their approach, including their view of what constitutes direct costs (Limb 1) versus corporate overhead and normal profit (Limb 2). An inappropriate split will not provide the Owner with the comfort that the participant has enough 'skin in the game' to truly align with the Owner's alliance objectives. Conversely negotiating too much 'skin in the game' can also create a perverse culture of risk avoidance.
An inappropriate or non-equitable split may result in win/lose outcomes, rather than the desired win/win or lose/lose outcome.

Constructor direct costs

Project related direct costs, corporate overheads and normal profit are normally easily determined by constructor Partners ~~Non-Owner Participants (NOPs)~~from historical financial records. Projects delivered by these participants are set up with their own auditable financial accounts with clear differentiation between the actual costs incurred by the project and the corporate charges made to the project to cover non-project related overheads to the business.

The staff related direct costs for a constructor NOP are normally expressed as a multiple of the annual salary package converted to an hourly rate (for example, 1.5 times annual salary divided by the total hours in a year). This multiple normally picks up the statutory employee related charges and incentivised remuneration only as the other staff overhead costs (for example corporate training) get passed through Limb 2. Non-staff related direct costs (for example, subcontractors, materials, vehicles and project offices) are recorded at their actual cost to the project.

Designer direct costs

The task for designer Partners ~~Non-Owner Participants (NOPs)~~ to differentiate between project related direct costs, corporate overhead and normal profit is nowhere near as straight forward as for constructors, and can be the subject of some debate with the financial auditor.

The majority of designers do not keep auditable records of all direct costs for each project. Instead, projects are generally allocated costs on 'fully burdened labour rates'. Auditable financial accounts are normally held for each office within the business and/or for a market in that business (for example, the transport market).

To manage the effective delivery of projects, an internal cost structure is established so that staff time allocated to a project includes the recovery of the overheads of that business. These internal cost structures include an element of subjectivity that makes them difficult to audit effectively. The critical conversations that therefore take place with financial auditors are:

- how much of technical staff time that is not allocated directly to projects contributes to rework and unused effort in delivery of project outcomes
- what proportion of the office administrative support is directly related to the delivery of project outcomes.

The staff related direct costs for a designer NOP are normally expressed as a multiple of the annual salary package converted to an hourly rate (for example, 2.5 times annual salary divided by the total hours in a year). Non-staff related direct costs for a designer (for example, sub-consultant costs or project related travel, accommodation or other costs) are normally based on their actual cost with a BAU on cost margin applied.

Limb 2 (corporate overhead and profit)

The definition of the corporate overhead and profit component (Limb 2) of the commercial framework normally includes two phases. The first of these is the assessment by the financial auditor of the historical financial accounts of the Partner ~~Non-Owner Participant (NOP)~~. The second phase is a conversation with the Owner during commercial alignment about the historical accounts in the context of the current and future market place for the delivery of the alliance works.

In the current market place many Owners are beginning these conversations from the premise that Limb 2 in an alliance should represent a discount on historical performance for a range of reasons, but primarily due to the collective sharing of risks and the limitations on liability. These are always interesting conversations because in an alliance the risk sharing basis is set out clearly up front and the outcome is clearly tracked. (In other forms of contract, initial clarity of purpose is often lost in the developing project as latent conditions (Owner risk) and scope changes (Owner and contractor initiated) create opportunities for commercial positioning and reversal of risk allocation). Any discount contemplated also needs to be balanced with the significant contribution of senior executive time on the Alliance Leadership Team (ALT) that is not reimbursed directly. For the designer NOPs, the bulk of their work occurs relatively early in the project and therefore another issue is the extended period their Limb 2 is at risk (and therefore provisioned for at a financial cost) while the project is completed.

Other issues to be considered in this discussion are the change in level of risk by all parties compared with more traditional contract forms. For example, the Owner is taking on some of the construction risk, but also the NOPs are taking on some of the latent condition risks as well. These need to be considered on a project-by-project basis.

Limb 2 is normally expressed as a percentage of the Limb 1 direct costs (both staff and non-staff related costs) for all NOPs. Limb 2 percentages are normally much lower for constructors than they are for designers. This is normally driven by its application of the constructor margin to the very significant material and subcontract costs associated with delivery of the works that the constructor is responsible for. Occasionally alliances will adopt an overall Limb 2 percentage for all of the NOPs that reflects the weighted average of the constructor's and designer's input into the alliance. This then requires a sub-agreement between constructor and designer for distribution of Limb 2.

Fixed versus Variable Limb 2

To create the environment in which all parties either win or lose as a result of delivery of the works, the entire Limb 2 payment for an alliance is put at risk depending on the outcomes of the alliance. These outcomes are measured through the gain share/pain share regime that is described more fully in the next section. The commercial model should support behaviours that are ‘best for project’ rather than those that may be to the benefit of one participant over another.

Once the Limb 2 percentage has been determined through commercial alignment between the participants, it is applied during the Target Cost Estimate (TCE) phase to determine the Limb 2 amount payable to each Non-Owner Participant (NOP). The Limb 2 percentage can be applied in two different ways.

The first option is to *fix the Limb 2 payment as a lump sum* following approval of the Target Cost Estimate (TCE) irrespective of the outcome on actual direct costs for the alliance. This approach can influence behaviour in the NOPs to drive down the actual costs for the alliance so that the effective Limb 2 payment is higher than it would otherwise be (a greater percentage of the outcome direct costs). Progressive Limb 2 payments are made in the interim on the basis of the pro rata lump sum relative to actual direct costs incurred during a period.

The second option is to *retain the Limb 2 payment as a fixed percentage of the actual direct costs* irrespective of where the actual costs end up relative to the Target Cost Estimate (TCE), in other words, have a variable Limb 2 payment. This approach does not necessarily drive the behaviour to reduce cost as the primary objective, but does fairly compensate the NOPs for their inputs on the alliance. The Limb 2 payments are then made as a fixed percentage of the actual direct costs occurred in any period.

In most alliances the constructor NOP will take the position of fixing their Limb 2 payment as a lump sum once the TCE has been agreed. This approach is consistent with that taken in other delivery methods as it means the constructor has a real incentive to drive down construction cost (the majority of the cost) appropriately.

Both options have been used for the designer NOP in the past.

Alliances with integrated design and construction teams tend to continue development and design work for longer periods during the construction phase as the team continues to find innovation opportunities to enhance project outcomes. There is also a tendency for the designer to have much greater involvement during construction than others forms of delivery to alter the design as construction problems are confronted. Adopting the second option of determining the Limb 2 payment as a percentage of the actual direct costs (a variable payment) supports this behaviour.

If the designer adopts the first option and fixes their Limb 2 payment as a lump sum at approval of the TCE, their motivation is to keep overall design costs to a minimum – a goal that many believe to be positive. In this case, the designers will be reluctant to make changes to their design, particularly once it has been issued for construction.

Many believe that the former approach of the first option fixed Limb 2 amount means that the designer has more ‘skin in the game’, an outcome that supports the alliance objectives.

However, it is questionable whether this delivers best value for the Owner. The first option of fixing of the Limb 2 payment does not necessarily support additional design development and increased construction support as the designer can reach the point where any additional work performed on the alliance is reimbursed at direct cost only (as the total design costs go beyond the design budget in the TCE). This may restrict the potential for further design innovation, which may save the alliance significantly more money during construction than the additional design fees.

Both alternatives need to be carefully considered and should be the subject of a robust conversation during the commercial alignment process and may require consideration at later stages of the project dependent on the actual situation that evolves.

Both alternatives also require Alliance Manager (AM) approval and management of additional design work costs and Limb 2 allocations. This is a more onerous task for the AM in the first option fixed designer Limb 2 case than the second option of balancing of additional design (Limb 1 and Limb 2) costs with resultant construction cost savings. For this reason, most alliances now use the second option of a fixed percentage, variable fee approach for the designer.

Limb 3 (gain share and pain share)

The gain share and pain share component of the commercial framework (Limb 3) in an alliance is used to support the principle of collective sharing of risks. When tested against all possible outcomes, the result from the gain share/pain share regime for all alliance participants, including the Owner, should be win/win or lose/lose. This is challenging to agree during the commercial alignment process as the measures that are used to determine performance can quite often conflict with each other, resulting in the potential for win/lose outcomes. The measures should be defined to discourage any tendency to sacrifice performance in one area to secure rewards in other areas. However, while the temptation is to try to develop the regime to cover all possibilities, it is essential for its effective implementation that it is kept as simple as possible.

Case note 30

Fixed vs variable designer Limb 2

Project: INB HUB Alliance
Owner Participant: Queensland Transport
Non-Owner Participants: Leighton Contractors, AECOM, Coffey, Bligh Voller Neild, EDAW
Value: $333m
Duration: 2005 to 2008

The Inner Northern Busway was a highly complex multi-disciplinary project constructed in the heart of Brisbane City. It formed the Central City Busway link to the Northern Busway including two major bus stations (one underground), a 600 m tunnel and major city infrastructure relocations.

Key lessons:

During the commercial alignment phase of the INB HUB Alliance, a robust conversation occurred around the drivers resulting from designer 'fixed' versus 'variable' Limb 2. The context was that INB was a very complex project in a central city urban environment with much uncertainty around the actual conditions to be encountered tunnelling under streets, through car parks and interfacing with railway alignments and Roma Street Station.

Two positions were discussed:

1. If a fixed designer Limb 2 was adopted then the risk of additional design work needed to be assessed and allowed for in the Target Cost Estimate (TCE) as a contingency fund (a 'design investment' allowance to be included partially offsetting an adopted 'unknown opportunities' allowance).
   Expenditure of that allowance or expenditure of additional design work to realise additional construction savings would attract additional designer Limb 2. Approval of or a request by the Alliance Manager
   (AM) would be required before additional design expense was incurred.
2. If a variable designer Limb 2 (fixed percentage) was adopted then the risk of additional design work still needed to be assessed and allowed for in the TCE. Approval of or a request by the AM would still be required before additional design expense was incurred.

The INB Alliance Board chose to adopt the first position (fixed designer Limb 2). This position required the AM to ensure that designer input beyond the TCE designer budget was properly accounted for and Limb 2 dealt with fairly.

The willingness of Partners ~~Non-Owner Participants (NOPs)~~ to engage in robust conversation around the gain share/pain share regime is quite often used to differentiate between proponents in the selection process. Proponents must therefore understand the principles that it supports.

The elements of the gain share/pain share regime are linked to outcomes which add to, or detract from, the values of the Owner. The regime normally consists of both cost and non-cost performance measures with a focus on the issues that are of real importance to the Owner. The cost performance measures
assess the actual outturn costs to deliver the works in the alliance against the agreed Target Cost Estimate (TCE). The non-cost performance measures are called the Key Result Areas (KRAs) and are described in more detail later in this chapter. Gain share in the KRAs is normally funded from a separate performance pool outside the agreed TCE that the Owner establishes as part of the commercial alignment process. This performance pool is sometimes funded or supplemented by a proportion of any cost gain share earned. Pain share in the KRAs is taken from the Limb 2 component of the TCE.

The gain share/pain share measures will cover a range of performance so that as performance increasingly differs from the targeted outcomes (either positively or negatively) the gain or pain also increases. This is shown for the cost performance measure in Figure 29.

Figure 29 Gain share/pain share mechanism

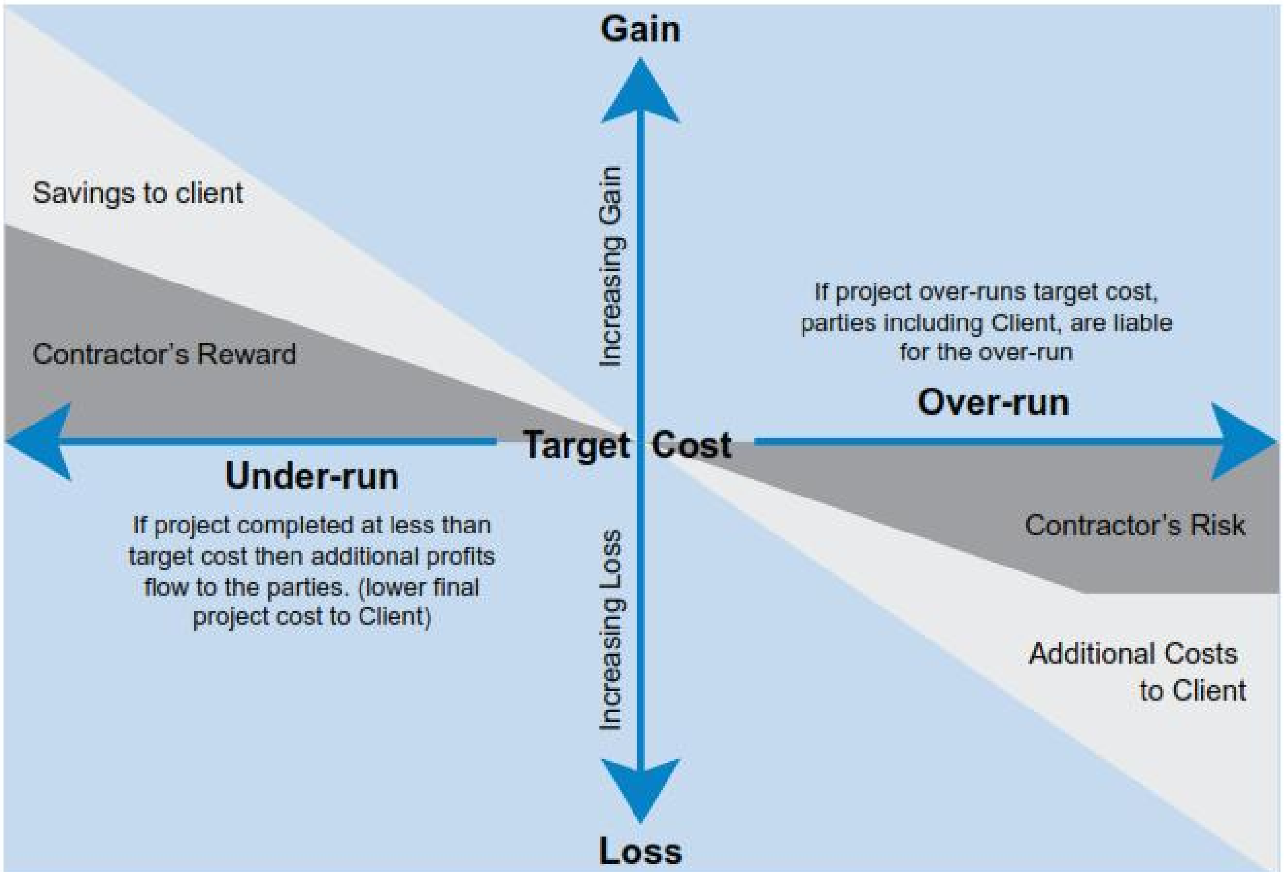


Diagram from Australian Contractors Association (1999), *Relationship Contracting: Optimising Project Outcomes*

The hinge point for this regime is commonly referred to as the Business As Usual (BAU) outcome or that which would be expected for normal performance for the team selected for the alliance (presumably the best available). As performance improves on BAU the returns to the alliance participants also improve. Likewise, as performance decreases in comparison to BAU the returns also decrease.

Quite often the upside in these regimes remains uncapped so that the greater the savings the greater the reward for the NOPs. Increasingly, a concern over the demonstration of Value For Money (VFM)
has resulted in some Owners placing a cap on cost gain share to remove any perceived incentive for the alliance to prepare a soft TCE – that is, one where there is a high likelihood that the actual costs will be less.

On the pain share side, however, a cap is included as part of the commercial framework so that the NOPs can lose no more than all of their Limb 2 payments. In this case, as an absolute minimum, the NOPs will only be reimbursed for their direct costs.

Quite often the alliance participants will agree to a sharing arrangement for the cost performance

measure where the Owner Participant (OP) takes 50% of both the gain and pain, and the remaining 50% is
available to be split between the NOPs. On the downside, however, as the NOPs' pain is capped at the amount of their Limb 2 payment, the Owner takes 100% of the pain thereafter. The risk of this occurring is very small as the project would have had to overrun by twice the total fee pool on the job (say 24 to 30%).

There are many variations to these arrangements (although the fundamental 50/50 splits and pain share caps rarely vary). NOPs must respect the Owner's intent when addressing variation to this framework through the commercial alignment process.

Non-Owner Participant share

Alliances that include both constructor and designer must also consider how the gain and pain should be shared between the Non Partners ~~Non-Owner Participants (NOPs)~~. Quite often this conversation occurs independent of the Owner. Various example sharing regimes are shown in Figures 30 to 33.

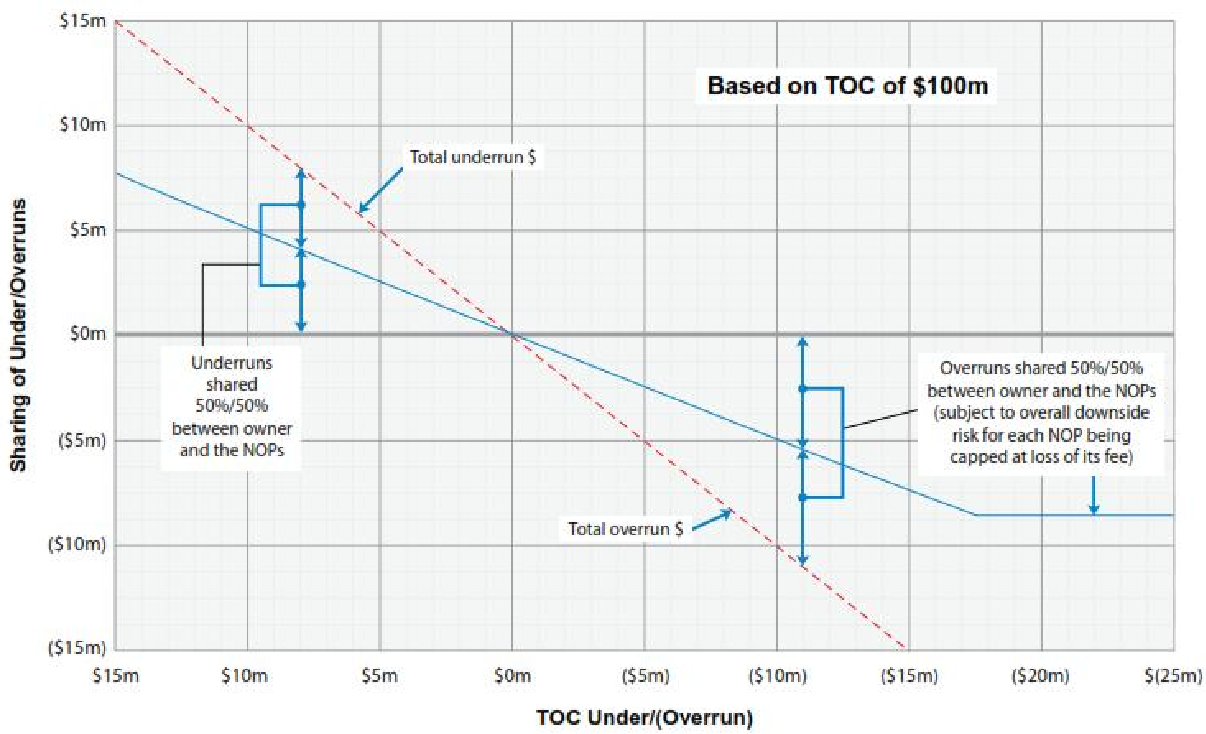


Diagram from Project Control International (PCI)

Figure 30 Lump sum fees, no contributions to top up pools

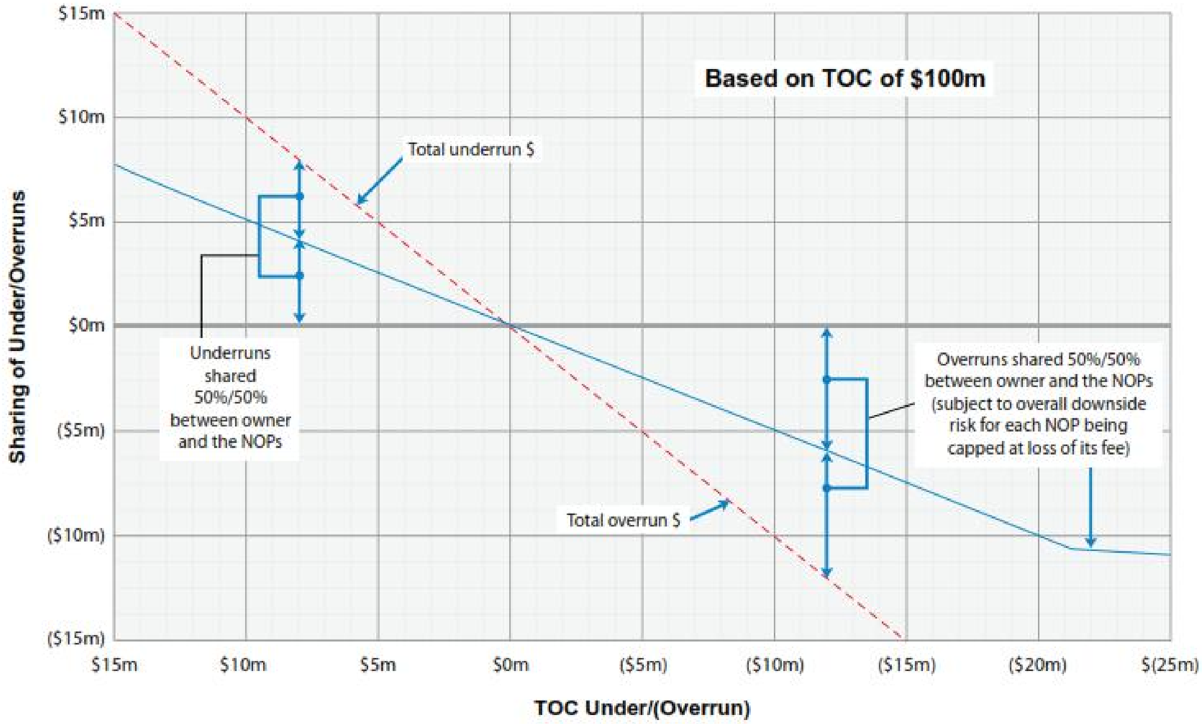
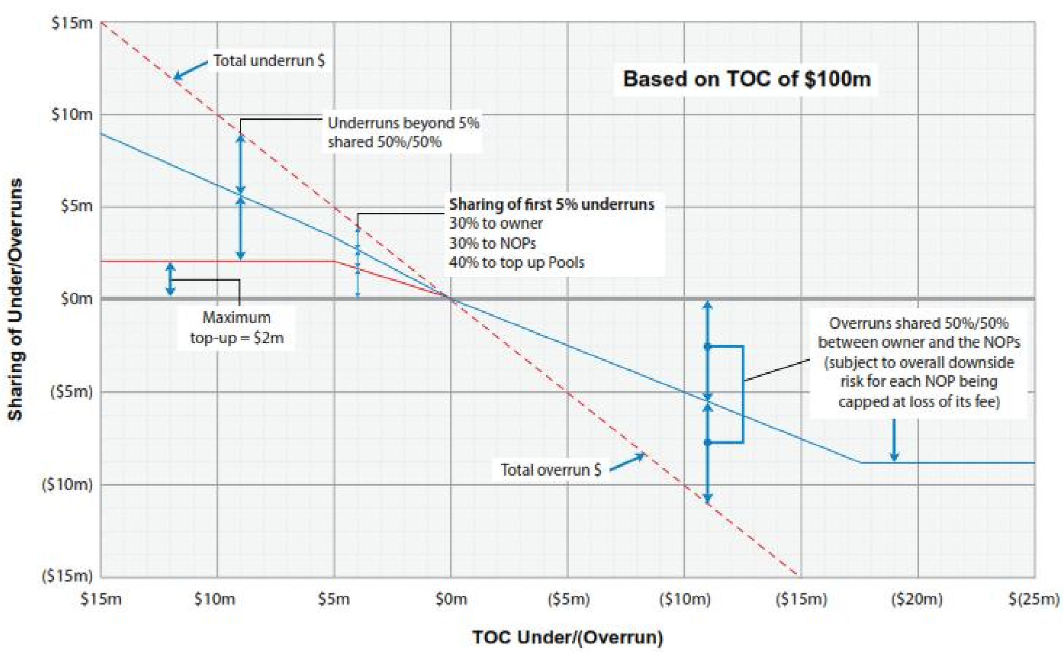
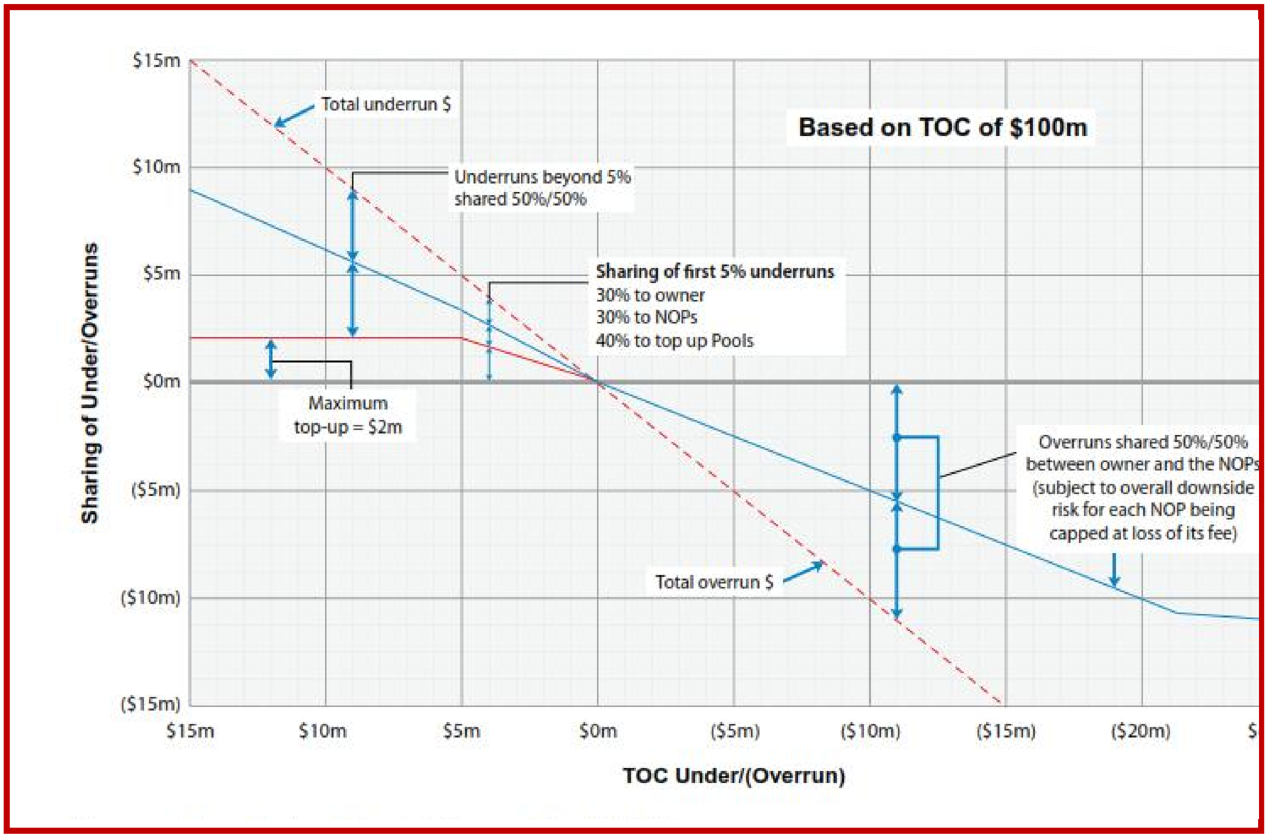


Diagram from Project Control International (PCI)

Figure 31 All fees based on actual costs, no contributions to top up pools




Based on TOC of $100m
Total underrun $
Underruns beyond 5%
shared 50%/50%
Sharing of first 5% underruns
30% to owner
30% to NOPs
40% to top up Pools
Maximum
top-up = $2m
Overruns shared 50%/50%
between owner and the NOPs
(subject to overall downside
risk for each NOP being
capped at loss of its fee)
Total overrun $
Sharing of Under/Overruns
$15m
$10m
$5m
$0m
($5m)
($10m)
($15m)
$15m
$10m
$5m
$0m
($5m)
($10m)
($15m)
($20m)
TOC Under/(Overrun)

Each of the NOPs should experience pain in proportion to their Limb 2 amounts so that each expire their Limb 2 payment at the same point. The proportions are often called the 'natural split'. Establishing the right balance is important to ensure that win/lose outcomes do not eventuate in delivery of the works.

For gain share, however, quite often the designer participant will have a greater share in the gain than the natural split proportion to provide an incentive for them to chase innovations in design and ultimately reduce the cost of construction.

Another consideration is the NOPs' share of gain share/pain share for the Key Result Area (KRA) performance pool. This will depend on the degree to which each participant can influence the outcome. For example:

- if the major KRA is 'safety' then the relative contribution of the constructor's safety systems versus the designer's 'safety in design' contributions needs to be considered
- if the major KRA is 'innovation' then the relative contribution of the designer's innovation versus the constructor's innovation in construction methodology needs to be considered.

The degree to which the share of the gain differs to pain varies between alliances and is the result of an aligned commercial discussion between those participants. Typically if the gain share is to be skewed towards the designer, this should be a constructor led conversation.

Key Result Areas

The Key Result Areas (KRAs) for an alliance represent the areas (other than cost) of value to the Owner. The KRAs will normally align with the corporate goals of the Owner or will reflect their business objectives. The KRAs are considered to add 'personality' to the alliance as each Owner and each alliance will have a different focus on what is important with respect to performance. Some typical examples of these non-cost KRAs include:

- stakeholders and community
- environment and sustainability
- safety
- quality
- schedule.

Some or all of the KRAs are incentivised by the Owner with gain share funded from a separate performance pool that the Owner establishes for the alliance. The Owner will normally define a set of KRAs along with their Minimum Conditions of Satisfaction (MCOS) or minimum expectations prior to going to the market to select Partners ~~Non-Owner Participants (NOPs)~~. These will often be modified as further thought goes into developing them by all participants during the commercial alignment and Target Cost Estimate (TCE) phases.

MCOS will be used as the basis for defining Key Performance Indicators (KPIs) for each of the KRAs during the selection process and commercial alignment. In setting the KRAs, it is critical that the Owner selects objectives that the NOPs can influence in the delivery of the works.

In most cases, each of the incentivised KRAs will have both gain share and pain share included in the commercial framework. However, some Owners are adjusting this model to provide gain share and pain share for some KRAs, while only pain share for KRAs that have no upside value.

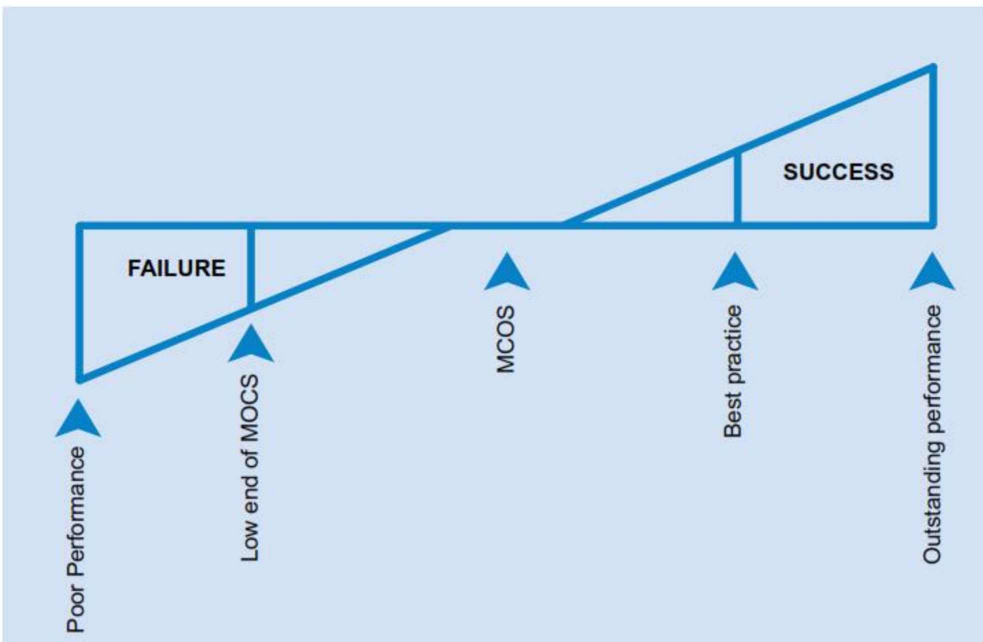
A typical example of a KRA with only pain share is safety where Owners take the view that it is unacceptable to have anyone hurt as part of the works.

An example of a KRA where there may be both gain share and pain share is stakeholders and community. Performance above MCOS will result in gain for the NOPs and below MCOS, financial pain.

Measuring performance

The range that is commonly used to measure the performance of Partners ~~Non-Owner Participants (NOPs)~~ against the Key Performance Indicators (KPIs) for the Key Result Areas (KRAs) is shown in Figure 34. This range may include a zone around the Minimum Conditions of Satisfaction (MCOS) that reflects neither gain nor pain. Alternatively, the spectrum may simply reflect a linear relationship from MCOS to either outstanding or poor performance.

Figure 34 Key Performance Indicator range



Setting targets

Teams involving representatives of both the Owner Participant (OP) and Non Partners ~~Non-Owner Participants (NOPs)~~will normally come together to define what is considered to be both outstanding and poor performance against each Key Performance Indicator (KPI) for each Key Result Area (KRA).

Targets are set so that the team needs to perform at an exceptional level to earn good rewards. By definition, the outstanding targets need to make the team feel 'uncomfortable' with uncertainty as to how they will be achieved. However, they should not be so far beyond what has been previously achieved that the team fails to commit to delivering or is de-motivated.

When establishing the KRAs and KPIs as part of the selection process and commercial alignment, significant effort must be made to ensure that the framework is simple to understand and implement.

Given that the whole alliance team needs to embrace the KRAs and KPIs, simplicity is essential for the Owner's expectations to be clearly communicated. Simplicity in implementation provides balance between the associated measuring, reporting and implementation costs and returned value.

Unfortunately, there have been examples of alliances that have made the KPIs so complicated that the cost of measurement and administration clouded the value that came to the client from outstanding performance.

Case note 31

Owner's commercial framework

Project: Lawrence Hargrave Drive Alliance
Owner Participant: Roads and Traffic Authority, NSW
Non-Owner Participants: Laing O'Rourke (Barclay Mowlem), AECOM, Coffey Geosciences
Value: $45m
Duration: 2003 to 2006

Lawrence Hargrave Drive traversed geologically unstable country. The coastal road had been damaged by subsidence caused by wave action along the coastline and from rocks falling from adjacent cliffs
and slopes. The Roads and Traffic Authority (RTA) selected the alliance partners to investigate a range of options to reconnect the road within a nominated budget. Ultimately the alliance delivered a viaduct including a 646 m cantilever and incrementally launched bridge, extensive cliff face and slope protection works and a 300 m cantilevered boardwalk structure.

Key lessons:

When RTA issued its Request for Proposals (RFP), the document listed eight Key Result Areas (KRAs) which were typical of most alliances at the time (this was the RTA's first alliance). The KRAs were:

- Project options
- Program
- Cost
- Environment
- Community
- Risk
- Safety
- Quality.

During the commercial alignment phase of this project, the treatment of the KRAs was split into three stages:

- Stage 1: Options development and analysis
- Stage 2: Selected option preliminary design and Target Cost Estimate (TCE)
- Stage 3: Detailed design and construction.

For Stage 3, the original KRAs were adopted. However for Stages 1 and 2, the majority of the incentivisation pool was allocated towards an 'Innovation KRA' with the designers
heavily incentivised as follows:

- AECOM 40%
- Coffey Geosciences 40%
- Laing O'Rourke (Barclay Mowlem) 20%.

The KRA framework set the expectation for the truly innovative outcomes ultimately developed by the alliance.

Step 4.8 Draft Alliance Agreement

Purpose

This step focuses on pulling together the basic vital information for a holistic agreement and the key elements that describe the components of the alliance.

Form (Structure) Follows Function

Once negotiations have proceeded to outline the basic terms and conditions of an alliance, many deal makers are tempted to "structure the deal" and jump to detailed legal agreements. This should be carefully avoided at this stage. Instead, a succinct Draft Alliance Agreement should be generated outlining the fundamentals of the union, including the strategic fit, the presumed operational interfaces, objectives, and goals.

What Is the Draft Alliance Agreement?

This is the midpoint in the alliance formation process. The Draft Alliance Agreement now crystallizes key points and sets the foundation for finalization of arrangements. Structural issues should be only broadly outlined at this point, with final commitments to organizational form, financial investments, and legal contracts formalized after the next Phase of Operational Planning.

View the Draft Alliance Agreement as a road map. It helps you set goals and broad principles for action. It is written by business people for business people; it's not intended to be a legal document and it is noncontroversial. It is a means of communication for use in-house, between partners, and/or between staff.

What It Does

The Draft Alliance Agreement opens communications in-house, between partners, between staffs, and/or between legal counsels. It airs concerns about what should be included and what should be left to negotiations. It also provides background for new staff. The Draft Alliance Agreement provides a document for settling minor interim disputes, eliminates duplication of decision making, and provides clear direction for legal counsel drafting agreements.

How It Works

The Draft Alliance Agreement is produced in-house with management sign-off, and with the project team confirming the current position. It acts as a position paper that shortcuts the posturing of newcomers, and acts as a mandate for attorneys, detailing the position on key basic issues. This relieves them of the responsibility of maximizing the client's position.

Implementation of the Draft Alliance Agreement

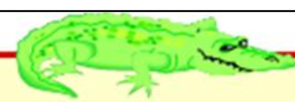
The predraft is done by the proposing party and agreed to by their top management prior to any outside contact for negotiations. There should be a discussion of the Draft Alliance Agreement paper with potential associates, open to all parties involved with the alliance, regardless of organizational position. Be sure to maintain confidentiality by all parties.

Once the Draft Alliance Agreement is signed by the various levels of the organization, it can then be used as the basis for the Operational Planning process. Then, allowing that form (structure) follows after determining function, the operational plan should be mutually created by the two prospective partners to ensure that the gears of the alliance mesh properly. Writing the operational plan together, the partners test the teamwork at the operational level, which will help middle managers to maximize their capabilities.

Special Considerations for Coopetitive Agreements

Alliances formed with partners who may also be competitors require exceptional clarity in the MOUP, stating the intent of the alliance and the expected outcomes and addressing the risks of coopetition. Be very clear in where you expect to cooperate, where you expect to compete, and how those aspects of your businesses will be firewalled off. Make sure that the MOUP and subsequent contract address these questions:

- How will you ensure that the areas of cooperation are shielded from the areas of competition?
- Propose how firewalls will be used to secure market, account, and industry intelligence.
- Do you need a Non-Compete Agreement to cover specific situations (markets, accounts, industries)?
- List the elements that should be kept confidential.
- List the time for which those elements should be kept confidential.



~Trap~
Statement of Intent

Beware of using the term "Statement of Intent" at this stage in negotiations. It can be ruled as a legally binding agreement in some jurisdictions, such as New York.

Stay with less legalistic terms, such as Statement of Principle or Philosophy, or Memorandum of Understanding.

Task 4.8
Draft Alliance Agreement

Jointly develop a Draft Alliance Agreement covering at least 10 critical points (see Appendix C for an actual example):

1. **Purpose of the Agreement**: Outline why the alliance is being formed and what is its perceived mission. Describe the *mutual value proposition.*
2. **Spirit of the Venture**: What is the commitment to the future both companies are seeking? What valued and future vision will engender communications and trust?
3. **Key Objectives and Responsibilities**: Address which products, services, or other specific projects will be included and excluded from the venture. Identify target markets (i.e., regions, user groups, etc.) and any excluded markets that will remain the domain of the partners. If the venture has purchase and supply provisions, state who will purchase or supply specific products, services, or resources from or to the owners. Clarify and specify objectives and target goals to be achieved by the alliance, when to expect achieving these objectives and goals, any major obstacles anticipated, and the point at which the alliance will be terminated (if any). Each participant should designate an Alliance Manager who will be responsible for their company's day-to-day involvement in the alliance.
4. **Method for Decision Making**: Describe who is expected to have the authority to make what types of decisions, in what circumstances, and who reports to whom, etc.
5. **Resource Commitments**: What specific financial resources, such as cash, equity, stage payments, loan guarantees, etc., are needed for the achievement of the alliance's ultimate goals? Other "soft" resources may be in the form of licenses, knowledge, R&D, a sales force contact, production facilities, inventory, raw materials, engineering drawings, management staff, access to capital, the devotion of specific personnel for a certain percentage of their time, etc.
6. **Financial Philosophy**: "Soft" resources should be quantified with a financial figure so that a monetary value can be affixed along with the cash commitments to this venture. The manner of handling cost overruns should be agreed upon. Pricing, costing, and transfer pricing procedures should be explained if applicable.

Task 4.8 (continued)
Draft Alliance Agreement

7. **Assumption of Risks and Division of Rewards**: What are the expected rewards (new product, new market, cash flow, technology, etc.)? How will the profits be divided?
8. **Project-Specific Issues**: Who has the right to products and inventions? Who has the rights to distribute the products, services, technologies, etc.? Who gets licensing rights? If the confidentiality and Non-Competition Agreements have not yet been drafted in final form at this point, they should be addressed in basic form here. How will agents and distributors be handled?
9. **Anticipated Structure**: This section should describe the intended structure (written contract, corporation, partnership, or equity investment, etc.).
10. **Transformation**: What do the partners foresee as the future of the alliance? How will it evolve or unwind? Any termination provisions should be identified.

Present the Draft Alliance Agreement to the appropriate executive committee for approval or revision of strategic alliances.

Draft ~~Project~~ Alliance Agreement

[RPL: from the AECOM Manual]
The commercial framework influences the behaviours of all participants to achieve outcomes that provide for mutual success. Once that has been agreed, the nature of the agreement between the participants must be documented in a single, multi-party Project Alliance Agreement (PAA) that can be executed by all parties. The contract must underpin the philosophy of alliancing and embrace the intent of the commercial relationships such that it does not constrain the participants in their approach to the alliance.

Traditional contract agreements have tended to be based on a master-servant relationship where an Owner defines the scope of their works, assigns risk to the parties, sets performance expectations, establishes processes to resolve disputes, and includes the right to recover costs where damages result due to the actions of the servant in the relationship. These are sometimes referred to as 'adversarial' contract agreements and do not support the intent of alliances. Consequently, much work has gone into the preparation of a different form of contractual framework which avoids an 'adversarial' theme and reinforces the collective, cooperative environment required to enable the alliance to achieve its full potential.

An alliance contractual framework has a number of distinctive features as shown in Figure 35 and discussed below.

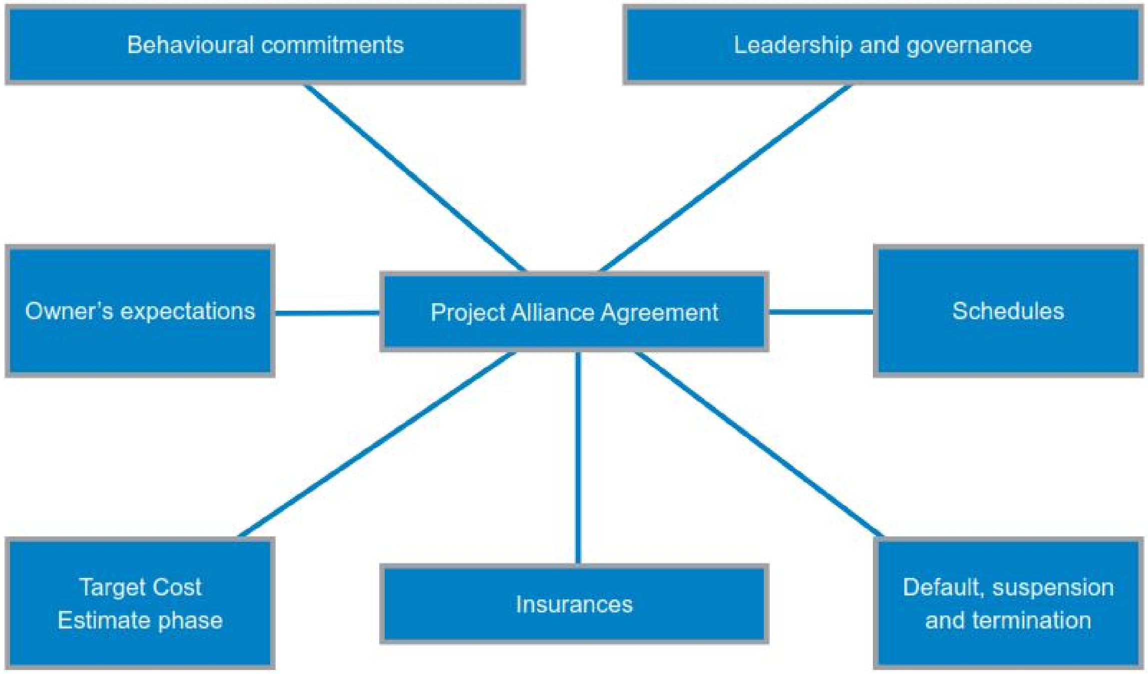


Figure 35 Contractual key features

In some alliances an interim Project Alliance Agreement (iPAA) will be prepared and executed to cover the delivery of services up to the approval of the Target Cost Estimate (TCE), at which point the final PAA will be executed. This approach is taken to facilitate early commencement of the works while full details of the commercial framework, particularly the gain share/pain share regime, are being resolved. Other alliances use one agreement (the PAA) to cover all phases, incorporating a 'go/no go' hold point for the Owner when the TCE is finalised and submitted.

Collective responsibility

The Project Alliance Agreement (PAA) acknowledges that the participants will collectively deliver the project, and collectively share all project risks (other than where a specific risk is expressly given to one participant only).

The language of the PAA is inclusive. 'We', 'us' and 'our' are used to reinforce these collective undertakings.

The participants' collective responsibility for the project is underpinned by 'no dispute' and 'no blame' commitments which rule out the possibility that any participant can be held to be legally liable to the others for poor performance or negligence.

Behavioural commitments

Behavioural commitments of the alliance participants are the foundation to the alliance and are critical to its success. Typically the commitments outlined in the agreement include:

- definition of the alliance objectives and principles
- all parties will act in good faith

- best for project decisions will be made on a best for project basis
- participants will avoid disputes and adopt a no blame attitude
- risks and opportunities will be collectively shared as will performance of the alliance
- information will be shared openly and transparently
- results orientated focus
- conflicts of interest are openly declared.

Leadership and governance

The agreement will include a description of the Alliance Leadership Team (ALT) and its leadership and governance role. Typically the agreement will include:

- establishment and composition of the ALT
- the ALT's functions and responsibilities
- all decisions of the ALT must be unanimous
- ALT representatives must have the authority to bind the participants
- conflicts of interest are openly declared
- definition of any 'reserved powers' where the Owner retains the right to make a unilateral decision if the ALT is deadlocked (for example scope changes or suspension of work).

The agreement will also contain a description of the Alliance Management Team (AMT) under the leadership of the Alliance Manager (AM) and their roles in the alliance. Typically this will include:

- establishment and composition of the AMT
- the functions and responsibilities of the AMT and AM
- reporting and operational requirements
- unlike the ALT, the AMT is not required to make decisions unanimously, but any dissention should be notified to the ALT.

Target Cost Estimate phase

The agreement will address the requirements of the project development or Target Cost Estimate (TCE) phase. This phase determines the cost target for the alliance. The Owner will reserve the right at the end of this phase to terminate the alliance if the cost target exceeds their expectations and can not be reduced, or for any other reason.

What constitutes an Owner direction or a scope variation will be defined. The agreement will normally include guidelines of events that the participants have agreed may lead to variations (which will adjust the cost target and/or completion date). The primary principle is that there are no variations once the TCE is agreed, unless there is a major scope change.

Owner's expectations

The agreement will define the Owner's expectations of the alliance in performing the works, including any specific project and policy requirements. It will also define what constitutes practical completion and the defect correction period during which the alliance remains fully responsible.

At the end of the defect correction period, the Owner generally assumes full responsibility for the project works, although some agreements will contain an extended 'latent defects' period.

Access and stakeholder management

Although access is usually the sole responsibility of the Owner, the management of adjacent landowners, service providers, government agencies and other stakeholders is an alliance responsibility.

Insurances

Given the contractual obligations in an alliance the insurance requirements are quite different to a master- servant relationship. The agreement will identify how insurances are to be put in place to cover the activities of the alliance and its participants. An alliance insurance program would typically include:

- contract works
- public liability
- professional indemnity (suitably tailored for 'no blame')
- workers compensation
- motor vehicle and construction plant.

Insurance is dealt with in more detail later in this chapter.

It is highly desirable to have resolved the basics of the insurance program before the agreement is finalised so that potentially uninsured risks have been properly and openly dealt with.

Default, suspension and termination

The agreement will incorporate procedures for suspension and termination of the contract, including the Owner's right to suspend or terminate for their convenience. It will also include a definition of default or wilful default. Wilful defaults set aside the 'no blame' principle, enabling a participant to take legal action against another participant who has wilfully defaulted.

Because alliance agreements usually have multiple parties, there will usually be the ability for non- defaulting participants to expel a defaulting participant without terminating the agreement.

Schedules

The agreement will include a range of schedules to provide greater detail on specific topics to cover:

- scope of the works
- further detail on the roles, responsibilities and accountabilities of the Alliance Leadership Team (ALT), Alliance Management Team (AMT) and Alliance Manager (AM)
- definition of the commercial framework and in particular what constitutes Limb 1 direct and project overhead costs, the agreed Limb 2 percentages and how they are applied, and the gain share/pain share regime
- miscellaneous schedules particular to the works.

[RPL: from AIA-IPD Manual]

5 Develop project agreement(s) to define the roles and accountability of the participants. The project agreements should be synchronized to assure that parties' roles and responsibilities are defined identically in all agreements and are consistent with the agreed organizational and business models. Key provisions regarding compensation, obligation and risk allocation should be clearly defined and should encourage open communication and collaboration. Issues to be considered include:

5.1 Compensation and use of incentives
- 5.1.1 Profit sharing
- 5.1.2 Open book accounting
- 5.1.3 Performance bonuses

5.2 Communication and information exchange
- 5.2.1 Technology
- 5.2.2 Standards/protocols
- 5.2.3 Gate keeping
- 5.2.4 Audit and archiving

5.3 Obligations and oversight

5.4 Project decision processes

5.5 Professional responsibility

5.6 Risk allocation

5.7 Insurance program

Risk and opportunity framework

A key feature of the commercial and contractual framework that differentiates this delivery method from others is its approach to risk and opportunity management. The principle of collective sharing of risks is embraced in a number of ways throughout delivery of the works. Before describing these, it is important to appreciate what is meant by risks and opportunities in the context of the alliance.

What is risk?

Risk is the chance of something happening that will have an impact on objectives. While risk may have a positive (opportunity) or negative impact it is often specified in terms of an event or circumstance and its consequences. Risk is therefore measured in terms of a combination of the consequences of an event and the likelihood of it occurring.

The AS/NZS 4360-2004 definition for risk management is, *the culture, processes and structures that are directed towards realising the potential opportunities whilst managing adverse effects*. Clearly the approach to risks and opportunities for an alliance are well founded in risk management.

Historically, risk management has often been contracted to a particular contract participant leading to contractual disputes when the risk profile of the project changes. In contrast to this, an alliance brings all participants under one risk and opportunity framework to execute the project.

The need for a consistent approach

As industry has matured and the world become more complex, intuitive risk management processes have been formalised by creating a common understanding of risk. In other words, a risk and opportunity framework has been created based on standards.

National standards on risk management first appeared in Australia and New Zealand in 1995, then in Canada in 1997 and in the United Kingdom in 2000. Since then other standards have appeared around the globe.

Standards are not legally binding. Rather they remain as guides or benchmarks which define materials, methods, processes and practices for determining consistent and acceptable minimum levels of quality, performance, safety and reliability. AS/NZS 4360:2004 Risk Management Standard is recognised worldwide as a capable risk management process standard.

Application in an alliance

An alliance requires a practical approach to risk and opportunity management. Importantly, the approach will create an audit trail and place the alliance in a position of control.

Ultimately, the recommend approach is to develop a risk and opportunity framework as this will ensure information on risks is shared more efficiently and business decisions are quicker, based on a common and consistent platform. Each of the alliance participants will also be more informed on risk and aligned to the alliance objectives.

The key outputs from a best practice risk and opportunity framework are:

- **Risk management strategy** – documents the objectives, the phases of activity, critical timelines and key tasks for the alliance. The document is submitted for Alliance Leadership Team (ALT) approval and is often used by the ALT to monitor performance and the maturity of the internal risk culture.
- **Risk management framework** – articulates in detail the alliance's framework for managing risk.
- **Risk management program** – this will include an implementation plan and is a set of coordinated activities undertaken to ensure the risk management framework and risk management practices are adopted, measured and maintained.
- **Risk management systems** – the practical toolbox required to apply risk management practice as outlined in AS/NZS 4360:2004.

Some important questions for each alliance to consider when establishing its risk and opportunity framework include:

- Does the alliance want risk management as an integrated element of the overarching governance framework?
- Who is accountable (as opposed to responsible) for risk management in the alliance?
- Is the risk culture evenly distributed across the alliance?
- What is the return on investment in risk management that the alliance is looking to measure, such as awareness, culture, and reduction of risk, benefits or savings?

Some practical examples

One of the great attributes of risk management in alliances is the commitment to openness and transparency in all respects. During commercial alignment this is reflected in the Partners ~~Non-Owner Participants (NOPs)~~making available their historical financial records to demonstrate their past performance. In delivery of the alliance it is reflected in the open book nature of all direct costs incurred by the alliance.

During development of the Target Cost Estimate (TCE) this commitment is again evident in the open sharing of information on the risks and opportunities that may be faced by the alliance with the Owner having full access to appreciate the level of contingency included in the estimate. This is in stark contrast to other delivery methods where the NOPs make their own judgements on the risks and opportunitiesand consequently, the level of contingency that will be included in their pricing, and the Owner pays that contingency irrespective of the outcomes in management of those risks.

The alliance approach to risk management also enables effective delegation of authority throughout the delivery team with the commitment to no blame ensuring that issues are identified early and acted upon. Effort is expended in resolving problems when they arise, rather than trying to identify who caused them in the first place.

The risk and opportunity framework that is typically applied in an alliance has two components. There are those risks and opportunities that are associated with delivery of the works that relate to technical, contractual and commercial issues that the alliance may face. These were discussed in more detail in Part D, Chapter 3 along with the procedures generally adopted to identify and manage them during the alliance. In addition to this, there are risks and opportunities that relate to the insurance procured for the alliance. The approach to the management of these will influence the premiums payable by the alliance.

Insurance

The insurances that are core to a construction project are:

- **Contract works insurance** covers events where damage to the works occur requiring rectification. An example would be a partially completed bridge pylon that collapses during a flood event.
- **Public liability insurance** covers events where damage external to the works occurs and a claim for damages is brought by an external party. An example would be the neighbouring farmer whose crop is flooded and lost when a bridge pylon collapsed and blocked the stream diverting it into the farmer's field.
- **Professional indemnity insurance** covers negligence in design and other professional duties of the alliance participants. Typically, the policy is triggered by the discovery of incorrect design. An example would be a bridge pylon constructed without half the necessary structural reinforcing. If the pylon has not collapsed then no physical event has occurred but rectification work and costs are still required.

The first two policies are events based policies. In other words, a defined event occurs requiring rectification to which an assessor and policy can respond.

Professional indemnity policies traditionally require legal liability for loss to access the cover. In other words a party has to be able to sue the holder of the professional indemnity policy for negligence to gain access to the rectification funds. Professional indemnity policies may be held by all parties: the designer to cover their core activities; the constructor to cover such things as temporary works design; and the Owner to cover client design and specification of specialist project areas.

Taking legal action to access professional indemnity insurance directly conflicts with the 'no blame' (no sue) clause in alliance agreements.

Historically, alliances have typically operated under three phases with the insurance industry.

1. Pre 2001 – before the collapse of HIH Insurance, alliances were able to obtain a range of insurances which effectively covered all requirements.
2. 2001 - 2005 – No professional indemnity cover was available that worked with the 'no blame' clause in a conventional alliance agreement. Alliances either elected to not have professional indemnity cover or created 'blame' mechanisms to allocate responsibility covered by traditional cover.
3. 2005 onwards – A professional indemnity policy was developed that enabled a claim to be lodged based on a breach of professional duty such as a design error (rather that a legal liability).

From 2005, a design event based professional indemnity policy has been available which covers all parties on the alliance. The popularity of alliance frameworks and integrated risk management processes has led other insurers to also offer similar cover.

A genuine commitment to collaboration and other alliance principles has also led to insurers offering some alliances 'LEG3' (London Engineering Group) extensions to contract works insurance as well. 'LEG3' cover does not contain the usual exclusion from cover for damage to the project works resulting from bad workmanship or design error.

These new and extended policies, all at competitive premiums, are a reflection of the regard that the insurance industry has of alliance risk management processes when done well

~Tip~

"C-ing Your Way To Success"

When working with your alliance partners,
we encourage you to…

Be **C**aring
Command Respect (by giving it)
Be **C**reative
Collaborate
Coordinate
Celebrate Success
Be **C**onfident
Be **C**onstructive
Gain **C**onsensus
Be a **C**atalyst
Compliment and **C**omplement
Have a **C**an-Do Attitude
Communicate
Be **C**lient Oriented
Be **C**ommitted

and **Not**…

Compete with one another
Criticize without self- examination
Condescend
Contradict actions and words
Complicate
Confuse
Compromise excellence standards
Conceal
Critical or Cynical
Controlling

from Keith Gaylord and
Robert McCants, IBM-US

~Tip~

"If you can't write it down simply and clearly, you just haven't thought it out well."

Best Practice Tip
Joint Presentation

Try having both champions make joint presentations of the MOUP to each company's Executive Committee. In this way, both company's get exactly the same presentation, have a chance to meet the other champion, and both champions have an opportunity to hear specific concerns of the other's approval group.

~Tip~
Before Going To
Executive Committee

Be sure this alliance has all the characteristics of success. Compare the alliance to the 8 characteristics of Success in Checklist 3.5 at the end of this step.

~Tip~
Memories Fade

Protect ourselves and our partner by writing down our agreements, even informal ones. It will be valuable to refer back to them at a later date to understand why certain decisions were made, especially after key individuals rotate out of the alliance into new jobs. Summarize repeatedly, and listen for understanding.

A Final Word on Negotiation

As our readers should certainly have noticed, this section on building trust and value-creating negotiations has not delved into specific detail on negotiating style or technique. There are a few reasons for this.

First of all, the intention of this guide is to feature the aspects of alliance thinking that are critical to creating the proper environment for strong partnerships, so these have received top priority in this section. Second, the very word *technique* implies that by adopting a particular negotiating methodology one can achieve one's desired ends. It was felt that such thinking might cause individuals to overlook the need for creating the proper environment for win-win agreements and instead focus solely on technique.

Finally, it was acknowledged that there are an immense variety of negotiating techniques that are available. Even if we had the intention of including them all here it was felt that there was no way this guide could even begin to adequately catalogue, let alone explain them. Those who feel they can benefit by negotiation training or exposure to various styles of negotiation are encouraged to do so. However, it is important to remember that proper technique is not a substitute for proper intent. At the end of the day, a successful alliance is built on a foundation that emphasizes trust and transparency. An alliance champion who can keep those values foremost among the parties negotiating the alliance will ensure that the alliance has its strongest chance for success.

~Tip~

Loose lips sink ships. Marketers and engineers in particular love to talk about their technical exploits and concepts. Inadvertently, they can give away very critical information, that, should the alliance not be consummated, could be very damaging.

Train your negotiations team in effective handling of confidential information. Allow only one person from each company to be exposed to technology during negotiations. And each should have signed an agreement.

If confidentiality and non-compete agreements are called for, be sure to consult with our company's legal counsel before making commitments to sign or initiate such documents.

~Trap~
Length Of Document

Don't allow the MOUP to be more than 5 pages long. No one reads documents longer than that. It will lose its effectiveness if it isn't short and concise. See appendix for an example.

Remember, this is not the Agreement, it is just the outline of a possible agreement. The most important thing is to be sure both companies agree to the direction you are now headed in. You want to be absolutely sure there is senior and middle level leadership support, on both sides, for the current design of this alliance.

~Trap~

Sales Forecasts are usually the "softest" piece of data, typically filled with assumptions and wishful thinking. If you do not feel comfortable about the sales forecasts at this stage, be sure to conduct a joint market research project before finalizing the alliance.

Provide Flexibility for Changing Business Cycles and Conditions

Business cycles involve economy-wide fluctuations in production or economic activity over several months or years. These fluctuations occur around a long-term growth trend and typically involve shifts over time between periods of relatively rapid economic growth and periods of relative stagnation or decline. Despite being termed “cycles,” these fluctuations do not follow a predictable periodic pattern.

If the last few years have taught us anything about business, it’s that the successful companies adapt to tempestuous market shifts. And there have been plenty of recent events that have given companies opportunities to distinguish themselves in this regard: the Great Recession, a choppy recovery, Japanese supply shortages, rising Chinese labor costs, and market corrections. It’s important to note, however, that most adjustment of a market imbalance is well under way before the imbalance becomes widely identified as a problem. Flexibility therefore becomes an important trait in business negotiations. Flexibility is a key to compromise, which in turn is key to reaching concessions and conclusions.

Flexibility is also key in choosing the right negotiation tactic. Tactics work differently with different people and in changing market situations. In order to choose the right tactic, you must be flexible. Tactics that are appropriate at the start of a business cycle may prove counterproductive later. Negotiating tactics that worked well in a buyer’s market may prove wrong in a period of short supply. There is no right negotiating tactic if you have the wrong business plan, strategy, or policy, all of which remain more important than tactics alone. Yet history is full of great strategies that were defeated by poor negotiating tactics. The two go together but are not the same. Use your business judgment to reassess and maintain tactics and change course if necessary. Being inflexible in business, just as in yoga class, will leave you stuck in one place and not able to move freely.

Firmness in support of fundamentals, with flexibility in tactics and methods, is the key to any hope of progress in negotiation. —Dwight D. Eisenhower

PHASE FIVE: OPERATIONAL PLANNING

Alliance Framework

Overview

In the Operational Planning phase, the organization and its alliance partner or partners jointly examine the requirements that will be essential to day-to-day operations plans.

Together, the designers of the alliance cocreate a series of detailed, interlinked plans that describe how the business processes will function, and they establish preliminary designs for governance, control systems, reporting systems, and the interfaces that link customers and the providers of the business processes, products, and services.

The creation of these plans should be viewed as a pilot project that provides a reality check on the assumptions and projections of the Business Case made during Phase Four: Value-Creating Negotiations.

The Operational Planning phase essentially translates the Draft Alliance Agreement into reality, adding in the nuts-and-bolts detail that will operationalize the Agreement's broad vision.

In this phase, the core alliance development team creates an operational team, drawing on people with the functional expertise needed to complement the partners' capabilities and strengths. The operational team's key responsibility at this stage is to create a clear and precise operational plan that describes how the results outlined in the Business Case and Draft Alliance Agreement will be manifested.

Some members of the team should then remain in place during the alliance launch and ongoing operation (Phase Seven) in order to provide the in-house expertise needed to manage the relationship over time.

The activities included within this phase are:

1. Identify and form the operational team
2. Create an Operational Plan
3. Develop an Operational Launch Plan

Purpose

- Form an Operational Team
- Establish operational plans that will ensure smooth implementation of the alliance
- Ensure that functional departments assign individuals who will be committed for the long term

Goals

- Build a profitable Business Plan
- Ensure effective alliance formation and management
- Clarify Roles and Responsibilities
- Establish empowerment and control systems
- Ensure Added-Value to Customer
- Determine what's missing, overlaps, and integration

Critical Success Factors

- Pay attention to the details
- Test alliance's ability to perform
- Manage the interfaces
- Develop channels of communication
- Maintain an alliance mindset and spirit

Expected Outcomes

- Establishment of joint operational team
- Development of clear understanding of project plan and the roles and responsibilities associated with the plan
- Clarity on all measurements to be used and how they will be generated and reported
- Identification of new opportunities for the alliance to pursue

Best Practices Note: Making the "Deal" Work

You may have expected to see a sample contract at the end of Phase Four, followed by advice on how to "structure the deal."

As an Alliance Professional, you should be alert to the fact that our Best Practices do not recommend a contract followed by deal structuring at this point.

First, recognize that alliance architecture, like any architecture, follows the rule "*form* (structure) *follows function* (operational planning)." Thus, it is imperative to understand all the operational issues, such as integration, operational risks, resources required, and complexities of implementation, *prior* to formalizing a contract. Operational planning is necessary to surface these requirements so that a contract can be designed based on the realities of launching a new business, not on a vague conceptualization that typifies many alliance contractual agreements that ultimate fail to launch effectively.

Second, alliances are not "deals"; they are long-term strategic relationships. Deals are short-term transactions that have a beginning and end consummated by a contract, whereas most strategic alliances have no specific endpoint, and the contract does not really embody the essence of the agreement (it is embodied in multiple documents, as well as in the spirit of the agreement between those who initially envision its value). For these reasons, we emphasize the sequence of steps as outlined in the Alliance Framework above.

If, however, you have been handed an "alliance deal" to implement, we recommend two things: First, educate the contracting group on the value of operational planning prior to contract closure. Second, if you are "stuck" with their legacy, thinking that leaves you having to implement an ill-conceived contract and deal structure, we suggest you continue to follow the operational planning and governance structuring steps in Phases Five and Six to the extent that they have not been adequately covered in the contractual document.

As a work-around, often these steps are documented in a business plan or operational plan that is outside of the formal contract, giving them more flexibility. However, you may also face having to amend the contract once these plans have been developed.

Operational Planning

Step 5.1 Operational Business Plan

- Creation of Operational Plan
- Why an Operational Business Plan Is Important
- Operational Team
- Milestone Management
- Reporting Systems

Step 5.2 Management Issues

- Control by Collaboration and Coordination
- Alliance Manager's Problem Solving Role
- Clear Policies and Values
- Contingency Planning

Step 5.3 Customer Relationships

- Delivering the Value Proposition
- Transform Cultural Diverse Competencies into Added Value

Step 5.4 Integration, Empowerment, and Control

- Operational Integration
- Responsibility Charting
- 120-Day Launch Plan

DETAILED DESIGN **[Expanded Design Development]** [RPL: Include in Phase 5]

The Detailed Design Phase concludes the WHAT phase of the project. During this phase, all key design decisions are finalized. Detailed Design under IPD comprises much of what is left to the Construction Documents phase under traditional practice, thus the Detailed Design Phase involves significantly more effort than the traditional Design Development Phase. The Detailed Design phase concludes During this phase, focus shifts To the WHAT phase of the project

During this phase, all of the key design are finalized.

1 At the end of design development, the design intent is fully, unambiguously defined, coordinated and validated.

2 The integrated detailed design phase period is longer and more intense than traditional design development because more is accomplished.

3 All major building systems are defined, including furnishings, fixtures and equipment.

4 By the end of integrated design development all building elements are coordinated and fully engineered, representing a significant change to current practices. The team will collaborate to resolve any inconsistencies or conflicts.

If Building Information Modeling is used, the following will likely occur.

Each group that is contributing to the model will be responsible for their piece of the model.

4.1 Models and tools must be interoperable to support checking for inconsistencies/conflicts.

4.2 Protocols must be developed to control data interchange. The prime design professional should determine the acceptability of changes to the model and lead coordination and performance checking of the Building Information Model with assistance from integrated team stakeholders.

4.3 Third parties may administer the central models or other collaborative information store(s).

4.4 In some instances, control of the model will transfer from prime design professional to the contractor at the conclusion of design development. Subcontractors might complete full 3D model of building systems. Everything related to their system will be detailed, excluding fabrication data.

4.5 Estimating is done by extracting accurate information from the model at quantity survey level (no longer conceptual). The confidence in the cost estimate is greater and the model is repeatedly checked to determine cost impact of changes and support “cost tuning.”

4.6 Specifications for the building become prescriptive since the objects in the model are representations of the real object.

5 Subcontractor and vendor insight is integrated into design and used for coordination and conflict resolution.

6 Quality levels should be established.

7 Specifications are developed based on prescribed and agreed systems

Outcomes

- Building is fully and unambiguously defined, coordinated and validated
  - All major building systems are defined, including any furnishings, fixtures and equipment within the scope of the project
  - All building elements are fully engineered and coordinated. The team will have collaborated to resolve any inconsistencies, conflicts or constructability issues
  - Agreement is reached on tolerances between trades to ensure constructability and to enable as much prefabrication as possible.
  - Quality levels are established
- Prescriptive Specifications are completed based on prescribed and agreed systems
- Cost is established to a high level of precision
- Construction schedule is established to a high level of precision

Primary Responsibilities

- Owner
  - Provide decisions and guidance to all alternative options
  - Approve the design prior to implementation documentation phase, allowing the team to proceed with confidence
  - Be the arbiter of changes to the design and overall acceptability as it relates to performance
- Integrated Project Coordinator
  - Overall facilitation, coordination, organization and direction of the integrated team
  - Coordinate alternative options for presentation to Owner
  - Coordinate and track integrated team's performance
  - Ensure compliance with project requirements
  - Lead performance checking of building systems from the Integrated
  - Team's stakeholders
- Prime Designer
  - Coordinate and integrate input from project stakeholders and ensure compliance with project requirements
  - Detail concept ideas into constructible form
  - Code compliance
- Design Consultants
  - Complete design of building systems
  - Verify system performance
- Prime Constructor
  - Provide continuous cost feedback using information extracted from the model; all item quantities are based on quantity survey or lump sums provided by Trade Contractors and suppliers
  - Verify that cost is all-inclusive and accurate
  - Verify prefabrication decisions
  - Verify construction schedule
  - Finalize coordination of building systems, including MEPS
  - Verify tolerances
- Trade Contractors
  - Provide input for coordination and conflict resolution.
  - Provide detail-level models for applicable scope of work, adjust models to coordinate with other systems
  - Verify cost for their scope of work
  - Verify schedule for their scope of work
- Suppliers
  - Provide input for coordination and conflict resolution
  - Provide models of specific items
  - Verify cost for specific items
  - Verify schedule for long lead items
  - Verify tolerances for specific items
- Agencies
  - If performance-based code analysis using the BIM is underway, it is expanded here

Step 5.1 Operational Business Plan

Why Create the Operational Plan?

In the previous phase, the alliance partners laid out a vision, set of goals, and an outline of a plan for the future.

For that future to become a reality, it must be "operationalized," given life with the engagement of operational experts who can breathe reality into the vision.

In this phase the partners need to work jointly to write a multidimensional operational plan that includes all the necessary components of the alliance (such as marketing, sales, technology development, service delivery, etc.) and capture the plan in an operations notebook or manual that can be referenced in the contract and serve later (Phase Six) as a launch platform.

The operational plan turns broad objectives and expectations into day-to-day activities. Moreover, it translates the goals outlined in the Draft Alliance Agreement into a detailed, workable view of how the business processes will operate, the measurement and control systems that will be used to manage the process, and the responsibilities of the various parties. The creation of the plan involves four basic activities:

What the Experts Say…

"Closing the deal before creating the operational plan will double your chances of failure."

"More alliances fail because of poor operational integration than any other factor."

"People always underestimate the importance, and the time required, for good operational planning."

"Alliances are start-up companies, and need detailed, operational business plans to succeed."

1. Translate the Vision and Value Proposition into an Operational Plan for future implementation.
2. Establish distinct, measurable, time-phased goals using a broad base of measures, such as the Alliance Scorecard.
3. Develop detailed project plans for each of the Operational Plan elements. Each plan will include all the specificity required to ensure a successful implementation.
4. Assign detailed roles and responsibilities.

A detailed, thorough operational plan:

- provides a sound base for managing the alliance
- helps ensure that the right levels of service are provided to the alliance's customers and highlights gaps and overlaps in responsibilities, skills, and capabilities
- tests the validity of the alliance, helping to determine whether the "gears will mesh" and whether the strategy is operationally feasible

The operational plan also provides an essential foundation for Phase Six, Five, Alliance Structuring and Governance, which follows. By defining the operational functions, the operational plan helps identify any structuring issues—such as organizational shape, legal form, and tax issues—that may arise.

Why an Operational Business Plan Is Important

Being able to successfully write an operational plan jointly is the litmus test that can help predict the longevity of the alliance. It is an insurance policy that accomplishes several critical functions.

First, execution of the operational business plan is *how value is created* in the alliance. The value proposition defined in Phase One is refined and validated by the operational teams and is the foundation for all activities detailed in the plan.

Second, building the plan helps determine whether the "gears mesh." Is the *strategy feasible operationally*? Can we produce the results we want?

Third, the process of bringing the two implementation teams together to develop the detailed content of the plan *checks the operational fit* and serves as a barometer of *whether good chemistry exists* within and between the middle ranks, testing ideas and working relationships so that when the alliance is formally launched, the alliance staff can hit the ground running.

Fourth, the very action of writing a plan helps ensure that *the proper systems of leadership, responsibility, and control* are determined and can be put into place. If there are conflicts over control, if leadership is not present, or if there are ambiguities over which partner will have key responsibilities, then these issues will become very evident at this stage. This is much more useful than uncovering such shortcomings after the contract is signed, at which point the conflicts can blow the alliance apart before it even launches.

Fifth, it helps inform whether the numbers work. Once looked at in detail from an operational and financial perspective, *is this alliance a good business venture?*

And last, the *form follows function* phenomenon of architectural excellence can manifest critical issues that would never be perceived by strategic thinkers and deal makers. Once the operational functions are defined, all *final structuring issues*—organization, legal form, and tax issues, if any—will become quite evident.

Delivering the Value Proposition

The critical question here is: How can the alliances deliver better Competitive Advantage than the competition? The entire operational plan must be driven by the superior value created by the alliance.

For go-to-market alliances, this means providing greater value to the customer than any other competitor. For development alliances, this means being able to bring market-leading products to market that provide a significant increase in value for the end user. For supplier alliances, this means providing a product or service that is better, cheaper, faster, more reliable, or more functional. For outsourcing alliances, it means delivering products and services that pass along cost savings and efficiencies to the customer.

Checklist 5.1a should be used to ensure that all of the elements of the operational plan have been covered.

Checklist 5.1a
Operational Business Planning
(Note: This is a blueprint to be tailored to your unique circumstances.)

1. Pre-Operational Stage

_ Do we view our own and each other's core competencies in a consistent fashion?
_ Do key participants trust and respect their counterparts?
_ Does either partner resist external ideas and approaches (i.e. the "Not Invented Here" syndrome)? How shall we address this?

2. Go-to-Market:

_ Have we agreed to roles/responsibilities in a client situation?
_ Are we aligned in our view on design and how to best meet a client's need?

3. Value Proposition (see Step 1.3)

_ Have we clearly stated what is the value of the alliance for *our company*?
_ Have we clearly stated what is the value of the alliance for the *other company*?
_ Are there aspects of our company value propositions that conflict or compete?
_ Do we have a single value proposition or does it vary by situation?
_ Why will *clients* value our alliance?
_ What is the value for our *critical suppliers* and *partners*?

Checklist 5.1a (Continued)

4. General Research and Development
   _ What are the *goals*, including target dates and deliverables?
   _ Define a development plan that includes:
      - Action Plan by Line function
      - Costs, Timelines, Budget Responsibilities
      - Challenges, Obstacles, Issues and Recommendations
      - Short- and long-term critical business needs and resources
      - Measurement, evaluation, and scorecard criteria
      - How will areas of disagreement between collaboration partners be handled?
      - On what issues is agreement between the collaboration partners required?
      - How will various questions be escalated (e.g., IP, strategy, resources, communication)?

5. Early Stage Research
   _ What are the detailed agreements with the partner?
   _ Will the collaboration partner be involved in development operationally or financially?
   _ What milestones will be due to the collaboration partner during development?
   _ What are our/their diligence obligations?
   _ On what issues do we/they have a casting vote?
   _ What governance committees will be in place to enable the partners to work together during development?

6. Late-Stage Product Development
   _ What is the status of the collaboration?
   _ What will be the role of the collaboration partner in the next phase of development?
   _ What milestones will become due during development?
   _ What are our/their diligence obligations?
   _ What governance committees will be in place to enable the collaboration partners to work together to complete development and prepare for commercialization?

7. Product Launch Planning
   _ What is the plan for the collaboration?
   _ What will be the role of the collaboration partner in preparing and approving the regulatory filing and defense of the file?
   _ What will be the role of the collaboration partner in commercializing the product?
   _ What milestones will become due up to and including launch?
   _ What are their/our diligence obligations?
   _ What governance committees will be in place to enable the collaboration partners to work together to complete development and prepare for commercialization?

Checklist 5.1a (Continued)

8. Sales Planning
The Forecasting Process
_ What are the sales stages? Map the sales process.
_ What is the frequency of the sales interlocks?
_ Who will participate in the sales interlocks?
_ What is the quarterly revenue forecasting method, including both commit and optimistic forecast?
_ How will field sales leaders be accountable to the target?
_ Critical assumptions identified and tested?
_ Customer buying criteria identified?
_ Customer will buy at price/performance/benefits/service level?
_ Multiyear forecast developed and approved jointly?

Multiyear Sales Forecasts
_ What is the typical opportunity for each company?
_ Are the sales targets consistent based on typical opportunity size?
_ Pipeline required to achieve sales objectives
_ Expected win ratio
_ Expected transaction size

Anticipated Mix of Product, Service
_ Sales resources required to close the opportunity?
_ How will these resources be trained?
_ Which key sales leaders need to be matched to ensure opportunity progression?
_ What will be the process for a new sales lead?
_ Time expectations on identifying sales lead for an opportunity?
_ How will we determine who will lead the engagement?
_ How will we identify new sales leads in the field?
_ What is needed to create a sales proposal?
_ Time required based on process/approvals
_ Client information required
_ How will the sales plan be communicated to manufacturing? operations? service? supply?

9. Customer Support Plan
   __ Technical support complete and contracted
   __ Points of contact identified
   __ Customer satisfaction management program defined
   __ Request for services process defined
   __ Problem support request program
   __ Support team identified
   __ Backup support identified
   __ Business owner and business specialist approval
   __ Integrated marketing strategy complete
   __ Customer service processes identified
   _ Has a customer satisfaction management program been defined?
   _ Which partner will take the lead?
   _ Who will be on the support team?
   _ What is the training plan for the support team?
   _ How will technical support be contracted?
   _ What is the client escalation path?
   _ What is the escalation path within the alliance?

10. Marketing Plan
   _ What is our target market segment?
   _ What are the strong target segments for each of our companies individually?
   _ Are there up-sell opportunities to the existing client base?
   _ What are the customer buying criteria?
      __ Segment Strategy __ Sales Plan
      __ Service Strategy __ Training Program
      __ Market Support Plan __ Coverage Strategy
      __ Key Factors for Success __ Future Market Needs
      __ After Market Strategy __ Pricing (for Profit) Strategy
      __ Advertising/Promotion __ Competitor's Best Offering
      __ Our projected response to future demand
      __ Customer acquisition and retention
      __ New customer acquisition plan agreed upon
      __ Current customer retention plan agreed upon
   _ How can we test that the customer will buy at the price/performance/benefits/service level?
   _ What will be the future requirements in the market?
   _ What is our pricing strategy?
   _ How will we generate leads through demand generation programs?
   _ What promotional materials are needed by our field sales teams?
   _ How will we advertise?
   _ How will we utilize Web and social media?
   _ What is our press plan?
   _ What requirements do we have before using the alliance name in a press release?

11. Competitive Response
_ Key competitors identified: who are they? (leaders and niche)
_ Potential future entrants into market identified: who are they?
_ Most challenging competitive response identified
_ Our response to competitive pressure on margins. How would we react to competitive pricing pressures?
_ Market's future winning strategy in five years. How do we intend to stay ahead for the next five years?

Competitive Plan
_ Product functionality comparison
_ Route to market comparison
_ Pricing comparison

12. Customer Acquisition and Retention
__ New customer acquisition plan agreed upon
__ Current customer retention plan agreed upon

Customer Retention Plan
_ How do we continue to communicate with the client to ensure satisfaction?
_ How often and in what ways will we work to identify new opportunities in existing clients?

13. Alliance Resource Plan
_ Anticipated administrative expenses?
_ Research and development costs?
_ What marketing personnel will be required?
_ Who will fund marketing?

14. Metrics
__ Have all quantitative targets/results been identified? How and when will they be reported?
__ Are the systems and administrative personnel informed as to how to obtain data?
__ What will the time period be for reviewing results and reporting on them?
__ Are we comfortable that the measurements are in-process measurements and not lagging indicators? (In-process measurements allow us to determine *why* we are missing our targets and not just *that* we missed our targets.)
_ Leading vs. lagging indicators?
_ Who will produce the reports?
_ How often will reports be produced?
_ With whom will reports be shared and when?

15. Financial Forecast Based on Operational Plan
    __ Administrative expense
    __ Unit costs
    __ Productivity measures
    __ Revenue
    __ Profit

Operational Team

The process of developing the plan is just as important as the content of the plan itself. Put the key champions and operational managers in a room together for one to three days to hammer out the details of the plan and you will test their intelligence, common sense, and ability to solve problems together. It is far better to go through this process before the alliance begins than to deal with surprises afterward.

The writing of the operations plan should be viewed as a "pilot project" between the operational managers of the prospective alliance. If the appointed operational managers cannot write the details of the plan, then obviously they have slim hopes of managing the venture together.

The teamwork test enables operational managers to troubleshoot the plan, check chemistry and trust, smoke out unforeseen personnel problems, determine if the "not invented here" syndrome will smother innovation, and, if it has not yet happened, isolate the alliance's detractors from its supporters. The process also secures organizational support and clarifies future roles and responsibilities.

[RPL: Following is from IPD]

IPD Team Building and Functioning

The project team is the lifeblood of IPD. In IPD, project participants come together as an integrated team, with the common overriding goal of designing and constructing a successful project. If trouble arises on a traditional project, the tendency is often to "batten down the hatches" and protect one's financial interests. Cooperation suffers and the project flounders. In contrast, IPD demands that participants work together when trouble arises. This "huddling" versus "hunkering" distinction is crucial. Because the hunkering down instinct in the face of trouble is so strong in the design and construction industry today, moving to an integrated, or huddling, approach is tantamount to cultural change. Therefore, the composition of the integrated team, the ability of team members to adapt to a new way of performing their services, and individual team members' behavior within the team are critical.

Project Team Formation and Team Building

In an integrated project, the project team is formed as close as possible in time to the project's inception. In some instances, the project team will establish itself based on pre-existing levels of trust, comfort and familiarity developed through past working relationships. In other instances, the owner may assemble the project team without regard to any pre-existing relationships among the team members. In any event, and to the greatest extent possible, project team members are identified and assembled at the earliest possible point in time.

Generally speaking, the project team includes two categories of team member: the primary participants, and key supporting participants. The primary participants are those participants that have substantial involvement and responsibilities throughout project, from beginning to end. For example, in a traditional project the primary participants are the owner, architect and contractor. Unlike the relationship in a traditional project, the primary participants in IPD may be defined more broadly and they are bound together by either a contractual relationship, or by virtue of their individual interests in a single purpose entity (SPE) established for the project. Refer to Section VI below for details regarding potential contractual arrangements and SPE possibilities.

The key supporting participants on an integrated project serve a vital role on the project, but perform more discrete functions than the primary participants. In a traditional project, the key supporting participants include the primary design consultants and subcontractors. In IPD, the key supporting participants enter into contracts directly with either one of the primary participants, or with any SPE the primary participants have formed. In either event, key supporting participants agree to be bound by the collaborative methods and processes governing the relationship among the primary participants.

In IPD, the difference between the primary participants and the key supporting participants is a fluid distinction that will necessarily vary from project to project. For example, on a majority of projects, a structural engineer is not normally considered a primary participant as it performs a discrete function for the project and is rarely substantially involved for the duration of the project. If, however, structural design is the overriding project concern as, for example, in bridge construction, the structural engineer would have substantial responsibilities and project involvement throughout the course of the project. Accordingly, the structural engineer would serve as a primary participant.

Great care is taken to establish an IPD team where participants can work together as a collaborative unit. Team formation considers capability, team dynamics, compatibility, communication, trust building and commitment to an integrated process. Although by no means necessary, the process of team formation and subsequent team building may include personality assessment, communication training, and other techniques to forge a strong team from disparate parts. Once the team is formed, it's important to create a team atmosphere where collaboration and open communication can flourish. Locating the team in a joint facility may facilitate open communication and cooperation, and regular meetings and video conferences may be useful when co-location is impractical. Regardless of the methods employed, it is necessary to establish a team where participants are willing and able to work together effectively and to provide the team with tools and circumstances that facilitate collaborative performance. Collectively-defined project goals and metrics to measure performance, along with compensation models that align individual success with project success, also provide incentives to work as a team.

Project Team Decision Making

The successful integrated project has decision making methods and processes that each team member accepts and agrees to abide by. In a fully integrated project, ultimate decision making abilities are not vested in a single team member. Rather, all decisions are made unanimously by a defined decision making body. Regardless of how the parties decide to structure the decision making body, in an integrated project one overriding principle directs the decision making body: all decisions are made in the best interest of the project.

The composition of the decision making body varies from project to project, but always consists of some combination of the primary participants and key supporting participants working collaboratively to render decisions in the best interest of the project. The actual composition of the decision making body is determined at the outset of the project and reflected in the various agreements between the parties.

In practice, team decision making is the area in which the distinction between primary participants and key supporting participants is most apparent. The primary participants, by virtue of their constant involvement on the project, are always part of the project's decision making body. Although possible, key supporting project participants are typically not part of the decision making body, but they serve as advisers to the decision making body on topics corresponding to their areas of expertise. Through the participation of all of project participants in the decision making process, whether as a member of the decision making body or in an advisory role, the project benefits because the process allows all project participants to bring their expertise to bear on the issue at hand.

In order to provide regular, timely and consistent decisions, the decision making body meets regularly according to a collaboratively set schedule. The more frequent the meetings, the greater the decision making body's ability to adapt to project circumstances. In addition to regular meetings, IPD also requires a process by which team members can call for emergency meetings to address issues that arise without notice and require immediate resolution. Without this flexibility, the project team cannot promptly respond to, and resolve, critical issues arising during the project.

Team Communications

Successful team operations rely on collaboration, which, in turn, necessarily relies on fluid and open communication. Accordingly, creating an atmosphere and mechanisms that facilitate the adequate sharing of information between and among team members is essential to successfully implementing IPD.

The development and use of an overarching communication protocol streamlines communications and facilitates the transfer of project data between participants and between technologies. The communication protocol and other communication tools are developed through joint workshops in which the project team discusses and decides how information will be used, managed and exchanged to ensure consistent and appropriate use of shared information. The decisions and communication protocol established at the workshops are documented and become the project's information specification.

Building an Integrated Team

The key to successful Integrated Project Delivery is assembling a team that is committed to collaborative processes and is capable of working together effectively. In order to accomplish this, participants must:

1 Identify, at the earliest possible time, the participant roles that are most important to the project.

2 Pre-qualify members (individuals and firms) of the team

3 Consider interests and seek involvement of select additional parties, such as building official(s), local utility companies, insurers, sureties, and other stakeholders.

4 Define in a mutually understandable fashion the values, goals, interests and objectives of the participating stakeholders.

5 Identify the organizational and business structure best suited to IPD that is consistent with the participants' needs and constraints. The choice should not be rigidly bound to traditional project delivery methods, but should be flexibly adapted to the project.

6 Develop project agreement(s) to define the roles and accountability of the participants. The project agreements should be synchronized to assure that parties' roles and responsibilities are defined identically in all agreements and are consistent with the agreed organizational and business models. Key provisions regarding compensation, obligation and risk allocation should be clearly defined and should encourage open communication and collaboration.

Operational Metrics

Management will require periodic reports on the progress and success of the alliance. This is best done by dividing the objectives into very discreet and measurable goals or performance milestones. By establishing clear goals and milestones against which to measure progress, and thus helping to bring a project to fruition, the alliance executive management's role is made far simpler. Executive management determines the framework of interim project reports, conducts periodic performance reviews, ensures that timeframes are met, and reviews the project when complete to be sure it meets specifications.

Key operational metrics will be integrated into the Alliance Score Card and used to manage the alliance on an ongoing basis once it is launched.

Reporting Systems

An effective monitoring system keeps energies focused upon the plan and is essential to managing performance. Team members need to establish a monitoring, reporting, and evaluation process that enables the alliance to learn quickly and easily about its progress.

One Alliance, One Reporting System

Don't have two performance reporting systems, one for each of the parent companies.

Any system should strive for simplicity, flexibility, and rapid response. Choose a simple, easily managed system. It is better to know quickly the few key indicators than to have cumbersome details that will take months to gather and are difficult to interpret. When you can ask three pertinent questions (the questions we should ask are unique, and dependent upon the specific alliance we are involved in) and know where you stand, you've probably got a good system.

Checklist 5.1b shows some of the typical issues that should be considered in developing a reporting system.

Milestones and Management

If unforeseen problems arise in meeting critical milestones, managers must have a means to get a commitment of resources from executive management or the sponsors. This procedure should be planned in advance.

Getting to Clarity

With a Project Management Plan, alliances tend to have higher levels of certainty and clarity which enable alliance managers to make more definite and specific commitments of money, manpower, materials, and market resources. Risks become relatively more predictable and quantifiable. Timetables are better adhered to, and roles are more specifically delineated.

Come to agreement on what will be the Core Methodologies, such as IPD, Lean, Fastime, Target Costing, etc.
Ensure all parties are adequately trained and using the same terminology. Any gaps in capabilities should be identified and filled prior to construction launch.

Checklist 5.1b

Operational Reporting Systems

Select a common reporting system and agree in advance on what areas will be covered. Keep it simple.

Among the items that should be included in a reporting system are:

__ Schedule reviews against key milestone dates

__ Critical issues and deadlines

__ Monthly and year-to-date financials vs. plan

__ Alliance executive management's activities on the venture's behalf

__ Sales review and forecast

__ Customer activity, especially target customers

__ Cost and price issues

__ Quality review

__ Shipment/delivery/completion reviews

__ Technical/manufacturing/production problems

__ Coordination and teamwork issues

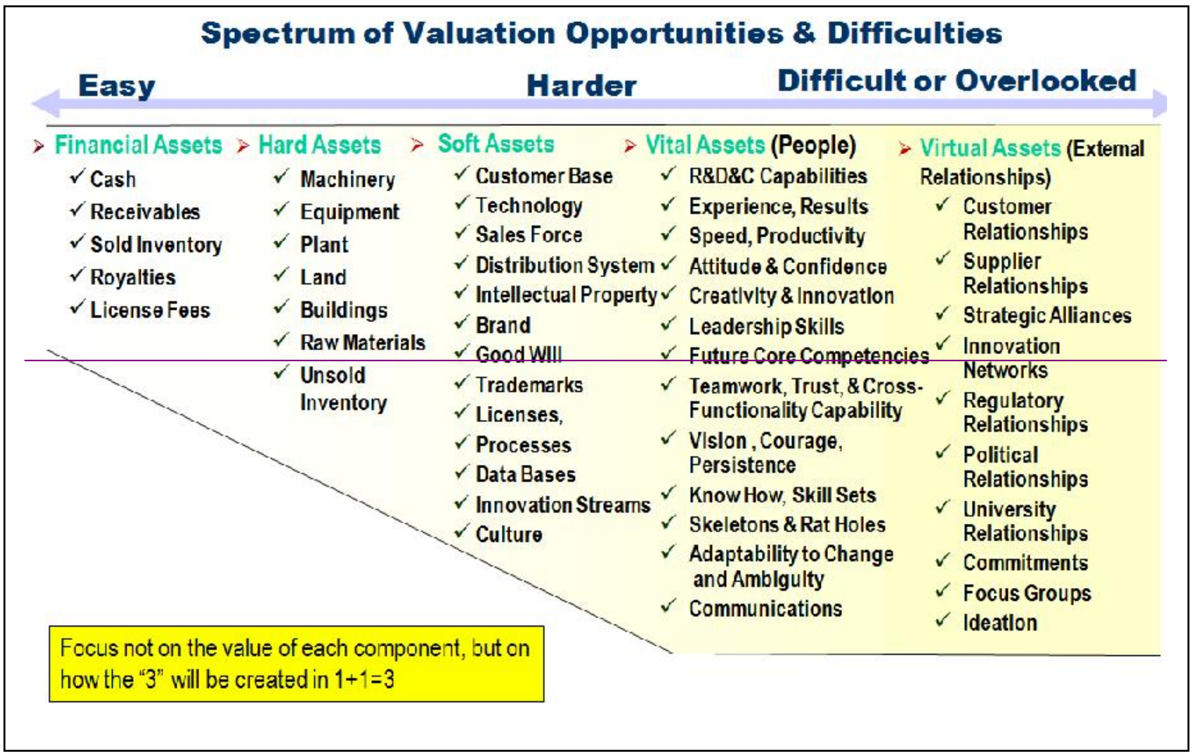
__ Next month's and next quarter's expectations

Translating Goals into Results

Design a crisp, clear, focused plan for action. The *goal transformation process* requires three distinct steps:
Step One: Create distinct, measurable, time-oriented goals.
Step Two: Engineer task structure using project management techniques.
Step Three: Assign roles and responsibilities using responsibility charting methodology.

What the Experts Say…

> "Don't tell me 'I don't know.' That's like going to a gambling casino and rolling dice. That's not satisfactory. That's why business must create the time to write an operations plan. Proceeding without it is insane…I want to know the full architecture—the broad design as well as the small details. If you run out of answers before I run out of questions, you haven't thought the plan through carefully."
>
> —Roy Bonner, former IBM senior executive



Step 5.2 Management Issues

Control by Collaboration, Coordination, and Communication

Unlike the internal corporate organization, alliances cannot be commanded because no one company is in charge and no one individual has sole control. The critical skills are therefore collaboration, coordination, and communication. Those individuals whose skills enable them to collaborate and coordinate on activities through effective communication are the best alliance managers. It's a teamwork function. Effective alliance managers see the "big" picture, take a long-term view, and speak the many languages of the venture. Checklist 5.2 will provide guidance in addressing key alliance management issues in the operational plan.

Alliance Management and Control

Managing and controlling an alliance is a very critical and delicate issue in alliance formation and a clear concern for most companies. Experienced practitioners comment:

"We try to keep control from getting in the way of collaborative effort."

"You can't really enforce control. You must set up the natural dynamics of the alliance so that controls are a natural part of the management process."

The Alliance Manager's Problem-Solving Role

When problems emerge (and they will) the Alliance Manager's role is to manage the decision making, not necessarily to make the decision.

To be effective in a highly ambiguous environment with mature people on staff, the alliance manager will be an integrator who will bring key individuals together to build consensus, ask insightful questions, help the groups mutually diagnose problems, and stimulate creative solutions that maximize meeting each group's needs, while at the same time insisting that the venture's goals be met.

Clear Policies and Values

Knowing how the differing styles and capabilities of two companies will mesh in an alliance is a key to effective integration. The Operating Principles created during the negotiation stage represent a first step.

Still, that is not enough. A set of clear policies regarding corporate interaction with the alliance and with partner companies is essential. People need to know how decisions will be made, what the priorities are, who will be held accountable, and what rewards will be given.

Clear policies and procedures for decision making reinforce trust. People know where they stand and what to expect, and the future becomes a bit less ambiguous, which is important especially in inherently risky environments.

Our company's customer and legal policies must not be violated by the alliance partner. Review policies with the partner to ensure that the highest standards are maintained.

Values engender trust, and trust is one of the greatest integrators, because it helps cast out corrosive doubt, second guessing, and hesitancy to act, while supporting healthy skepticism. Value structures also guide teamwork and thereby help maintain the alliance's chemistry fit.

Contingency Planning

Alliances are designed to address risky situations. Each company should know its roles, responsibilities, and actions in the event adversity should strike. You must know how your partner will react in a crisis, or there will not be a level of trust sufficient for peak alliance performance.

In fast-moving markets, a contingency plan could spell the difference between success and failure by enabling the alliance to move quickly to solve a problem, jump on an opportunity, or adapt to a new situation.

In addition to the realistic operational plan you have developed, have a realistic plan (outlined in broad terms) that describes how to handle exceptional success.

Checklist 5.2
Alliance Management Considerations

1. Alliance Management
   _ What will be the timeframe for alliance manager checkpoints?
   _ How will key actions be tracked?
   Timeline
   Owners
   _ How will we communicate with key stakeholders?
   _ What Alliance Management personnel will be required (define skill sets, level, experience)?
   _ Has the potential alliance manager been approved by the partner's executive team?
   _ What alliance sales personnel are required?
   _ Who are the Executive Sponsors?
   _ What is the process for ongoing alliance planning? How often will planning be conducted?
   _ How will root cause and corrective actions be determined?
   _ What level of team turnover should trigger a relaunch?
   _ Have alliance managers been identified from both partners?
   _ Do alliance managers own and believe in the value of the alliance?
   _ Are all critical operational team members identified?
   _ Has sufficient time been allocated for writing a detailed Operational Business Plan?

2. Clear Policies and Alliance Values
   _ Value Propositions are agreed upon.
   _ Policies and values are agreed upon.
   _ Our company's policies have been reviewed by the alliance partner and agreed to, or modifications have been approved.

3. Contingency Planning
   _ A plan has been broadly outlined to handle the pressures caused by:
      - A quantum change in financial forecasts compared with the plan.
      - A significant change in the market demand.
      - A radical shift caused by the introduction of new technology.
      - A price war started by the competition.
   _ Potential problems have been identified and partner responses are mutually agreed upon.

Step 5.3 Customer Relationships

For go-to-market alliances, the alliance partners must be very clear about how to handle issues that bear directly on customer relationships and satisfaction, such as:

- Joint or lead partner sales calls
- Advertising content and costs
- Generation and handoff of sales leads
- Discounting policies
- Service requirements
- Who “owns” the customer

In addition, to develop the finest customer relationships, it will be necessary to jointly design plans that will address things such as:

- Call center responsibility
- Solution sourcing plan
- Customer satisfaction surveys
- Competitive response plan
- Technology requirements

For other types of alliances, such as those aimed at outsourcing, technology development, or innovative business models, a comparable set of core issues must be identified and critical operational issues surfaced that may impact customer relationships.

Customer Satisfaction

We should not forget that many alliances are formed to generate value for customers. To the extent that the operational team can positively and successfully impact customer satisfaction, value should be realized in the form of revenues and profits.

The alliance Operational Team therefore has to be concerned not only with delivering the product or service, but with doing it in such a way that customers will recognize the added value of the alliance.

We must be willing to challenge ourselves by setting the highest standards possible. Our need to establish customer satisfaction metrics will be a very important element of our alliance. These metrics need to be more than just a satisfaction index; they need to be able to measure all of the elements in the supply chain leading up to the customer. These “in-process” measurements are the key to being able to enhance and improve our customer satisfaction index and in turn improve our customer relations.

Rules of Engagement

Many alliances require partners to jointly engage with the customer to deliver the value proposition of the alliance. In these situations it is especially important to have a clear set of rules and a plan of engagement, so that the customer experience is positive and seamless with a well-integrated team. Collaborative selling is one of the more challenging activities in any alliance, and working out the operational plans, tools, and sales approach before you walk in front of the customer will lay the groundwork for success. Checklist 5.3 is a useful tool to ensure that you've addressed key customer engagement issues in your operational plan.

Checklist 5.3 Sales Engagement Checklist

Sales Stage	Checklist	Recommended Forms
Meeting and Qualifying		Pre-call Worksheet
	Does the client view a partnering solution as appealing?	
	Is there a capability or resource gap in your solution?	
	Is the prospect an organization with whom your company (and/or partner) has deep business relationships?	
	Do we face a common competitor?	
Joint Sales Pursuit		
	Identify roles and responsibilities?	Team Selling Form
	Who are the primary contacts at the customer?	
	Who will initiate contact with those individuals?	
	What dependencies does either partner have on a third party germane to this customer pursuit?	
	How do our respective sales stage definitions align and what adjustments (if any) are necessary?	Pipeline Reports
	What are the triggering mechanisms to move (or halt) progress to the next sales stage?	
	How will we communicate with each other and our executives as the pursuit progresses?	Communication Plan
	What if the customer invites either partner into the discussion?	Engagement Guidelines
	How will we handle customer's requests for meetings without the partner?	
	How will issues be resolved and what escalation path exists?	
	By whom and how will changes based on customer exception requests be communicated? By whom and how will the responses back to the customer be handled?	
	How will customer calls into either partner's executives be handled?	
	What response turnaround should the pursuit team expect from either partner?	
	Who will ask for the order? What is the customer signing?	
	How will credit check, financing, and payment matters be handled with the customer and between partners?	
Deployment		Master/Subcontractor Services Agreement
	What team is taking responsibility for customer satisfaction on what stage of deployment?	
	How is customer support contact (calls, e-mails, preventive maintenance) handled?	
	Who approves customer change requests and how are they	

	communicated to the joint team? Fixes?	
	How will the team respond to customer requests for broadening the scope of work (e.g. to other departments, their suppliers, or the customer's customer)?	

Customer Retention

The cost of acquiring a new customer generally is 30 percent higher in the first year than retaining a current customer. With the alliance partner, jointly develop both customer retention and customer acquisition plans.

Step 5.4 Integration, Empowerment, and Control

Integration Issues

Good strategic synergy (where strengths and weaknesses complement one another) does not necessarily imply a good operational fit. The reason is really quite simple: opposite strategic capabilities will result in highly differentiated organizational cultures.

By this we mean, for example, that a high-tech company will operate on a different time horizon from a more traditional organization like a building contractor. Or a company with great technology that allies with a company with a tremendous sales force may have an ideal strategic fit, but culturally and operationally they could be worlds apart in the manner in which they approach business.

The Importance of Integration

Poor operational integration is one cause of failure in alliances. All too often, alliance architects fatally assume that a good strategic fit of complementary strengths and weaknesses will propel the alliance to success.

In reality, the opposite is often true: differing strengths breed different cultures, making operational integration of paramount importance.

Operational disparities will need to be addressed within the Operational Team. Issues regarding fit will have been addressed when developing the governance portion of the operational plan. Refer back to the Operational Fit assessments that were conducted during due diligence to determine those

Assign Top-Notch People

Weak management will lead the alliance down the rapid road to failure. Remember an essential rule of alliance management:

Far better to have a first-rate management team with a Grade B product than a Grade A product with a second-rate management team.

The second-rate team will ruin a Grade A product, and be unable to adapt to unexpected problems.

areas which will need to be addressed in the operational plan to ensure smooth integration of the alliances. Be sure to utilize consensus techniques when arriving at the solution. Both organizations have to be satisfied with the outcome.

Responsibility Charting

Because lines of authority are typically not precise in an alliance, there will often be confusion or ambiguity concerning who is responsible for accomplishing a specific task, and what exact role the participants should play.

Responsibility Charting is the process of clarifying Roles and Responsibilities in an alliance across the boundaries of the two partners.

This reduces ambiguity as work groups interface by clarifying roles and responsibilities to prevent people from tripping over each other or, conversely, to avoid a situation where no one assumes responsibility for a vital task.

Use Responsibility Charting to convert goals into specific tasks and clear roles with precise lines of responsibility.

However, be cautious not to create a Gordian knot that strangles decision making and operational integrity. This can happen if partners, in an effort to create teamwork, attempt to involve too many people at too many levels in too many decisions. Get to the meat of the critical issue: Who is responsible for what? How does their working relationship interact with others?

Sample Responsibility Chart: RACI

Figure 5.4b illustrates a sample RACI Chart in its generic form. Each major decision or task has been outlined with the individual or organizational unit necessary to carry out that operational decision or task. Each individual is then assigned a specific functional role (and only one role per person for each task). The role categories are:

- **Responsible** (on a day-to-day basis) **R**
- **Accountable** (makes the decision) **A**
- **Consulted** (Input before the decision) **C**
- **Keep Informed** (after the decision) **I**

Notes:

- These categories can and should be modified to suit the needs of your situation.
- Be sure not to give too many people veto power, or you'll never get anything done. If someone does *not* have veto power, then they must not sit on a decision. Those given approval power must exercise it within a specified period of time, otherwise those with leadership authority should "default to action" and make the decision to keep things moving.

Sample Responsibility Chart

Task	**Alliance Mgmt Team**	**Alliance Partner**	**Your Company**
Develop Operations Plan	R	C	C
Develop Service Strategy	R	C	I
Selection and Contract with Solution Providers	C	A	C
Establish Program Budget	A	—	—
Manufacture the Product	C	C	R
Price the Solution	R	C	C
Train Sales Reps	I	C	C
Establish Sales Quotas/ Composition	C	R	I

(Note: *In the tasks above on the "Train Sales Reps" line, no entity is held responsible. Clearly, this task will slip through the cracks unless someone is assigned. Fortunately, using the responsibility charting process, the problem can be identified early enough to prevent a difficulty. Be sure there are no responsibility overlaps between your company and your allies.)*

In this example, broad tasks are divided between organizations. A further refinement of the charting might split the broad tasks into specific activities, and assign one person to be responsible for achieving a specific, measurable result on a day-to-day basis. Be careful not to have more than one person responsible for any task or decision, otherwise each person might assume the other is responsible, and operations could quickly disintegrate.

List all critical tasks and/or major activities in the left-hand column. Then, in each of the remaining three columns, indicate which role each of these groups has. Remember, only one row can have an "R" (responsible) for each task.

Install Fast Time Processes

Alliances can become "accidentally bureaucratic," meaning that the differing respective processes of the partnering organizations might make it difficult for them to manage efficiently.

Adept alliance leaders use several techniques for ensuring rapid results:

- Installing rapid decision-making procedure
- Co-locating development team members
- Eliminating or streamlining process steps (Lean management)
- Granting power to take action in the event of bureaucratic delay
- "Pulling in" scheduling by finding ways to do everything faster
- Using more cross-functional core teams

Alliance Launch Planning

Once the operational business plan is agreed upon and the legal teams have agreed to the broad concepts of the alliance, it is time to begin planning the launch of the alliance. Launching the alliance is covered in detail in Phase Seven, but it advisable to look ahead while in the planning phase to anticipate some of the resources and activities that will be required to transition from operational planning to operational implementation.

The Rapid Launch

Skilled alliance professionals have learned that a well-orchestrated and coordinated launch bodes well for the future of the alliance.

One highly effective and fast method is to compress Phase Five (Operational Planning) and Phase Six (Structuring and Governance) into one two-to-three-day workshop that brings key alliance, leaders, critical decision makers, operational implementers, and lawyers together for an intense, interactive action-planning session to launch the alliance.

The agenda for the rapid launch session includes:

- Strategic alignment
- Operating principles (if not already done)
- Governance
- Operational planning
- Business structuring
- Communications
- Contract finalization

During the session, the lawyers for both partners are expected to work together and participate fully in the development of the alliance, but not give legal advice unless someone proposes something that would be illegal. On the final day of the session, the two lawyers, who by now have developed trust and have a full systematic view of the alliance, cocreate a collaborative contractual agreement. Often their final structuring and legal documentation will take weeks to complete. In many circumstances, the commencement of the alliance begins well in advance of the closing of the legal documents.

Most sessions of this type require an expert third-party facilitator knowledgeable in alliances to manage the complexities and fast-paced timing of the session.

Checklist 5.4a

Meetings

1. Coordination Meetings: During this period, the alliance managers should agree upon:

___ The dates for a monthly face-to-face coordination and milestone performance discussion meeting

___ Weekly update phone call between the monthly meetings.

2. Key Meetings: What key meetings will need to occur in the next 120 days to ensure coordination of a successful launch?

Meeting/Topic Goals	Required Attendees	Date/Time/Location/Logistics
____________	____________	____________
____________	____________	____________
____________	____________	____________
____________	____________	____________

Creating Action and Support

Good top- and middle-rank support will be essential to succeed. Launching the alliance with gaps in the support structure will cause delays , poor performance, and even failure. Be sure you have not overlooked critical executive sponsorship at the senior level. Be sure they are fully supportive of the alliance effort. Are there other senior executives that are not fully engaged?

At the middle management level, be sure to identify all those who will be essential for operational success. Have they been enrolled in the alliance? Do they have concerns that you have not yet addressed? Have they been intimately involved in developing the Operations Plan? Are there key middle managers who are negative, cynical, skeptical, or uncommitted? Will they damage the alliance's chances of success? Be sure to have the full engagement of the team you need to succeed before launching the alliance.

Checklist 5.4b is a tool to be sure your organization is fully supportive.

Checklist 5.4b
Enlisting Support

Identify the people and groups who have to be actively on board. Place an "X" in the box identifying their current level of commitment, and an "O" in the box where the commitment must be in the future for success. Draw an arrow from the present to the future to indicate the direction needed.

Code: Opposed Unknown Bystander Key Support Key Implementer

Key People/Groups	Current Stance	Required Stance	Action Required for Movement
1. John Jones (example)	Opposed	Key Support	Meet Mon.- Proposed Briefing
2. Engineering (example)	Bystander	Key Implementer	See Harry - Discuss Closing
3. ______			
4. ______			
5. ______			
6. ______			

Resource Requirements

Indicate what resources will be required and who will be providing those resources:

Resource Requirement	Provided by:	Date
______	______	______
______	______	______
______	______	______
______	______	______
______	______	______

At the completion of this phase you will have identified:

- Requirements for Success
- Operational risks that will bear on the alliance
- Rewards necessary to satisfy the win-win
- Resources required to sustain a successful venture
- Responsibilities that must be borne by each party
- Realistic Business Plan that validates or changes the Business Case

IMPORTANT NOTE:
As was suggested at the beginning of this Phase, it may not be possible to define detailed low-level operational plans at this stage of the alliance lifecycle. For example, alliance formation could be guided by a group outside of the alliance management function (e.g., business development). However, even when alliance managers are actively involved in this stage of the life cycle it may still be difficult to achieve a detailed operational plan at this point. Regardless of the reason, it cannot be emphasized enough how important it is to develop at least a high-level operational plan prior to structuring the alliance agreement. Experience has shown that when planning is not discussed at this point, the management difficulty level of the alliance increases substantially.

It should also be noted that even with a high-level operational plan in place prior to structuring, a more detailed planning process will be required at the time the alliance is launched. Although these elements will be discussed more fully in Phase Seven, many of the tenets that were outlined here will continue to apply then.

With this in hand, you can now move forward to Phase Seven: Alliance Governance and Structuring, to finalize a business structure that will support the alliance, including:

- Organizational Structure
- Leadership Structure
- Decision Structure
- Governance Structure
- Reporting Structure
- Financial Structure
- Legal Structure

Task 5.4b
Action Issues
What action items must occur to get our alliance program going in the right direction?

ACTION	START DATE	END DATE	RESPONSIBILITY

This Week
1.____

2.____

3.____

4.____

5.____

6.____

This Month
7.____

8.____

9.____

10.____

11.____
Next Month
12.____

13.____

14.____

15.____

16.____

17.____

Later
18.____

19.____

20.____

PHASE SIX: GOVERNANCE AND STRUCTURE

Alliance Framework

Overview

The Alliance Structuring and Governance phase focuses on creating legal and organizational frameworks for the strategic alliance relationship, on finalizing operational plans, ensuring that leaders and key managers are in place, and establishing a risk-and-reward formula that motivates both parties to make the relationship succeed. Structuring culminates in the signing of a contract.

A mistake that companies often make in developing strategic alliance relationships is trying to finalize the contract too soon. The best approach is based on the concept of "form follows function." That is, the contract should be a tool for formalizing what has already been discussed and agreed to, rather than a focal point of negotiations. An important rule of thumb:

Spend 80 percent of your time on structuring for Operational Performance and Governance, and 20 percent (or less) on structuring the contract.

(Note: In today's fast-moving, rapidly changing world, in many industries, such as ITC (Information Technologies & Communications), it's quite common to find that the half-life of a contract is less than six months. Therefore, having a broad, flexible agreement is often a distinct competitive advantage. In fact, many alliance professionals will note that the ideal situation occurs when you can leave the signed contract "in the drawer" and never have to touch it, since that puts the burden of performance on the participants.)

Detailed terms and conditions and accounting considerations should not overshadow the more important drivers of strategic intent, business models, and operational performance.

The Alliance Structuring and Governance Phase builds on the broad objectives and goals described in the Draft Alliance Agreement (created in Phase Four), and the detailed view of the Operational Plan (created in Phase Five) to create a framework that reflects the collaborative spirit of those two documents. Therefore, in this phase the alliance team should include individuals with financial, business development, program development, administrative, and legal expertise, as well as people with communication skills, and the relationship-building and management experience needed to create a win-win arrangement.

The team must also involve senior managers, such as the alliance managers and the champions, relevant stakeholders and Executive Sponsors to ensure a focus on strategic objectives, goals, and collaboration in developing the contract.

Purpose

- Create the legal, programmatic, and organizational framework that will sustain the relationship
- Establish a governance structure that is effective and efficient
- Utilize the Draft Alliance Agreement in aiding the development of the organizational framework
- Ensure financial systems are in place in order to generate appropriate reporting
- Finalize agreements

Goals

- Assure that governance, integration, and control systems are in place
- Fairly apportion risks, responsibilities, resources, and rewards
- Provide organizational, financial, and legal structures that operate synergistically

Leveraging Learning

Companies that are alert to the development of core competencies establish a key member of the alliance to act as a "learning liaison,". This person is responsible for disseminating the learning from the alliance throughout the parent company. Alliance Managers sometimes act in this role and share key learnings with peers to be leveraged in the organization.

Critical Success Factors

- Create Win – Win agreement
- Ensure that control doesn't get in the way of empowerment
- Leverage existing program frameworks, contracts, etc., where possible, rather than reinventing with each alliance
- Mitigate any issues that could create conflict with your broader partner ecosystem

Expected Outcomes

- Clarity of Leadership roles and responsibilities Approaches to leadership and organized systems
- Risk and Reward sharing approaches will be developed that are appropriate for the relationship

- An agreed-upon contract that embodies the above points
- A strong sense of teamwork between the executive management team and the working levels of the organizations
- A well-documented implementation plan to execute the alliance launch plan created in the Operational Planning phase

Alliance Structuring & Governance

Step 6.1 **Governance, Integration, and Control**
- Governance – Alliance Executive Council
- Empowerment or Dominance?
- Reporting & Review Systems

Step 6.2 **Organizational Structure and Support**
- Organizational Structure & Resource Allocation
- Corporate Relationship Management
- Risk Management

Step 6.3 **Win--Win Business Analysis**
- Balancing the "5 R's"
- Valuation Issue
- Financial Analysis & Final Metrics

Step 6.4 **Commercial Terms & Legal Agreements**
- Formulating the Agreement
- Legal Counsel
- Exit/Transformation Strategy
- Final Review and Approval

IMPLEMENTATION DOCUMENTS ***[Construction Documents]****[RPL: Include in Phase 6]*
During this phase, effort shifts from WHAT is being created to documenting HOW it will be implemented. The goal of ID Phase is to complete the determination and documentation of how the design intent will be implemented, not to change or develop it.

The traditional shop drawing process is merged into this phase as constructors, trade contractors, and suppliers document how systems and structure will be created. In addition, this phase generates the documents that third parties will use for permitting, financing, and regulatory purposes.

Because the Detailed Design Phase concludes with the design and all building systems "fully and unambiguously defined, coordinated, and validated," the Implementation Documents phase comprises less effort than in the traditional Construction Documents phase.

During this phase, focus shifts from WHAT is being created to documenting HOW it will be implemented.**The traditional shop drawing process is merged into the design as contractors, subcontractors and suppliers document how systems and structure will be created. In addition, this phase generates the documents that third parties will use for permitting, financing and regulatory purposes.**

1 **At the beginning of Implementation Documents (ID) the entire building and systems are fully defined and coordinated and therefore, the construction document phase is significantly shortened.**

2 **The goal of ID phase is to document how the design intent will be implemented, not to change or develop it.**

3 **Where a Building Information Model is used, the "shop drawing" phase that typically occurs later in the process will be substantially reduced or eliminated. Technically sophisticated subcontractors and vendors will augment the design model in lieu of preparing separate shop drawings, or will create a synchronized model for fabrication or installation purposes.**

4 **Prefabrication of some systems can commence because the model is sufficiently fixed (object sizes and positions are frozen) to allow prefabrication to begin.**

5 **Rehearsal of construction is enabled through 4D.**

5.1 Allowing the building team to validate the baseline schedule

5.2 Allowing the building team to explore and validate sequencing and logistics

5.3 Allowing the building team to offer refinements that will improve efficiency

6 **Cost is finalized through 5D**.

6.1 Component costs of the building are demonstrated in the model

6.2 All trades on the team (based on project type) finalize their costs in this phase based on the certainty of the building information model

7 **The specification provides narrative documentation of the design intent wherever necessary.**

8 **Implementation Documents visualize the project for participants who aren't involved in the development of the model.**

8.1 A "financiable" project (a completed model "the bank" can see to finance the project)

8.2 Created as a bid document for parties involved outside the integrated process

9 **Implementation Documents include information for**

9.1 Procurement

9.2 Assembly

9.3 Layout

9.4 Detailed schedule

9.5 Procedural information (testing, commissioning)

9.6 Legal requirements (whatever needs to be included to be legally binding)

Outcomes
- Construction means and methods are finalized and documented
- Construction schedule is finalized and agreed upon
- Cost is finalized and agreed upon
- Costs are tied to the model
- The specifications are finalized, supplementing the model with narrative documentation of the design intent wherever necessary
- Implementation Documents define and visualize the project for participants who aren't involved in the development of the model, providing:
  - A "finance-able" project (a completed model that gives "the bank" sufficient detail to finance the project)
  - Bid documents for parties outside the integrated process
- The "shop drawing" phase that in traditional phases occurs after Construction Documents will be largely completed during the Implementation Documents phase
- Prefabrication of some systems can commence because the model is sufficiently fixed (object sizes and positions are frozen) to allow early purchasing and prefabrication to begin

Primary Responsibilities
- Owner
  - Verify project performance targets and business case
  - Final approval of project scope and metrics
  - Coordinate financial requirements necessary to begin construction
  - Facilitate final user reviews and approvals
  - Initiate transition planning to utilize completed project
  - Establish user appeals process
  - Finalize specifications for major equipment
  - Define owners requirements for construction safety programs and controls regarding Interim Life Safety, noise, vibration, infection control
- Integrated Project Coordinator
  - Overall facilitation, coordination, organization and direction of the integrated team
  - Coordinate complete information for legal requirements of project as it relates to the owner's procurement method
  - Coordinate team input and facilitating team buy-in for overall project schedule and budget
- Prime Designer
  - Finalize model for architecturally related design intent for construction
  - Provide descriptive information for fabrication and construction of architecturally related scope
  - Finalize specifications
- Design Consultants
  - Finalize model for consultant's related design intent for construction
  - Provide descriptive information for fabrication and construction of consultant's related scope
  - Finalize specifications
- Prime Constructor
  - Control of the BIM may transfer from the Prime Designer to the
  - Prime Constructor at the conclusion of Detailed Design
  - Finalize construction schedule through 4D modeling
  - Finalize construction cost through 5D modeling
  - Complete information for:
    - Procurement
    - Assembly
    - Layout
    - Detailed schedule
    - Procedural information (testing, commissioning)
  - Ensure that all necessary work is accounted for.
- Trade Contractors
  - Finalize cost and schedule for applicable scope of work.
  - Ensure BIM and specifications include sufficient and unambiguous information for completion of applicable scope of work.
  - Technically sophisticated Trade Contractors will augment the design model in lieu of preparing separate shop drawings, or will create a synchronized model for fabrication or installation purposes
  - Develop implementation information for applicable scope to shop drawing level
- Suppliers
  - Finalize cost and schedule for their specific items
  - Technically sophisticated suppliers will augment the design model in lieu of preparing separate shop drawings, or will create a synchronized model for fabrication or installation purposes
  - Develop implementation information for their scope to shop drawing level
- Agencies
  - Verify completeness of permit submittals

BUYOUT *[RPL: Include in Phase 6]*

IPD assumes early involvement of key trade contractors and vendors, so buyout of work packages they provide occurs through development of prices throughout the design phases, culminating at the conclusion of Implementation Documents. Accelerated project definition during Criteria and Detailed Design allows early commitment for procurement of long lead, custom, or prefabricated items. The IPD Buyout phase is much shorter than under traditional delivery methods, since most of the work is already contracted for.

Complete buyout of remaining contracts.

The fully integrated project assumes early involvement of key subcontractors and vendors. In most instances, this cannot occur unless the subcontractors and vendors have some assurance they will be selected for the project. With this understanding:

1. **Project definition during criteria and detailed design allows early commitment for procurement of long lead, custom, or prefabricated items.**
2. **Key participants prices will already be defined. Bidding and negotiation will primarily occur with parties that were not included in the integrated team.**
3. **The integrated model provides an opportunity to bid to a quantity within the model.**
4. **The integrated model employs a variety of negotiating strategies based on the level of participation in the integrated model.**
5. **Early contractor involvement requires some guarantee that the contractor participants will actually construct the project.**

Outcomes
- Commitments are in place for all work, materials and equipment needed to complete the project

Primary Responsibilities
- Owner
  - Final arbiter of requirements for pre qualification requirements
    Define organizations requirements for outreach
  - Participate in pre bid conferences and provide organizations
  - requirements affecting bidders
- Integrated Project Coordinator
  - Overall facilitation, coordination, organization and direction of the integrated team
- Prime Designer
  - Respond to questions from remaining trades bidding on the project
  - Respond to pre-fabrication studies to ensure integrity of the design intent.
- Design Consultants
  - Respond to questions from remaining trades bidding on the project
    Respond to pre-fabrication studies to ensure integrity of the design intent.
- Prime Constructor
  - Ensures that commitments are in place for all work needed to complete the project.
  - A variety of negotiating strategies may be used, based on the level of participation of the provider in the integrated model
  - Work packages can be bid based on quantities extracted from the model
  - Overall coordination and management of the buyout process
- Trade Contractors
- Suppliers
- Agencies

AGENCY REVIEW *[RPL: include in Phase 6]*

Use of BIM and early involvement and validation by agencies shortens final permitting process.

Agency Review commences in the Criteria Design and increases in intensity during the final review period. This early involvement minimizes agency comments and required changes in the design as submitted for permit.

Building Information Models have the ability to provide information either directly or through linked databases for building code or regulatory criteria. In addition, analysis software can use the model information to generate performance or criteria analyses that validate the design.

Use of BIM, early involvement and validation by agencies shortens the final permitting process. [This coincides with Phase 6]

Under current practice, reviewing and permitting agencies require traditional deliverables. However, Building Information Models have the ability to provide information either directly or through linked databases that enhance and streamline a reviewing agency's ability to check the design for building code or regulatory criteria. In addition, analysis software can use the model information to generate performance or criteria analyses that validate the design. With these developments in mind, the integrated agency review will differ from current practice as follows:

1. **Performance-based code analysis within the Building Information Model, if regulatory agency supports, can allow for communication and processing of plan checking electronically.**
2. **The integrated process will require builders and trades to be involved in preliminary and submittal reviews of documents and responses to comments because they will have developed portions of the model.**
3. **Agency review commences in criteria design with increased intensity in the final review period.**

Outcomes
- All necessary permits and approvals

Primary Responsibilities
- Owner
  - Final arbiter and lead strategy regarding negotiations with jurisdiction providing permits
  - Facilitate project teams response to modifications required by jurisdiction
  - Obtain permits and approvals
- Integrated Project Coordinator
  - Overall facilitation, coordination, organization and direction of the integrated team
  - Overall coordination and management of the Agency Review process
- Prime Designer
  - Interface with agency representative to ensure code compliance of design is understood
  - Coordinate the BIM to ensure code compliance is demonstrated in a mutually agreed interoperable format
- Design Consultants
  - Interface with agency representative to ensure code compliance of their scope of the design is understood
  - Provide scope-specific input to the BIM to ensure code compliance is demonstrated in a mutually agreed interoperable format
- Prime Constructor
  - Coordinate applications for construction-related permits (cranes, street closure, etc.)
- Trade Contractors
- Suppliers
- Agencies
  - Schedule for application submittals and review completion.
  - Review and approval of design and construction plan
  - If performance-based code analysis using the BIM is underway, it is finalized here

Step 6.1 Structure & Governance, Integration & Control

[RPL: from AECOM Manual] This [section] will explore ~~these concepts in more detail including~~ how an alliance is structured; what are the roles, characteristics, accountabilities, and challenges for the key players; and who are the Owner's key advisors and what do they do.

The Owner has completed the ~~planning and~~ selection processes; Partners ~~Non-Owner Participants (NOPs)~~ have teamed up and successfully bid and won the project; and the Draft Alliance Agreement has been created.

~~Now it is time for all participants to come together to form the alliance.~~

While the Operational Teams are working (Phase Five: Operational Planning) to determine how to design and build the project and addressing the Target Cost/Time Estimate, and understanding the methods to be used and constraints in completing the project, the alliance leadership should be formulating the organizational and commercial structure.

The organisation structure for a typical project alliance is shown in Figure 20. It generally consists of three levels:

- an Alliance Leadership Team (ALT);
- an Alliance Management Team (AMT), including the Alliance Manager (AM); and which may also include a Systems Integration Function for highly complex, long-term projects, and
- a Wider Project Team (WPT).

Each level is staffed by project personnel drawn from the alliance participant organisations selected on a 'best for project' basis. In addition to these personnel, the Owner ~~Participant (OP)~~ will engage (in consultation with the Partners, who may be familiar with experts who are 'best for project' and are well-versed in collaborative engagements) independent advisors in a range of disciplines including finance, legal, cost estimation and insurance.

Alliance Governance Structure

A strategic alliance relationship requires more ongoing management oversight than a traditional transactional arrangement. At the highest level, the relationship should have a joint governance board or steering committee that includes senior executives from the company and its partner(s) as well as cross-functional representation (e.g. from Product/Engineering, Sales, Marketing and Services, etc.).

The Governance structure of an alliance may be compared with that required to run a virtual company to deliver a project.

This governance body should guide policy, review the relationship's performance regularly, and generally be responsible for keeping the relationship "healthy" and focused on continuous improvement. Additionally, this body will be called upon to make decisions that are above and beyond the purview of the operating groups, such as budget and resource commitments and strategic redirection.

Alliance Leadership Team (ALT)/ Executive Council(AEC)

Generally the governance process occurs through an *Alliance Leadership*

Team (ALT). (Sometimes referred to as Alliance Executive Council or Committee or Steering Committee or Governance Board). Unlike a political system, where governance is focused on voting, politics, and majority rights, alliance governance has a very different set of purposes:

1. Coordination: Insurance that the ~~two~~ partners are working in a closely coupled manner, gaining unified operational functioning.

2. Alignment: Singularity of vision, goals, and metrics, thus providing alignment of purpose and behavior.

3. Decision Making: Clarity of methods and speed of decisions, including roles and responsibilities for accomplishment of key tasks.

4. Guidance: Providing specific direction to those working on alliance projects, programs, and key initiatives to gain the highest performance possible.

5. Policy: Determination of priorities for use of resources, and guiding principles to build trust.

6. Oversight: Reviewing the performance of the alliance to ensure that it is achieving its key goals.

7. Engagement: Serving as a mechanism for optimizing senior management support and sponsorship.

8. Allocation of Resources: Approving the needed commitment of people and funds to the project.

9. Innovation and Transformation: Motivating and empowering the alliance to encourage innovation and improvement, establishing joint knowledge management, agreeing upon changes in the scope of the alliance.

10. Partnership Relations: Maintaining a high trust, win-win approach and keeping communications open, based on a communications plan.

The ALT equates to a board of directors charged with the responsibility to provide corporate governance and leadership to the company. All decisions are unanimous.

Generally, the Alliance Leadership Team/Executive Council (sometimes also called the Governance Board or Steering Committee) should have a manageable number of members, including:

- Executive Sponsors from both sides
- Alliance manager or managers who oversee the day-to-day operations of the relationship

- Key operational cross-functional stakeholders or team leaders (e.g., Engineering/Manufacturing/Solutions, Professional Services, Technical Support Services, Business/Sales, Marketing, etc.)
- Special task force leaders (if any)

(You can document the members of the Alliance Executive Council from both partners in Task 6.1.)

The Alliance Leadership Team/Executive Council should always include one or more champions, who might be executives or alliance managers. In general, the council should meet:

- Immediately after the relationship is finalized;
- At least monthly for the first six months, to ensure that the new relationship gets off to a good start; and
- As needed after the first six months, but never less than quarterly.

Quarterly Business Reviews

Once the alliance is more established, the board may move to a governance model of Quarterly Business Reviews covering specific areas, such as Executive, Engineering, Services, Business/Sales, and Marketing.

Nearly every alliance relationship incorporates meetings between the participating organizations, but enthusiasm often falls off over time, and meetings occur less frequently or on a lower and lower level, and thus become less effective. The continuation of regular meetings, even when they may not seem absolutely necessary, will help the relationship succeed.

An important role for the Council is to assess areas of operations that can be improved or could create additional enhancements to increase performance.

Empowerment or Dominance

An alliance is empowered by its ability to share and expand power, to create more value than if the two parties were working independently. This is not an issue of dominance, placing one member in the superior position and relegating the other to inferior status. In structuring the alliance, it is imperative to create every incentive for both companies to win more through the alliance than they could win by themselves. This does not imply that all alliances must split rewards 50/50, but that each partner sees its investment and value as essential to the success of the alliance. It is critical for both members of the alliance to be sensitive to the needs, values, and styles of the other, and, in particular, to be aware of the other partner's objectives and goals.

In practice, companies use a variety of mechanisms to develop a governance structure. Equity gives an organization a formal say in the partner or in a joint venture. Another mechanism is the use of incentive systems to motivate managers to contribute to the alliance. A better way is to ensure intrinsic motivation by safeguarding shared vision, shared values and trust.

Alliance Governance

When creating a governance framework for an alliance, one should keep in mind two types of risks that have to be managed.

The first type is relational risk, where the self-interest of an alliance partner may induce opportunistic behavior. In cases of high trust, the perception of relational risk is low. In cases of low trust, partners will try to introduce more control measures in the contract.

The second type of risk is performance risk, where factors outside the partnership, such as market uncertainty, competition, or governmental regulations, have negative effects on alliance results. The governance model chosen to manage the alliance cannot reduce this type of risk, but by agreeing upon decision-making procedures a governance model can help the alliance adapt to changing conditions.

The more volatile a business environment, the more difficult it will be to use a control approach. So in cases of high performance risk and low relational risk, a trust-based alliance control prevails. With high relational risk and low performance risk, strict alliance control is needed. When both elements of risk are high, companies need to balance control and trust. When both elements are low they may choose either a control or a trust approach.

Performance Risk

		High	Low
Relational Risk	High	Balance of control and trust	Strict alliance control
	Low	Trust-based alliance control	Either control or trust possible

[Excerpted from Ard-Pieter de Man and Nadine Roijakkers, “Alliance Governance: Balancing Control and Trust in Dealing with Risk,” *Long Range Planning* 42 (2009): 75–95.]

Task 6.1
Creating Governance

1. Alliance Leadership Team/Executive Council Membership

Function	Our Company	Ally
Company Champion	____________________	__________________
Alliance Manager	____________________	__________________
Operational Team Members	____________________	__________________
Financial Members	____________________	__________________
Ex-officio/Ad-hoc Members	____________________	__________________
Task Force Member(s)	____________________	__________________
Others:	____________________	__________________
	____________________	__________________
	____________________	__________________

_______________ ____________ _______________ _______________

Alliance Governance Roles & Responsibilities

The Alliance Manager is the equivalent of the Chief Executive Officer of the company with the responsibility to deliver the vision and objectives set by the board. \
The Alliance Management Team performs the role of the management team of the virtual company that is put in place to deliver the day-to-day operating requirements. This team is headed by the AM.
The WPT provides the required resources, skills and experience to undertake the day-to-day activities.
These roles and responsibilities are shown in Figure 21 and described in more detail in the following sections.

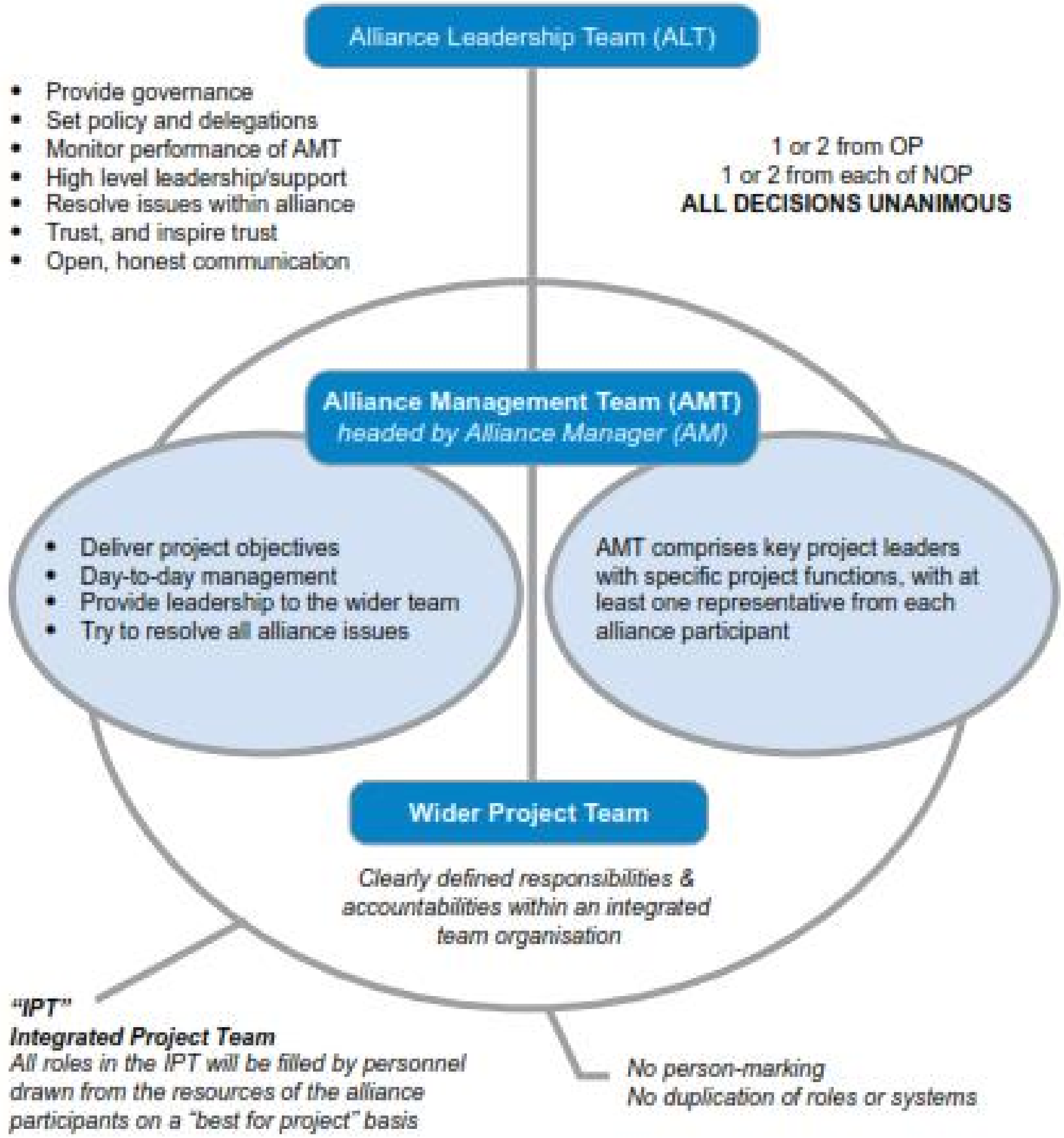
Alliance Leadership Team

The Alliance Leadership Team (ALT) – sometimes called the Project Alliance Board (PAB) or Alliance Leadership Group (ALG) – consists of representatives from each of the participating organisations in the alliance, including the Owner Participant (OP).

The ALT will usually have two Owner representatives and two representatives from each of the Non-Owner
Participants (NOPs). However, the ultimate representation on the ALT will depend on:

- Keeping the total size of the ALT to no more than six to eight members, although this does vary.

Figure 21 Alliance team roles and responsibilities



Source: Project Control International

Restricting the size of the ALT is done to optimise its performance in fulfilling its obligations in the alliance. If there are more than two NOPs then representation may be limited to one from each organisation; but preferably, constructors and designers with a small role should be subcontractors, not alliance partners with ALT representation.

- Selecting members with the right skills to contribute to the ALT. On some occasions, if the alliance has extremely challenging issues to overcome in a particular discipline then an ALT representative with appropriate skills may be added to the team.
- Fulfilling both the governance and strategic leadership roles on the ALT.
- Considering ALT members' responsibilities to both the alliance and their participant organisation.

When two representatives are chosen from each organisation, it is common for one to come from the participant's operational area and have the ability to influence the alliance resourcing and management protocols, while the other may have specific technical or alliance-related leadership skills or experience to complement others in the ALT and address the project challenges.

The project may benefit from different ALT representatives as the project progresses. This must be managed and can be relatively easily achieved where there are two representatives of each participant on the board – one person stays throughout the project; the other changes depending on the project phase. Where there is only one representative on the ALT, it is important to transition the new person into the role before the first person is replaced. A planned transition strategy is very important for the continued effectiveness of the ALT.

The ALT will appoint a chairperson on a 'best for project' basis. Needless to say, the selection of the chairperson role is critical to the project and it is preferable that they have previous alliance experience.

In many alliances the chairperson will be an Owner's representative to give confidence that the alliance is delivering on the Owner's expectations and to facilitate effective interactions between the alliance and the Owner organisation. The chairperson rotating through the ALT representatives also occurs.

Characteristics

The required attributes or characteristics of the Alliance Leadership Team (ALT) representatives include:

- sound knowledge of the commercial framework, insurance and accountability aspects of an alliance (understand the commercial 'skin in the game')
- delegated authority to make decisions for the companies they represent
- strong leadership skills and a thorough understanding of relationship management as the vehicle for collaborative project delivery
- visibility and accessibility to the team
- self awareness such that they are open to seeing and understanding the views of others and demonstrate the agreed alliance behaviours through their own actions
- line accountability within their participant organisation
- flexible and adaptable approach, and not prejudiced by their past experiences
- embody their 'governance' and 'strategic leadership' role, acting as a sounding board to the alliance
- behaviours based on trusting and being trustworthy.

Some organisations are developing staff that take up ALT positions on projects in more than one region based on their extensive experience. The justification for the additional direct (travel) costs for these ALT members must be made on a Value For Money (VFM) basis.

Accountabilities

The accountabilities of the Alliance Leadership Team (ALT) are generally consistent across all alliances and normally documented in the alliance agreement. Examples of some of the ALT accountabilities are to:

- set goals and project development
- make unanimous decisions if called upon to do so on a 'best for project' basis
- lead the alliance
- set the vision, goals and behavioural principles for the alliance and promote the adoption of these throughout the alliance team
- appoint the Alliance Manager (AM)
- approve the organisational structure for the alliance and the representation on the Alliance Management Team (AMT)
- empower the AMT to deliver on the commitments, principles and objectives of the alliance
- approve the cost and non-cost performance frameworks including the measures that

are used to assess the alliance's performance against this framework
- address the commercial, insurance and risk issues
- resolve issues
- develop Key Result Areas (KRAs)
- mentor and coach individuals in the alliance as required
- proactively challenge the team to achieve outstanding outcomes
- take decisive action when required to intervene when conditions are inconsistent with the objectives of the alliance
- provide all of the required corporate reporting to the Owner on the performance of the alliance
- review the Target Outturn Cost (TOC)
- undertake value management.

In some alliances the ALT representatives also champion one or more of the alliance KRAs. This enables each ALT representative to be more visible to the alliance team and to challenge the team to deliver outstanding outcomes in the respective KRA.

It is important to state that alliance ALT members (both Owners and non-owners) have a clear accountability back to their home organisations. They therefore have two sets of objectives: one for the project, and one for their home organisation. The ALT members must realise and discuss this.

Commitment

During the early phases of the alliance, the Alliance Leadership Team (ALT) will often meet at least fortnightly to provide the required leadership and governance. Once these phases have been successfully completed, the ALT will usually meet on a monthly basis through to the completion of the alliance. The meetings of the ALT will often include the Alliance Manager (AM) and Alliance Management Team (AMT) members to present reports on specific issues. ALT members will have other responsibilities within the Alliance between these meetings.

Challenges

Critical to the success of the alliance is a strong, collaborative, working environment between the Alliance Leadership Team (ALT), Alliance Manager (AM) and Alliance Management Team (AMT). Good open communication between these groups will result in better decisions and actions.

Some ALT representatives who come from a project management background may be challenged by the governance role and become too involved in the day-to-day operation of the team. The AM and AMT must feel empowered to deliver on their accountabilities through the actions of the ALT.

Alliance Manager

The Alliance Manager (AM) is appointed by the Alliance Leadership Team (ALT) on a 'best person for the job' basis. The role of the AM is critical in any alliance.

In alliances that involve both design and construction activities, the AM often comes from the constructor participant(s). However, the AM can come from the Owner or designer with the selection ultimately being made on a 'best for project' basis.

Characteristics

The required characteristics or attributes of the Alliance Manager (AM) are:

Case note 22

Trust between ALT representatives

Project: Kingsgrove to Revesby Quadruplication Alliance
Owner Participant: Transport Infrastructure Development Corporation
Non-Owner Participants: Leighton, AECOM, SKM, MVM, Ansaldo STS

The project is part of the NSW Rail Clearways Program designed to improve capacity and reliability on the CityRail network.

The project involves the construction of two additional railway tracks between Kingsgrove and Revesby to allow the separation of local and express services on the East Hills Line. The alliance was awarded in 2007. Construction commenced in 2008 with major construction works scheduled to be completed in 2010 prior to commissioning.

Key lesson:

The Alliance Leadership Team (ALT) for this alliance has eight members. Two of these are from the Owner Participant (OP), two are from one of the designers (one as the organisation representative and the other as a technical specialist advisor to the ALT) and one each from the other Partners ~~Non-Owner Participants (NOPs)~~. During the selection phase Transport Infrastructure Development Corporation expressed concern about the large size of the ALT, but it was decided that the benefits outweighed the disadvantages.

The ALT decided that there would be no alternative representatives and that a quorum would be reached with a minimum of five attendees including a minimum of one Owner's representative.

As a consequence, there is the need for complete trust between ALT representatives to do the right thing by all the participants. The no alternate rule means that if any of the NOP representatives cannot attend, then their company will not be represented and the ALT can make decisions on their behalf. This is an extension to the usual position where decisions need to be unanimous. In this case, a unanimous decision can be reached without one or more of the NOPs being present.

To date this has not caused any issues and the ALT has functioned effectively irrespective of whether or not all parties have been represented.

- strong leadership skills with the ability to inspire those within the alliance team to achieve outstanding results
- excellent track record in project management, particularly of multidisciplinary teams, and proven performance to deliver results
- ability to embrace a collaborative work environment and live the alliance vision and principles
- excellent communication skills
- ability to manage upwards as well as downwards
- flexible and adaptable approach to changing circumstances
- ability to recognise and deal with strategic issues (the 'big picture') as effectively as dealing with the day-to-day operational challenges.

Accountabilities

The Alliance Manger (AM) is accountable to the Alliance Leadership Team (ALT) and ultimately responsible for delivering or exceeding all of the alliance objectives. Some of the other responsibilities of the AM are to:

- provide leadership to the Alliance Management Team (AMT) and Wider Project Team (WPT)
- recommend an alliance structure and members of the AMT to the ALT for approval
- facilitate communication between the ALT, AMT and WPT
- provide early and accurate written and verbal reports to the ALT on progress

- represent the AMT in discussions with the ALT
- implement the decisions and determinations of the ALT in conjunction with the AMT offer
- facilitate a holistic approach to project delivery with an open and collaborative management style while always remaining firmly committed to all project goals and milestones.

Challenges

If an Alliance Managers (AM) has come to an alliance with a track record in adversarial contract delivery methods, he or she may find it a significant challenge to embrace the behavioural commitments of an alliance. One-on-one coaching may be required to create the space for seeing things differently. It may also be challenging for these individuals to embrace the governance role of the Alliance Leadership Team (ALT) as traditionally they have been largely autonomous delivering projects without this interface. This may cause tensions between the ALT and AM, resulting in a suboptimum working relationship.

The AM has a significant influence on proponent selection decisions made by the Owner's selection panel.

Their individual 'brand' is a very important part of helping a team to win and deliver the alliance.

There is also an argument for having two successive AMs: one to deliver during the Target Outturn Cost (TOC) phase, and another for the construction phase. This has occurred on several alliances and has proven successful.

Case note 23

The case for changing Alliance Managers

Project: INB HUB Alliance
Owner Participant: Queensland Transport
Non-Owner Participants: Leighton Contractors, AECOM, Coffey Geosciences, Bligh Voller Neild Architects, EDAW **Value:**
$333m **Duration:** 2005 –
2008

The Inner Northern Busway project was a highly complex multidisciplinary project constructed in the heart of Brisbane City. It forms the Central City Busway link to the Northern Busway including two major bus stations (one underground), a 600 m tunnel and major city infrastructure relocations.

Key lesson:

The alliance experienced a change in Alliance Manager (AM) after the development of the Target Outturn Cost (TOC). This was due mainly to organisational changes in one of the NOPs which required the AM – who had led the team through an extended Target Cost Estimate (TCE) phase – to return to HQ to assume a senior management role.

A second AM was appointed following TOC development. The management styles of the two AMs were quite different, but suited the alliance phases they were responsible for – TCE and delivery.

The change of AM was ultimately considered a good outcome for the particular stage of development the alliance was in at the time.

Alliance Management Team

The Alliance Management Team (AMT) – sometimes called the Integrated Management Team (IMT) – is led by the Alliance Manager (AM).

Personnel nominated to the AMT are drawn from the alliance participant organisations or from outside these organisations on a 'best for project' basis. The structure and representatives that make up the AMT are endorsed by the Alliance Leadership Team (ALT).

Sometimes Owners can experience difficulty populating alliance teams effectively. It can be hard to find the right person to act at the AMT level, but also allocate sufficient time to properly fulfil the role. The alliance will benefit if the Owner is able to contribute to the AMT, particularly if these staff have responsibility for Key Result Areas (KRAs).

Characteristics

The required characteristics or attributes of the representatives of the Alliance Management Team (AMT) are:

- strong leadership skills
- excellent track record in their field of expertise and proven performance to deliver results
- ability to embrace a collaborative, multi-disciplinary work environment and live the alliance vision and principles
- strong communication skills
- flexible and adaptable approach to changing circumstances
- ability to confront what is preventing the achievement of performance outcomes and make the necessary changes
- ability to see the 'big picture' and how their day-to-day activities influence it.

Accountabilities

The Alliance Management Team (AMT) is accountable to the Alliance Manager (AM) and is ultimately responsible for the day-to-day management of all aspects of the alliance. Some of the other responsibilities that the AMT has are to:

- appoint and empower the Wider Project Team (WPT) through effective leadership
- implement the management and operational processes and systems
- implement the decisions and determinations of the Alliance Leadership Team (ALT)
- deliver the works, meeting or exceeding the alliance objectives
- measure, forecast and report performance to the ALT
- resolve issues and take appropriate corrective action
- proactively identify and manage all risks and opportunities.

Challenges

In most alliances, the participant organisations are represented on the Alliance Management Team (AMT), although this should not govern the selection of representatives. The size of this team can be quite challenging with some examples of twelve or more people making up the AMT.

The AMT membership can vary through the different phases of the alliance as the works progress from project scoping and development through to implementation.

Another challenge for the AMT is achieving high performance working relationships as the range of disciplines represented can be very diverse.

Wider Project Team

The Wider Project Team (WPT) members must:

- have the skills and experience to effectively complete their project role
- understand the alliance delivery method
- be personally aligned with the vision and goals of the project
- be totally accountable for their own work performance
- understand how their role influences or drives the achievement of outstanding outcomes
- work harmoniously within the culture established by the alliance.

The WPT will contribute greatly to the energy of the alliance, and will need to be consistently encouraged to support the project and behavioural commitments established by the alliance.

The alliance will certainly benefit if the Owner is able to vertically integrate their contribution by providing staff to participate in the WPT. Key to the success of the alliance is that all teams clearly understand the Owner's objectives and vertical participation certainly supports this.

The WPT will have great diversity in its membership given it comprises people with both professional and trade qualifications. Selection to this team requires an assessment of appropriate technical skills and experience. However, just as important is an assessment of their attitudes and behaviours. The ability of the alliance to deliver on all Key Result Areas (KRAs) will depend on the WPT appreciating the importance of non-cost and time objectives.

Independent advisors

The Owner Participant (OP) will appoint a range of advisors to ensure that the alliance delivers on its objectives, the alliance principles are embraced by all participants, and the contractual and commercial commitments of Partners Non-Owner Participants (NOPs)are being observed.

Reference checks are appropriate for all advisors, just as they are for the proponents.

Generally, the financial auditor and independent estimator would bid for public sector work. The Probity (Ethics) (Ethics) advisor usually bids, but not always, and there is a tendency to draft the legal advisors from panels, with bidding or sole sourcing a rarity.

Owners need to make sure that the advisors are aligned with the project objectives, and have clarity around their role and function. The general prerequisites of an advisor are:

- availability
- experience and reputation
- interpersonal skills
- price.

Alliance facilitators

Alliance facilitators have an important role in alliancing from both the Owner and non-owner perspectives. This is a specialised field of work which brings benefits to both Owners and Non-owners in alliances from their independence and wide range of experiences with many clients and across many different types of projects. There are many talented facilitators in the market who provide valuable advisory, process and coaching services to Owners and Partners ~~non-owner participants~~.

The range of services provided includes:

- advisory services to Owners to assist the decision-making process on whether or

not an Owner will deliver a project through an alliance framework
- working with the Owner to establish the strategy, framework and process for the alliance delivery model
- working with the Owner's team to coach and prepare them for participation in an alliance
- working with the Owner's selection panel to prepare them for the selection process
- working with the Owner's team to develop the commercial framework and the DRAFT alliance agreements
- facilitating the selection process for the Owner (including interviews and workshops)
- advisory services to non-Owners to assist in the development of strategy and preparation of bids and proposals
- coaching services to non-Owners' teams during the selection process
- coaching services to the alliance, including leadership coaching and high performance coaching
- general advisory services in relation to alliancing, commercial agreements, contracts, coaching and team development

Selections of the facilitator who is most suited to the client, the project type and the Partners ~~Non-Owner participants~~ is important in delivering real value in an alliance.

Financial auditor

One of the great challenges of alliancing is to demonstrate Value For Money (VFM) for the Owner. In part, the appointment of an external financial auditor by the Owner provides a degree of confidence that the commercial position of the Partners Non-Owner Participants (NOPs) is based on auditable financial records of similar projects or works.

The auditor will normally complete audits in parallel with the process of selecting the NOPs and the early commercial alignment sessions. They will then undertake regular audits during the project to make sure that the commercial commitments of the participants are being observed.

At the beginning of the alliance, the Owner will appoint the financial auditor to:

- conduct a confidential analysis of the participant's accounts to understand the Business As Usual
- (BAU) financial performance of projects or works similar to those of the alliance
- confirm the rates for salary and other internal costs for both staff and contract employees
- advise on a proposed methodology for calculating non-project related overheads and BAU profit to
- form part of the alliance commercial framework
- produce an audit report and a compensation audit plan for an ongoing program of audits to validate reimbursement of costs under the alliance.

Audits will be undertaken throughout the delivery of the alliance at times specified by the Owner. These will typically be completed at the date of each progress claim (often monthly or quarterly) and are usually only an audit of claimed hours and support data.

The financial auditor will have a relatively short time to become familiar with the accounts and project profiles of the NOPs, so administrative staff from these participants should be well prepared. Each auditor will also have their own view as to how the financial accounts should be structured to enable them to assess project versus non-project related costs.

For the avoidance of doubt it is important for the Owner to work with the financial auditor during commercial alignment to try to resolve all potential commercial situations that may arise during the alliance. Examples include:

- treatment of overtime by designer or constructor staff – how is it approved and what multipliers apply
- resolution of project or site allowances for design and construction staff
- treatment of travel and accommodation costs for Alliance Leadership Team (ALT) representatives to attend meetings.

Legal advisor

The Owner will appoint a legal advisor to draft the alliance agreement and to prepare any subcontract or sub-consultant agreements required to deliver the works. The first draft of the alliance agreement is commonly provided to the proponents bidding to be a part of the alliance for their review, with comments to be included in the proponent's proposal.

The legal advisor will normally be involved during the selection process to review comments by proponents on the draft alliance agreement and the commercial alignment sessions to prepare the alliance agreement. Their role in these discussions is to document the agreed outcomes between the participants rather than lead the debate over the wording of the agreement. However, it is also essential that the legal advisor ensures that any obligations the Owner has in their legislative framework or overarching head agreement are reflected in the alliance agreement.

Once the alliance agreement is finalised and executed, the legal advisor can support the alliance team (including all participants) through to final delivery of the works. They can assist with the negotiation and preparation of subcontract or sub-consultant agreements and advise on the form of these agreements. The agreements with the subcontractors or sub-consultants can either be based on the more traditional lump sum risk transfer model or aligned with the alliance through a sub-alliance agreement. The legal advisor can support the team in making the most appropriate judgement.

Independent estimator

The role of the independent estimator sparks discussion and debate in the context of alliancing. Some considerations that must be assessed in the context of the specific project are:

- How independent does the independent estimator have to be?
- Are they involved from day one, and if not, do they understand the process?
- Should the independent estimator be completely independent, acting as overseers, not participants? If this is so, will they fully understand the alliance behaviours and drivers?
- Do the independent estimators come in as advocates and protectors of the Owner, or should they remain independent?
- What is the actual role that the Owner is looking for? To benchmark against industry? Or to offer an opinion on the Target Cost Estimate (TCE)?
- Does the independent estimator role bureaucratise the process, or is the real outcome to ensure a good job is done?
- Should the process include carrying out parallel audits?
- Should proponents submit a critique of the Owner's budget?
- Should there be an estimating systems audit by the independent estimator to get them keyed into the process?

Generally, an independent estimator will be appointed by the Owner to independently assess the target cost established to deliver the works and again provide greater comfort that the alliance will deliver Value For Money (VFM). More is written about the Target Cost Estimate (TCE) phase of the alliance in Part D, Chapter 3.

In selecting the independent estimator, Owners should examine their experience in:

- design and construction cost estimation, including probabilistic estimation
- quantity surveying and measurement
- establishing benchmark data on works of a similar nature
- exposure to a broad range of economic markets, particularly when costs are escalating significantly on an annual basis
- risk assessment and measurement
- participating in alliance delivery methods and working collaboratively with integrated teams.

The independent estimator will normally only support the Owner during the TCE phase. However, increasingly Owners are engaging the services of the independent estimator much earlier in the delivery of their works, and particularly to support them in the preparation of their budget estimate in the business case.

Independent verifier

The Owner occasionally appoints an independent verifier to ensure that the design and construction components of the alliance are delivered in accordance with the required brief, standards and guidelines.

Owners will often prepare a project scope and technical requirements document that guides the alliance in delivering the works. If appointed, the independent verifier will review design outputs to ensure they align with the documented requirements and will undertake general overview and reasonable checking of construction activities to ensure the works are constructed in accordance with the design.

These activities are yet a further element of the Owner's confirmation that the alliance is delivering Value For Money (VFM).

The independent verifier will normally work in parallel with the alliance's own internal verification processes.

In selecting the independent verifier, Owners should examine their experience in:

- design and construction of works of a similar nature
- delivery of verification services that are based on general overview and reasonable checking
- alliance delivery methods and the ability to work collaboratively with teams.

Insurance advisor

One aspect of alliances that has changed substantially over recent times is the availability of insurance that is purpose built for this project delivery method. These developments have been led by Owners' insurance advisors. These advisors ensure that the interests of the Owner are protected, but also deal with the insurers and underwriters to ensure they fully understand the alliance arrangements.

One of the insurance advisor's primary roles is the assessment of insurable risk and definition of mitigation strategies. Insurers will seek to determine the capability of the alliance to manage these risks, particularly through their understanding of the depth of relationship between the Alliance Leadership Team (ALT) representatives.

Step 6.2 Organizational Structure and Support

Organizational Structure/Resource Allocations

First, determine what resources—such as full-time employees, designated employees, market development funds, and investment funding—will be required from each of the alliance partners. These resource requirements, when analyzed along with the risks, responsibilities, and respective rewards of each of the partners, will enable the partners to derive a fair win-win balance from the alliance.

Before finalizing any financial or legal structures, the organizational structure must be mapped out. There are no firm rules for what the organization chart must look like, so long as both partners are committed to making it work.

Once the Organizational Chart is complete, be sure it truly supports the operational plan, and is designed to achieve the Value Proposition and fulfill the objectives of the alliance. The organization should ensure that internal audits of the relationship are conducted at planned intervals, based on the risk profiles of the organization's activities.

The basic elements of the organization chart are (see notes on Risk Management later in this step):

Executive Support Required for Success

Senior management should be involved intensively, and executive sponsors should be identified and engaged in the alliance. Be aware that senior management sets the general tone for cooperation and collaboration.

Corporate Relationship Management

Build Relationships at Several Management Levels Within and Across Organizations[13]

Developing key connections and building trust in an alliance will create the foundation needed for a successful partnership. Therefore it is important that those individuals who are on the organizational chart should work to build strong relationships.

What the Experts Say…

Establishing and building strong relationships should be a top priority for the alliance.

Steve Steinhilber, Vice President of Strategic Alliances with Cisco, says: "Relationships are the art of the alliance. They are also the glue that holds an alliance together, particularly when conflicts break out.

"It isn't bad strategy or poor legal advice that dooms most partnerships. It's the leaders' inability to get along and maintain a level of trust. It can take months or years to build trust, but just a moment to break it."

To avoid this breakdown of trust, it's important to start the alliance off right by putting strong, experienced people in alliance management roles and utilizing a process to establish and strengthen relationships.

If relationship issues such as breakdowns in trust, disrespect, unresolved conflicts, or suspicious motives go unchecked, the alliance will be at risk.

[13] Much of the core content in the three sections that follow is excerpted and adapted from Steve Steinhilber, *Strategic Alliances: Three Ways to Make Them Work* (Harvard Business Press, 2008).

Relationships should be built both internally among key stakeholders and with your partner among relevant organizations, regions, and levels.

Once key connections are established these relationships can continue to be strengthened and personal relationships can be formed through regular quarterly review meetings and collaboration around industry events, conferences, and social events. It's also important to celebrate success and recognize the teams when key milestones in the partnership are achieved; a simple cocktail hour or lunch to celebrate when a contract is signed, a press release is issued, or a solution is launched into the market will contribute to building strong relationships in the partnership.

When relationships are cultivated in this way, many issues down the road may be resolved by simply a phone call and discussion.

Establish a Joint Management Team

An important role of the Alliance Executive Council is to begin by establishing a management team across the alliance to understand the key priorities of the alliance and the associated solutions, services, models, programs, sales motions, and go-to-market decisions that will need to be made. Then define the roles and responsibilities at various levels of the organization that align to the key focus areas of the alliance.

> In *Strategic Alliances: Three Ways to Make Them Work,* Steve Steinhilber suggests that Alliance Managers "create a decision-making map assigning key players at both companies to those important decisions, and detail their level of involvement, such as consultations only or actual decision making."

Use the Responsibility Charting method RACI (outlined in Phase Five) as a tool to identify and engage appropriate people to make key decisions at the global, regional, and organizational levels, thus positioning the alliance to function effectively and efficiently.

The basic idea of such a map is to determine who is involved in key actions and/or decisions for the alliance and what role they play. Generally, any activity has people who are responsible and/or accountable. Others may need to be consulted for information. There may likewise be others who have no direct role in completing the task but who need to be informed of the activity and its status.

Sample Decision--Making Map:

Issue	Alliance Executive Council	Partner A	Partner B	Alliance Manager	Sales Team
Develop business plan	A	C	C	R	I
Create annual report	I	I	I	A, R	C
Enlarge alliance scope	A	C	C	R	C
Develop market entry strategy	C	C	C	C	R, A

Having a joint alliance management team that engages regularly will also help your organization to understand your partner's goals, vision, and culture. The extra time it takes to really learn how your partner makes decisions, deals with conflict, how they work with partners, and how they compensate their field will pay off as the partnership evolves. Management teams that understand their partners well are better positioned to work through issues more easily and avoid potential pitfalls.

Strong management relationships are also beneficial when difficult or bad news needs to be shared with your partner. For example, if an acquisition or press release with another partner could be perceived as competitive, it's important to offer early visibility to your partner. This is your opportunity to clarify your company's' position, explain the impact, if any, to your alliance, and reiterate the importance and differentiation of your partnership. This level of transparency and openness, which leverages the relationships that you've built, can help to build trust and respect as well.

Steinhilber says that "Using common sense and reason, you can leverage relationships to steer you through the toughest challenges and help keep even the most fragile alliances rolling along more smoothly."

Peer-to-Peer Relationship

As mentioned in previous chapters, it is crucial that chemistry fit happens at each and every level of both organizations that is affected by the alliance's operations. However, this doesn't necessarily mean that each and every employee should directly interface with his/her alliance counterpart. It could even be unproductive having too many individuals involved in cross-discussions. Instead, the route to the counterpart organization must always be:

- Either through the Alliance Manager in charge,
- Or through processes implemented by the Alliance Management Team that includes protocols and rules of engagement.

This being established, the Alliance Manager should manage the elaboration of the *peer-to-peer matrix*, which aims at ensuring that:

- Respective roles/functions have an identified equivalent in the other organization. It is important to note that different types of organizations—public versus private, major companies versus Small & Medium Enterprises (SMEs), manufacturing versus services, national versus international, etc.—imply potentially different structures, roles, titles, and so on, and thus a precise analysis of equivalences must be considered.

- At each level of the relationship, an individual has been identified and is committed to manage all agreed alliance processes and tools that his or her level implies.

- Each individual ideally has a chance to meet his/her counterpart face to face, , understand his/her job, personality, constraints (e.g., language, location, etc.), and all aspects that will ensure a smooth, open, and friendly relationship.

This peer-to-peer matrix must be elaborated in total transparency with all concerned individuals, having their agreement and commitment to contribute to the long-term success of the relationship based on their level of involvement.

The different levels of peering will be considered according to key functions required to run the alliance, such as Senior Executive (Sponsor), Sales, Operations, or any function that the typology (codevelopment, commercial, branding, etc.) of the alliance requires. Once implemented, the peering should function as shown in Figure 5.1.he green (see Figure 1 above) level of peering and interaction is the day-to-day, normal way of running the alliance's operations. While the Alliance Managers will be kept informed either directly or via the alliance processes, they should not be involved in each and every interaction.

Figure 6.15: Alliance peering

The orange (see Figure 1 above) level of peering and interaction is about monitoring the status of the alliance as well as the first level of escalation if, and only if, a given problem couldn't be resolved at the green level. At this level the two Alliance Managers interact on a regular basis to exchange and synchronize their information about the alliance. This information should be collected from internal sources (see Figure 1 above) and formatted according to alliance monitoring tools, ensuring that both organizations are evaluating outcomes the same way.

The red (see Figure 1 above) level is about lliance governance at the Senior Executive level to review the alliance strategy, processes/tools, and operations on a regular basis (generally twice or three times a year). Alliance Managers are in charge of preparing all data required to conduct this type of meeting in the most efficient manner. It is also the very last level of escalation for problems that couldn't be resolved at the green or orange levels.

Risk Management & Risk Allocation

All business entails an element of Risk. Normally Risk Management is the function of the Alliance Manager.

However, for some industries, such as Pharmaceuticals, Insurance, and Construction, Risk Management is a major issue that presses deeply into the fabric of the alliance. In these industries, Risk Management is an integral part of doing business. In these cases, the Risk Manager may be an important advisor to the Alliance Manager, but should not serve as a "second guesser" after the fact.

Additionally, because risk and reward sharing are an integral part of the nature of alliances, the allocation of risk and reward is something that deserves attention. In certain industries, such as Construction, Risk/Reward Allocation is so pivotal to the functioning of the alliance that the profitability of the venture relies solely on this issue.

Risk is defined as the likelihood of a loss weighted by its severity. Risk exposure can come from a variety of avenues. Risk typically increases with complexity and uncertainty. As more members are added to an alliance, the greater complexity, the greater the chance of a collaborative breakdown as different members must rely on another's contribution to the work flow, and thus the greater the risk.

While some industries, such as Pharmaceuticals, face higher risks in the area of liability, other industries, such as Construction, face the risks of cost overruns, time delays, or market uncertainties at the end of a long project.

In a well managed alliance, where high levels of teamwork, operational integration, and trust prevail, the interdependent network/web of organizations can also reduce the severity or likelihood of a loss. In other words, high levels of systems integration is a risk reducer.

Compounded Risk

Managing risk is one of the major functions of the governance process. One of the challenges of strategic alliances is that they are formed to create future outcomes, and there are inherently many unknowns and uncertainties in that creative process.

When too many "new" or "unknown" factors (such as new market with new technology with new product) combine, the risks related to the potential success of the alliance increase exponentially. Alliances also entail many cross-company relationships and interfaces. Breakdowns are most likely to occur at the point of new interfaces. Every time another "new" or "unknown" factor or interface is added, the risks increase.

Limit the Number of New Risks: Start with the fewest number of risks, achieve success, then incrementally add new or additional risks.

Interface Points Are Critical: For every "new" element interacting with another, a set of interfaces is established. Interfaces are always fraught with potential danger because they mark the points in the architecture of the alliance where inherently different systems, frames of reference, languages, and methods have to come together. Communications and coordination are inherently discordant at these interfaces, requiring extra management skill, time, and foresight.

Once an interface begins to unravel, resources are diverted from other areas, which then puts the other interfaces at greater risk by diverting focus, which in turn triggers other interfaces to fail, thus sending the alliance into an often unending, irretrievable downward slide. The highest risks exist when new products with new technologies are brought into new markets.

Options for Reducing Compounding Risks

- Predict the Breakdown Points in advance
- Use tried and true people who are experienced at handling these breakdowns with tested processes and protocols
- Sequence the Rollout to enable corrections to occur before the next phase
- Use Pilot Projects on a small scale to test the system
- Commit to turning Breakdowns into Learning to trigger Breakthroughs

Formation and Planning Meeting

Avoid confusion by using Phase Five: Operational Planning to identify compounded risk issues. Include all key team members, preferably in person. At this time open communications should be the rule. All of the plans and issues should be addressed and you should ensure that responsibility and timelines have been assigned and agreed to.

Checklist 6.2

Organizational Structure and Support

_____ Have the functions and the desired results for the operational/cross-functional teams been clarified?
_____ Have the appropriate peering relationships been identified and established?

_____ Are there sufficient resources allocated to the alliance?

_____ What compounded risks might emerge? Has a plan been created to reduce these risks?

_____ Are the roles and responsibilities determined?

_____ Have reporting relationships been identified?

_____ Have measurements and reporting systems been identified, and processes established to obtain them?

_____ Have staffing requirements been determined?

Step 6.3 Win-Win Business Analysis

Before formalizing a legal agreement, it is essential to ensure that this alliance is truly a win-win agreement. Business analysis has been conducted in early planning and during the partner recruitment process, but at this point in alliance formation, you are equipped with a lot more information and better insight into how the alliance must operate to be successful. This step is a review and reassessment with the partner prior to making formal legal commitments. The "Five R's" that are essential in this analysis are:

1. Risks
2. Resources
3. Responsibilities; thus apportioning
4. Ruling power (or Control)
5. Rewards

Why Risk Is Vital to Success
"If long-term motivation by top management is desired, then be sure both long-term risk thresholds are sufficient to keep the partners engaged."
-—the late Paul Lawrence, Harvard Business School

Balancing the "Five R's"

Avoid arbitrary determinations of win-win. Both sides should have come to the win-win arrangement in an open, reasonable, and logical manner. Figure 5.3 demonstrates how the "Five R's" of the alliance are fairly apportioned between both partners. The Ruling power and financial Rewards should be distributed based upon the relative proportion of Risks assumed, Resources invested, and Responsibilities for results of each company.

Figure 6.3 Balancing the 5 Rs

Ruling power or control does not need to mean explicit decision-making rights in all cases; what's important is that both sides have the feeling that they can influence the course of the alliance and that there is trust. Only when there is no trust do voting rights and control measures become important.

There is no hard and fast rule to achieve the right balance, so long as it is logical and reasonable and the arrangements keep both parties highly motivated to succeed. Like rewards, the abundance of control should go to that partner who assumes the greatest risks and responsibilities, and commits the greatest resources. However, to optimize the alliance spirit, some dominant alliance partners have shared balanced control with a less influential partner. The point is that precision in determining the balance of control may not be necessary.

Remember, rewards do not have to be equal, but they must be equitable.

A Win for Both Parties

Be creative in designing win-win arrangements to motivate success and future growth. The Alliance Executive Council should be able to define what this joint value means to the collaborative partners. This should then be communicated to the organizations involved.

A win-win is a multidimensional solution. Revisit the alliance scorecard (Strategic Return On Investment) to understand that a win for one of the partners may be significantly different from the win for the other partner. For example, one partner may look at financial return as the best definition of a win for them, whereas the other partner may consider market share increases a better return for their win.

The Valuation Issue

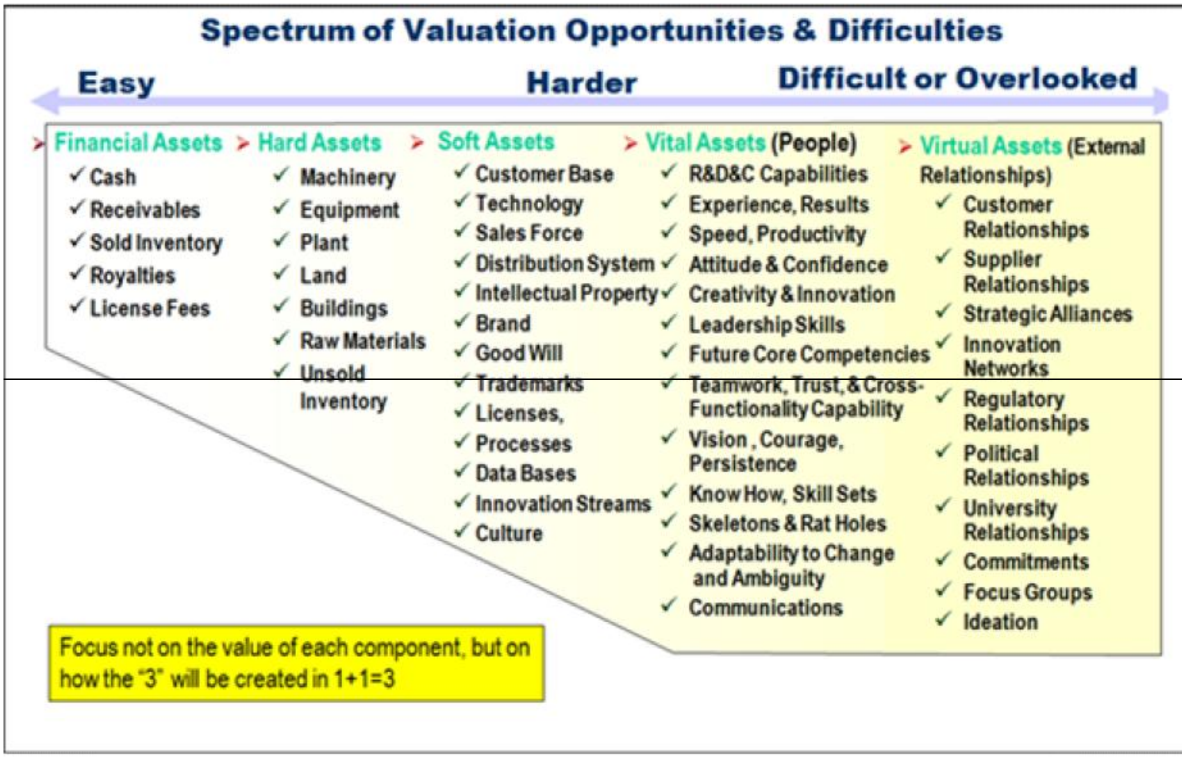
Determining the value of certain contributions is often the thorniest of all aspects of alliance negotiations and structuring.

If all other parts of the alliance formation process have gone well up until now, then there should be sufficient trust, creativity, understanding, and flexibility so that little difficulty will be encountered at this point.

Difficulties always arise when trying to put a value on very different contributions. It's an "apples versus car tires" problem. For example, one company's sales force is not valued the same way as another company's technology contribution.

Valuation of Hard Assets (money, buildings, land, machinery, etc.) is always easier than valuing Soft Assets (know-how, sales force, intellectual property, etc.). We have seen knock-down, kicking-and-screaming battles between lawyers and valuation specialists that ultimately destroyed the opportunity of a potentially great alliance.

Ultimately, valuation is an imperfect process, and the best alliances usually make a leap of faith in the end that the contribution of assets is sufficient skin in the game and the distribution of risks and rewards is adequate to spur high performance.



Note: Not all alliances will require valuation of assets. But be aware: most joint ventures, and many alliances where technology is being contributed, will require valuation of assets.

Technology Tip

Valuation of technology is one of the most difficult of all valuation questions. If there is a wide disparity in perceived value, try establishing a sliding scale that increases the value/royalty/licensing fee incrementally over time if the market responds positively.

Financial Analysis and Final Metrics

The operational planning, organizational structuring, and win-win analysis provide the foundation on which the financial analysis can be based. In Phase Three we developed a Business Case, and in Phase Four & Five we put the future of the alliance under the intense scrutiny of operational planning to understand the resources (people, money, material) required for success.

A critical aspect of the structuring phase will be the identification of what financial information will be gathered, reported upon, and acted on. This information should then be converted into a spreadsheet (jointly constructed by the prospective partners) to examine the financial considerations and ensure that the investments, risks, and returns are satisfactory. In this way, all the business issues, together, have driven the development of the legal document, rather than the reverse.

We will need to work with our ally to finalize the performance objectives and operating measures that will be used to evaluate the relationship and determine the sharing of risks and rewards. (Many of these objectives and measures will have been tentatively established in Phase Three: Analysis and Selection, and more clearly defined in the Business Case from Phase Three).

At times, rolling targets are more appropriate than fixed targets. As one executive says of his company's arrangement: "Instead of writing key performance measures, we've defined a process for setting up, measuring, and reporting objectives as we go along." Because the ability to adapt to change is so important to the success of collaborative relationships, this kind of flexible approach to performance measures can be valuable.

Effective measurements will be critical to the success of the relationship. As discussed earlier in this User Guide, strategic alliance measurement systems should look at more than the costs of the relationship. Instead, they should look at whether the relationship is generating the overall competitive advantage and business results that you want to achieve. That means that Strategic Return On Investment measurements or some other alliance scorecard measures should be at the heart of the financial performance reporting system.

Contacts with Competitors

The alliance partner may bleed through critical information (either intentionally or unintentionally) to a competitor with whom they are doing business. Prior to formalizing any alliance agreement, review the code of conduct guidelines and inform the prospective alliance partner of your company's requirements to prevent the leakage of critical competitive, confidential, and proprietary data. If this is a potential risk, your legal team may recommend that an NDA (Non-Disclosure Agreement) be executed.

Step 6.4 Commercial Terms & Legal Agreements

Formalizing the Agreement

As discussed in the overview, the Alliance Structuring and Governance phase focuses on creating organizational and legal frameworks for the alliance relationship. Based on work previously performed in our other phases, finalizing the legal documents should become a relatively easy process.

Working with the partner, the business people should take the lead in constructing the document. Legal advisers should be involved to ensure that the document contains the necessary clauses and other appropriate language that will prevent legal actions against your company in the future and mitigate any potential liabilities that could arise from the alliance. Therefore legal advisors are necessary to develop the appropriate language in the contract.

There are times when a conflict will arise between business people and lawyers on how much risk the former group might wish to expose the company to versus what the legal advisers are saying. Under these circumstances you will have to make a business decision and be sure senior management is aware of the difference of opinion.

Transactional Legal Relationships

By this stage in developing the alliance relationship, the lawyers for each organization should have developed a collaborative working relationship and begun co-creating a non-adversarial agreement.

If, however, the lawyers begin drafting language with the understanding that it is their role strictly to protect their client, then all the preceding work of the alliance management team will be for naught.

Lawyers should be well versed in Alliance Best Practices. Give them a copy of this Guide. Educate them on the best ways to engage their legal counterpart.

The job of a lawyer is to protect his or her client. But the best protection is to reduce the chance of failure by engaging in alliance bBest Practices.

At this time, prepare a draft of the legal agreement for the relationship and conduct negotiating sessions as necessary. The Draft Alliance Agreement (sometimes referred to as the Memorandum of Understanding & Principles) produced in the Value-Creating Negotiations phase and the joint Operational Plan created in the Operational Planning phase should form the basis of the legal agreement. Update any material from the MOUP and enclose any data from the Operational Plan that may be relevant.

In addition to the standard legal and tax issues normally addressed in a contract, consider including agreements about:

- Customer relationships. (How will you deal with preexisting customers, noncompete agreements, and conflicts created by product or territory overlaps?)
- Rights to new products, derivatives, and intellectual property.
- Contacts with competitors. (How will the “bleed-through” of confidential information be controlled?)
- Conduct guidelines. (What ethical and trust-building standards of conduct are both partners expected to maintain?)
- Training, enablement, and tools offered to each other.
- If an exit occurs, how will the partners disengage with grace and respect?
- How the partners will respond to required changes in the competitive landscape, including adjustment clauses when mid-course corrections are required. Such flexibility is an integral part of building a strong, enduring partnership.

The length of time that the contract should cover varies, but the timeframe for a strategic alliance agreement is usually longer (perhaps five to ten years) than it is for traditional contractual arrangements. Such long-term agreements give the relationship time to evolve, and the time needed to achieve more strategic benefits.

If you are not able to reach an agreement about the shape of the contract, management needs to assess and address where the process has broken down. This implies reverting to the previous stages to determine whether anything went wrong there. Is the value proposition compelling enough? Is there sufficient trust?

Finally, continue to build on the positive momentum you have created so far. Presuming that a reasonable level of trust has been created at this point, negotiations should not take the form of “bargaining over contract provisions,” but instead should be highly creative and synergistic (see Phase Three). A win-win attitude and a sense of trust maintained throughout the final drafting of the contract should make everything much easier.

Use Checklist 6.4 as the basis for a review of the structural issues within the agreement.

Conflict Resolution

In case some form of conflict arises between both parties or the discontent of one of the parties starts to show, it is first important to find the source of the problem and to determine the effects. The source can either be endogenous (it has to do with the way of working within the alliance) or exogenous (external conditions have changed, for example market demand falls or government regulations have changed). The effects can be on the efficiency of the alliance (revenues fall) or on the equity or value distribution (in case only one party is harmed by the change). Depending on this combination, various actions can be suggested.[14]

Using litigation to resolve conflicts is the most ineffective and damaging means of interaction. And increasingly the world gets a chance to see the battle, damaging future prospects of alliance formation as both sides become tarnished in the media.

In the legal agreement, outline provisions for mediation in the event of unresolvable difficulties.

Exit Strategy

Your legal counsel may tell you that the most important clause in the agreement is the “Exit Strategy.” This is correct, but with some explanation. The exit strategy will be essential if the alliance collapses or no longer is strategically or operationally important or viable. The difficult questions the lawyer will ask will prevent your company from being victimized by a highly litigious former partner turned adversary. A well-formulated exit strategy will enable you to withdraw from the alliance without a detrimental impact.

Legal Counsel

Generally speaking, it is advisable to have the alliance manager work closely with legal counsel to initiate the drafting of the agreement. The lawyer will be well versed in the legal issues for the contract, but the alliance manager will understand the strategic and operational issues.

In this way, the final contract will reflect the terms, conditions, and code of conduct that are essential in all dealings with your company, and the alliance partner will have full knowledge of your fundamental values and ethical underpinnings.

Better yet, have legal counsel from both companies meet with both alliance managers together to understand the issues and terms of the alliance from a non-legal perspective. This avoids having one legal counsel initiate process by dumping every imaginable restrictive covenant in the agreement, and then to have their counterpart retaliate with more restrict covenants.

[14] Figure from Doz Arino, “Rescuing Troubled Alliances ... Before It’s Too Late,” *European Management Journal* 18/2 (April 2000).

Exit Clauses

- Define exactly
  - Who gets what upon dissolution:
    - Sales Force, Customers
    - Technology, IP, software code
    - Key Personnel
  - Who provides what after dissolution:
    - Customer Support
    - Warranties
- In event of Disagreement
  - Litigation is to be avoided at all costs
  - Mediation with binding Arbitration as last resort is better
- Don't spoil your reputation as Alliance Partner of Choice
- Exit with least damage to the other party
- You may be their partner again
- Avoid
  - Tearing apart other successful alliances
  - Negative Publicity

Checklist 5.4

Structural Issues for the Legal Agreement

Fairly allocate the “Five R’s” of structuring:

___ Risks
___ Resources
___ Responsibilities
___ Rewards
___ Rule (control)

Ultimately, the central issue in structuring the alliance will be how to distribute these fairly. These five issues will need to be tailored to the particular needs of the alliance—each has its own unique script. Most arrangements are conceptually short, basic, and easy to understand. There are several questions to be weighed during the early stages:

___ Who invests *cash*, and how much?
___ Who invests *time*, and how much?
___ Who receives *rights* to:
    ___ Market or distribute products
    ___ Manufacture products
    ___ Acquire or license technology
    ___ Purchase future products or technology
    ___ Jointly created intellectual property
___ Who receives *tax* benefits?
___ Who is *responsible* for specific accomplishments?
___ What happens if more *money* is needed?
___ How are the *profits* (and losses) allocated?
___ How is *confidential information* handled?
___ What *products* are specifically included/excluded?
___ What *services* are specifically include/excluded or jointly delivered?
___ What are the *patent* provisions?
___ What are the guidelines for *termination* or revision?
___ What *government regulations* should be considered?

Final Review and Approval

Before signing any legal agreements, ensure that the authorities of both parties who will have executive oversight approve the agreement.

Review the draft contract with the joint Alliance

Executive Council and other senior management, as necessary. A clear understanding of the final agreement is vital to gaining the future support of these constituencies.

Use the following steps as a guide to achieving the final review and obtaining the necessary approvals:

1. Meet with your legal counsel. Review both the Alliance Agreement (MOUP) and the Operations Plan. (Include alliance partner's champion, alliance manager, and their legal counsel in the meeting, if possible.)

2. Schedule appropriate approval meeting times. Inform legal counsel, partner, and core team members of timing for executive approvals.

3. Upon final executive approval of strategic and legal aspects, schedule a "closing."

Review Figure 6.5 to be sure that all of the documents pertaining to the alliance are complete. Make sure that all parties to the alliance have agreed to all of the expectations laid out in the Operational Plan. Be sure and schedule all of the governance meetings out through the first six months to be sure everyone has the meetings on their calendars.

Legalities and the Launch

Inform both legal counsels what the time schedule is for finalizing the agreements. Make sure they understand the importance of holding firmly to the schedule so that the operational launch can happen on time.

Otherwise, gain the support of legal counsel to launch based on the Alliance Agreement (MOUP) and the Operational Planning and Governance decisions. Determine with the legal counsel if the alliance can be launched before the closing.

In some notable circumstances, launch precedes the closing if the alliance partners are sufficiently aligned, have completed a mutually agreed-upon Operations Plan, have a high level of commitment and integrity, and have received top-level support from both parent companies.

Alliance and contract types

[RPL: From AECOM Manual]

Conventional alliances (sometimes called pure alliances) will continue to be modified to suit the owner's circumstances to deliver great projects and Value For Money (VFM) outcomes. These models include:

- dual TOC alliances
- contracted alliances
- program alliances
- services alliances
- early contractor involvement (ECI) contracts
- small hybrid contracts.

These are all legitimate forms of project delivery for owners to consider when making that all-important decision of, "What do we want?" and, "How do we do this?"

So, what are these different kinds of delivery methods, how do they fit and where do they work well?

Dual TOC alliances - Are two TOCs better than one?

The question of whether a dual Target Outturn Cost (TOC) price competitive alliance selection delivers better Value For Money (VFM) than single TOC alliances is a much debated topic.

Points to consider in comparing single TOC and dual TOC contracts include:

- Does alliancing require a higher or lower level of accountability than other contract forms?
- Because of its transparent nature is alliancing actually the only way to really demonstrate value for money?
- If the owner is part of the process and the process is transparent, does that set up the conditions for a reasonable outcome?
- As the alliance model is often chosen for projects that are inherently high risk, how do you price all risk?
- If you set up a dual TOC alliance, will that drive unintended complex and / or competitive behaviours that do not serve the alliance well?
- Is the cost of funding two teams to each develop a TOC justified by the savings generated on the project?

Further commentary on dual TOC alliances are included in Part D of this book.

There will be occasions where selection of a dual TOC process is driven by other factors such as the need to assess differing "black box" technologies in a project or political or regulatory imperatives.

Contracted alliance

Contracted alliances create an open book incentivised contract framework, where the owner is not integrated into the team. They are typically employed by Local Authorities and Regional Water Boards where their regulatory framework requires arms length contractual arrangements, or where the authority doesn't have personnel to integrate into the alliance.

Contracted alliances do not include the no blame clause, but do typically include a cap on liability set at the level of Limb 2. This capping of risk does still allow for good collaborative arrangements better suited to projects where scope is well defined. Refer to further information at www.alliancenetwork.com.au

Program alliances

Program alliances are used to complete multiple projects with multiple TCEs under one umbrella program office. In this case the owner and non owner participants manage and perform projects of varying size and with varying skill sets. Examples are:

- Sydney Water – Sewerfix Alliance
- Melbourne Water – Sewage Treatment and Pump Stations Program Alliance, Water Supply Program Alliance, Waterways and Storm Water Quality Program Alliance, Pipelines (Sewage & Drainage) Program Alliance
- LinkWater – Southern Regional Pipeline Alliance
- WA MRD – Access Alliance
- QR TrackStar Alliance
- Gold Coast Water Beenleigh Merrimac Pimpama Alliance

In some program alliances gain share and pain share are linked between projects such that some of the gain share earned on one project is at risk on latter projects. This is purportedly to ensure that performance in maintained to the end of the last project. The downside is that there is an issue of deferral of revenue recognition for participants internal accounting systems long after individual projects are completed.

Some advantages of a program alliance approach can be:

- Bundling projects reduces selection processes time and cost demands
- Enables purchasing gains and cost efficiencies across a broader scope of work
- By offering a larger package of work, owners may get better skills and systems from larger design and construction entities
- Lessons learnt on each project can be applied to other projects
- Ability to benchmark one project against another
- Risk assessment on one project is informed by previous project outcomes and contingencies should reduce
- Larger bundled works packages will attract better insurance wording and premiums
- Gain share / pain share can be linked between projects

Disadvantages can be:

- Managing team culture on multiple work fronts requires additional support structure
- Differentiation between program KRAs and project KRAs can lead to complexity and confusion in drivers
- Demobilisation of the alliance while working on multiple projects requires additional management effort

Services alliances

Services Alliances are typically applied to ongoing operations or sustaining capital works where a program of work over a nominated duration is performed. Their application is often seen in the mining industry, water and rail sectors

The alliance will typically work inside the owner’s business, will share (the open book basis) cost, budget and business case information. It will also contribute to the owner’s annual budget cycle reviews. KRAs will typically be reviewed on an annual basis with new KRAs adopted on targets raised to encourage continuous improvement.

One of the biggest challenges in services alliances is maintaining the foundation culture and keen edge developed initially. Over the longer term, changes in key personnel at ALT, AM, AMT and WPT make it necessary to re-establish this culture.

Case note 32

Services alliance #1

Project: Brisbane Waste Innovations Alliance **Owner Participant:** Brisbane City Council **Non-Owner Participant:** Thiess Services **Duration:** 2006 - 2013

The Brisbane Waste Innovations Alliance operates the waste recycling, transfer and disposal services for the City of Brisbane. This is focused on the operation of four recycling and transfer stations, a Brisbane City Council (BCC) owned landfill and some disposal at a Thiess Services owned landfill.

Comment:

The Brisbane Waste Innovations Alliance is a services alliance that has operated in pre-existing facilities for several years, and with several different alliance managers. The managers have typically moved on through career progression. The lesson learnt is that thorough succession planning and active induction and 'refresh' programs are required.

Regular reviews of the Key Result Areas (KRAs), escalation and contingency items are also required when setting budgets. For example, the cost of fuel was taken out of the alliance risk items and actual direct costs are now paid. However, a KRA to encourage reduction in fuel consumption was introduced. Annual operating and capital budgets are developed by BCC and Thiess Services under the terms of the alliance agreement.

Case note 33

Services alliance #2

Project: Southern Cross Fertiliser Alliance
Owner Participant: Incitec Pivot Limited (IPL)
Non-Owner Participants: AECOM, WorleyParsons
Value: Average $20m capital spend per year **Duration:** Established in 2001 - ongoing

The Southern Cross Fertilisers Engineering Alliance contract was established in 2001 for the provision of Engineering, Procurement and Construction Management (EPCM) services to the Incitec Pivot Limited (IPL) Mt Isa Sulphuric Acid Plant, Phosphate Hill Fertiliser Plant and Townsville Port Receival and Handling facilities.

The contract was initially for a three year period being originally established to handle small brownfields projects involving a capital spend of $10m to $20m per year but has progressed to routinely handling significant projects for the site including gypsum storage and pumping facilities of up to $20m, assistance with major plant outages and major maintenance projects. The alliance relationship has successfully transitioned through two changes in plant ownership and is currently involved in a $100m capital program over the sites.

Key lesson:

The alliance has successfully transitioned through ownership changes, senior management and steering committee changes throughout the duration of the contract. A key factor in the ongoing success of the relationship is the commitment of senior management from the JV partners and IPL (Southern Cross Operation) to ensure that potential issues are identified and dealt with at the right levels. Key Performance Indicators (KPIs) focussed on achieving what is most important to IPL and a process to continually change the KPI emphasis and drive behaviours to improve performance has always been endorsed by all partners at all levels.

The strong relationship and stable core team has allowed the generation of extensive site knowledge so that real value can be demonstrated to being added for IPL from having the alliance team involved. The team culture from the initial establishment meetings has always been to question the business case and justification for projects so that only the right projects are undertaken and real savings are achieved in the capital program.

Early contractor involvement contracts

Early contractor involvement (ECI) contracts are an enhanced form of design and construct (D&C) contract sometimes described as being like an alliance front end to derive a 'risk adjusted maximum price' (RAMP) and a lump sum Design and Construct back end. Main Roads Department in Queensland has further modified this model by keeping the costs open book, validating the first project cost and sharing in any under-runs on the RAMP.

Some industry observations around the ECI contract are:

- It is an enhancement of D&C with construction input into the project development phase.
- Can be used where risk is contained.
- May be a trend to have competitive ECI (dual RAMP development teams) to demonstrate VFM
- Main Roads Qld ECI is open book at the end – validating actual cost at end – sharing under runs

International contracts – An NEC3 perspective

The dominant form of contract in Britain, the Middle East and some parts of Asia is the NEC3 suite of contracts published by Thomas Telford Publishing, a wholly owned subsidiary of the Institution of Civil Engineers (ICE) in London. The NEC3 contracts (New Engineering Contracts – edition 3) were published in June 2005.

ICE describes these contracts as "a clear and simple document – using language and a structure that are straightforward and easily understood."

The Core Clauses of these contracts describe a fairly conventional master-servant relationship contract form, although elements of an alliancing approach are contained in the Main Option clauses:

C – Target contract with activity schedule

D – Target contract with bill of quantities

E – Cost reimbursable contract

Also in the secondary option clauses including:

X 12 Partnering

X 20 Key Performance Indicators

Whilst these option clauses can replicate (to a fair extent) an alliance framework, ultimately the nature of the core contracts will support participant position based problem resolution rather than integrated decision making.

The NEC3 contracts development panel has met with alliancing practitioners from Australia and are contemplating producing what they've termed a single multiparty agreement that replicates an alliance for the NEC3 suite of contracts.

Small hybrid contracts

Most of the current alliances are large projects with project costs of at least $20m but in many instances in the range of $100m to $1000m or more. Because of the level of input required to facilitate, derive agreements and build the integrated teams, owners with small projects usually use traditional forms of contract. We are aware of one small $2.5m project successfully delivered using alliancing principles.

Case note 34

Small hybrid contract, sustainable result

Project: Weyba Point Lakehouses
Owner Participant: Cormorant Eco Retreat
Pty Ltd **Non-Owner Participants:** WW & Ch
Tainsh (Builder) **Value:** $2.5 million
Duration: 2007 – 2008

Weyba Point Lakehouses was a project to build eight houses on the shores of Lake Weyba on the Sunshine Coast north of Brisbane. The owner adopted an open book Masterbuilders Commercial Cost Plus contract with special conditions relating to alliancing principles. The special conditions included:

- An introductory Statement of Principle – "This is a special project being built in a special place that must remain special. We jointly commit to behaviours that are fair, reasonable, open, honest and are applied with respect and courtesy."
- Separate Target Cost Estimate (TCE) processes for the building works and the site civil works with an underrun bonus provision
- Agreed separate builder margins for the building works and site civil works
- Nominated Key Result Areas (KRAs) including environmental management, stakeholder management (authorities and neighbours) and quality of outcome with a bonus share arrangement
- A commitment from both parties to open and responsive communication.

The project was completed without disputation and with an excellent project outcome despite abnormally high rainfall during the work.

This style of contract is very unusual for this industry sector and required careful consideration by all parties. The architect designer, for instance, preferred to act as an advisor to the owner rather than be a party to the contract.

Alliancing in Public Private Partnerships

In many Public Private Partnership (PPP) infrastructure projects, alliancing is used as a way of managing risk in subcontract packages by the head constructor. An example would be a foundation piling contract where there is uncertainly about subsurface geotechnical conditions. However, the head construction contracts in PPP's are usually lump sum "hard dollar" contracts will full risk transfer pricing.

It is interesting to note that the insurance industry has embraced alliancing as an effective way of managing risk.

The next industry to contemplate the competitive advantages of delivering projects through integrated alliance teams may well be the project finance industry. Alliancing project and services delivery models have been raised at several Public Private Partnership (PPP) forums and at least two major legal firms have commenced considering the appropriate legal frameworks.

In an article in "Project Finance International" on 29 November 2006, legal firm Allens Arthur Robinson Partner Phillip Cornwall (view www.aar.com.au/pubs/bat) described alliances and their differences to EPC (Engineer, Procure, Construct) and turnkey contracts. He references a number of projects and the

trend towards more alliance style of delivery. He also discusses issues from banks and their resolution by enhanced due diligence, financing structure, alliance contract mitigants, insurance. He concludes:

"Projects with inflexible completion deadlines, such as most PPPs or new or high-risk technologies, are unlikely to be suited to an alliance approach where a project financing is planned. But in the vast majority of cases, it could be said that alliance contracts are just facing reality. They are a natural response to non- conforming tenders which seek head-contractor style profit margins while pushing back on risk transfer. The traditional EPC/turnkey model, dogged by prolonged and costly disputes, is hardly perfect, and with the right financing structure, the right alliance partner and the right project, the alliance contract can be a viable basis for a project financing."

There is no doubt that constructors are already using alliances to better manage risks and provide cost certainty for complex elements of projects within current PPP models.

The change in the insurance industry resulted in a competitive advantage for one of the major underwriters for some time. Perhaps the adoption of Alliancing in PPP frameworks will be driven by a party in the financial industry seeking to give a similar competitive advantage in a PPP bidding process.

Beware of Contracts That Are Onerous or Dumping Grounds

Beware the contract that becomes the dumping ground for everything: legal, risk shedding, exculpation, management, strategic, operational, etc. It's dead—a garbage pit of undifferentiated junk that no one wants to read or be held responsible for.

- **No alliance ever succeeded because of the quality of the contract.**
- **Contracts are not a complete picture of the alliance; the alliance is not contained inside the contract.**
- **Contracts are created at a point in time; when conditions change, the contract is often obsolete.**
- **Too often, those who are operating the alliance**
  - **Did not participate in the contract discussions**
  - **Have never read the contract**
  - **Have a very different understanding of the alliance from that which is embodied in the contract**
- **Contracts are usually designed to protect the lawyer's clients against risks, especially in the event of failure.**
- **The Best Protection is not a good contract, but disciplined use of Best Practices.**
- **If you have to read the contract on a regular basis to make the alliance work, the alliance is probably dead.**

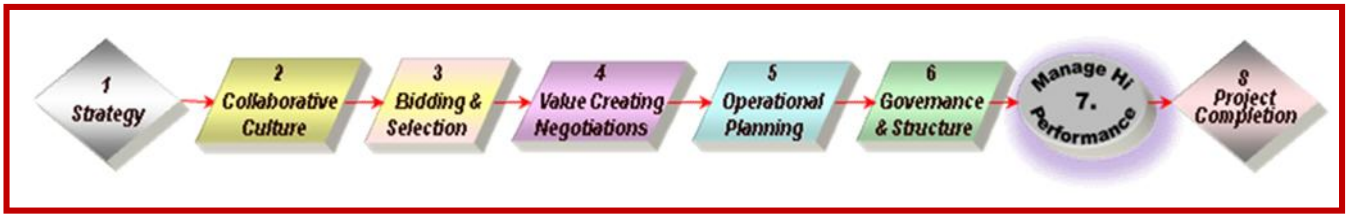
Missing figure 6.5 – see original document

Legal Eagles

Consult with the legal department well in advance of finalizing the legal document to be sure the direction of the negotiations will not be torpedoed in the final stages by an adverse legal opinion.

PHASE SEVEN: MANAGING HIGH PERFORMANCE

Alliance Framework



Overview

In the Launching and Managing phase, the agreement established in Alliance Structuring and Governance (Phase 6) is implemented and managed over time. This phase involves two teams: the Operational Team and the Alliance Executive Council.

The Alliance Executive Council (also known as "Steering Committee," or "Joint Governance Board"), which was formed in Phase Six, includes executives from both partners. This council guides policy and strategic alignment to corporate objectives, reviews the relationship's performance regularly, and is generally responsible for keeping the relationship healthy and focused on continuous improvement.

The Operational Team, which was formed in the Operational Planning phase (Phase Five), is responsible for ensuring that the alliance agreement is implemented and managed. This team also works with the Alliance Executive Council to ensure that issues are handled in a timely manner. Team members should have a clear understanding of the business processes in question and of the strategic intent and expected benefits of the relationship. At the same time, team members should have strong communication and problem-solving skills that will allow the partner organizations to effectively work together to find new approaches and breakthroughs beyond those spelled out in the original agreement.

Contained within the process steps will be the following types of activities:

1. Plan the alliance launch and implement the launch plan.
2. Maintain continuity of personnel.
3. Monitor performance.
4. Create value as anticipated by the value proposition.
5. Exploit new opportunities to create value.
6. Review service levels.
7. Resolve problems.
8. Maintain top-management support.

9. Maintain motivation of alliance managers.
10. Renew the alliance.

Purpose

- To ensure a successful operation of the alliance
- Finalize all governance mechanisms to ensure proper decision-making processes
- Ensure ongoing support for evaluating new opportunities
- Determine whether we are achieving alliance expectations

Goals

- Achieve outcomes identified in the Value Proposition
- Generate synergistic breakthroughs in performance
- Ensure effective leadership, communications, and coordination
- Adapt to changing strategic and operational conditions
- Measure performance and continuous improvement

Critical Success Factors

- Maintain the Win – Win condition
- Empower the alliance with top-notch leaders, managers, and subject matter experts
- Use the differences between the alliance partners to enhance the partnership
- Maintain senior leadership's engagement
- Retain customer focus at every opportunity

Expected Outcomes

- Team building should become endemic to the Operational Team
- Skills development should be embraced by all team members and management
- Development of innovative ideas to foster the growth and success of the alliance
- Measurement tools should be readily available to all team members
- Identification of areas of potential relationship challenges that should be monitored.

What the Experts Say…

"No alliance ever failed because of too much communications. Keep everyone informed regularly."

"Keep champions 'glued' to the alliance."

"Watch out for threats to the alliance from changing business conditions, market shifts, and changing personnel."

Step 6.1 Alliance Launch

- Pre-launch
- Launch Event
- Post-launch
- Transition to Ongoing Management

Step 6.2 Leadership and Management

- Champions
- Alliance Management Skills
- Roles of Liaisons
- Alliance, and the Role for Middle Managers
- Alliance Manager's Problem-Solving Role
- Control and Empowerment Mechanisms

Step 6.3 Alliance Governance

- Alliance Executive Council
- Other Governance Mechanisms

Step 6.4 Creating a Collaborative Culture

- Why a Collaborative Culture Is Important
- Key Leverage Points
- Diversity: The Alliance's "Hidden Asset"
- Creating a Charter of Expectations

Step 6.5 Regional and International Cultural Considerations

Step 6.6 Performance Measurement and Diagnostics

- Strategic ROI
- Diagnostics of Alliance Health

CONSTRUCTION **[Construction/Construction Contract Administration] [RPL; Include in Phase 7]**

In the Construction phase, the benefits of the integrated process are realized. For architects under traditional delivery models, construction contract administration is considered the final stage of design. But in Integrated Project Delivery, the design and its implementation are finalized during the Detailed Design and Implementation Documents phases. Thus, construction contract administration is primarily a quality control and cost monitoring function. Because of the greater effort put into the design phases, construction under IPD will be much more efficient. The Construction phase is where the benefits of the integrated model are realized.

For architects, construction has traditionally been considered the final stage of design where issues are addressed and solutions achieved to actual real-life problems. But in Integrated Project Delivery, this "final design stage" is completed during Detailed Design and Implementation Documents phases. Thus, construction administration will be primarily a quality control and cost monitoring function. Because of the higher intensity of preceding phases, integrated construction will have:

1 Less on-site construction administration effort because conflicts have been resolved virtually.

2 Fewer RFIs because contractor, subcontractor and vendors have been involved in developing the design intent and construction documentation for their respective portions of the design. The model maybe used to
augment, manage or enhance the RFI process.

3 Less office construction administration effort is required because submittals have already been integrated into the model.

4 Better understanding of design intent because consistent information and documentation will be available to all participants.

5 More pre-fabrication because the design was developed earlier and in collaboration with the fabricator.

6 Less waste because more material is factory generated.

7 Less injuries because work is being performed in a controlled environment.

8 An adjusted model based on "as built" conditions.

9 A schedule tied to the model to allow visualization of deviations from planned sequences and durations.

10 Warranty operation and maintenance information may be added into the model.

11 Some elements of current construction administration will remain similar to current practice.

For example:

– Quality control, inspection and testing will be relatively unchanged
– Change orders, particularly for owner directed changes, must be formally negotiated and documented
– Scheduling and progress will be subject to periodic review

Outcomes

- Substantial Completion of the project, characterized by:
  - Virtually no RFIs from major trades because prime constructor, key trade contractors and key vendors have been involved in developing the design intent and implementation
  - Less construction administration effort required because submittals for key scopes of work have already been integrated into the model and conflicts have been resolved virtually
  - Better understanding of design intent by all participants because the BIM provides effective visualization
  - More pre-fabrication resulting in:
    - Less waste because more assemblies are factory generated.
    - Fewer injuries because more work is being performed in a more controlled environment
  - A schedule tied to the model to allow visualization of crew coordination and deviations from planned sequences and durations
  - Some elements of current construction administration will remain similar to current practice
    - Quality control, inspection and testing will be relatively unchanged
    - Changes within the agreed project scope will be virtually eliminated, but owner-directed changes will need to be formally negotiated
    - Scheduling and progress will be periodically reviewed

Primary Responsibilities

- Owner
  - Monitor organization need for change based on revisions to business case
  - Manage Owner's contractual obligations
  - Manage Owner's internal review and decision process
  - Manage Owner's transition process to occupy and startup of completed project
  - Organize equipment procurement and staging
- Integrated Project Coordinator
  - Overall facilitation, coordination, organization and direction of the integrated team
- Prime Designer
  - Overall responsibility for Construction Contract Administration from a design perspective
  - Respond to RFI's and processing of submittals as required to support trades not part of the initial design activities
  - Coordinate RFI and submittal responses from all design consultants
  - Provide updates to BIM as required responding to field conditions and Design Consultant needs
  - Coordinate any changes due to field conditions not foreseen in the BIM.
  - Issue design change documents as required to respond to latent conditions and or owner-directed changes
  - Review change requests to confirm entitlement
  - Work with prime constructor to ensure the construction is proceeding in conformance with design intent
  - Issue substantial and final completions documents
- Design Consultants
  - Respond to RFI's and processing of submittals as required to support trades not part of the initial design activities
  - Provide updates to BIM as required responding to field conditions
  - Coordinate any changes due to field conditions not foreseen in the BIM
  - Issue design change documents as required to respond to latent conditions and or owner directed changes
  - Review change requests to confirm entitlement
  - Work with prime constructor to ensure the construction is proceeding in conformance with design intent
  - Issue substantial and final completions documents
- Prime Constructor
  - Coordinate trade contractors, suppliers, and self-performed work to ensure completion of the project according to budget, schedule and quality goals defined by the project team
  - Ensure safety of all personnel on the project site
  - Maintain good relations with neighbors
  - Coordinate with regulatory agencies for required inspections
- Coordinate required testing
- Trade Contractors
  - Coordinate their activities with the overall project to ensure efficient flow of work.
- Suppliers
  - Coordinate fabrication and delivery of materials/assemblies/ equipment to ensure efficient flow of work.
- Agencies

Step 7.1 Alliance Launch

Note: We define Alliance Launch as the kickoff point when the planning is completed, the governance and legal documents are defined, and the alliance teams and leaders have been identified and are ready to engage in implementing the operational plan.

.Some alliances launch in a *unified-integrated* process with an intense workshop that combines Phase Five: Operational Planning and Phase Six: Alliance Structuring and Governance in a single activity.

During the *unified-integrated* approach, your *alliance launch* would have been created.

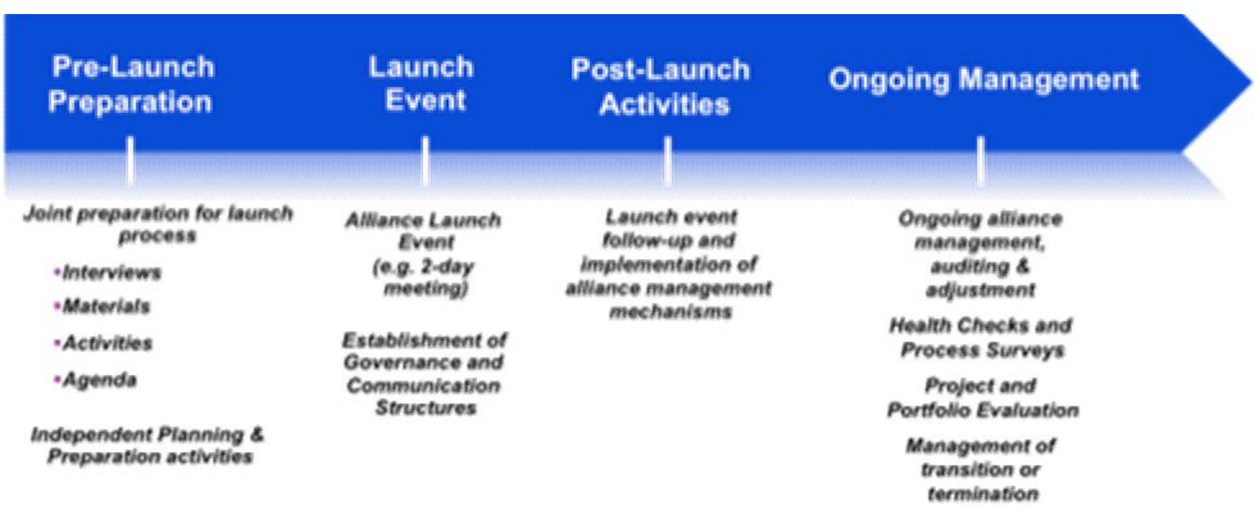
If your alliance has used this process, you may skip to Step 7.2.

If your alliance is created by a small core team that then commences with an "event" then use the methodology in Step 7.1

The Alliance Launch actually consists of four steps (Figure 7.1):

1. Pre-launch
2. Launch event
3. Post-launch
4. Transition to ongoing management

Figure 7.1a: Alliance Launch



The launch is aimed at achieving alignment among all those involved in the alliance. Many participants play a role throughout the launch process, and the importance, contributions, and integration of these functions change over time. Establishing clear roles across various functions (Legal, Finance, Project Team, R&D, Marketing, Manufacturing, etc.) is a critical first step. Responsibilities of key stakeholders and team members—that is, who decides, who should be consulted, who must be informed—should be confirmed and made explicit at each step or phase in the alliance.

A great deal of collaborative effort goes into the planning and organizing of launch events and activities. The preparation and strategizing for launch activities are in themselves an excellent opportunity for alliance managers and key stakeholders to begin to work together and to demonstrate to the broader team what good collaborative skills and processes look like. Planning has components of engaging the right people and aligning roles and responsibilities early and throughout the process. The overall benefits include:

- Explain the common vision to the broader audience
- Finding agreement on key issues prior to launch
- Establishing a common understanding of roles and responsibilities
- Reviewing contractual obligations
- Introducing and onboarding new team members
- Sharing experiences of successful alliances
- Developing charters, operating protocols, and processes
- Agreeing on ways to measure the performance and health of the alliance
- Planning the transfer of skills, knowledge, and technology
- Identifying gaps in resource allocation or training
- Cataloguing organizational differences (finance, fiscal year, decision making, culture, risk, capabilities, aspirations, etc.)

Specific Steps:

Launch is the process of engaging the broader team....vs prelaunch which is planning the launch. Is it me or can there be confusion in what we are calling “launch” here? I get the idea we’re using the same term to talk about the first meeting of the “pre-launch planners” and the eventual “kick-off” to the larger team.

Preparation for launch will be triggered in the late stages of operational planning, Phase Five. These activities may include interviewing the project team leaders and legal members to understand the aspirations of the collaboration and the challenges faced in negotiation. Materials including templates, invoices, and IT support documents can be gathered and prepared in advance of the final signing.

Preparing the agenda for the Alliance Launch Event will be a joint activity but will likely have several standard topics. The one-to-two-day meeting, generally done face-to-face with the full joint project team, will review the agreement and provide a venue to share the parties' aspirations for the project. Alliance managers, with the help of legal, finance, and functional team leaders will review the key deal terms and milestones. The date of the first governance (Alliance Executive Council) meeting, establishing a regular meeting schedule, and communication planning will generally be on the agenda.

Specific discussion on record keeping, information sharing, confidentiality, technology transfer, and similar topics may be included. The project's operational planning will take up much of the kickoff meeting. A sample agenda is presented in Checklist 7.1a.

Checklist 7.1a

Launch Meeting Agenda

- Mission/Value proposition. Start the meeting with a review of the big picture—the reason the alliance was formed in the first place. Be sure everyone understands, agrees, and is 100 percent committed to the alliance.
- Strategic Return On Investment for both partners. Discuss what each company will get out of the relationship, so that everyone understands each partner's perspectives.
- Values. Review the core values outlined in the memorandum of understanding.
- The plan and the goals. Be sure everyone understands their roles and responsibilities and what is expected of them. Refine any plans that are unclear or incomplete.
- Potential problems. Identify possible problems, and develop approaches to resolving them. Pay particular attention to making the people who are being transferred feel secure in the new working environment.
- Breakthrough projects. Identify any elements of the plan that require extraordinary results or quantum leaps in performance.

There will often be immediate post-launch follow-up activities that were brought to light during the launch. It may be necessary to address these (final project plan, ongoing meeting scheduling, communication and data sharing protocols) so that the project can start.

Ongoing alliance management involves skills ranging from project management, group facilitation, and technical leadership to business development to allow early recognition of issues, ongoing auditing, and adjustments to the collaboration. Some adjustments will require operational details in the project team, some decisions by the Alliance Executive Council, and others will require amendments to the agreement. All of these activities will return at regular intervals to operational planning to measure progress against expectations, make adjustments, and evaluate the project against the changing needs of each organization. The details of the range of activities of any particular alliance manager will depend on the industry, organization, and capacities of the individual playing the role.

Note: An ongoing alliance that undergoes a major transition may require a relaunch event which, in turn, may alter governance and communication structures to better reflect and support the renewed collaboration. Such a relaunch may demand the same degree of preparation in the form of interviews and diligence as the launch at the outset of the collaboration. This process is addressed in more detail in Phase Eight.

Checklist 7.1b

Communications Plan

In the Pre-Launch preparation, have the teams jointly develop a Communications Plan, which includes (among other things):

1. Frequently Asked Questions
   - Who is the alliance between?
   - Why are you joining forces?
   - What is the purpose of the alliance?
   - What will be the impact on me?
   - Who else is involved?
   - What will you be doing?
   - Is this just temporary?
   - What does the agreement say?
   - When do we see results?
   - What are your key priorities?
   - What's my role?
2. Hardest Answered Questions
   - Are you eventually buying the other company?
   - Will you be firing people?
   - Will you be changing my job?
   - Can we see the Operating Principles?
   - Other:
3. Top Myths that will Erode the Alliance

Step 7.2 Leadership and Management

A crucial step in launching the alliance involves ensuring that the critical team members are in place and have a clear understanding of their roles and responsibilities within the alliance. These roles have been described previously, but now is the time to make sure they are in place and engaged in their roles.

Manage and Support Executive Sponsor Involvement

Executive sponsorship in both organizations is crucial to properly launch the alliance. Sponsorship should be highly visible (inside and outside the company), facilitate decision making, and ensure strategic alignment and evolution.

The Alliance Managers have the responsibility of ensuring that a sponsor is nominated as early as possible and ideally before the negotiation of the Alliance Business Plan starts. Alliance Managers are charged with ensuring the continuous involvement of the alliance sponsor and should consider recommending a change of the Executive Sponsor if it appears that the direction the alliance is taking no longer fits with the sponsor's business responsibilities.

The role of the sponsor is to make sure that the strategic objectives of the alliance remain in line with those of the company, as well as facilitating decision making and problem resolution when these two activities should not or could not be done at lower levels. It is the role of the Alliance Manager to keep the Executive Sponsor up to date, and if needed alerted, on alliance outcomes.

Champions[15]

As noted in Phase Two, the role of the champion is essential for alliance success. Alliances fail unless there are committed champions for each of the partners. Champions must sit on the Alliance Executive Council, work effectively across corporate boundaries, and solve top-level problems when they arise.

What exactly is a champion? It can be the Executive Sponsor, or the Alliance Manager. The champion is *not* a management role, it is a leadership role .

[15] For more on alliance champions, see Robert Porter Lynch, "How to Foster Champions," in Frances Hesselbein, Marshall Goldsmith, and Iain Somerville, eds., *Leading Beyond the Walls: How High-Performing Organizations Collaborate for Shared Success* (Jossey-Bass, 1999).

Alliances must be led and managed. One without the other is like the sound of one hand clapping.

Champions have to remain committed to the alliance for the long haul. In Japan, the champion remains attached to the alliance for life, regardless of promotions to another division~~,~~ or assignment to another location.

Champions cannot command because their authority is not positional. Their authority comes from their vision, their energy, and their ability to touch the hearts of those who believe their vision is the reality the organization must achieve for more than its future survival, that vision contains the organization's "thrival." and their ability to obtain the support of others.

Tenacity and persistence are always associated with successful champions.

Alliance Management

Alliance management is an emerging profession. Many organizations that depend heavily on alliances for growth and innovation have institutionalized the profession and have a clear organizational role for alliance managers, with job descriptions and competency models. However, in many companies there is no specific alliance management job function or organization, hence middle managers are often assigned the task of managing an alliance.

This approach places the middle manager in a new position—becoming a "strategic manager." Many middle managers will not be ready to assume this role, as it lies outside their previous "operational mindset." Similarly, they will be faced with managing interdisciplinary, cross-corporate teams, which will seem like unfamiliar territory requiring extraordinary communications and sensitivity to differing corporate cultures. Managers should be trained for these roles and be given the opportunity to observe other highly successful alliances before tackling the job assignment. Competencies, skills, and professional development of the alliance manager are covered in Part III: Alliance Capability.

The Alliance Manager's Problem-Solving Role

When problems emerge, and they will, the alliance manager's role is to manage the decision making, not necessarily to make the decision. (Clearly, in times of crisis or urgency, the alliance manager may become the decision maker.) To be effective in a highly ambiguous environment with mature people on staff, the manager will be an integrator who will bring key individuals together to build consensus, help the groups mutually diagnose problems, and stimulate creative solutions that maximize meeting each group's needs, while at the same time ensuring that the venture's goals will be met.

Knowing how the differing styles and capabilities of two or more companies will mesh in an alliance is a key to effective integration. The purpose statement created during the negotiations stage is the first step. Still, it is not enough. A set of clear policies regarding corporate interaction is essential.

People need to know how decisions will be made, what the priorities are, who will be held accountable, and what rewards will be given.

Control and Empowerment Mechanisms

As has been stated numerous times, the methods for controlling the alliance (which can be thought of as the "extended corporation") are very different from those for the internal corporation. In the extended corporation, control tends to become an empowering process, whereas, in the internal corporation it is generally a limiting process. Control tends to be exercised in the following ways:

Obviously there's something missing here....

What Alliance Managers Need to Know

Often Alliance Managers are selected for their jobs based on having a background like this:

- Project Management
- Resource Management
- Budget Management
- Time Management
- Contingency Management
- Reporting and Controls Management

In reality, these qualities are insufficient. Great alliance leaders also have these capabilities:

- Strategic Planning
- Partner and Industry Knowledge
- Business Integration
- Technical Integration
- Trust and Cultural Integration
- Relationship Management
- New Aligned Metrics
- Organizational Alignment
- Partner Advocacy
- Life Cycle Management
- Organizational Support and Reinforcement
- Internal Alliance and Cross-Functional Integration

Step 7.3 Operational Team

Team Building

The alliance's Operational Teams should meet as soon as the alliance agreement is approved in principle in order to ensure that the transition from launch to operations happens in a timely manner. It may be advisable to hold this meeting before the signing of the contract. This will give the team more time to consider human resources and asset transfer issues.

The meeting should focus on making sure everyone understands the nature of the alliance and, in particular, their roles in executing the launch plan and ongoing management of the alliance activities. This is also an opportunity to build a spirit of teamwork and common cause between the operational teams. Often this is done in social meetings and team-building exercises that accompany the business-oriented meetings. See Checklist 7.2 for Guidelines to Support Teamwork.

Checklist 7.2

Guidelines to Support Teamwork

____ Responsibility: Individuals within the team have been given sufficient responsibility and control to gain personal satisfaction.

____ Creativity: Teams are allowed to inject ideas before they start tackling a project. Foster creativity by encouraging solutions, rather than dictating processes and procedures.

____ Focus: Oversight is maintained without meddling. Focus is on results, boundary conditions, and obstacles.

____ Communications: Teams are provided with accurate information and timely feedback.

____ Big Picture: The team's vision is kept broadly focused on the value-added issues for the customer, so that team members don't become too ingrained, introverted, or parochial.

____ Intervention: The alliance manager puts a quick end to ego-centered, anti-team behavior (rumor spreading, Us versus Them, Not Invented Here, sacred cows, etc.).

___ Trust Building: Teams that lack trust will quickly fall apart (see Trust Building in Phase 2)

Establishing Multidisciplinary Teams

Anticipate that there will be several multidisciplinary teams required to provide the customer with top-notch value. Use multidisciplinary teams to solve problems directly at the level where the expertise exists. Typically these teams will be involved in activities such as:

- Joint sales presentations
- Joint product/software development
- Joint education of the customer
- Joint research

The key factor in this will be to integrate operations within the alliance so that the customer does not experience problems as the result of responsibilities slipping through the cracks in the alliance. The customer must see the ultimate product as totally integrated and synergistic. Anything less is unacceptable.

Map Peer-to-Peer Relationships Between Organizations

A preliminary peer mapping should have been done in the Operational Planning phase. As the alliance moves from planning to launch, it's important to refine the peering matrix to the next level of detail that matches up key stakeholders of equivalent decision-making authority at the approximate same levels across the relevant functions and geographies. The management teams should be captured in the peering matrix in addition to a broader set of relevant stakeholders. It's more important to match the scope of people's responsibilities rather than trying to match their titles. When completed, the matrix should show who from each company is accountable for key decisions. The matrix below shows an example.

Company A and Company B: Global Partnership Peering Matrix

Role	Global		Americas		Europe		Asia Pacific	
	Company A	Company B	Company A	Company B	Company A	Company B	Company A	Company B
Executive Sponsor								
Executive Stakeholder								
Global Partner Manager								

Engineering Lead								
Channel/Partner Lead								
Marketing								
Technical Services								
Professional Services								
Sales								

Once these peering relationships are identified, it's crucial that ongoing engagement between the peers occurs to maintain focus and commitment to the alliance. Remember to review these peering matrices quarterly and update as needed. Over time, people move on to other roles, new members are added, and the priority areas change resulting in the need to update the peering matrix. Through the review process, assess the level of current engagement, identify areas to strengthen, and make sure the right people are represented and engaged.

Frequent Management Changes

No alliance can be effective, no matter how well conceived the decision-making methodology, if there are frequent changes in personnel. Good decision making is based on trust and relationships. Both partners need to work to ensure they never have to say the following:

"We could never get this alliance into high gear because our alliance partner kept changing people. The average tenure of an alliance manager was less than one hundred days before they were rotated to another job assignment."

Managing Expectations

- Unstated and vague expectations are time bombs
- Once stated clearly, expectations become goals
- Clear expectations will yield clear results

Step 7.4 Alliance Governance

Alliance Executive Council

The alliance governance structure has been defined in Phase Six in this step it needs to be implemented. In practice the routes to implementing the governance structure may differ. Ideally the alliance manager and one or more of the members of the Alliance Executive Council have already been involved in the preparations for the alliance. If not, people must be appointed to the Alliance Executive Council. In its first meeting the Alliance Executive Council should devote sufficient time to ensure that any new members that have not been involved in the earlier phases of the alliance process understand their role, their function, and the alliance objectives. If no alliance manager(s) is appointed yet, the Alliance Executive Council should make this the first priority.

Next the priorities should be set in developing the remainder of the governance structure. This includes establishing the order in which committees should be set up, finding the right people to staff them, and ensuring that these individuals are aware of all the ins and outs of the alliance. The last point is normally best achieved via an alliance launch, as mentioned in the previous section. During the launch phase, however, people may continue to come on board after the launch event. They should also be informed about the governance of the alliance. An important element is to ensure that in each of the companies any budget responsibilities and budget mandates are allocated to the people in the alliance. Without the proper official mandates, the Alliance Executive Council will not be able to function.

Finally, if the alliance requires the creation of a new legal entity, the Alliance Executive Council is responsible to make sure this happens. This usually involves collaborating with the legal team to see that the appropriate structure is implemented.

While the original alliance operating agreement may call for voting rights of the members, as a practical matter, successful alliances tend to use consensus decision making for all critical issues, on the theory that if one of the partners is not in concurrence with the decision, the critical win-win is not present. At this point, the best alliance managers continue to seek innovative solutions to ensure mutual benefit.

Maintaining the ever-valuable win-win balance requires a continued reassessment of the balance of risks and rewards, and understanding what “winning” means to your partner.

Other Governance Mechanisms

Alliance Managers typically will be in frequent communication with each other. In many ways, this daily informal interaction is the most practical form of alliance governance.

Project Committees or Task Forces may be established to launch special initiatives. Besides the Alliance Executive Council, successful alliances often schedule an annual CEO Summit to ensure support, direction, and strategic assessment.

Checklist 7.4

Establishing a Governance Process

____ Alliance Executive Council: An Alliance Executive Council has been established with representatives with decision-making authority, who represent the sponsors of the alliance. Key integration team champions are assigned to the Council.

____ Responsibility: Clear roles, responsibilities, and communications pathways have been created for each of the Alliance Executive Council members.

____ Frequency: The Alliance Executive Council has a regular meeting schedule that matches the needs of the alliance.

____ Crisis Response: Any member of the Council has the authority to call a meeting of the Council when a crisis is possible or is occurring.

____ Decision Making: Decision-making methods are in place to drive decisions downward, not upward. Fast, non-bureaucratic procedures keep the alliance from becoming bogged down. Decisions are clearly linked to the alliance's strategy and vision.

Clarify Expectations

To deliver value to the customer, each alliance partner will have expectations of the other. These expectations, when unstated, are time bombs because, if not fulfilled, they will cause tremendous friction within the alliance. Transform these volatile expectations into explicit goals by bringing them into the open and converting them into measurable, time-oriented metrics.

Consensus Decision Making

Alliances are built on the premise that decisions will be reached by consensus. Consensus is not a majority vote, but rather an understanding by all involved that everyone has had a chance to put their ideas on the table, and while there may still be some disagreement, the team agrees to move on in unison for the good of the venture.

Step 7.5 Creating a Collaborative Culture

Why a Collaborative Culture Is Important

In one study, 62 percent of alliance practitioners cited “clash of corporate cultures” as a very common or somewhat common cause of failure. These clashes typically show up in a number of different ways, such as:

- Lack of Shared Vision
- Different Leadership Styles
- Top Down versus Consensus Decision Making
- Hierarchical versus Horizontal Organizational Structures
- Dissimilar Performance Processes
- Misaligned Success Measures and Rewards Systems
- Dissimilar Time Orientations, Response &Cycle Times
- Divergent Corporate Values
- Incongruent Approaches to Entrepreneurship & Risk Taking
- Technology versus Market Driven Cultures

Proactive leadership is essential before such conflicts can erupt and destroy the alliance. To prevent cultural clash, it is vital for alliance management to establish clear guidance on how to handle differences or to establish a new culture for the alliance itself.

The culture of a company and whether it is supportive of alliances can have a profound effect on the success of the alliances it undertakes. When the organization’s mindset is at odds with the characteristics necessary to successfully partner, alliance managers will find themselves essentially going “against the flow” of other people in the organization.

The impact of culture on an organization was eloquently stated by Lou Gerstner, the former IBMCEO who was credited with saving the company in the 1990s. He came to a startling conclusion about his role as leader in this remarkable turnaround:

> *I came to see, in my time at IBM, that culture isn’t just one aspect of the game—it* is *the game. In the end, an organization is nothing more than the collective capacity of its people to create value. Vision, strategy, marketing, financial management—any management system—can set you on the right path and can carry you for a while. But no enterprise—whether in business, government, education, healthcare, or* any *area of human endeavor—will succeed over the long haul if those elements aren’t part of its DNA.*[16]

There are three ways in which alliance professionals can begin to improve

[16] Louis V. Gerstner, Jr., *Who Says Elephants Can’t Dance? Inside IBM’s Historic Turnaround* (HarperBusiness, 2002), p. 182.

their organization's alliance culture:

1. Demonstrate that Strategic Alliances are absolutely essential to creating new competitive advantages that will keep our organization prospering in the future
2. Have clear Value Propositions (measurable, concrete, and relevant) for each of the alliances, and for the alliance portfolio as a whole
3. Demonstrate that alliances optimize the Strategic Return on Investment (five dimensions in Phase Three).

Positive Use of Power:

Power is the ability to get things done. While everyone is familiar with the "abuse of power" and the admonition that "absolute power corrupts absolutely," what is more important is the positive power alliance leaders must exert every day. Here are several:

1. Power of Collaborative Intent
2. Power of Discovery & Inquiry
3. Power of Trust & Integrity
4. Power of Vision & Value
5. Power of Thought & Language
6. Power of Creative Differences
7. Power of Knowledge
8. Power of Purposeful Commitment
9. Power of Creative Possibility
10. Power of Alliance Values

(Note: Alliance Values are Collaborative Values for developing high performance architectures both inside and outside the organization. What we learn about collaboration, innovation, leadership, teamwork, and trust outside (alliances) is directly applicable inside (cross unit, cross department, cross function) the organization. Thus alliances hold the potential to be transformational vehicles, as companies like Lilly and IBM are seeing.)

Leverage Points for a Collaborative Culture

A collaborative culture embraces a number of shared values and behaviors, including:

- Commitment to Win-Win Relationships
- Honoring and Respecting Differences
- Agreement to Disagree without Acrimony
- Open, two-way communication flow
- Willingness to "give the benefit of the doubt"
- Empathy and understanding
- An openness to learning and teaching
- The flexibility to respond to uncertainty

A collaborative culture provides a cushion against clashes that occur because of the tendency of many people to make differences in culture the source of conflict—making the other culture "wrong" just because it is different. Creating new sets of shared beliefs and values for the alliance enables alliance members to shift from prior cultural constraints to a united vision and matching behaviors that respect the "synergy of compatible differences."

Diversity: The Alliance's Hidden Asset

Alliances, by their very nature, have a hidden asset—diversity of viewpoint, which, for the most part, either goes untapped or is seen as an obstacle. It is diversity of thinking, not similarity, which creates new innovation. The old adage prevails: "If two people in the same room think alike, one is unnecessary." The best alliances see diversity not as an obstacle, but rather as a unique opportunity to capitalize on breaking the old paradigm of performance, and creating new frameworks for results.

As we enter an age of increasingly discontinuous change—where the future may or may not be reflection of past trends—alliances provide us with a vehicle to be nimble and innovative in a constantly shifting world.

Creating the "Synergy of Compatible Differences"

- See diversity and differing opinions positively.
- Focus conflict on ideas and issues and steer away from ego entrapment (i.e., who's right/wrong, what's good/bad); do not focus on the person.
- Key Questions to Ask: "What's missing?" (not "You're wrong!) "What's possible?" (not "That's not our way!)
- Use breakdowns to trigger breakthroughs.

Remember: Unified action is more important than being dead right.

Creating an Alliance Team Charter

A Team Charter refers the documentation, in succinct form, of the alliance's:

– Mission/Purpose

– Key Objectives

– Value Proposition

– Operating Principles

(see Phase Four for examples)

To launch the alliance in a collaborative manner, clarity of expectations is vital. Mutually creating a team charter is a method of gaining consensus on how to surface unarticulated goals and how to handle cultural differences.

The charter defines mutual values and establishes guidelines for behavior, especially when differences in points of view occur.

If the alliance hasn't codified its Charter, be sure to take the time to have a ceremonial signing.

Figure 7.5 outlines some of the issues that are commonly addressed in the Team Charter.

Figure 7.5

Example of a Team Charter

- Alliance Management: The alliance managers are committed to using the Best Practices outlined in this Alliance User Guide.
- Assignment of Personnel: We will insist that high-quality people are assigned to work in the alliance to help ensure high performance.
- Performance Review: We will conduct a strategic and operational performance review every six months, and make corrections rapidly when required between reviews.
- Risk/Reward: We will encourage informed risk taking in achieving the alliance's shared vision.
- Urgency for Change: Having asked our boards to support the alliance, we need to consider every decision's impact on achieving promised short-term results.
- Achievement: We seek to reward shared achievement, balancing individual excellence with team accomplishment.
- Approval: Middle and frontline management will be able to make the investment decisions necessary to resolve customer issues on the spot.
- Power/Control: We will share power.
- Learning: Mistakes will not be punished or seen as failures, but treated as learnings and opportunities to turn breakdowns into breakthroughs.
- Decision Making: Decisions will be made at the lowest levels possible.
- Support: We will engage all employees in the change process and work with those whose skills are no longer needed to help them seek gainful employment elsewhere.
- Conflict Resolution: Immediate and aggressive handling of conflicts will be the norm. Disputants will candidly but constructively share concerns and grievances.
- Time Perspective: We will focus our energy and talents on creating a shared future, not on advancing our individual organizations or living in their past successes.
- Relationships: Teamwork and cross-process/cross-function collaboration will characterize all our interactions.
- Budget and Resources: Alliance managers are committed to being stewards for the alliance who will advocate that resources are used wisely and that sufficient resources are allocated to the alliance to ensure its success.

Step 7.6 Regional and International Cultural Considerations

This section highlights the importance of taking regional and cultural considerations into account throughout the full life cycle of alliances and collaborations. A range of topics are covered, coupled with illustrative examples and tips, to stimulate thinking and reflecting on cross-cultural engagement:

- Listening for regional and cultural differences
- Developing teams to recognize and understand cultural differences
- Defining cultural issues of locations where the alliance or collaboration is operating
- Adapting and responding to the cultural norms of alliance partners

Listening for Cultural Sensitivities[17]

One of the key success factors in business alliances is listening for cultural differences that can influence the decision making and thus the success of the alliance. While alliances can be initiated in different parts of the world, to make them successful in the local regions of the partnering organizations requires taking a holistic view of culture.

Alliance Managers and their teams need to ensure that there is heightened sensitivity to cultural and regional differences, and that those differences are managed to realize the advantage of diversity. Alliance partners should ensure that there is sharing of information regarding their cultural norms and catalogue any differences that may have an effect on the alliance's operation or ultimate outcomes.

Most likely to be affected by cultural differences are:

- Communication (language, definitions; does "yes" mean "yes"?)
- Decision making (speed, centralization, consensus driven)
- Conflict resolution
- Role of hierarchy
- Attitudes toward contracts (legalistic or not)

[17] Cultures and Organizations: Software of the Mind, by Geert **Hofstede**. (**1991**). Maidenhead, UK: McGraw-Hill.found that 50 percent of the differences in managers' attitudes were influenced by national culture.

Often much attention is paid to the visible elements of culture, such as whether you should unwrap a gift or not in the presence of the person who gave it to you (no in China, yes in Europe), or whether you should present anything to a person using two hands (Japan) or only one (which will do in most countries). But these are relatively easy things to deal with, and they are only the tip of the iceberg. It is valuable to study these elements in advance to avoid unnecessarily insulting a partner (writing on a Japanese business card, for example, is a serious mistake). Don't assume, however, that knowing the superficial elements of culture is enough.

Developing Teams to Recognize and Understand Cultural Differences

Cross-cultural communications strategies should be considered, and special consideration should be given to conflict resolution, as it may need to be handled differently from what the team is used to.[18] Here are some helpful suggestions:

- Build personnel development plans that include education related to mastering listening skills, as they are essential to foster the patience required to decipher cross-cultural communications.
- Encourage team members to take second-language classes, not only so they may better understand what is said, but also to enable them to gain insight into a particular culture.
- Alliance managers should build their informal network (both internal and external) with an eye toward enabling non-traditional paths of influence. Determine the stakeholders within a different culture, as these may be very different from your own. Also, when building influence maps pay additional attention to informal connection points involving social hierarchy and status.
- Coach the team to consider additional contingency measures when managing project launch and timelines and consider setting aside funding for translation or mediation costs in your risk mitigation plan.
- Include specific metrics that measure relationship health and cultural considerations within any joint alliance scorecard. It is also important that these are jointly created by local teams to ensure their buy-in, within the context of cultural sensitivities.

[18] For helpful reference materials, see http://www.colorado.edu/conflict/peace/treatment/xcolcomm.htm

France and Japan: Cross-Cultural Awareness and Understanding

The Renault-Nissan alliance is a classic reference to study the management of French and Japanese alliance cultures. In order for the combined sharing of ideas and strategic management to be effective, the employees of both companies respected the identities of their fellow colleagues as well as their values.

For example, Japanese society is known to be more collectivist, and the contrary can be affirmed about French society, which relies heavily on individual efforts from employees. If members of a particular team act disrespectfully or selfishly toward their teammates, an organization is bound to self-destruct in a short time of period. This explains why when a French worker happens to interact with a Japanese coworker—for example, when Carlos Ghosn (CEO) is communicating with a Japanese executive at Nissan—he does so only after understanding the cultural background of the other.

To achieve this Ghosn has excessively invested in cross-cultural training programs, having more than 1500 employees from Renault learn about the Japanese business culture and 400 Nissan employees study the French culture (Pooley, 2005). This is a positive step in order to create greater understanding and awareness, and leads to a successful alliance of two vastly different cultures and companies.

Ghosn has an ideal background for understanding these cultural differences and integrating across the boundaries. He is Lebanese, taught in French schools, operated businesses in Brazil, and has significant operational experience from working in the United States. He himself is multidimensional and understands the liaison functions.

In addition, rather than get trapped in a French versus Japanese cultural dilemma, Ghosn had the alliance adopt English as the common language.

Furthermore, Ghosn had seen that the Japanese concept of “harmony” (*wa*) with the supply chain had actually caused a deep lack of innovation. No one was willing to confront problems and potentially disrupt a harmonious relationship. He changed this to make innovation, including challenging issues and questioning of assumptions, more important than harmony.

The result was a spectacular turnaround of a failing company. (See Carlos Ghosn, *Shift: Inside Nissan’s Historic Revival* [Doubleday, 2005], and David Magee, *Turnaround: How*

Considerations When Forming or Evolving Alliance Teams

- Consider the cultural diversity and makeup of your team to ensure balance of cultural backgrounds and decision making.
- Measure the quantity of expatriates or individuals “on paid foreign assignment” in the team, and consider country-based rotations for key individuals and executives.

Defining Cultural Issues of Locations Where the Alliance or Collaboration Is Operating

As an addition to any cross-cultural awareness training of alliance team members, it is also important to conduct specific meetings or workshops to explore how the specific regional cultural norms of various alliance partners might influence the expected outcomes of the alliance. Many Alliance Managers have suggested that open conversations about the impact of one another's cultural norms on the alliance operation, and any potential value add for customers, have been particularly useful and beneficial.

A particularly useful practice is to enable each group to understand each other's differences and similarities across a range of business, social, cultural, and other experiences within a non-threatening environment. This could take the form of a workshop, social event, or shared experience outside of usual business. This assists in developing relationships between participants, while allowing them to understand one another's perspectives and values. With this baseline established, the focus can then shift to the combined purpose of the alliance, and how each organization can achieve this goal by leveraging their differences collectively.

Creating Value from Diversity

- Purposely include cultural awareness terms for all partners as part of the alliance launch process.
- Become aware of the underlying assumptions and beliefs that operate in your own culture.
- Seek to understand the below-the-surface thinking and beliefs of each partner.

Culture Club

Cross-cultural training can have major benefits. At Eli Lilly and Company, the alliance team was given cultural cross-training before attempting to negotiate an important pharmaceutical development venture with Sankyo in Japan.

Later the Japanese commented that the Americans' understanding of Japanese culture accelerated the formation of the venture by six months. This was huge, it turned out, because it helped get a six-month lead on the competition.

Strategic Alliances from a Chinese Perspective

The scale and scope of the Chinese market and the opportunities that exist from doing business with China are well known and often referenced in the current global economic climate. China's overseas direct investment (ODI) is growing at a fast pace, as the willingness and capability of Chinese companies to seek lasting competitive advantage through internationalization and innovation increases. Yet Chinese investments in Europe and the United States form a limited part of total Chinese ODI. This is due in part to a lack of overseas experience and associated ability of Chinese companies to penetrate more developed markets. Also, corporate governance rules of many Chinese companies and the perceived role of the Chinese State Owned Enterprises contributes to a lack of trust among potential Western partners.

The formation of strategic alliances and joint ventures with foreign partners offers a promising alternative to direct investment for many Chinese companies as well as an effective platform for Western companies to engage in the Chinese market. However, many Westerners developing alliances in China are frustrated by complexities in the negotiation process, including how to manage cultural differences, overcome language barriers, handle copyrights, and work through China's complex bureaucracy. The following points are put forward to help appreciate and understand the diversity of the Chinese perspective:

- ***Guanxi***: Literally translated as "relationships," *guanxi* is an immensely important and respected resource in Chinese life and business. The concept of *guanxi* encompasses connections, networks, and transferable assets such as a favor or obligation owed. *Guanxi* is a prerequisite for trust and influence, which in turn allows for success in business. Focusing on relationship building in a way that acknowledges, understands, and appreciates the *guanxi* of the Chinese partners should be a strategic priority for the alliance.

- **Negotiation:** The Chinese value an iterative approach to decision making that often doesn't sit well with a Western "milestone" mentality. An often-quoted approach in China is to "cross the river by feeling the stones." It is important not to pressure for decisions or try to establish too much at the outset, but rather to build on the relational capital or *guanxi* of the alliance to allow for a more effective evolution of results.

- **Face:** Respecting face is essential. It is important not to argue or voice a difference of opinion, even with a member of your own team. Making someone else seem "wrong" in public or saying "no" directly is considered rude and arrogant and will strip away hard-earned trust and respect. Regardless of how familiar relationships feel, it is important to bear this in mind in ongoing decision-making processes. This can often mean forgoing a faster route to end results in order to maintain face and therefore the trust that holds the alliance together.

- **Hierarchy and humility:** In China the social and therefore business structure remains formal and hierarchical (Confucian). Unlike in Western economies, these rules are still very much respected and may seem at odds with collaborative business models such as alliances. This may cause problems in business relationships if partners are not aware of this. Humility is also a revered virtue in Chinese culture, rather than a sign of weakness as often perceived in the West. The success of one's business or personal life is downplayed rather than lauded. Humor rarely, if ever, translates well; respectfulness and humility always do.

Chinese Negotiations

In China, the best-selling book is Sun Tsu's *Art of War*, written more than two thousand years ago. There are many versions that have been interpreted as embodying negotiation techniques. Seldom do these techniques produce great alliances.

Before negotiating in China, read the following books by ancient authors:

- Sun Tsu's *Art of War*
- Lao Tsu's *Tao Te Ching*
- Confucius (any book on management)

Then before beginning negotiations, ask your counterpart which rule book is governing the negotiation strategy and process. A wise man will choose the *Tao Te Ching*, which is highly humble and collaborative, and reject the *Art of War*.

Step 7.7 Performance Measurement and Diagnostics

Create an Empowering Measurement System

"Be sure to design a measurement system that truly empowers the manifestation of great results." This may seem like a strange statement at first glance. However, there is a great deal of truth to the adage, "You get what you measure." Therefore, when designing the measurement system, focus on key leading indicators and measurable actions that enhance results, synergistic actions, and innovation, which in turn will trigger exceptional results.

> **The Operational Trap** "Alliances can fall into the operational trap and resort into following the service level agreements. The focus becomes performance metrics and the strategic objectives are lost. Then, the alliance is no longer flexible for market and business environment changes."
>
> Robert S. Kaplan, David P. Norton, and Bjarne Rugelsjoen, "Managing Alliances with the Balanced Scorecard," *Harvard Business Review* (Jan.–Feb. 2010).

The Balanced Scorecard has become a best practice in corporate governance and has been adopted by many alliances to model a metric system for alliances.

While each alliance will have its own unique performance measurement system, there will be common elements based on a foundation of four key measurement quadrants: Strategy, Financials, Operations, and Relationship. Strategy and Financials are outcomes that correspond to how you define "winning" or "success." Operations and Relationships are leading indicators that measure activities or attributes that contribute to future success. While Strategy and Financial measures will tell you how well your alliance is performing, Operations and Relationship measures give you insight into how to achieve success. These are the levers of the machine that help you optimize for future performance.

Earlier in Phase Three, Strategic ROI was mentioned as a framework for determining alliance value. Review the objectives discussed there to determine which are appropriate to incorporate into the into the Strategy and Financial areas of the Alliance Scorecard. Review the objectives and goals determined in Phase Four for operational milestones or activities. Relationship health addresses an alliance's ability to perform based on the "soft" issues and relationship dynamics. Relationship health is often measured through a Partner Health Diagnostic, or "alliance health check," which is discussed later in this Phase.

Below are some of the considerations in selecting appropriate metrics, which will necessarily vary according to the type of alliance in question, the strategic objectives of the alliance, and its maturity.

Measurements for the Elements of Victory

Remember this rule: “If you can’t measure it, you can’t manage it.” Therefore, be sure you have clearly quantifiable measurements. To generate measurable criteria, ask the questions:

- How Many?
- How Often?
- How Soon?
- How Much?
- How good?

Goal	Metric	Missed	Met	Exceeded
Strategic Metrics				
Market Impact • Increasing market share • Expansion into new markets • Locking up key distributors • Brand recognition • Customer penetration				
Organizational Effectiveness • Organizational learning • Productivity/person • Sales productivity • Elimination of non-value-added processes				
Innovative Capacity • New production processes • New products • New services • Integration of solutions • New core technologies • Faster technology adoption				
Competitive Advantage • Speed to market • Creating barriers to entry • Premium value/price point • Low cost point • Portal of choice • Partner of choice • Intellectual property				
Financial Metrics				

Profitability • Increasing profit for both partners • Balanced profit between two partners				
Revenue Growth • Revenue rate of growth • Compared with inflation • Compared with market growth rate • Compared with competitors				
Operations Metrics				
Net Satisfaction Index • How satisfied is the customer • Trending • Time to problem resolution				
Product and Service Volume • Unit sales increasing • Which product or service lines are affected • New sales/marketing/pricing approaches				
Project Milestones and Performance • Development milestones met • Quality standards achieved • Service level agreements implemented and monitored				
Relationship Metrics				
• Regular alliance health checks administered • Are health vital signs improving over time • Remedial actions are taken as a result of diagnostic results • Senior leaders are actively engaged • Escalations are handled efficiently				

The Importance of Performance Metrics

Metrics give a clear view of whether an alliance is performing and how well, but not always why performance is what it is. A well-constructed diagnostic goes beyond the metrics and scorecards and discovers where an alliance isn't working and probes the reasons why. It will also reveal the bright spots, which gives alliance managers an opportunity to leverage what is working and to exploit what might be a competitive advantage. Overall alliance performance can be optimized and companies can better leverage their alliance investment.

Partner Health Diagnostics (Watenpaugh 2008)

Alliance Diagnostics

Alliance diagnostics are an important measure of relationship health. By monitoring the health of an alliance, we can determine if there are Early Warning Signs of distress and take action with ample lead time to prevent serious difficulties.

Seasoned alliance managers know that changing business dynamics can cause misalignments as the alliance matures, therefore necessitating an annual checkup. Areas that are typically surveyed include:

- Strategic Fit
- Chemistry Fit
- Operational Fit
- Organizational Effectiveness
- Performance
- Governance

Only Conduct a Survey If You Intend to Make Changes

A survey of alliance members' opinions will create expectations for change. Be sure to provide feedback of survey findings, then follow up with an action-planning workshop to engage both sides of the alliance in constructive changes. Many alliances use a neutral third party to perform the diagnostics and then conduct a workshop to ensure objectivity.

Figure 7.7 is an example of a partial list of some of the questions used in diagnosing alliance health.

Figure 7.7

Example of Survey Items Used in Alliance Diagnostics

(*Note:* This is a partial list. An actual survey may consist of fifty or more questions, including open-ended questions

Strategic Fit

a. Our alliance partners have complementary strategic directions.

b. The alliance continues to gives us a very powerful competitive advantage in the marketplace.

Organizational Effectiveness

a. We receive the information we need to conduct the alliance's activities in a timely and orderly manner.

b. Our alliance operates using procedures and processes that make it a highly effective organization.

Win-Win

a. There is a strong commitment to having the alliance be a win-win arrangement.

b. Our alliance is well structured to share risk.

Chemistry Fit

a. We have high levels of trust and integrity between both sides of the alliance.

b. Our alliance team communicates often and frequently.

Synergy

a. Together, we are able to create far more than we could independently.

b. We have demonstrated proper flexibility between the partners when needed.

Operational Fit

a. We have a good operational environment to run the alliance.

b. The alliance has sufficient resources to accomplish its task.

Support

a. Top management from both companies understands and supports our activities.

b. The project activities of the alliance are well planned, coordinated, and managed.

Performance

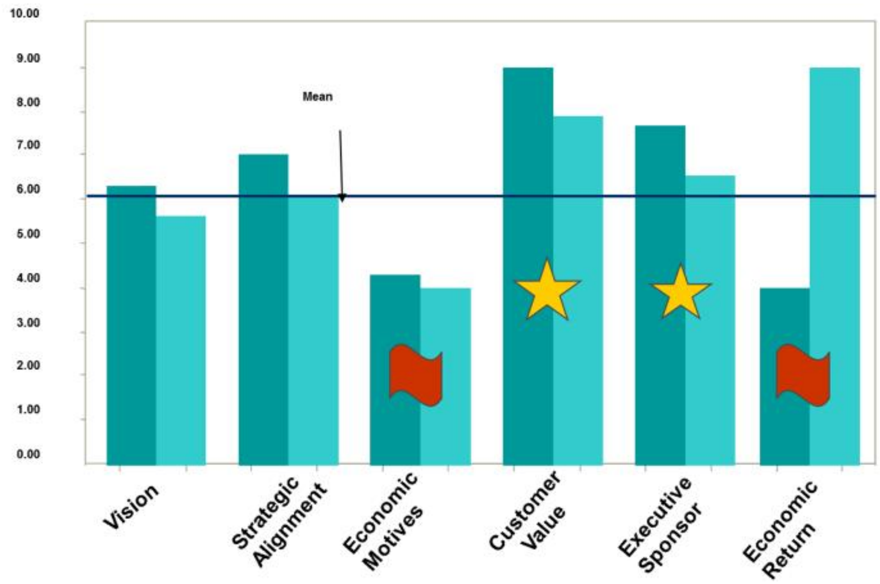
a. We are achieving the highest level of performance for an alliance of this type.

b. There are specific and timely procedures for addressing breakdowns or disagreements.

Governance

a. We have an effective governance procedure for setting direction, policies, and priorities.

b. The measurements we use for evaluating the performance of our alliance are highly effective.



Above is an example of a health diagnostic report comparing two partners’~~s~~ responses. One company’s response is the darker green.and the other is the lighter green. The responses designated with stars show those areas that both companies agree are healthy. These healthy attributes are to be celebrated and promoted. The attributes designated with red flags are areas requiring attention by the alliance team. In one instance both companies agree that economic motives are not aligned. The second red flag lends insight into why: each partner responded quite differently from the other on the issue of economic return. Effective use of this information by the alliance managers should open up an honest and constructive conversation around this gap in perceptions, leading to collaborative problem solving.

How the Health Check Helps

“The Partner Health Survey got us to concrete results. The joint view of what’s going well, what’s not, and comparison of gaps was very important to understanding the health of the relationship. I don’t think we have another vehicle to get this. We were able to uncover issues that we otherwise wouldn’t have been able to discover without the comparison of the two different perspectives. This process had a material impact and we incorporated many of the recommendations in our fiscal year plan.”

—Cisco Global Alliance Manager

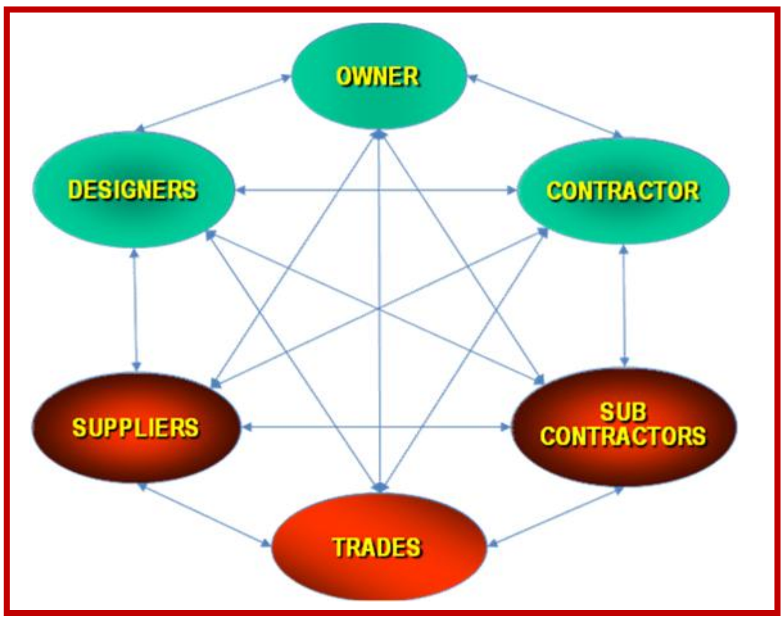
Step 7.8 Systems Integration & Network Management

As the alliance increases in members from a pair to a three or more members, it becomes an alliance "network"

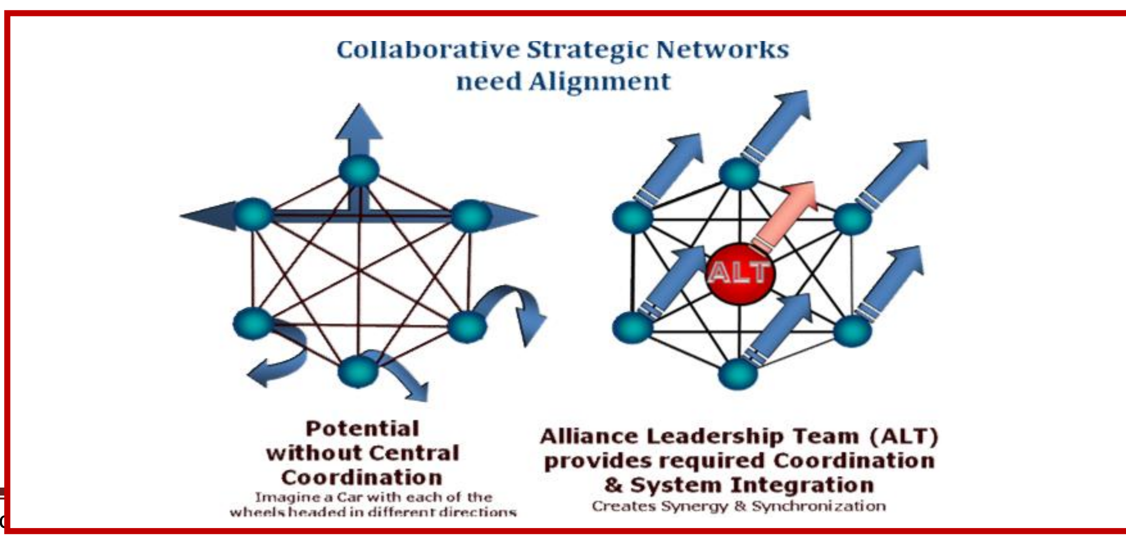
The larger the extent of the network, the more important the network systems integration function.

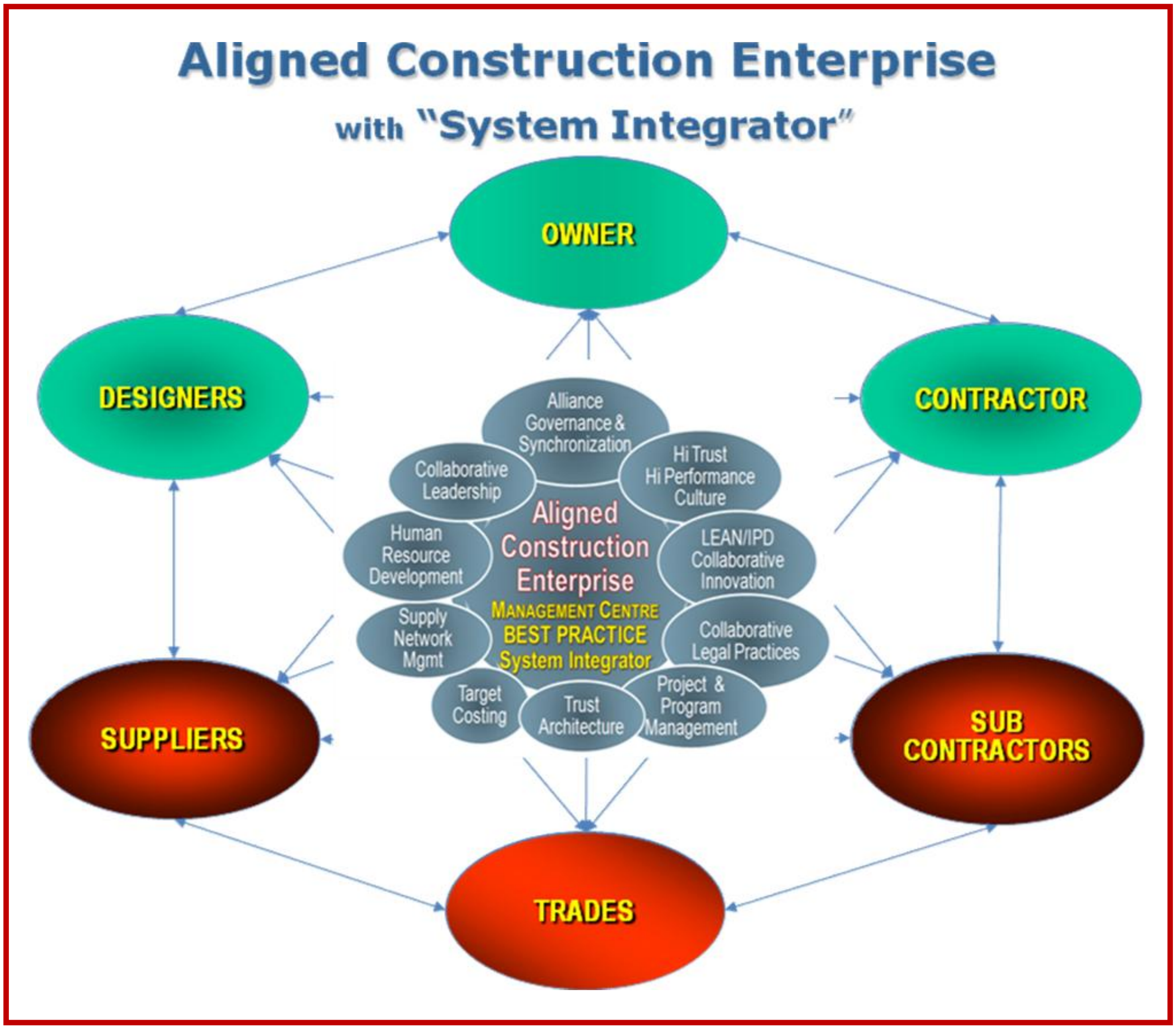
> *Definition: Alliance Network -- a set of strategically interconnected companies with tight operating linkages formed for the purpose of insuring highly integrated products and services, often involving collaborative innovation, and often creating streamlined advantages to themselves and/or their customer base."*

The Alliance Leadership and Management Teams have the responsibility to ensure that the network is synchronized, collaborative, aligned, integrated, and that each of the nodes on the network are energized to produce their highest performance.



The problem is, that unless coordinated, each of the members on the node will attempt to maximize for themselves, not for the good of the whole.




Aligned Construction Enterprise
with "System Integrator"
OWNER
DESIGNERS
CONTRACTOR
SUPPLIERS
SUB CONTRACTORS
TRADES
Alliance Governance & Synchronization
Collaborative Leadership
Hi Trust Hi Performance Culture
Human Resource Development
LEAN/IPD Collaborative Innovation
Supply Network Mgmt
Collaborative Legal Practices
Target Costing
Trust Architecture
Project & Program Management
Aligned Construction Enterprise
MANAGEMENT CENTRE
BEST PRACTICE
System Integrator

A Long History of Network Examples

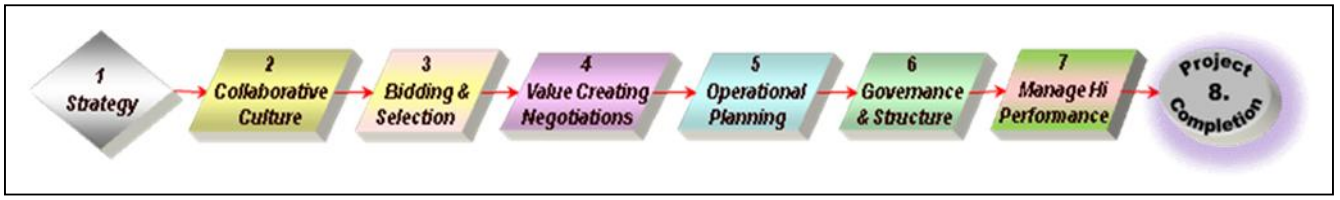
Networks are not new. Service Delivery Integration Networks, Media Networks (Radio, Television, News, etc. which have existed for the better part of a century), Electric Power Grid Networks (dating to the 1890s), Postal Delivery Networks, Insurance Networks (such as Lloyds of London, ReInsurance, etc.), Cooperative Farm Networks, International Labor Unions, Technology Networks (P&G's Connect & Develop), Battlefield Networks, Financial Networks for clearing checks (Visa & MasterCard are networks),Multi-Partner Joint Ventures, etc. etc.

The entire Franchise Industry is a Strategic Alliance Network. Benjamin Franklin set up the first franchise print shop network as a series of multiple joint venture franchise partnerships in the middle 1700s. The implication: This we are in just another generational evolution of networks; these are not something that have just dawned upon us.

We can learn a lot about how to manage strategic networks by seeing the best practices of the Franchise Industry.

PHASE EIGHT: PROJECT COMPLETION & EVOLUTION

Alliance Framework



Overview

Alliances are inherently dynamic vehicles, because the strategic environment in which they exist is perpetually changing (see Phase One: Strategic Drivers and Value Migration). What's more, people in the alliance will rotate in and out, and the operational elements that deliver value will be under competitive pressures. This means the basis for the alliance's three-dimensional fit (see Phase Three) can change, and this will cause the leaders of the alliance to continually adjust aspects of the alliance. Failure to make these adjustments can be catastrophic, and could rapidly make the alliance obsolete.

Transformation of the alliance is a competitive necessity; consider transformation and innovation to be mutually interactive aspects of evolutionary adaptation and resilience. Resilient alliances that are sufficiently flexible to continually adapt, transform, and innovate have much greater chances of longevity.

Every alliance will run into problems; it is inherent in the process because, by definition, business alliances tackle elements of the unknown. And wherever there are risks, there are bound to be anxieties and often conflicts.

In this Phase we will address the key elements of adaptation: transformation, innovation, and exit.

Purpose

- Ensure successful adaptation to changing strategic, operational, and cultural drivers
- Provide early indications that a change will be forthcoming
- Ensure proactive (not reactive) responses to change
- If the alliance must be terminated, provide the best path for the partners to exit gracefully

Goals

- Foresee changes in advance to avoid calamity
- Sustain competitive advantage during all adaptations and transformations
- Maintain strong executive support for change
- Ensure effective leadership during all times of transition
- Avoid litigation when termination becomes inevitable

Critical Success Factors

- Strategic insight that anticipates upcoming shifts
- Alliance leadership that is willing to make tough choices
- Win-Win, high-trust relationships to underpin future changes and challenges
- Development of a new Value Proposition that embraces a bold new future
- Willingness to bring in new alliance partners that have the necessary competencies to make successful overtures and forays into new realms
- If an exit is necessary, a legal team that is adept at innovative solutions

Expected Outcomes

- Repositioned alliance with the prospect of a successful future
- Invigorated Alliance Team
- Deeper trust in the partner and in Best Practices
- Sustainable competitive advantage

Phase Seven: **INNOVATE, TRANSFORM, OR EXIT GRACEFULLY**
Step 1: Asses the current Alliance condition
Step 2: Recognize the Signs of Problems
Step 3: Determine the Change Required
Step 4: Take Appropriate Action
Option One: Transformation
Option Two: Innovation
Option Three: Exit Gracefully

CLOSEOUT [Include in Phase 8]

An intelligent 3D model can be delivered to the owner

Closeout of an integrated project greatly depends upon the business terms agreed by the parties. For example, if the business structure contains compensation incentives or penalties, the closeout includes calculation of appropriate credits or deducts. Some issues, however, such as warranty obligations, occupancy, and completion notification, remain unchanged due to statutory and legal requirements. Other issues, such as punch list correction, are not significantly affected by Integrated Project Delivery.

An intelligent 3D model and A completed project can be delivered to the owner on-time, one budget, (or better) [this coincides with Phase 8]

Closeout of an integrated project will greatly depend upon the business terms agreed by the parties. For example, if the business structure contained compensation incentives (or penalties) the closeout will include calculation of appropriate credits and bonuses. Some issues, however, such as warranty obligations, occupancy and completion notification, will, in the short term, remain unchanged due to statutory and legal requirements.

Other issues, such as punch list correction, will not be significantly affected by integrated project delivery. Some issues that will be different are:

Outcomes

- A complete building information model reflecting "as-built" conditions will be provided to the owner for long term use for building management, maintenance and operation. This model can also be used for:
  - Integration of building monitoring, control and security systems
  - Comparing actual performance of building and systems to planned performance
  - Referencing of warranty, operation and maintenance information
- Traditional warranties will remain for installation quality and defective products.

Primary Responsibilities

- Owner
  - Training of operation and maintenance personnel
  - Complete jurisdictional requirements for occupancy and project completion
  - Initiate continual monitoring of project with respect to project goals and metrics related to performance
- Integrated Project Coordinator
  - Overall facilitation, coordination, organization and direction of the integrated team
- Prime Designer
  - Work with owner on user needs to use the BIM for life cycle benefit.
  - Document and or analyze any Post Occupancy Evaluation feedback
- Design Consultants
  - Work with owner on user needs to use the BIM for life cycle benefit.
  - Document and or analyze any Post-Occupancy Evaluation feedback
- Prime Constructor
  - Finalize the BIM to correspond with built conditions.
- Trade Contractors
  - Provide Operation &Maintenance (O&M) information for applicable scope of work
- Suppliers
- Provide O&M information for applicable scope of work
- Agencies

1 A more complete building information model will be provided to the owner for their long term use for building maintenance and up-keep.

2 Traditional warranties will remain for installation quality and defective products.

3 The BIM model will be integrated into the building operating system.

4 The BIM model can be used to compare actual to planned performance.

Step 8.1 Assess the Current Alliance Condition

While change is inevitable, and not always predictable, it creates problems and opportunities. There are methods of ensuring that changes are handled effectively and opportunistically.

Normally when things are going well, people seldom pay attention to the alliance. It is when results start to fall off or the alliance becomes misaligned with one of the partners' corporate objectives that managers may become deeply involved in the arrangement. What becomes normal at that time is micromanagement of the alliance. This is obviously not the way to manage an alliance relationship. Instead, once the alliance is launched, management's ultimate goal is to maintain a win-win condition in an ever-changing world, where strategic forces are always in flux and operational conditions are shifting.

Clearly, the best way to limit operational problems is to take strong preventive action, a result of careful planning far ahead of time. Evaluate potential problems regularly. Have alliance managers meet frequently with their key advisory teams to discuss potential problems before they occur. The old adage, "An ounce of prevention is worth a pound of cure," still prevails. Determine what factors are likely to create problems. If the problems seem very likely to occur, ask if the problems are surmountable or insurmountable.

Before reviewing methods to handle alliance change, it is important to ensure that you are doing everything possible to maximize the value of the alliance in its current state.

As an alliance professional, you must always be monitoring the changing dynamics of the three-dimensional fit as they affect the alliance's competitive, technical, and interpersonal capacities to produce highly effective results. This means performing a thorough diagnosis of the alliance before prescribing appropriate action. Refer to Step 7.7, Performance Metrics and Diagnostics.

Checklist 8.1 The Alliance Future, will assist you in asking questions about where the alliance is going and how it will get there.

Checklist 8.1

The Alliance Future

Look beyond the alliance's current product/service mix to:

____ Where is the alliance going?
____ What will be the future value offering?
____ What should we be thinking about as a future offering?
____ What is the customer's likely reaction to such an offering?
____ How can the alliance be used to advantage to collect information or develop new offerings to the market segment?

Step 8.2 Recognize Signs of Problems

There can be a point in the life of an alliance when challenges and issues become very prevalent, suggesting that the alliance may be destined for premature termination. In these situations the first thing the alliance manager should do is go back over the key points outlined in the previous phases to see if the following still apply:

- The value proposition is still relevant
- The business plan continues to provide a functional road map for the alliance
- Market conditions have not caused contractual stipulations to be counterproductive
- Operational processes among team members are still effective
- Relational integrity, including trust and commitment, has not eroded.

If any of these appear to be "broken" then it's appropriate to go back to these areas to repair them. If it is unclear what factors are contributing to a breakdown, a diagnostic health check as described in Phase Seven may be in order. Often, while alliance team members may intuitively know what is wrong, having the objective results of a diagnostic rather than just anecdotal information is a much more powerful stimulant to action in repairing or transforming the alliance.

Checklist 7.3
Shifting Drivers

Alliances are susceptible to changing forces in the strategic and operational environment. Below are some typical symptoms alliance managers must be alert to:

- Shifts in Strategic Environment
  ___ Major Price Fluctuations
  ___ Political Changes
  ___ Change in Technology
  ___ Competitors Entering Market
  ___ Market Changes
  ___ Production Costs
  ___ Strategic Realignments
- Changing Chemistry
  ___ Changes in Chemistry
  ___ Change of Key Personnel
  ___ Lack of Commitment and Support
  ___ Conflicting Organizational Values
- Changing Operational Conditions
  ___ Internal Financial Problems
  ___ Production and Marketing Costs
  ___ Lack of Productivity

Step 8.3: Determine the Type of Change Required

Shifts in Dimensions of Fit

Unfortunately, shifts in any of the three dimensions of fit cannot always be resolved with minor adjustments. Generally they require a structural redesign of an entire alliance to fit the revised functions, with a re-division of risks, rewards, and management. Because the strategic environment of the alliance is constantly changing, successful alliances will be continually evolving to meet new emerging needs and address problems.

When Change Is Likely to Be Needed

Alliance changes are typically brought about by a series of driving forces, such as:

- Crisis
- Value Migrations
- Technology Shifts
- Product Development Failure
- Customer Demands
- Ownership Shifts
- Competitive Pressures
- Governmental Regulation
- Departure of Alliance Champion

The alliance managers for both partners must be alert to these changes in forces in order to be proactive in making alliance adjustments.

If managers are too late in responding to these shifting forces, it is likely the alliance will become unduly stressed, relationships will become strained, and performance diminished, at which point the partners may desire an exit from the alliance.

Checklist 7.3 (oriented to diagnose issues associated with the Three Dimensional Fit model) lists typical symptoms of change in the strategic and operational drivers which the alliance managers must be alert to.

Options for Alliance Change

Alliance managers should play an active role in contemplating the alliance's life cycle, and proactively take actions to steer the alliance through its various stages.

Strategic problems, usually the most vexing of all, may call for a complete re-evaluation of the alliance and a restructuring, using the spectrum of options that exist along the alliance life cycle. These options include Transforming, Innovating, or Exiting the alliance, and can apply to the alliance as a whole, individual project within the alliance, or even specific engagements within a project.

In this section, we will propose ideas for how to Transform, Innovate, or, when and if the time comes, Exit Gracefully from your alliance.

Before we discuss the ideas for "how to," we will define the phases and the role of the alliance manager within each one. Alliance management should play a key role in helping alliance leadership and other appropriate stakeholders with a process to identify, and thoughtfully and selectively consider, these options.

Transform

When an alliance is strategically positioned in the right place, but performance is poor, then Transformation is the proper approach.

This option is also the natural evolution of product development and commercialization, or any other collaborative initiative that may require your partnership to transform from its initial design to another that better serves the product or service in its current stage. If the alliance needs to shift into high gear to achieve rapid growth and requires critical resources to do so, then transformation is the appropriate response.

Another situation will call for a "lateral shift" in focus, perhaps from one market or solution to another region or approach. The partners will remain the same, but the objective is changed to something that will be more valued by customers or more appropriate given the resources.

Alliance management should play an active role in planning for these transformations from the perspectives of governance, personnel management, on-boarding, and other aspects. Successfully transforming a partnership from one stage to another is as important as launching the alliance.

Innovate

If the world in which the alliance exists has shifted, then the alliance is *not* strategically positioned for the future. At this juncture, the Innovation option is the proper response.

It is quite typical for a long-standing, highly successful alliance to be faced with a new strategic challenge or opportunity that requires it to make innovation a major priority; otherwise the value of the alliance would become obsolete.

Exit Gracefully

For many reasons, an alliance arrangement may need to end and "unwind." It can occur when either there is no future for the alliance, or the alliance is more valuable for one partner than the other, making a "buyout" in order.

How this process is handled can have a significant impact on your company's reputation as a partner, and impact the likelihood of entering in to additional alliances with the other company. There are also important aspects of business, legal, and human risk that need to be proactively managed during the process of ending an alliance.

Again, alliance management should play an active role in ensuring that these risks are identified and managed, and that the processes used to un-wind an alliance are carried out with respect for one another.

Step 8.4 Take Action

Option One: Transforming an Alliance

Transformation is required when performance is not up to par. This can be caused by a variety of factors:

- Poor Leadership requiring a change in personnel in the alliance core team
- Poor Competencies requiring new personnel who have the proper skillsets
- Poor Trust requiring either a trust rebuilding or a change in personnel
- Poor Performance by under-resourcing or improperly resourcing the alliance
- Culture Clashes between the two organizations, often precipitated when one or both of the cultures have a tendency to dominate, control, and blame
- Poor marketplace acceptance requiring new strategic thinking.

To address many of these situations, a robust process will be required (including many of the same steps taken when starting up an alliance), which can include:

- Review the governance structure and membership. Often, representatives from other functional areas or geographies (if commercialized in more than one country) need to be incorporated into governance committees as alliances transform.
- Determine whether the key decision makers (e.g. Alliance Executive Council co-chairs) should change to better reflect responsibility and accountability (discovery to development leadership or development to commercial leadership).
- Should the alliance mission/vision be revisited to reflect the current product stage?
- Alliance goals, objectives, critical factors for success, and potential barriers or obstacles should be reviewed. Plans should be developed to resolve obstacles.
- Re-evaluate cultural issues and make sure they are addressed.
- Reset and/or re-establish new metrics for the alliance.
- Re-check the rewards and incentive programs in place for persons working on the alliance.
- New on-boarding materials should be developed as teams turn over and possibly expand to new functions and geographies.

- Alliance guiding principles should be revisited and re-confirmed with input from the new team members.
- Communication strategies should be updated to ensure that new stakeholders (team members, organization units, functions, geographies) are incorporated.

A successful transformation of an alliance should culminate with a formal face-to-face "re-launch" meeting that convenes the new alliance leadership/governance from both companies. This meeting can often be celebratory in nature, as you recognize the contributors to date and transition to the new alliance members.

The importance of legacy

[RPL: from AECOM Manual]
The alliance model has been a successful delivery vehicle for introducing legacy initiatives that benefit the people and communities in which projects are delivered. Although a relatively small part of the alliance commercial structure, the Key Result Area (KRA) framework allows for value adding beyond the traditional success factors of time, safety and cost. This more holistic approach broadens the agenda to include other Value For Money (VFM) drivers including, but not limited to:

- community and stakeholder benefits
- engineering industry skills development
- leadership and organisational development
- sustainable development.

Combined with a very robust and transparent Target Cost Estimate (TCE) phase and project delivery phase, the KRA framework offers the opportunity to deliver extended value to a range of stakeholders including public sector departments, the business community and the public.

Leaving positive legacies is an important part of the alliance delivery model, and often what is talked about by staff as a highlight at project completion. Whether large or small scale, these legacies matter to people, and they provide an opportunity for the industry gain more credibility in project delivery by working towards win-win outcomes.

Alliances also resonate with the public because they see the industry trying hard to make a positive difference to the way people work and live and to enhance, not detract from, the wider community and environmental picture.

Community and stakeholder benefits

The alliance model enables an integrated approach to take communities and stakeholders on the project journey. Design and construction challenges and methodologies can be explained to communities and stakeholders, while the project team in turn becomes more informed about the realities of community impact and consequence.

An integrated owner, constructor and designer team with aligned project objectives enables a proactive stance with fast reaction and resolution to be taken on community and stakeholder issues. The journey can be challenging, but often elevates the conversations around sustainable development and pays dividends in developing workable solutions.

Case note 35

Legacy - Key Result Areas

Project: Southern Link Upgrade Alliance
Owner: Transurban Ltd
Non-owners: Abigroup, AECOM
Value: $106m
Duration: 2006 to 2009

The Southern Link Upgrade forms part of the larger Monash-CityLink-West Gate Upgrade in Melbourne. The project is primarily intended to increase traffic capacity and improve safety on the freeway corridor. It generally involves adding a traffic lane to the inbound and outbound carriageway along 5 km of the CityLink tollway, from the tunnel portals to the CityLink boundary just east of Glenferrie Road. It also includes development and construction of a freeway management system involving lane management and ramp metering.

Key lessons:

The non-cost Key Result Areas (KRAs) reflected the areas of greatest importance to the owner. All KRAs, except safety, contributed to both gain share and pain share:

- **Safety** – safety of the workforce during construction, of the travelling public and of the operations and maintenance workforce post construction were of paramount importance. This KRA made no contribution to gain share.
- **Community & stakeholder** – Transurban takes pride in the quality of their relationships with their adjacent stakeholders and communities as these relationships play a very important role in the company's success.
- **Environment & sustainability** – the owner has made corporate commitments to embrace sustainability and the alliance was charged with the challenge to enhance this further.
- **Incidents & road operations** – Transurban's revenue stream is from tolls collected from road users. The alliance embraced the goal of minimising traffic impacts.
- **Legacy** – the owner wanted to ensure there were alliance outcomes that lived beyond the design and construction, and enhanced their reputation and capability.
- **Quality** – Transurban expected the alliance to produce an outcome that was of high quality and minimised their future operations and maintenance costs.

Option Two: Innovating an Alliance

In many alliances, the originally intended collaboration eventually comes to an end. This could be a result of the alliance's reaching successful completion, or an inability to achieve the goal of the original alliance. However, it doesn't always mean that the entire relationship has to end.

When the alliance is *no longer* strategically positioned for the future, then Innovation can be the proper response. If it is not repositioned, the alliance will become obsolete or irrelevant.

This usually comes about because strategic forces, such as new competitors, new services, new products, new delivery vehicles, or new alliances, come into play with higher competitive advantage.

Companies could have more than one way to work together, and often innovative opportunities are missed when the organizations focus solely on the most obvious, or initial, objective.

What Is Innovation?

First it is important to address what we mean by *innovation*.

We define innovation as “People co-creating strategies, systems, structures, services, products, and processes that generate new sources of value and growth for an organization.”

Second, innovation embraces far more than just the introduction of new technology. It may also involve new propositions, business models, marketing, services, or organizational structures. A great alliance will exploit more than one form of innovation to generate competitive advantage and make the innovation more difficult to duplicate.

The alliance manager plays a key role in innovating and expanding the alliance.

How to Start the Innovation Process

Start by developing preliminary ideas of new ways to partner. To do this, alliance managers need to be very familiar with their organization or engage others who can provide needed insights. There are several elements that the alliance manager should examine in order to explore ways of innovating an alliance:

1. If you haven’t already done so, take the time to understand your partner’s business—what they do, how they do it, how they make money, their strategic objectives, their organizational structure, business models, revenue drivers, competitors, etc.
2. List both companies’ assets and capabilities—identify all products/services, distribution channels, data/intelligence, target markets, customer segments, geography, technology, community/charitable focus, sponsorship assets, business partners/contractors, employees/resources, best practices/areas of expertise, marketing programs, unique customer value and competitive advantage, etc.
3. List each organization’s needs, goals, challenges, and areas of focus, both long- and short-term. What are the things that keep their senior leadership up at night? How are they planning to compete? Do they have issues they are trying to resolve? What are their major competitive advantages and disadvantages?
4. Look for synergy and connect the dots: Do you share a market segment? Do you have complementary services or products? Does one partner have access to data or insights that the other needs? Does one have access to markets the other partner is trying to grow? It often helps to break it down into three sections:

   a. *Can you offer products or services to each other*—meet business needs, drive operational efficiencies, add value to each other's employees, etc.
   b. *Can you grow through each other's existing customers and/or business partners?* Do you have something that the other organization's customers or business partners would value?
   c. *Can you grow together*—share risk and create more value through a collaborative go-to-market approach toward a shared market or customer? How can the alliance be used to advantage to collect information or develop new offerings to the market segment? What will be the future value offering? What should we be thinking about as a future offering? What is the customer's likely reaction to such an offering?
5. Determine if the Win/Win is still prevailing. Focus on equal value exchange—the goal is for both organizations to derive a similar level of benefit toward meeting their individual needs.

Next, look at the future of the business and industry. What market and technology forces are bound to evolve? What will customers be needing in the future? What are the inevitable evolutions that will be occurring? Can we influence the market to accept our solutions? Gather key leaders from both companies to re-launch the alliance—review new information about each partner, discuss a preliminary list of ideas, and identify additional opportunities. The following steps should be considered in this phase:

1. Annually revisit the Value Migration process (see Phase One) with your partner, suppliers, and customers. The emergence of new fields, opportunities, and needs can play an important role in determining where to place emphasis on innovation.
2. Assign an internal champion who can cross all organizations to determine key issues/problems, and help bring people together to create a common vision and consensus for the future.,
   a. Articulate new ideas for partnering—specifically, what opportunities do you recommend to explore, why do you recommend them, and how would they work?
   b. Make sure the champion fully understands what the partner will need from the alliance.
3. Leverage the champion to engage decision makers for identified opportunities.
   a. Identify key stakeholders from both companies for initial alliance ideas—who benefits from and/or is a decision maker for each idea?
   b. Gain their buy-in/interest—develop and present a business case to each stakeholder (i.e., how will the idea help them achieve their objectives?). Use quantitative and qualitative projections to

articulate a possible Alliance Scorecard. Also let stakeholders know what the partner is expecting in return.

c. Facilitate a formal face-to-face meeting that convenes the new alliance leadership/governance from both companies. By this time, key stakeholders should be clear on how the alliance can help them and the partner organization. They may have additional thoughts about ways to work together, which often leads to a creative brainstorm of new ideas. As with alliance transformation, this meeting can be celebratory in nature as you recognize the contributors to the alliance so far and move on to new alliance opportunities.
d. The outcome of the meeting should be that key alliance opportunities are captured and prioritized based on value for each organization, and that accountability to further explore top-priority items is assigned to decision makers.

Then begin development and implementation of top-priority opportunities, and manage the alliance.

1. Once key collaborations are identified and appropriate decision makers on both sides are committed to pursuing them, the alliance manager needs to help ensure that all things are progressing as intended—often it's the case that individuals assigned to explore new ideas have an existing job with objectives that do not include these innovative collaborations.
2. The alliance managers also need to report and manage the overall portfolio of collaborative programs that are being explored by various areas of both companies, in addition to individual initiatives.
3. It is also important to be aware that innovation can strain all parties in the relationship, so the alliance manager needs to again revisit the steps necessary to position the effort for success. An alliance health check is a valuable tool to proactively identify changes in the working relationship and implement plans to address them.

From Environmental Compliance to Sustainability

Many alliances have converted what would once have been an environmental compliance Key Result Area (KRA) into a more broadly defined sustainability KRA. This shift in focus enables culture change and initiatives that demonstrate intelligent integrated design across a range of disciplines. In some instances, the initiatives will cost more (for example purchasing green power) but in many instances the different focus on design will save construction and operating costs.

As an example, in the Robina to Varsity Lakes project a review by the sustainability team prompted a redesign of a conventional mechanically ventilated tunnel to a naturally ventilated and lit cut and cover tunnel. This saved hundreds of thousands of dollars in construction and operating costs.

Other elements that are often integrated into a sustainability KRA include safety systems, awareness and improvement and public interface safety and security and climate change mitigation and adaptation. It may take a generational change for deeply sustainable outcomes to become the norm, but incrementally progress is being made.

and clients

Case note 37

Sustainable infrastructure #1

Project: Tullamarine-Calder Interchange Alliance
Owner Participant: VicRoads
Non Owner Participants: Baulderstone Hornibrook, Parsons Brinckerhoff
Value: $150 million
Duration: 2005 to 2007

The Tullamarine-Calder Interchange (TCI) upgrade involved reconfiguring the Tullamarine and Calder Freeway junction, adjacent to Essendon Airport 10 km north of Melbourne, in close proximity to the Western Ring Road and on the way to Melbourne Airport.

Key project objectives were to eliminate dangerous weaving and merging to improve safety, and to reduce travel times and congestion.

The freeway upgrade was delivered by the alliance more than $12 million under budget with some new freeway lanes opening up to ten months ahead of schedule.

Key lesson

There was a significant commitment by both the Owner Participant (OP) and Non-Owner Participants (NOPs) in the TCI Alliance to deliver environmental and aesthetic legacies.

One of the five Corporate Aims of VicRoads is to "… minimise adverse impacts of roads and traffic on the community and to enhance the environment through the responsible planning and management of the transport system". All project managed by VicRoads must align with state and federal government environmental objectives.

The power of the alliance model and the shared commitment and innovation championed by the Alliance Leadership Team (ALT) resulted in significant sustainable outcomes. This achievement was recognised nationally with the TCI Alliance acknowledged as a finalist in the 2008 Banksia Environmental Awards.

Sustainable outcomes achieved by the alliance included:

- solar panels integrated within some noise walls and linked back into the local power grid to offset up to 10% of power demand for freeway lighting – an Australian first
- adoption of recycling technology well above industry standards with recycling of 99% of construction waste construction including asphalt, scrap metal, plastic, timber and glass
- extensive use of high density polyethylene pipe in drainage systems to effectively recycle 660,000 plastic milk bottles
- implementation of offsite noise attenuation (direct home improvements) in place of noise walls to minimise traffic noise impacts on adjacent homes in some areas.

The TCI Alliance provided an opportunity to go beyond standard environmental management practices, with the alliance taking a proactive approach and developing a sustainable roads assessment tool for civil infrastructure works. This tool provides a rating system now used to drive the road construction industry towards a triple bottom line approach.

Case note 38

Sustainable Infrastructure #2

Project: INB HUB Alliance
Owner Participant: Queensland Transport
Non-Owner Participants: Leighton Contractors, AECOM, Coffey Geosciences, Bligh Voller Neild Architects,
EDAW **Value:**
$333m
Duration: 2005
– 2008

The Inner Northern Busway (INB) project was a highly complex multidisciplinary project constructed in the heart of Brisbane City. It forms the Central City Busway link to the Northern Busway including two major bus stations (one underground), a 600 m tunnel and major city infrastructure relocations.

Key lesson:

Sustainability was adopted as a Key Result Area (KRA) on the INB HUB Alliance project. The sustainability KRA led to the incorporation of carbon-saving and other measures into all facets of the project. A specialist multi-disciplinary team, including a Green Star Accredited Professional, drove the uptake of sustainability measures which included a commitment to environmentally-sensitive design principles and significant financial investments.

Major features included:

- The INB did not contribute to climate change through its construction. Greenhouse gases generated by construction vehicles, plant and equipment were fully offset by planting 51,555 trees via the Greenfleet program. The project was fully powered by energy generated from clean, renewable sources and 98% of construction, demolition and project office waste was recycled or reused.
- The INB will reduce fuel use by cutting congestion and offering direct bus routes. The INB will give buses a more direct, congestion-free run through the CBD. Buses on the INB will save up to nine minutes in normal traffic and up to 20 minutes in congestion.
- The INB will convert more car users to public transport by offering faster, more frequent and reliable services through the CBD, providing 'single-seat' journeys, expanding services, improving traffic choices and replacing street-side stops with attractive, weather-proof and comfortable stations featuring 24 hour security.
- Queensland Transport (QT) will continually upgrade the bus fleet using new bus styles and cleaner fuels.
- Much of the INB is in tunnel, freeing up land for urban renewal.
- Work undertaken and the knowledge developed on INB will help guide future projects

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***Continual Innovation*.**

Companies that continually conduct the innovation process described above have the greatest potential for ongoing performance, since they are proactively looking for the next mutual opportunity while still enjoying success in existing initiatives.

Case note 36

Industry development Key Result Area

Project: TrackStar Alliance
Owner Participant: Queensland Rail
Non-Owner Participants: Thiess, United Group, AECOM, Connell Wagner
Value: $800m (initial four projects)
Duration: 2006 onwards

TrackStar Alliance is delivering four rail projects, initially including rail and station works, along with state wide traction power upgrades.

Comment

One of the six program Key Results Areas (KRAs) adopted by TrackStar is to 'Build Industry Capability'. The KRA was developed in response to Queensland Rail's (QR's) concern that skills in the Australian rail industry are dwindling.

The KRA measures adopted were:

1. Attraction and retention of staff
   Best practice:
   - 25% - 40% of staff in critical roles are new to the Queensland rail industry
   - Voluntary turnover rate for critical roles of 7% to 9% per annum

   Outstanding performance:
   - Greater than 40% new staff in critical roles
   - Voluntary turnover is less than 7%
2. Build Industry Capability (BIC) strategy

   Best practice:
   - BIC strategy developed with approximately 75% of actions being implemented for critical roles resulting in positive relationships and influencing industry partners. (for example, project learning opportunities, railway civil engineering course, undergraduate placement, undergraduate programs with universities and TAFEs, workforce development program)
3. Learning and development programs and plans for staff

   Best practice:
   - Learning and development programs and plans in place with approximately 75% of team members actively developing their capability resulting in a positive contribution
   - Design and implement a capability framework which looks at total capability and total performance and not just technical components.
   - Identify competencies for specific job roles to assist to measure performance and guide development opportunities and needs
   - Separate compliance training from capability development, which is tailored to suit the individual and organisational needs
   - Create career opportunities based on capability not traditional career path approach (connecting passing with possibility).

Option Three: Exiting Gracefully

When there is no future for the alliance, or one partner sees value in the alliance and the other doesn't, then a Graceful Exit is the appropriate response.

Not all alliances are destined to be marriages forever. Some alliances are very transitory (short-term), particularly those formed when the strategic environment was very uncertain or volatile. What originally looked like an emerging market or technology may have been a lot of hype with no substance. Other alliances are destined to transition into another entity since they no longer fit the business strategy of one or both partners. These structures may be stepping-stones to a future acquisition or a mechanism to exit a market.

For those alliances where the failure to meet expectations cannot be corrected, exit may be the optimum action.

What Is Alliance Success?

Eli Lilly and Company forms many technology development alliances. These are high-risk ventures because there is no assurance that the new technology will be successful. Many fail to produce the expected results.

However, Lilly does not consider the alliance a failure if the *relationship* with its development partner remains positive, even though the technology failed.

In Lilly's view, if its partner is willing to form another alliance again in the future because the relationship was so positive, then the alliance is considered a success.

Reasons and Considerations for Exiting Gracefully

When determining whether or not to end an alliance, first consider the primary reasons an alliance ends:

1. No Future: Both parties have achieved all their objectives and have no follow-on activities they wish to pursue. This occurs frequently with project-oriented alliances and joint ventures.
2. Technical Failure: The partners are unable to produce the results agreed to by the alliance due to technical reasons (e.g., the theory behind the alliance did not work).
3. Strategic: The partners either no longer support the alliance objectives or they disagree on the best strategy for attaining these objectives (e.g., business environment changes);
4. Operational: The parties prove unable to accomplish the alliance objectives because of operational problems (including a lack of capability or difficulties working together).

5. Lopsided Value: The alliance has great value for one partner, but not for the other, either because it is no longer important or because it conflicts with a recent acquisition.

Winding down a successful or technically failed alliance is far easier than ending one that is not working and where the relationship is strained, poisoned, or distrustful. Some of the basic approaches to exiting the relationship will apply to either scenario, but other considerations can vary significantly.

In developing the exit strategy, business risk, legal uncertainty, and the associated human risk should be considered carefully, as these risks will vary based on the reasons for ending the relationship. For example, a successful alliance that ends may have produced both strong results and solid relationships, yet at the time of disengagement neither party has opportunities to further the collaboration. In this scenario, keeping the door open to future opportunities becomes a top priority.

On the other hand, an alliance that ends because of operational problems may have more business risk (value) and legal uncertainty (termination provisions, contractual obligations) to manage. Both scenarios should develop an exit strategy, communication plan, and contingency plan.

Understanding the root cause and reasons for ending the relationship is critical to developing an exit strategy, exit plan, and contingency plan for the alliance. Root-cause analysis can be conducted to help identify reasons for alliance disengagement.

The following questions can help identify why the alliance is ending. (*Note:* An alliance may end for multiple reasons. If you answer "yes" to many of these questions, this may be the reason your alliance is ready to end.)

Root Causes

Success or Failure

1. Have all the alliance objectives been achieved to both your company's and your partner's satisfaction?
2. Are the partners certain that they wish to engage in no new collaborative activities at this time? (If opportunities remain for expanding a successful alliance, look at restructuring the relationship)
3. Are there other opportunities?

Operational

1. If the alliance has been encountering persistent problems, does your company's alliance manager agree that the situation cannot or should not be fixed?

2. Has your company communicated to the partner the nature and severity of the problem(s)?
3. Has your company taken advantage of the personal relationships and the informal information channel it cultivated during earlier stages of the alliance? Are partners regularly struggling with conflict, decision making, open communications, and coordination?

Strategic

1. Has the business environment changed and the value of the relationship decreased?
2. Has the level of commitment from the partners decreased or changed?
3. Do the partners no longer have a common view of the goals of the alliance?
4. Has the atmosphere of trust declined between the partners?

Exit Strategy and Plans

Once the root cause of ending the relationship has been identified, you are ready to begin winding down the alliance. The goal for winding down an alliance is a smooth exit process that mitigates business risk, legal uncertainty, and human risk through the implementation of key exit objectives.

In reviewing the Alliance Agreement and Contract, consult the exit clauses in the legal agreement to determine how this event is to be handled. The Alliance Agreement and Contract should have a provision for how resources (human and capital) will be distributed upon an exit. It should define how assets, sales force, customers, technology, intellectual property, trade secrets, software codes, and personnel will be allocated back to the partners. Often such issues as who provides customer support and warranties have been overlooked. However, in many alliances, the Agreement may be silent, or even obsolete, as conditions have changed.

Avoid Litigation

In the event of disagreement, litigation should be avoided; it will be extremely costly, and brings the added risk of spoiling your reputation as an "Alliance Partner of Choice." Litigation is the *absolute worst way* to resolve disagreements, as both parties will be tarnished by the experience, and all other alliance partners will worry that they may be the next victims of litigation. Moreover, it is very likely that people who ran the alliance will meet again in the future, and bad blood will not benefit anyone. In the event of difficulty, consider using a mediator who is qualified in alliance ventures.

Steadfastly avoid actions that may adversely affect other successful alliances, or create negative publicity that would damage your ability to form other new alliances.

To lower these risks, it is highly advisable to exit with the least possible damage to the other party. A win-win approach should prevail even upon terminating an agreement (even if you think the other party hasn't been fair). Establish a "Fairness Doctrine" at the commencement of the exit process. Remember, you may be their partner again when conditions change. What's more, key people from the alliance may later reappear in other companies.

> The eye you spit in today
> is connected to the hand
> you may have to shake tomorrow.

Ongoing Dialogue/Exiting Behaviors

If the alliance is ending because of unfixable problems, take every opportunity to act with integrity and respect toward your partner. This can be especially important if your company has derived more benefits from the unsuccessful collaboration than your partner has. For example, look at compromises that you can make that cost your company little but may be worth a great deal to your partner. Extending this type of goodwill can go a long way toward ensuring that the partners keep communicating and fulfilling residual commitments.

Build upon trust and make use of established personal relationships. It is much easier to exit a bad situation gracefully when there is mutual trust and respect. Candid discussions between trusted colleagues will help resolve contentious issues, allay your partner's fears and concerns, and keep litigious lawyers at bay.

If there has been turnover in your company's alliance management, especially if it is recent, it may be a good idea to bring the original decision makers and champions back into the exit discussions. The original decision makers may be able to refer to informal commitments and understandings that were reached during the alliance negotiations. These individuals may also have stronger personal connections with your partner's management. Those who forged the original relationship can be particularly helpful in keeping lines of communication open, appealing to friends made over the course of the alliance, and affirming goodwill.

Ensure that there are no negative surprises. As part of the relationship evaluation process you should have been communicating the nature and severity of the outstanding problem and attempting to solve it with your partner. The fact that the problem still exists, therefore, should come as no surprise to your partner. Keep your partner apprised of the situation, as trust and goodwill are essential to getting through the difficulties ahead. Make sure your partner does not hear of bad news from a source other than your company.

Exit Strategy, Objectives, and Provisions

The exit strategy should ensure that everyone involved in the alliance understands the root cause for ending the relationship and alternative approaches to exiting the relationship. It should also include the objectives for winding down the alliance.

Depending upon the nature and structure of your alliance, it can be extremely important to your company's ability to maintain customer satisfaction, or its public image, that the winding down of alliance activity occur smoothly, with as little disruption as possible. If the alliance is ending because of strategic or operational misfit, it is likely that relations will have become somewhat tense or strained at lower organizational levels. Having the partners' senior management reach out and communicate with their employees some conceptual understanding of what residual activities will remain will pave the way toward greater cooperation at the lower organizational levels.

Perform an Alliance Postmortem

If the alliance is ending because of operational or strategic problems, determine the problem's root cause and ways your company can avoid similar pitfalls in the future. Detecting potential problems earlier in the process may be less costly to your company, yet it is extremely difficult to do. Focus on actionable conclusions as you take a good hard look at exactly what went wrong, how your company might have noticed it earlier, and ways similar circumstances can be prevented. Establishing an evaluation and feedback mechanism is part of any sound project management process. Make sure your conclusions are documented, preferably in a written report, so that your knowledge and experience can benefit other alliance managers in your company.

Checklist 8.4a

Steps for Exiting

1. Review the alliance status and confirm that ending the relationship is the best course of action for your company and the alliance.
2. Jointly create an exit strategy and plans for winding down the alliance, including but not limited to an information archive, IT infrastructure, remaining work, sharing lessons learned, etc. Establish the processes needed to carry on residual business.

Negotiate specific termination provisions in a win-win manner. Be particularly careful to ensure that customer will not suffer any lack of products, services, or solutions in the process of winding down.

1. Apply the "Fair Play" criteria is this fair to all stakeholders?
2. Secure the protections and partner limitations necessary to ensure your company's future success.
3. Execute the exit plans (communication, contingency, and work).
4. Leave the door open for future business with the partner.
5. Perform a post-mortem.

Option 4: Restructure Option

If possible, position the alliance as a restructuring rather than as an outright exit. It is plausible that an ongoing collaborative activity—such as a technology licensing, standards setting, or customer-supplier relationship—will survive the original alliance structure. Frame any continued activity as being in the best interests of both parties. Shifting the focus to the surviving activity not only allows the partners to emphasize the positive, but also makes it easier for the parties to justify the alliance change to their own managements. The subtle difference between exiting and restructuring can be particularly useful in helping Asian partners "save face."

Leave the door open for future business. At the very least, leave open the possibility that the firms may work together again in the future. Whether the alliance is ending because of successful or unsuccessful results, it is a wise idea not to burn any bridges. In a fast-moving industry (which is likely to describe all industries in this day and age), it is entirely possible that market and competitive demands will require that your company work with this partner again someday. Act with fairness and integrity, and convey your company's hope that mutually beneficial circumstances will again arise for your company and the partner to work together.

Developing the Exiting Strategy

A cross-functional team should be established to develop alternatives. This team will most likely be a subset of the alliance implementation team or exit strategy team. Alternatives such as selecting another partner, making an acquisition, canceling the project, or developing the capability in-house should be evaluated. You may find it helpful to use an abbreviated version of the alliance process, beginning at the Innovation process to help you choose your company's best alternative. The evaluation team should prepare a strategy that articulates your company's alternatives, including their costs and risks, for management review.

Checklist 8.4b
Exit Strategy Questions

1. Has an Exit Strategy team been assembled to look at your company's alternatives?
2. Has a cross-functional team evaluated your alternatives? Have all the necessary subject matter experts and relevant corporate staffs, including an attorney, been lined up as either members of or consultants to the project team?
3. Does the evaluation team have a good understanding of the alternatives available to your company?
4. Have you thought about what the partner will walk away from the alliance with? Does this seem reasonable and equitable?
5. Have you consulted the your company's attorney(s) who drafted the alliance legal agreements in order to fully understand your company's rights and obligations with regard to ending the relationship?
6. Have you asked your attorney for advice on what additional rights, protections, and limitations your company should obtain from the partner?

Termination Provisions

The termination provisions included in the legal documents or short-term operational plans will, most likely, include at least a blueprint for winding down the alliance. If, however, the alliance is ending because of operational or strategic misfit, this can be a protracted and difficult process. You may find it helpful to review the best practices included in the section on Value Creating Negotiation (Phase Four).

Exit Plans

Exit plans should be developed to help ensure a smooth transition out of the alliance. A well-executed contingency plan, communication plan, and work plan can ensure that partners leave the relationship gracefully.

Contingency Plan

The purpose of the contingency plan is to identify risks associated with the exit and develop mitigations should those risks be realized.

If you are ending the alliance because of a strategic or operational misfit, develop a contingency plan for damage control for internal use only. The cross-functional team that evaluates the alternatives available to your company will likely perform some of this analysis. Consult corporate staffs and other alliance managers who have been through the exit process.

Communication Plan

The purpose of the communication plan is to agree on the communications around the disengagement that will be used internally and externally by both partners. Regardless of the reasons for ending the relationship, partners should develop key messages that will be used jointly when communicating to the public.

Checklist 8.4c
Communications

1. Is this event a material event to either company? What level of confidentiality is needed prior to public notice?
2. Have all stakeholders been identified who need to be informed?
3. Have the partners agreed to key messages regarding the communication? Forms of communication?

Work Plan

The purpose of the work plan is to detail the activities, timelines, and costs needed for winding down the alliance. This could include but is not limited to information archive, IT infrastructure, remaining work, sharing lessons learned, processes to carry on residual business, etc. If the alliance is ending because all the objectives have been achieved, this should be a rather simple exercise.

Checklist 8.4d
Final Exit Questions

1. Will implementation of the termination provisions allow your company to achieve its exit objectives? If not, what adjustments do you need to make?
2. Has your company taken every opportunity to act with integrity and goodwill toward the partner?
3. Have both partners' executives or senior management outlined a framework for winding down the alliance?
4. Have the partners developed an implementable plan for winding down the alliance?
5. Have you left the door open for the partners to work together again in the future?
6. Have you kept intact the personal relationships established during the alliance? Could you, for example, call your alliance counterpart and ask for advice or an introduction?
7. Has a framework for carrying on residual business been identified?
8. Are there any related agreements that need to be modified?
9. Any knowledge that should be transferred between partners?
10. Any communications to key regulators?

Keeping Future Options Open

Alliances that terminate because they were successful but offer no future reason for partnering should still follow this overall process. Being able to exit the relationship on a positive footing with the partner enhances the opportunity to work with that partner again in the future. Don't assume that alliance failure means you can simply stop working with the partner; make the effort to exit gracefully to preserve the reputation of both partners

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Appendix

ARTICLES ON COLLABORATION, TRUST, AND ALLIANCES