



## A. PCI response to DTF's Alliancing Benchmarking Study

### 1. Declaration of interest:

For the avoidance of doubt, PCI openly declares its position and interest in these matters since we may be perceived as having a biased point of view in the market. We believe we have a strong, clear and balanced view which accords equal value to the commercial, engineering and human dimensions of the alliancing delivery mechanism. Our motivation for preparing and publishing this report is to add a balancing view to the DTF's publication in the interest of avoiding potential and unnecessary regressive steps in the evolution of the alliancing mechanism were the recommendations in the DTF report to be converted to policy in their entirety.

We are committed to industry effectively and efficiently harnessing collective industry intelligence to create value for society. We are committed to a sustainable future for all. We believe performance in this respect is at least as much to do with the quality of the HUMAN CONTRACT as it is with the COMMERCIAL and ENGINEERING CONTRACTS. We believe complex projects are more than simply a series of tasks to perform but are also a series of human interactions. It is a limited and limiting view to consider projects simply as a sequence of processes, transactions and commercial interactions. PCI is committed to inspiring and empowering people, teams and organisations to be their best. To this end, we provide coaching, facilitation, consulting and training services to leaders, teams and organisations to realise our and their purpose. We are committed to and proud of our work and will always take a stand for positive, sustainable, value-creating change in industry. Our work is valued by our clients, as evidenced by our growth and client satisfaction ratings.

There appears to be a significant risk that the report may result in a skewed (one-sided) assessment of the alliancing field as 1) the report has been published by DTF prior to industry and agency consultation and 2) we note that many agencies and industry organisations are carefully deliberating if and how to formulate and communicate potential responses to the DTF report in light of political and commercial sensitivities. Accordingly, an understandable approach from some organisations may be to remain silent on these matters. Since publishing the original version of this report 22 November, we have received widespread support for our perspectives on the DTF report.

2. On 2 November 2009 the Department of Treasury and Finance, Victoria (DTF) published a report entitled *In Pursuit of Additional Value - A benchmarking study into alliancing in the Australian Public Sector*.<sup>1</sup> The study has been co-sponsored by the state treasuries of Queensland, New South Wales and Western Australia. Development of the report involved a collaborative effort between Evans & Peck and The University of Melbourne.
3. The report presents research data, findings, conclusions and recommendations aimed primarily at improving the value-for-money (VFM) obtained through alliancing.
4. This document summarises feedback from PCI Alliance Services (PCI) in response to DTF's invitation to provide feedback on the Benchmarking study, extended to the Alliancing Association of Australasia (AAA)'s Reference Group. Whilst elements of PCI's response have been incorporated into the AAA feedback to DTF, the views expressed in this document are PCI's alone.
5. Whilst in the time available, the focus of this response relates to commentary on the DTF report, PCI recognises and appreciates the implied challenge for industry to provide more compelling evidence of alliancing's core value proposition. This may require the commissioning of further

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<sup>1</sup> The Benchmarking study is available from the DTF website via [www.dtf.vic.gov.au/project-alliancing](http://www.dtf.vic.gov.au/project-alliancing)



research studies and will take significant time and resources to prepare and complete. We invite the authors of the DTF report to allow time for meaningful review and response to the report and also to allow further independent research to yield findings prior to embarking on rushed (and potentially misguided) policy revisions.

## **B. The Benchmarking Study contains some excellent information**

6. The report contains some excellent information that should be a valuable addition to the growing body of knowledge on alliancing. This includes:
  - a clear discussion of VFM and the differing roles of investor, owner and alliance in respect of developing, modifying and delivering on the approved business case;
  - a welcome call for greater discipline and clarity in business cases, and in the processes of selecting alliancing (or other forms of delivery method);
  - insightful information and commentary on the role of the Independent Estimator; and
  - useful data on several areas where common alliancing practice should be challenged, for example specifying the obligation to deliver outstanding outcomes (above the owner's business case objectives) and including allowances in the TOC for delivery of these.
7. We also acknowledge that the study addresses a central issue for alliancing: the challenge of achieving VFM when a project is highly complex, timescales are potentially challenging, and (at least in some cases) there is limited opportunity for comprehensive competition.

## **C. There are important shortcomings in the research methodology**

8. The qualitative analysis and interpretation in the Benchmarking study has been significantly guided by the perspective of the research team, and some of the conclusions cannot be supported by the data. It is invalid to pose findings, conclusions and recommendations that emerge from this process without qualification or in such a decisive and generalised manner. In this respect:
  - A study of this nature involves formulation of conclusions based in part on subjective assessment, and it is inadequate to present a subjective interpretation of research data without declaring the perspective of the researcher. This criticism is further detailed in Appendix 1.
  - The conclusions reflect the particular views and experience of Evans & Peck rather than a broader representation of Australian alliance experience. If it is to be well-balanced, such analysis and interpretation should include a wide range of perspectives. The integrity of the report would be equally questionable if PCI had undertaken the work without independent review, since PCI has a particular perspective (and therefore a natural bias) on alliancing.<sup>2</sup>
  - The report has not been through a peer review process. The reference to "peer reviews" (p29) refers to processes within Evans & Peck to address the fact that some of the researchers had been involved in the alliances now being studied. 'Peer review' is normally taken to mean the process of subjecting work to independent scrutiny of other experts in the same field – including those with different perspectives.

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<sup>2</sup> Readers should note that Jim Ross of PCI was the principal author of the *Project Alliancing Practitioners' Guide* (also available from [www.dtf.vic.gov.au/project-alliancing](http://www.dtf.vic.gov.au/project-alliancing)) and that several aspects of the conclusions and recommendations of the Benchmarking study run counter to the *Guide* and to PCI's understanding of alliancing.



9. The quantitative analysis is based on a sample of projects that is unlikely to be representative of the whole population of alliances in Australia, yet the report draws firm conclusions as though these data are representative of all alliances:
- Whilst the study's limitations are acknowledged, the discipline of qualification is limited.
  - The list of projects studied in Phase 1 includes a number of water projects in Qld that were undertaken under extreme time and political pressures in response to severe drought conditions – in which the ability to execute rapidly is likely a greater factor in VFM than cost.
  - 64% of the projects studied in Phase 2 are in Qld, although the region was not representative of Australian conditions generally. Commercial arrangements made in the environment of the resource shortages seen in Qld over much of the study period would be unlikely to represent the Australian market over the full economic cycle.
  - The statistical significance of the sample size in Phase 2 is implicitly overstated, particularly in respect of findings concerning the competitive-TOC approach. It is inevitable that a different sample would yield different quantified results.
  - Despite the relatively small sample size there is no attempt to normalise data for project conditions, even when those conditions (project risks, complexity, competitive field, experience of participants, priorities of Owner, approach of facilitator, etc.) would be likely to impact the data.

#### **D. Definitive conclusions are drawn from ambiguous and selective evidence**

10. Several of the findings and corresponding conclusions purport to be based on evidence that cannot objectively support such conclusions without significant qualification. A significant example concerns the competitive-TOC approach:
- The finding that a competitively-established TOC is “of the order of 5-10% ... less” than a non-competitive TOC is based on cost categories which represent a minority of overall project costs (site overheads, design costs, TOC development costs and Fees). The ‘right’ cost in these categories (i.e. optimal VFM) is highly dependent on context – for example the design costs of a pipeline will likely be lower than a treatment plant regardless of delivery method. Given the small sample size this data is insufficient to be unequivocal.
  - Given the sample size, it is not statistically valid to draw any conclusions about the relative cost of preparing TOCs between single-TOC and competitive-TOC processes. Costs of TOC preparation vary widely due to differences in project conditions: one owner may need to finalise the TOC within two months; another may see value in a 6-month development phase. It is also unclear whether the comparisons take full account of owner costs, advisers, or costs borne by industry (and recovered at other points in the project or the economic cycle).
  - The finding of “no discernible difference” in quality of relationships between alliances that used ‘pure’ versus price-competitive processes appears to be based on a subjective assessment of responses at different interviews. Without an objective assessment process (or subjective assessment of persons involved in both types of alliance) this finding cannot be definitive.
  - The report does not present comparisons of Actual Outturn Cost (AOC), despite the natural expectation that AOC would be higher relative to TOC in a competitive-TOC alliance than in a single-TOC alliance. The statement is made (p62) that “there was no discernible difference between TOC/AOC outcomes [of competitive-TOC versus single-TOC alliances]” but the corresponding data is not included in the report.



## E. Much of the report comprises opinion which is not based on evidence

11. Section 6 of the study, “Discussion and observations”, constitutes almost half of the main report (excluding preamble and appendices). Its position in this report – linking “Findings” to “Conclusion” and “Recommendations” – implies that it is based on information gathered during the research, yet most of this material is not based (or only loosely based) on the study data, but largely reflects the opinion and experience of the Research Team.
12. Whilst PCI would agree with some of the views and ideas presented in Section 6, we disagree with others, and in any case we believe it is inappropriate to present controversial material in the context of a “benchmarking study” without a clear factual basis. One of the more notable examples of this ambiguity is the seven pages (p57-64) devoted to discussion of non-price and price-based competition, which adds a significant layer of opinion to the ambiguous evidence presented earlier. A selection of statements made in Section 6 which lack adequate supporting evidence in this study is shown in Appendix 2.

## F. Some of the recommendations risk diminishing rather than enhancing VFM

13. PCI generally supports recommendations 1 to 5 with some provisos:
  - We support Recommendation 1 (that the alliance delivery method be retained and developed).
  - We support Recommendation 2 (development of a Procurement Selection Guide and training materials) and Recommendation 3 (development of policies, guidelines and training for NOP selection and alliance implementation) subject to these materials providing a balanced view of alliance practice. We believe the extent to which such materials capture a well-rounded set of insights (as opposed to a single perspective) will determine whether they enhance or diminish VFM.
  - We support Recommendation 4 (greater role for Governments in promulgating best alliance practices, and greater oversight of individual projects) provided that such intervention is based in a well-rounded experience of alliancing and its particular differences to other forms of procurement.
  - We support Recommendation 5 (improvements to alliance business cases) to a large extent. PCI believes that clear articulation of project scope and the owner’s VFM proposition is essential, and we acknowledge that improved owner’s estimates will be beneficial (although in some cases this may not be practical). We are cautious about the recommendation to better address potential asymmetry of commercial capability, because we believe that much of the commentary on this issue in the Benchmarking report displays an unbalanced perspective that could be counter-productive to improving VFM.
14. We do not support Recommendation 6 (that a competitive-TOC process should be the default for alliances). We believe this is likely to diminish VFM achieved in public sector alliances, for the following reasons:
  - Competitive pricing tends to undermine the fundamental basis of an alliance. The most complex and risky projects are best tackled in a manner which positions NOPS ‘on the owner’s side of the table’. Price competition in the selection process inherently tends to position the parties on ‘opposite sides of the table’, hence tends to undermine the basic proposition.
  - Alliancing was first used in the private sector to tackle high-risk projects that would otherwise not have been viable – that is to say costs established via competitive methods outweighed the benefits. A central feature of alliancing which enables such outperformance relative to conventional approaches is the collective assumption of risk. Price competition inherently limits this feature, since to ‘win’ under price competition the proponent must shed as much risk as possible – both when defining the TOC and delivering the project.



- As and if more risks are assumed by the owner (or shunned by the NOPs during delivery) performance of the alliance will tend to gravitate towards that of a conventional delivery method – potentially resulting in higher costs and/or poorer non-cost performance (in terms of speed, quality, public satisfaction, or whatever other dimensions of performance reflect the complexities which initially qualified the project for an alliance delivery method). Whilst such a process would undoubtedly reduce the TOC, it would also diminish VFM.
15. We believe it is possible that there is a class of ‘simple’ alliance projects for which a competitive-TOC process would deliver superior VFM:
- If a project is a relatively marginal candidate for the alliance delivery method (i.e. it is difficult to determine at the outset whether a conventional or alliance method is most appropriate) it may be possible to adopt a competitive-TOC process without creating risks or adverse effects in delivery which outweigh the benefits of competition.
  - We do not believe this approach would be appropriate for projects which would be non-viable through conventional delivery methods – where the difference between success and failure rests on collective assumption and management of risks, and unequivocal positioning of the NOPs ‘on the owner’s side of the table’.
  - Competitively-established TOCs will undoubtedly tend to reduce alliance TOCs, but will simultaneously increase non-cost risks (and in some cases AOC) to owners. It is critical that owners understand these risks and are equipped to deal with them before embarking on competitive-TOC alliances. We believe that few if any exemplary precedents for this approach exist in Australia, and that significant care is required in developing an approach which will reliably improve VFM.



## Appendix 1: Critique of Methodology

Case study research is a qualitative approach to research rooted in the phenomenological paradigm. Qualitative approaches, by nature, use small samples because qualitative research is primarily concerned with understanding a phenomenon within a particular context and setting *rather than* to generalise the findings from one's sample to the larger population (Hussey & Hussey, 1997). Given this, it is of concern that with such a small Phase 2 sample size (14), the researcher can pose the findings and recommendations from this study in such a conclusive and generalised manner.

Furthermore, to use a qualitative approach implies that the researcher accepts to some degree that reality is a social construct; that the interrelationship of the investigator and what is being investigated is impossible to separate, and what exists in the social and human world is what we (investigators and laymen) thought existed (Smith 1983, cited in Hussey & Hussey, 1997).

To put it more simply, researchers are embedded in communities and they clearly have and are affected by their attitudes, values, and beliefs, which means that enquiries are inherently value-laden. Therefore, as researchers, we can never be completely value free, and our values affect what we choose to investigate, what we see, and how we interpret what we see (Johnson & Onwuegbuzie, 2004). Therefore, it is expected within the scholarly community that qualitative researchers must declare and make known their values and biases so as to make visible to the reader the processes, decisions, and actions which has shaped their research and their findings (Gergen & Gergen, 2000). Consequently, the absence of this information from the report raises questions, as it conceals the interpretative act that is a part of every research report and does not allow the reader to assess the researcher's role in the construction of the reality and truth.

Although we acknowledge that the researcher implemented peer reviews of the findings to “increase the integrity of the study”, those reviews appear to have comprised “internal processes... implemented within” the research organisation, hence may not have tested the findings from alternative perspectives. It is not so much the integrity of the report that we are questioning. Rather, this is a call for greater transparency of the research process so that readers can judge for themselves the warrant of this report.

There is also a general consensus that qualitative inquirers need to demonstrate that their studies are credible (Creswell, 2000). To this end, several authors identify common procedures for establishing validity in qualitative projects.

It is noted that the researcher has mentioned that triangulation of evidence was utilised in this study and it is presumed that this process included an assessment of the validity of the research findings.

However, given that researchers, as with all human beings, have the proclivity to finding confirming rather than disconfirming evidence to accord with their theory, and that it is possible for more than one theory to fit a single set of empirical data (Creswell, 2000), it could be expected that a more rigorous procedure was needed to determine and ensure validity. At minimum, one of these procedures would be that of disconfirming evidence (Creswell, 2000). Disconfirming evidence is a conscious and deliberate process where investigators first establish the preliminary themes or categories in a study and then search through the data for evidence that disconfirms these themes. It is not apparent from this report that such a procedure for establishing validity was conducted.

It should also be said that although mixed method research has many merits, one of which is that it can add insight and understandings which a single method design can miss, research methodologists have not fully resolved some of the issues inherent in a mixed method design such as the mixing of paradigms, how to qualitatively analyse quantitative data, and how to deal with conflicting results. Consequently, it would seem prudent that findings from mixed method research (and arguably, as with all social science research) be seen as partial rather than conclusive.



Reference List:

Creswell, J. W. (2000). 'Determining validity in qualitative research', *Theory into Practice*, 39(3), p. 124.

Gergen, M. M. and Gergen, K. J. (2000). Qualitative inquiry: tensions and transformation. In D. Norman K. and L. Yvonna S. (Eds.), in *Handbook of qualitative research*, pp.) 1025 - 1047. Thousand Oaks: Sage.

Hussey, J. and Hussey, R. (1997). *Business research: a practical guide for undergraduate and postgraduate students*, London: Macmillan

Johnson, R. B. and Onwuegbuzie, A. J. (2004). 'Mixed methods research: A research paradigm whose time has come', *Educational Researcher*, 33(7), p. 14.



**Appendix 2: Examples where the Benchmarking Study provides opinion which is not based on evidence**

Ref	Statement	PCI comment
p49	“An adjustment to the TOC almost certainly reflects an increase to the alliance scope (since that is generally the only grounds for adjustment) and raises doubts as to the widespread perception of certainty of the initial alliance TOC compared to other delivery methods.”	There is no data presented in the study to support this statement. In PCI’s experience, many alliances decide to increase scope without increasing the TOC. Further, most alliances involve some risks retained unilaterally by the owner, which (if they eventuate) can lead to adjustment of the TOC.
p50	“... shortcomings in a business case’s Vfm proposition are far less transparent under an alliance (particularly ones involving non-price selection of NOPs).”	There is no data presented in the study to support the claim of reduced transparency in alliances involving non-price selection.
P52	“Owners (in the public sector) may be exposed to serious asymmetry of resources, information, and commercial capability in their commercial engagement with the NOPs particularly during the critical TOC development phase. This asymmetry has the potential for significant erosion of Vfm.”	There is no data presented in the study to show erosion of VFM because of this asymmetry. Whilst PCI acknowledges this risk, our experience is that in a well-founded alliance, NOPs with far superior commercial capability than the owner will typically commit to and pursue targets (TOC and non-cost) that represent VFM.
P54	“... the parties (Owner and NOPs) require separate legal counsel to establish and formalise that relationship.”	There is no data presented in the study to support this view. PCI has been involved in several alliances where the same legal advisor acted for proponent and owner during PAA negotiation, and on each occasion all parties were very satisfied with the arrangement.
P56 – 57	“The contractual framework for the alliance... facilitates the earliest possible start of physical works under a non-price selection process. However, there may be a price premium associated with this early start due to selecting NOPs on a non-price basis... Owners need to understand that early commencement will almost certainly attract a significant price premium and not guarantee earlier completion.”	There is no data presented in the study to support the expectation of “significant price premium”. In addition this statement implies that it is not VFM to pay a premium for rapid response – which is untrue in many public sector projects.
P59	“Introducing price as a selection criterion provides a positive tension that causes sellers to innovate and provide the best cost solution to address the overall project objective”	There data presented in the study does not support this conclusion, or demonstrate that lack of price competition inhibits innovation.



Ref	Statement	PCI comment
P60	“There is no evidence that using price competition as a criterion for selecting the NOPs erodes the trust the alliance team develops as the project progresses.”	No data was sought or presented in the Benchmarking study to provide a valid comparison in the quality of the relationships under single TOC versus dual TOC alliances.
P60	“It is important to note that a high performance team can be characterised by the effectiveness of its decision making, and this does not preclude vigorous debate prior to reaching a decision. In fact a lack of competitive tension may lead to poor quality decision making through the effects of group think or misinterpretation that ‘trust’ means ‘no disagreements’.”	There is no data presented in the study to support these statements.
P62	“ ‘The pursuit of lowest price could give rise to underpricing risk with potentially unproductive arguments if contingency is inadequate’... This Study found no evidence to support this argument; there was no discernable difference between TOC/AOC outcomes and no evidence of ‘unproductive’ behaviours”	The study does not present TOC/AOC comparisons of competitive-TOC versus single-TOC alliances. The study does not present behavioural comparisons competitive-TOC versus single-TOC alliances.
P63	“... the Research Team considers that an alliance selection process including competition on price factors is likely to lead to lower costs of project delivery... An approach involving governments signalling in advance (and following through in practice) that they will almost always seek price competition before they agree a TOC is more likely to maximise each of these efficiency factors over time.”	There is no clear data presented in the study to support this view. The Research Team has discounted the fact that alliancing operates within a competitive economy which naturally identifies leaders in each field (and the fees commanded by such firms and individuals); and that alliancing seeks to tackle the most complex projects by harnessing these leaders and rewarding them in a manner based on competitive-world norms.
P64	“Economic efficiency (productive, allocative and dynamic) and VfM at the whole of government level is best achieved in the long term by price competition.”	Whilst axiomatic for market-based economies generally (and harnessed by alliancing as outlined above) there is no data presented in the study to support this view in relation to the high-risk projects tackled by alliancing.
P66	“Because alliancing has matured over the last ten years ... the maturity of alliancing should mean that any relationship risk (however real in the past) associated with a price competition can be satisfactorily managed.”	There is no clear data presented in the study to support this view.
P66	“...there may be a significant price premium associated with early commencement and that early completion is not guaranteed through earlier commencement.	There is no data presented in the study to support this view.



Ref	Statement	PCI comment
P69	“The inherent commercial tension between Owner and NOPs in the TOC development phase is fundamentally inconsistent with driving superior VfM in developing and agreeing the TOC.”	There is no clear data presented in the study to support this view. PCI’s experience is precisely the opposite: that skilful handling of the TOC development process, in the context of this misalignment of commercial interests, is the crucible in which the most powerful and effective alliances are formed.
P71	“‘Hybrid’ pricing elements provide a wide range of options for creating competitive tension between proponents... Appropriately constructed hybrid alliance procurement should allow competitively developed proponent offers to be tested against the business case pricing benchmark and compared on a VfM basis.”	There is no clear data presented in the study to support this view. PCI’s experience is that a large proportion of ‘hybrid’ pricing information sought during NOP selection is difficult to evaluate objectively, and it is seldom clear how the owner will use this information objectively during the selection process.
P74	“To ensure optimum VfM, the process leading to agreeing the TOC requires commitment to commercial rigour in negotiations between Owner and NOPs, based on business principles rather than alliance principles.”	There is no clear data presented in the study to support this view. In PCI’s experience there need not be any incompatibility between good business practice and good alliance practice.
P76	“... there appears little evidence to support the approach of Owners prescribing the actual details of a painshare/gainshare model. It is possible that this prescriptive approach may be inhibiting commercial innovation from proponents at an early stage in the selection process and therefore limiting differentiation between proponents on the basis of VfM potential... [or]... stifling innovative responses.”	There is no data presented in the study to support this view or inform this discussion.
P76	“There is little evidence that the (typical) current approach where Owners prescribe the compensation model, involving the level of capped painshare, optimises VfM.”	There is no data presented in the study to support this view. In PCI’s experience there is significant risk of participants failing to understand the implications of a novel proposal, and entering commercial arrangements with unintended negative consequences.
P76	“... a [painshare] cap has the potential to destroy a fundamental alliance principle and create significant commercial misalignment”	There is no data presented in the study to support this view, which runs counter to PCI’s experience and understanding.



### Revision Control

Version	Date	Author	Comments
1	22 Nov 09	Jim Dingwall with contributions from Dr. Holly Dinh and Jim Ross	Original version published 22 Nov 2009. Published on PCI website and handed out at IQPC Conference 25 Nov 2009 (75 coopies)
2	28 Nov 09	Ken Lowe	Published on PCI website 28 Nov 2009 adding declaration of interest (Section A1) and recommendation to commission further independent research (Para A5)