White Paper 2020-08

How Project Governance must be set up for Contractor Consortium and Joint-Venture Projects to achieve Success

Further to our White Papers on the importance of project governance such as 2018-01 'How governance can make or break a project', this paper examines in more detail recommended practices for governance of projects involving a consortium or a joint venture. Too often we observe in this situation bloated and ineffective governance setups which severely hinder the project from achieving success. This White Paper details recommended practices for setting up the governance of such projects.

Context

In an era when clients increasingly seek to be provided integrated solutions and avoid managing interfaces, contractors increasingly establish consortiums or joint ventures to respond to this expectation. This allows to combine several specialties to respond to the need but at the same time requires an effective governance framework between organisations that sometimes have to learn to work together. In certain cases, those consortiums can be setup between entities of the same group of companies; contrary to what could be believed, it is not always the easiest situation because of the complexity of organisational politics and tendency to be less formal when working internally.

Early agreement on the governance framework is critical to manage a complex organisation

Main issues

Insufficient anticipation and planning at tender stage

Working together in a consortium and joint venture requires proper preparation and sufficient trust built between the parties through discussions. However, for contractors, such preparation and discussions are often only started on an opportunistic basis during the tender stage, which is short and intense. This leads to insufficient planning for project execution, and frequent underestimation of the coordination effort and transverse standardisation aspects.

Unclear consortium or joint venture rules

As a result of the rushed tender phase but also because of delays in writing up a proper agreement, we often observe either that agreements are being developed but not yet signed, or agreements that remain too high level to support actual project execution. As a result, there is inadequate guidance both to the project team and at governance level. This results in hesitations and delays during execution.

Governance by committee

In terms of governance, the default solution is to create a committee composed of senior representatives from all the entities involved and that meets regularly (generally not too frequently). Most of the conversation often ends up around the respective share of the benefit and risks of the project. Often due to the lack of trust between partners, most decisions about project commitments have to be approved by the committee after due review and diligence rather than by the project team.

Poor flexibility to unexpected situations

Because of the seniority of governance committee members, it can be difficult to actually hold regular or, even worse, ad-hoc but urgently required meetings. This leads to delays in responding to unexpected situations.

Governance really becomes difficult and relations between the parties sour when there is a cost or schedule overrun and the ability to recover money or time form the client is unclear. Bickering between parties start and there is a real risk that the governance takes an inordinate amount of time to settle to the course of action and the split of pain. This leaves the project team without clear direction.

Insufficient trust shown by a too low authority level of the Project Director

In many cases there is insufficient trust between the parties. This is reflected in the authority level provided to the Project Director, which is often way too low. As a result all decisions of substance are raised to the governance committee, with associated delays and additional bureaucratic hurdles.

Lack of engagement with key stakeholders at governance level

Because most of the time the governance committees focus on internal issues, and because there is no clear representative of the consortium for external third parties, there is insufficient time and focus spent in engaging with other key stakeholders at governance level. This makes more difficult to achieve alignment with key stakeholders and contributors to the project such as key subcontractors, client departments or local stakeholders.

Good practices regarding governance for consortium or joint venture projects

Achieving success in large, complex projects requires ensuring proper alignment between stakeholders, diminishing or limiting complexity in the sense of improving communication, and being sufficiently nimble to respond to the unexpected situations that inevitably arise. The following good practices follow those objectives.

Implement trust-building practices and sign the agreement before submitting the bid

It is essential to develop and maintain trust between consortium parties. This requires proactive implementation of trust maintenance and development activities, often at the highest level of the parties, irrespective of the actual project governance. As for any relationship it needs proper investment over the long term.

The consortium or joint-venture agreement needs to be signed early for all to know the rules of the game but should not necessarily made too complicated because of the importance of trust. Although it should include all the usual clauses in case of a major event, the economic model in particular should not be too complicated and account for the fact that project execution will probably not happen exactly as per the plan.

Nominating a single Project Sponsor and a single Project Manager with substantial delegation of authority, enables strong project leadership and stakeholder alignment

Proper project planning

To overcome the usual weakness of project planning in this situation, mainly when it comes to common transverse aspects of project execution, sufficient effort should be devoted to those areas so that the limits of responsibility are clearly established for each battery limit. White Paper [2020-09] 'How to Organise Projects Executed in Contractor Consortium or Joint-Venture' will dwell in more detail on those aspects.

Designate a single Project Sponsor – and a single Project Director

Notwithstanding the format of the governance committee, one of the most effective practices is to designate amongst the governance representatives a single Project Sponsor who is empowered to represent the different parties on a continuous basis during project execution and who is also empowered to represent the consortium or joint-venture towards external stakeholders as required in the interest of the project. While he/she should have a mandate and report to the governance committee, this provides leadership to the entire setup. It is also important that this Project Sponsor has sufficient experience and understanding of the execution of projects.

Although this issue is less frequent, it is also important to designate a single Project Director responsible to deliver the entire scope to the client, even if each consortium party has a scope that is well defined and seems quite independent of the others.

Sufficient authority for the Project Director

If the Project Director is trusted to conduct the project this has to show in the authority level that is delegated to him, which needs to be substantial to allow him/her to conduct the project in an effective manner and be able to respond to unexpected situations. This thus involves sufficient authority for both budgeted and unbudgeted expenditures. Of course, the project has to report to the governance after the fact, but it is essential that he/she is empowered to respond quickly. A proper link with an active Project Sponsor will also help maintain trust in the equation.

Pre-established rules of engagement beyond the initial budget

Because in large complex projects events often do not unfold as initially planned, it is essential to anticipate what are the rules of engagement if the forecast exceeds the original budget and how it will be financed by the parties. This absolutely needs to be foreseen in the initial agreement, which too often considers by default that the project will happen as planned.

Conclusion

As consortiums and joint-ventures amongst contractors become more frequent to respond to market expectations, sound governance practices need to be implemented. Still, nothing can replace a sufficient amount of trust between the parties that need to be maintained on the long term. In addition, the nomination of a single, competent Project Sponsor and adequate delegation of authority to a trusted Project Director will go to a long way to ensure success of the venture.