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What Successful Public-Private Partnerships Do.

Despite spending $2.5 trillion a year on roads, railways, ports, water, and other public infrastructure projects, countries around the world are still falling far short of what they need to invest, according to one estimate. Thus, it's no surprise that there is renewed interest in public-private partnership (P3) projects, where businesses supplement public investment in return for reaping rewards such as tolls and fees. The White House, for one, suggests using private investments to fund most of its proposed $1.5 trillion in U.S. infrastructure spending.

But many P3 projects go off the rails. For example, a European Union review of nine such projects launched between 2000 and 2014 found seven were late and over budget. A U.S. interstate highway project near Indianapolis was found to be 51% over budget and two years past the proposed completion date. These highly publicized travails not only make P3 projects a public nuisance (or more), they create big political hurdles to overcome the next time a much-needed infrastructure project requires outside funding.

Yet despite these failures, some P3 initiatives have been highly successful, and they provide a trove of valuable lessons for managing any large project that involves multiple organizations — think digital transformations involving multiple consulting and training firms, merger integrations, enterprise software installations, corporate headquarters relocations, and so on.

Received wisdom in P3 management is that ironclad contracts and tougher enforcement of them improves chances of success. But over the last three years, we conducted research interviews with 72 leaders from organizations that design, build, finance, provide legal advice, manage projects and advise North American P3 projects. Numerous interviewees told us that focusing on contract terms often set partners to act more like adversaries than allies. "Public clients prefer building iron-clad, oppressive contracts that are extremely one-sided and which start the relationship off on the wrong foot," said a leader of a semi-governmental Canadian agency. Others told us that contractors often exploit the contract terms to increase their profit at the expense of the project.

Another recurring complaint was that an intense focus on meeting project milestones took critical attention away from monitoring the health of the working relationships among the public and private entities. Said a project adviser to a U.S. P3 project: "The partnership is extremely important. A lot fall short in that people fall into familiar behaviors quickly. They're like people who get married after two dates; they don't have ways of working things out together."

From these interviews, we heard about uncommon ways used by leaders of the most successful projects to keep these large, high-stakes initiatives from running late, over budget or both. We found project success had little to do with trying to force all parties to adhere to strict contractual obligations. Instead, when we examined what led to productive working relationship over the life of these projects, we found they had three things in common: a commitment to a strong partnership beyond the terms of the contract; built-in mechanisms to share perspectives about the project (especially problems and concerns); and effective ways to rebound from failures to deliver.

Striking Personal Commitments Far Beyond the Contract

At the crux of successful P3 infrastructure projects is a simple but difficult-to-achieve construct: each party must be as committed to achieving the others' goals as they are to their own goals.

Contracts alone can't achieve this. Legal documents can spell out what must go right (e.g., spending, responsibilities, steps, deliverables, and dates) and what happens when things go wrong. But they cannot anticipate everything that can go wrong, and they don't provide a roadmap of how to right things quickly. That requires leaders from each entity to regularly share their interests and concerns, and to help resolve them. A key part of this is having each party acknowledge interests in the project they may not have stated in the contract, and which may not be interests of the other parties.

When Australia's Road Traffic Authority (now known as Roads and Maritime Services) began the Pacific Highway Upgrade of 408 miles (657 kilometers)of road in 1996, the Ballina Bypass was one of the first projects. Building the 7.5-mile roadway in New South Wales involved five organizations that provided designing, contracting, and geotechnical services. The project was a major technical challenge because the road had to be built on soft ground. The RTA had a lot riding on the success of the Ballina Bypass because such P3 contracts were relatively new in the country. The pressure on the RTA was enormous.

The five organizations were new to working together, so they had to establish operating principles for the project. They needed to continually demonstrate to the RTA that they were working as an integrated team, sharing innovations, and solving steep technical problems as they arose (and there were many).

The organizations appointed people to three roles to strengthen their working relationships: an alliance manager, the alliance leadership team, and the alliance management team. The teams then designated and trained functional experts to be leaders responsible for achieving key metrics in their areas. The functional experts communicated weekly on project status with the alliance leadership and management teams, and through fortnightly meetings, regular emails, and weekly site walks.

All this ensured the five organizations openly heard and resolved project problems together. The leadership training also enabled the functional experts to learn how to resolve issues constructively. One of these issues occurred near the end of the project, when the road builders had to add very expensive fill – even more than they originally projected – to shore up soft ground. All five partners accepted this reality, even though it pinched their profits, in keeping with the win-win/lose-lose principles they had set up for the partnership.

The result: They finished the work seven months ahead of schedule and for $100 million less than the estimate in the concept design.

Hashing Out Differences Authentically

In our interviews and consulting work, we have found it rare for P3 partners to state their interests in a project beyond their shared goals. Such unspoken interests include dealing with minimal public complaints, building a reputation to win future P3 work, and generating a profit from the project (even if it's a small one). Stating such interests openly and honestly is a key success factor.

Why is sharing these typically unspoken perceptions so important? Doing so defuses or at least reduces the inevitable flare-ups that escalate rapidly when people's actions and motivations are in question.

When one party doesn't come through as expected – misses an important deadline, falls short on quality, forgets a step, and so on – the other parties can rush to judgment. "They're just cutting corners." "They don't care about quality." "They no longer have their best people on the project." All are sentiments we've heard on these projects over the last two decades.

The problem with such perceptions is they can fan the flames of distrust and engender countermeasures that make things worse. The way the parties in the Ballina Bypass minimized such negativity was by holding weekly meetings of the members of the alliance team. These project "health checks" helped partners move from blaming each other for problems to creating shared responsibility to fix them. It also enabled the project to have a staff churn rate of only 5% — far lower than the industry average of 20% to 25%.

Admitting to and Correcting Setbacks Quickly

P3 infrastructure projects are vital pieces of a nation's economic fabric. A region's population health, industry base, and political careers can be at stake if deadlines slip, budgets creep up, and quality problems emerge — an especially harsh environment for project leaders and managers. In such a working environment, it's natural for team members to overlook small problems, push back the schedule, blame others, and cover their tracks. In contrast, team members on successful P3 projects admit failures when they occur, and then they move quickly to correct them. In that way, they use these failures as opportunities to strengthen their commitment to the partnership.

Such psychological safety can only happen when the parties agree at the outset how they will handle the inevitable problems, long before anyone reaches for the contract. We found this to be critical to coaching the two lead contractors on a failing multibillion-dollar offshore drilling project. While this was an entirely private partnership, the lessons hold true for public-private partnerships too. The two contractors had blown through numerous deadlines and disagreed vehemently on how to get the project back on the rails. They blamed each other for project failures and were barely speaking to one another beyond the minimum required to do the work. In addition, a major subcontractor located in a different time zone also complicated things, ignoring requests to work faster.

To get their relationships back in working order, the two contractors held sessions in which the team members could voice stumbling blocks and suggest ways to remove them. We facilitated constructive dialogs on these issues, including each company's distrust of the other's project schedule. (Teams from one firm didn't believe the other firm's statement that it had not built "cushion" into the timelines.) The focus shifted away from deadlines toward promises to complete work. In addition, project leaders at both companies committed to a short-term win: gaining year-end regulatory approval. In turn, that required each side to agree to completing the technical design documents required for construction approvals and demonstrate they had met safety and quality standards.

This "sprint" showed what a real working partnership was all about, and the teams met their mutually agreed upon goals. It helped them turn around the working relationship for the remainder of the project.

Building Better Partnerships

The lessons of what makes the best P3 partnerships work apply to any large initiative in which more than one organization is responsible for its success. The word "partner" truly must connote that "we're in this together," a sentiment that no contract can ever convey. As a U.S.-based manager on a highly successful P3 infrastructure project put it, "Success can be defined as a situation where the project is completed on time and on budget, and with all participants being happy survivors of the experience.” Project leaders who have an explicit plan of how they will meet the project’s goals and keep the working relationships of all parties strong throughout the process have a much higher likelihood of success.

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