

Building Conflicted Teams- The DNA of Failed Projects

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A Thought Leadership Commentary



I am always amused when I meet with few of my “developer” type friends for Friday morning coffee. The topics always end up being about project delays and cost overruns. Needless to say, it is always because of the Architects, Engineers, Specialty Consultants, Operators, Interior Designers, Contractors, and last but not least the Project Management Consultancy. They always wonder what penalties, legal measures, terms and conditions, limits of liability etc. that they can use to make sure that everyone plays nicely in the sand box. In other words, how can they trade up from a cane to a baseball bat or even worse, a prehistoric club!

Nobody likes surprises when conducting business and particularly true for real estate developers that embark on large, complicated projects that require a huge capital investment and a high degree of leverage. Price/ cost certainty is critical from the outset. Traditionally, this meant fixing the cost of the procured services through a lump sum fee or number of man-months based on a schedule of execution. Traditional common wisdom would say that this would achieve the cost certainty and the only thing left to do is to hold people’s feet to the fire. Hence the baseball bat analogy! Going even further, and I have heard this many times, where developers are insisting that the risk be cascaded down to all team members.

In reality, when the client holds everybody’s contract, such a team has inherent conflicts with consequences that will impact the project delivery parameters. Each team member has his priority compass pointing in a different direction based on his scope, contract obligations, and commercial considerations. Architects would strive to have their work published and win design awards and that has led some architects to place this goal above the goals of the project itself. They want to exit the project as fast as they can although some are kept presiding over a watching brief which in most instances is ineffective at best. The services engineers are mostly in the passenger seat with the Architect firmly in the driver’s seat. Similarly, and to some extent even more remote are the specialty consultants. The Architect and Engineer of record is at the receiving end. Usually retained for a low fee so that the blended fees would defray the Architectural and Engineering fees of international consultancies. Their objective is to try to off load a lot of the detailing onto the contractor and deal with it during the construction stage through shop drawings. Their other objective is to secure site supervision to ensure that any errors can be picked up during the construction stage. Project delays and prolongation result in additional fees for site supervision team. The contractor will bid the job to win and will try through variation orders to make up for the fair market value of the project cost. Project delays and prolongation are detrimental unless, the contract is a time and materials type contract. The Project Management Consultancy will again benefit from projects delays and prolongation as their contract is based on Time and Materials. At 32,000 ft, this looks like a bumper car arena on Coney Island! I am obviously exaggerating to make a point.

If only there was a magic wand that you would swipe across the team members, and it would have the net effect of re-aligning the team members’ priority compasses with that of the project’s.

No, unfortunately, the wand has not been commercialized yet!

But the next best thing is to incentivize the team and have a delivery model that better responds to the client’s workflow. Developers will always want to be in control of the design process and have input throughout. Sales and marketing team will constantly be monitoring the market and would want to incorporate the latest and the best. Operators will have their share of required changes for operating efficiencies and the like. But unfortunately, some call that part of design development!

I have seen several models that have been proposed like the managing contractor model, the progressive D&B model, the GMP model and the alliance model. All models can also be overlaid by a set of financial incentives that are either deferred fee payments that accrue a bonus for meeting project KPIs or gradually released at certain milestones. When there is skin in the game the team will most likely align closely with the path that will lead it to maximize its rewards and that, by design, will align with the project’s KPIs and would create an internal momentum to avoid actions that could jeopardize reaching the desired goals. When we talk about the team, we are not excluding the client.

Sounds pretty straight forward, right?

Not really!

We will discuss the pros and cons of the aforementioned models together with the incentive plans in a future publication. But till then, I would recommend that your focus should be less on the size of the stick and more on the carrot!