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Executive leadership for infrastructure Public-Private Partnerships.

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Introduction

Public-private partnerships (P3s) are gaining ground as a way to provide financing and management for much-needed expansion and revitalization of infrastructure in the United States. Although P3 activity has been limited in the United States, several factors—tight budgets at the federal, state, and local level; more state legislation authorizing P3s; and the new federal Build America Investment Initiative—are contributing to an increase in private-sector investment in infrastructure projects from bridges and tunnels to airports and seaports.

The uniqueness of P3s lies not only in the scope and duration of these multistage and often multibillion-dollar projects but also in the need for new and specific leadership skills at each critical phase: design, construction, commercialization, and even ongoing operation. Unlike purely public projects financed with tax revenues and municipal bonds, P3s must produce a competitive return for private investors, while navigating the public sector. To put it another way, P3s exist in the municipal bond world, while needing to generate an equity return. Having the right leadership in place at the right time and in the optimal combination can mean the difference between success and failure.

The human capital challenge faced by P3s is the scarcity of talent with the appropriate experience—compounded by the increase in P3 activity. Recruitment and hiring mean finding just the right individuals who can navigate the complexity and nuances of the public sector, while driving execution and generating returns to meet the needs of private investors. Korn Ferry's review of the top 100 largest North American infrastructure projects over the past two years reveals how critical the right leadership talent is to the success of P3 infrastructure projects. In addition, drawing on Korn Ferry expertise in executive recruitment and market observations, we offer insights into the attributes of those best suited to operate in the public-private world.

P3s step into the infrastructure funding gap.

"P3s are infusing much-needed capital and expertise from the private sector into public projects. Given the tremendous need to rebuild infrastructure in the U.S., the P3 trend will only expand."

George H. Pierson
President & CEO
Parsons Brinckerhoff

The backbone of a nation—transporting people and goods, as well as its energy, water, and other daily needs of life and commerce—is its infrastructure. From bridges to toll roads, airports to pipelines, infrastructure traditionally has been a network of assets constructed and maintained by federal, state, and local authorities. Despite the massive expanse and importance of its infrastructure, the United States has underinvested compared with its peers—spending about 2.5% of GDP, whereas Europe spends, collectively, about 3.9%. Underinvestment carries a steep cost in lost time, reduced efficiency, and wasted resources, as the federal government noted in a recent report:

> "Drivers in the United States annually spend 5.5 billion hours in traffic resulting in costs of $120 billion in fuel and lost time. U.S. businesses pay $27 billion in additional freight costs because of the poor conditions of roads and other surface transportation infrastructure. The electric grid's low resilience leads to weather-related outages that cost the U.S. economy between $18 billion and $33 billion each year, on average. Due to continuing deterioration of water systems throughout the United States, each year there are approximately 240,000 water main breaks resulting in property damage and expensive service interruptions and repairs" (Treasury Department 2014).

To reverse the underinvestment trend, the federal government is exploring ways to expand sources of financing, including greater public- and private-sector collaboration in infrastructure development and financing. Among the solutions is increased reliance on P3s to operate in areas that were once the sole domain of the public sector. P3s can contribute capital and management expertise from the private sector, which may result in cost savings for taxpayers and higher quality or more reliable service over a shorter time frame (Treasury Department 2014).

Although Australia, Canada, and the United Kingdom already use P3s widely to finance, construct, and manage infrastructure projects, the United States has lagged—largely due to the well-developed municipal bond market that provides low-cost, tax-exempt financing. However, given the increased financial need, infrastructure projects must expand their funding mechanisms beyond the standard issuance of municipal bond debt. As the newly unveiled federal Build America Investment Initiative observes, P3s are among the "innovative financial structures" to be pursued, which would allow more private equity investors to fund projects (in whole or part), while also shouldering some of the risks and responsibilities (Treasury Department 2014).

At the same time, there is a growing appetite in the private investment world for P3 participation. In 2013 alone, more than $4.7 billion was raised for North American P3 investments, added to nearly $435 billion already raised or invested by more than 50 funds under management (CG/LA 2014).

Given their scope and the need for precision at every phase—from planning to construction to operation and commercialization—P3s require innovative approaches to talent recruitment. Rather than search solely in the public-sector talent pool, which may be unfamiliar with the demands and expectations of private-sector investors, P3s have to cast a wide net to find the leaders and teams that can operate in this emerging space.

Human capital can make or break a P3.

Imagine an airport reconstruction project. The old terminal must continue to operate while the new one is constructed, requiring a shift among properties and operations, not unlike any complex public project. Permits, designs, and financing are major undertakings in and of themselves, even before the massive work of construction begins. Assuming all is completed on time, on budget, and in satisfaction of all parties, that is not the end of the project. Now, the terminal must generate a return by attracting travelers who must also be treated as consumers, as they patronize retail shops and restaurants that rent space in the terminal. Ultimately, travelers even start to think about which airports provide the most pleasant experiences. This holistic approach from design to commercialization is broader than the traditional method, with higher stakes for the leadership team. Failure to convert a public accommodation into a consumer space spells financial doom for any P3 project—not only for an airport terminal, but a bridge, toll way, seaport, or any other multiuse project.

At each phase, leadership is critical, with the right individual strengths and competencies, and in the optimal combination. Leadership teams often have to be jig-sawed together, ensuring tight alignment without the overlap that can undermine cohesion and lead to failure. Making the talent piece even more challenging is the fact that the pool of P3 leadership candidates is small and competition to recruit them is intense. In a typical talent search, personnel are recruited successively, starting with the CEO. In a P3 search, although the defined time frame may be as long as three to four years, key members of the team need to be hired in rapid succession or nearly in parallel.

P3s do have some advantages over purely public projects in recruiting talent. Private investment may allow for higher levels of compensation for leaders, which will increase the talent pool. In addition, some candidates may favor exposure to large private equity partners for future career development.

The P3 visibility factor.

P3 projects are highly visible to investors, the public, and the news media. Critically important for the long-term viability of the project is conversion of the public to consumers whose patronage ultimately determines the financial return. P3s are developing some of the most important infrastructure in the United States, from construction to long-term operation and maintenance. One of the most difficult challenges for a P3 can be moving from the construction phase to the operation phase, and sustaining the high-level performance that is expected.

From the outset, the multiple stages of a P3 project require experienced leaders who can sell the vision for the project, act quickly, manage risks, and steer clear of bureaucratic or political interference. The leadership team also must seamlessly navigate among multiple stakeholders, use of new and innovative technologies, and alignment between investors and the public project.

Failure by even one key leader not only is a matter of public concern, but also can potentially undermine the viability of the entire project. Reasons for project failure include: inadequate funding, cost overruns, over-projections of demand, underestimation of risks, lack of transparency and accountability, low levels of technical capacity and expertise among key team members, a lack of balance in risk exposure, a poor alignment between private investors and the public project, and failure to attract consumers. In a P3 project, management shoulders the responsibility for P3 failures.

"The successful P3 CEO needs to have the focus to deliver what has been agreed, combined with the flexibility and creativity to adapt to changing conditions or circumstances."

Jay Walder
Former CEO
MTR Corp., Hong Kong

Table 1

The P3 Team

In every phase of the project, human capital is the crucial difference between achieving success and suffering failure. This places the onus on having the right leadership of the P3 team.

Role	Qualifications	Success looks like...	Failure looks like...
CEO	Strong team builder of multiple, disparate constituencies. Results-oriented, able to deliver against significant milestones on time, even when many aspects are outside direct control. Experienced in infrastructure and construction. As the "public face" of the company, must be politically savvy and able to handle public scrutiny.	Everyone (including the media) loves the project and eagerly anticipates completion with a ribbon-cutting celebration. All parties win—vendors, labor, government, investors, and customers. Success extends to long-term operation and maintenance.	Highly visible, unrelenting pressure, and intense scrutiny down to the minutiae. A failing CEO must be replaced quickly, or else the entire project is in jeopardy and investors will find themselves in the public eye.
CFO	Able to manage many diverse constituents, including rating agencies and public and private investors. Due to complex capitalization, must have project financing experience, with expertise in risk/liability management, vendor procurement policies and practices, minority set-asides. Public real estate investment trust (REIT) experience a natural fit.	Early warning signals are generated and responded to—early enough for swift detection and correction.	Allegations of fraud possible. Rating agencies may lose faith and project financing may be downgraded, which increases financing costs and/or results in investors realizing a lower-than-planned yield. If projections of cost estimates and timing are off, the project suffers. Increased costs and revenue delays mean additional financing must be raised under the worst conditions.
Chief Project Officer	Experience with multiyear, multiphase projects—especially multiparty dependency planning (i.e., tasks and deadlines by one party have an impact on and are influenced by other parties). Balance need for "slack time" for dependent tasks and running project as efficiently as possible. Ability to run a new project concurrently with existing infrastructure.	Project costs, delivery dates, and overall time frame are as planned. Contingency planning results in few critical paths or "choke points," which allows project to continue on schedule and in line with expectations. For each choke point, a "plan B" has been determined.	Everything backs up through the chain. Labor is idle. Deliveries are out of sequence. Choke points undermine project, which cannot proceed without a major reset.
Chief Commercial Officer	Ability to commercialize project in new ways, beyond scope of a public project (i.e., generating revenue post-launch to spur private investor returns). Ability to create consumer experience, whether for an airport, bridge, or tollway. Ability to do forecasting. Knowledge of retail and related sectors, and attracting consumers in innovative ways.	Project achieves revenue targets, generating returns to satisfy investors, as well as public (government) stakeholders.	Revenue does not meet expectations, either because projections were overstated or consumers are not drawn to the project.

High-performing P3 teams.

The dual nature of P3s puts a high premium on talent that is highly agile, possesses strategic ability, has strong communication skills, and is politically savvy. Assessments are highly valuable tools to identify leaders who, in addition to strong core skills (e.g., a CFO with sharp financial acumen), possess the competencies and traits that will contribute to P3 project success. Equally important to what each senior leader brings to the table are the cumulative competencies of the team, both relationally and strategically.

Leadership talent should be assessed for both competencies (the observable skills of what people do) and traits (who they are). The resulting overlay acts as a road map for identifying leaders and building teams with the competencies and traits geared for success. Although there may be differences based on the unique demands of a project, a specific phase of development, and the mix of people on the team, competencies that lend themselves to P3 success include:

Business Insight—Applying knowledge of the business and the marketplace to advance organizational goals.

Customer Focus—Delivering customer-centric solutions.

Managing Complexity—Making sense of complex, high-quantity, and sometimes contradictory information to effectively solve problems.

Balancing Stakeholders—Anticipating and balancing the needs of multiple stakeholders.

Action Oriented—Taking on new opportunities and tough challenges with a sense of urgency, high energy, and enthusiasm.

Planning and Aligning—Planning and prioritizing work to meet commitments aligned with organizational goals.

Effective Communication—Developing multimode communications that convey a clear understanding of the unique needs of different audiences.

In addition, P3 leaders need to exhibit the competency of nimble learning—actively learning through experimentation when tackling new problems, using both successes and failures. This speaks to an attribute Korn Ferry calls *learning agility,* which is the ability to apply previous experiences and lessons learned to new and first-time situations. In the P3 environment, in which there is no clearly established playbook, learning agility can distinguish those leaders who are likely to be successful.

Given the high-stakes nature of P3 projects and the need for the right talent fit, personality traits of leaders should also be taken into consideration. Among the differentiating characteristics are: credibility, confidence, intellectual engagement, tolerance of ambiguity, risk taking, adaptability, enthusiasm, and ability to influence others (Barnfield et al. 2014). The right mix of competencies and traits among key leaders will help drive success through all phases of long-term, multiyear (even multi-decade) projects.

The P3 promise: expansion and efficiency.

All eyes in the public arena and among private-sector investment funds are on P3s as they gain in number and popularity. If widely successful, P3s will emerge as a compelling source of financing and expertise for infrastructure projects at a time when there is a strong need for both, especially given the decline in public investment to expand and replace critical infrastructure. As the Treasury Department report noted, "Innovation in financing, technology, and management can help reverse this decline and speed the modernization of our infrastructure networks. [P3s] can infuse projects with private capital, management, and expertise to bolster total infrastructure investment while also exploiting untapped efficiencies in infrastructure provision."

Robust discussions continue at the federal, state, and local levels on how best to deploy private sources of funding and expertise. What is clear at this stage is that more P3s will have a seat at the table as infrastructure projects are developed and discussed. For those partnerships looking to have a competitive advantage, distinguishing themselves among world-class competitors, talent will be the critical element. Knowing how to recruit, assess, and onboard leaders and their teams will open the way for success realized over the multistages and multiyears of a P3 project.

"[P3s] can infuse projects with private capital, management, and expertise to bolster total infrastructure investment while also exploiting untapped efficiencies in infrastructure provision."

U.S. Department of Treasury

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About Korn Ferry

At Korn Ferry, we design, build, attract and ignite talent. Since our inception, clients have trusted us to help recruit world-class leadership. Today, we are a single source for leadership and talent consulting services to empower businesses and leaders to reach their goals. Our solutions range from executive recruitment and leadership development programs, to enterprise learning, succession planning and recruitment process outsourcing (RPO).

About The Korn Ferry Institute

The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books and a quarterly magazine, Briefings, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth and success.

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