

Alliancing/Partnering.

An MPA seminar held at Templeton College, Oxford on 17 January 2002.

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Partnering principles along the supply chain

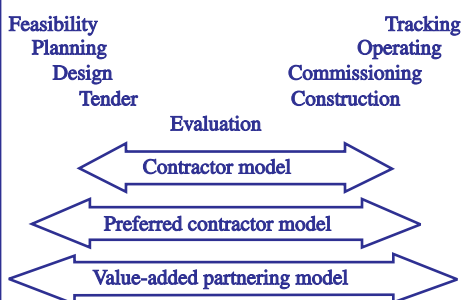
The client puts in place a partnering arrangement with the main contractor:

- based on a compatible philosophy
- on the basis that lowest price is not the decisive factor in awarding the contract.



The contractor, in turn, looks for the following qualities in selecting his subcontractors:

- a good safety record
- business innovation
- achievement of ISO 9000
- track record
- clear absence of adversarialism in its history.



The key stages of a project are shown along the top of the diagram. The contractor model is used when a party designs, tenders and constructs. That model can be extended to a preferred contractor model where a contractor is involved in design and commissioning as well. In the value-added partnering model, the involvement of the contractor is extended further. He contributes at all stages, including those when the client is doing his strategic thinking and decision-making.

Alliancing/partnering aims to reduce real costs, to improve predictability, to meet end-users' needs and to improve quality and safety. In spite of its having been around for over a decade, there are still no cut-and-dried definitions of it: for some partnering implies only two players and alliancing a range of players, with different contributions to make, while for others the words are used interchangeably. Pioneering clients and their supply chains have been putting the theory into practice in major project programmes in various sectors over that period and enough experience has been accumulated for the lessons to be drawn out and passed on to others.

Two concepts lie at the heart of alliancing and partnering. One is the idea of gainshare and painshare. If the approach is to work, an inviting prospect of additional profits through gainshare must be put in place, with a corresponding drop in profits through painshare (usually capped for the contractor).

The second concept is that of performance assessment. The success of projects within an alliancing programme can only be gauged if measures of performance are developed and implemented.

For the client...

- Look for commercial soundness and business development from your partners.
- Visibility of leadership is important.
- Use a contract that works for your organization. You do not have to use a particular type.
- The way you do business will change, with contractors and suppliers being integrated into the decision-making process.
- Be concerned about the future health of your partnership/alliance so that benefits can flow to all parties. A shared vision and shared goals are essential, and that depends on greater openness and on your ability to develop trust between you, your partners and your suppliers.
- The right culture lies at the heart of successful partnerships. The new culture, beliefs and attitudes must permeate to all levels in the organization.
- A no-blame culture must be established and respected.
- Integration is essential and the team drawn from different companies must work together as one. Encourage people to contribute ideas and innovations. That knowledge must be kept and passed on.
- Make sure a well-researched development plan is in place and reward good performance. If good ideas and best practice are not used, the wrong message is sent to the team.

Case Study – Health Clubs

A programme of constructing health clubs consisted of the roll-out of a large number of 20,000 sq ft complexes around the UK, with the intention of realizing incremental improvement year on year. Each costs between £1 million and £1.5 million.

In year 1, a core team of industry professionals and constructors was selected and a generic brief developed. In year 2, the product was developed, formal partnering arrangements were introduced and a collaborative environment developed. In year 3, the team concentrated on improving the product, with a shift of emphasis from cost to the product itself. That enabled them to increase standardization and shorten the construction periods and the process for approvals. A project debriefing process was also set up to build in lessons learned.

Among the achievements were:

- a 25% reduction in capital cost;
- increased quality;
- a reduction in construction time and time to market;
- approaching 100% predictability;
- approaching zero defects at handover; and
- zero reportable accidents throughout the programme.

Participants

Seventy participants attended the seminar and the following organizations were represented:

BAA plc, Baker & McKenzie, Balfour Beatty Major Projects, Barhale Construction Plc, Bechtel Ltd, Bovis Lend Lease Consulting, British Telecommunications Plc, British Energy Plc, Capro Consulting, CSE International, Defence Procurement Agency, DTLR, Freshfields Bruckhaus Deringer, Halcrow Group Ltd, Halliburton Brown & Root, Herbert Smith, Integrated Systems & Strategies, Linklaters & Alliance, Lockheed Martin UKIS, Mace Consulting, Mott MacDonald Ltd, Mouchel, National Audit Office, National Grid, National Air Traffic Services, Office of Government Commerce, Ove Arup & Partners, PA Consulting Group, PricewaterhouseCoopers Consulting, Railtrack plc, Rolls-Royce Naval Marine, Scott Wilson, Sir Robert McAlpine Ltd, Strategic Rail Authority, Thames Water Utilities, The University of Birmingham, UKAEA, Union Railways, Willis Limited, Willmott Dixon Ltd

- Have a planned programme of team-building. Co-location is important to building team identity.
- Integrated information systems should be standardized.
- Effective communication is critical.
- To get added value from partnering/alliancing, have your project managers and engineers engaged, at the beginning of the project cycle, in asset planning and conceptual design, and at the end, in commissioning and handover, and asset optimization.
- Beware of poor performance from keenly tendered competitive work. Use value engineering and value management to achieve best value. Whole-life costs should always be considered.
- Maintain a risk register. Risk can be allocated in a variety of ways to suit the partnership but a balance must be struck between risk and reward.
- Key performance indicators (KPIs) should be carefully chosen and be few in number.

For the contractor...

- Achieving alliancing/partnering objectives must head the list of priorities; without it, the alliance will fail.
- Business strategies must be aligned to ensure that all partners achieve business stability through shared but limited risk and reward. Beware of taking on risk without empowerment.
- Beware of cultural misalignment. Partnering requires like-minded people.
- Make sure a no-blame culture is established and respected.
- Alliancing agreements must offer opportunities for cost-effective investment and innovation in products and processes.
- Ensure involvement of all stakeholders.
- Partnering can act as a catalyst for the improvement of relationships further down the supply chain. Some clients require contractors to hold further competitions for their subcontractors.
- Contractors will find that they are involved, throughout the life cycle of a project, including during design and commissioning. The earlier they are involved, the more effective their contribution.
- Empowered teams with short lines of communication will reduce duplication.
- Be aware that partnering arrangements will reduce your customer base and limit opportunities to spread business risks.
- Be wary of entering a partnering agreement where margins look too low.
- Expectations of workload, cash flow and team involvement are not always met. Make sure a review plan is in place and that feedback on KPIs is given to the team.
- To prevent commercial skills being blunted, focus on adding value and removing waste.

There will, however, be a continuing need for one-off projects without partnering, as well as for projects with alliancing/partnering arrangements.