
Collaborative Working Round Table Digest 2010

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1. The current climate

The current economic situation is generating levels of uncertainty that require new solutions and different skills from both client and supply sides. There is a perception that it could also fuel greater self interest and vested interests. The response from clients will vary: those that understand and are fundamentally committed to collaboration will keep at it and fight to maintain it all the way; clients that procure infrequently will need education and help with understanding the value of collaboration, put simply they need a clear understanding of cost and value.

Regressing to adversarialism

The fear exists that the current financial climate may lead some to re-evaluate their commitment to collaborative working and retrench into older, more adversarial ways of working. Organisations began to collaborate in order to realise greater profits and efficiencies and reap the rewards of closer and longer term relationships with suppliers.

The fear of a return to cheapest price and adversarialism, with all that goes with that (claims, legal battles, delays) is very real. The temptation sits on both sides of the fence: the perceived buyer's market could tempt clients to do all they can to squeeze contractors; that in turn would drive contractors to seek advantage wherever they can. Similarly the circumstances could drive contractors to start bidding aggressively low just to win work. It is essential that contractors and clients continue their dialogue and that both continue to seek value, along with

certainty; that they continue to improve their performance and processes working together to seek the best solutions.

“Whilst many of the factors identified by IUK have been recognised in previous studies, there has not been sufficient concerted effort by government and industry in the past to make the changes necessary to resolve them. The current fiscal environment and drive for efficiency provide an opportunity to ensure that, this time, the necessary actions will be taken... The challenge is to make investment go further by reducing the costs of infrastructure construction; by removing wasteful process and strengthening the capability of those that procure projects; and by supporting the supply chain. Contractual approach: The UK generally adopts a more contractual approach to infrastructure projects and programmes compared to other countries, which can lead to perverse behaviour particularly in tough market conditions, where low prices achieved under competition may be increased at outturn as a result of claims. There is concern that behaviour in the current economic climate may result in a return to an adversarial culture.”

HM Treasury Infrastructure UK

Evidence

Given the situation there is even greater need to measure and understand what value is created as we progress through projects. Good evidence that collaborative working is value for money is needed. It is of paramount importance that we are able to continue displaying

value in the eyes of the investors

Reductions in spend

There is a fear that reductions in overall spend will undermine the capabilities of the supply side. This will in turn have a potential effect on not only the capacity of suppliers but also the skill levels of their people. Having said this there was also a feeling that within the current demand cycle there is a perceived over capacity in the supply chain.

Risk and innovation

An increased aversion to risk may begin to impact upon innovation, the willingness to challenge, blaze new trails and share best practice. Risk aversion can in turn foster short-termism which may create a feeling of transience within relationships and negatively impact on the need to invest in developing them. Moves toward short-termism will create a set of attitudes and mindsets which impact on the behaviours and relationships.

Buying it cheap

A 'buy it cheap' approach to CAPEX solutions could result in a rise in OPEX and whole life costs. There is also a need to challenge making decisions not based on whole life costs, when there is a squeeze on capital expenditure.

How does the client need to behave/operate under the current economic environment?

There is a strong recognition that this is not just about how the client needs to behave but that it

is totally intertwined with their relationships with contactors. The recognition of the interdependence of relationships allowing the real liberation of joint value is central to operating within the current climate. Without it all interactions become sub-optimal and a lot of effort garners little return.

More should be made to address the issue of trust between the various parties and in particular to address the misconception in the contractors/supply side that clients know more about the future than they let on – both parties need to contribute as equally as possible - this is a situation we are in together and we will better survive through collaboration. For example enabling the development of flexibility, agility and resilience in the client organisation is important – but it is vital help is given to achieve the same on the contractors/supply side. Visibly trying to stay aligned can really help and promote a relationship alongside endeavouring to communicate even more during uncertain times - doing more to indentify, capture and communicate value to enable better collaboration

There is also the need to take a duty of care and anticipate the impact of what may be happening on all partners. Fighting as much as possible to keep and sustain the core critical capabilities within the supply chain will help everyone in the long term.

Client side frustrations

The relatively small supply base in some sectors can lead to ‘contractor arrogance.’ This can display itself in an attitude of ‘We know best, we know what you want, and we know your business better than you do.’ Contractor arrogance can also come from poorly constructed long term contracts

Clients feel that consultants taking a back seat and being too dependent on client happens too often. In many ways this is the other end of the spectrum from arrogance – but is no less damaging. Consultants who collaborate but also try to keep the client sweet and therefore provide no tension or challenge to the client were seen as being a problem.

Client side frustrations about designers range from feelings that some designers are unwilling or unable to collaborate with each other and with contractors to get the designs that work to the quality of consultant staff and the preponderance of contract staff.

Another concern is that Consultants have a conflict of interests and may sell us things that either we do not need or don’t work.

Overly aggressive tendering by contractors is also a common frustration. There is the perception that contractors will do anything to win the job but then go into “claims mode” once they have it. At the same time if clients do not take the lowest bid they fear legal action.

The inability to acquire quantifiable costs and benefits of collaboration is a constant frustration and something which must be addressed. It is often difficult to produce a specific example of the financial benefits delivered by collaborative working as no two schemes are precisely the same. There is no recognised or comprehensive database of unit rates for ‘traditional’ schemes to compare with ‘collaborative’ schemes.

The greatest potential for such comparisons exists in highways schemes and water industry schemes where, at a high level, like for like comparisons can be made for a kilometre of dual carriageway or a particular type of water treatment works by volume. Benefits such as more certainty of financial outcome and more timely delivery are more easily ascertained. It is extremely difficult to obtain compelling evidence of financial savings at a unit cost level.

What clients need to do

As a counterpoint to their frustrations, clients also recognise the things that they themselves need to make happen to promote effective and profitable collaboration.

The stimulation of innovation in contractors is a priority. Clients need to provide the correct environment and incentives to encourage this, as well as providing the appropriate scope and incentives to reduce both capital and revenue. Clearly this cannot be a unilateral process.

More needs to be done to understand the needs and expectations of contractors.

Clients also feel they need to provide environments of greater flexibility within which to collaborate with others. Collaboration should be beginning at the procurement phase rather than later in the relationship.

There is also the acknowledgement that better and more timely decision making was something that clients need to be working towards.

A clearer understanding both of clients' own and contractors' objectives would greatly improve the current situation. Again, this has to be multilateral in approach.

What clients expect from contractors/supply chain

Client expectations of the supply chain focus on the following key areas:

- Getting good cost estimates, coupled with appropriate solutions to clients' problems.
- More realism and openness
- Improved consistency of outcome

However, clients don't want a supply chain that does what it is told. They actually want contractors to take the responsibility to challenge them more and bring more innovation to them.

Clients also want the supply chain to complement them more, rather than (as they some-

times felt was the case) duplicate them.

There is also a desire to see more consistency in the people used by the supply chain.

Contractor frustrations

Contractors cite inconsistent client behaviour as one of their main frustrations. Obviously in any collaborative arrangement consistency of behaviour should be the target. There is also a concern that clients are not always open about things – e.g. business cases – and as a result mistrust can become an issue.

Frequent design changes are another frustration, alongside prolonged timescales.

Contractors are also frustrated with bidding processes. They feel that there is an obsession with competition with far too many bidders being invited into bidding processes. In their view procurement needs to evolved and smartened. Far too often clients are going to market too early, or with a disconnect between their ambitions and their procurement strategies. Such frustrations are also fuelled by inexperienced personnel and inaccurate budgeting

What contractors need to do

Contractors feel that they need to understand client needs and drivers to a much greater extent.

Relationships need to be strengthened at all levels – both within the supply chain and with

the client.

Contractors need to display more courage. They need to dare to challenge clients, themselves and the supply chain to be different. If they don't then nothing will change.

Consultant frustrations and needs

Consultant frustrations are as varied as those of clients and contractors. A key frustration is perceived penny pinching on rates where clients are not able to see value in what the consultants are doing but rather just see cost.

Consultants also feel that sometimes when they are asked to work in a more collaborative way their attempts are rebuffed. For example, when they do challenge they are accused of not being collaborative or told that 'this is the way it has always been done'.

Is collaboration really being driven all the way through the team? It often seems to consultants that headquarters type functions such as finance and legal are never involved and then cause problems throughout because of this.

There is an anxiety that they are not respected and too often seen as an 'unnecessary evil' that has a differing agenda from everyone else. Or they are seen as being too contractor friendly and not enough of an honest broker. Greater clarity about the role clients want them to play is needed.

Consultants feel that despite much of their frustrations being around client behaviour and organisations they have to be realistic about clients' ability to change their organisations and that there was unlikely to be a quick fix.

They would like to have the level of collaboration required by the client spelt out to them with greater clarity in order to prevent the rebuffs they feel they sometimes receive when they do collaborate. This is about setting rules and behaviours formally.

Honesty (e.g. do you just want lowest cost?), realism (e.g. lowest tenders), and respect were also behaviours they feel they need to see more of from clients.

What consultants think clients need

Consultants believe that if they are going to move to a value rather than cost based reward from clients then they need to better explain to and convince these same clients of the concept and benefit of it.

There is also a belief that an increased level of honesty about ability and capability from consultants combined with telling the client what they need to hear rather than what they want to hear will help foster greater trust and thence better and more effective collaboration. Consultants want to feel safe to talk to clients about their past successes **and** failures and pass on these vital experiences for the benefit of all partners.

2. Why collaborative working now?

Collaborative working provides a range of potential solutions for the problems currently being fostered by the wider working environment. As always it contains an element of risk (both individual and organisational) in order to be successful, but it is in these risks that real opportunities lie.

Collaborative working is especially appropriate when:

- there is a degree of uncertainty, such as when the scope or solution itself is not clear;
- tasks are difficult;
- risks are best jointly managed and mitigated;
- markets are changing;
- budgetary and financial pressures and constraints are increasing;
- there is a degree of flux and uncertainty in funding streams;
- complimentary skills and resources are required;
- there is a requirement for a shortening of the deployment of knowledge and learning cycle;
- there is not total clarity of critical interfaces and interdependencies;
- relationships with stakeholders and regulators are both vital and complex; and
- on longer term contracts and where there is longer term potential.

Given the current challenges faced the time is right for collaborative working to take centre stage.

3. The benefits of collaborative working

We believe collaborative working benefits us by:

- Enabling us to deliver more effectively and efficiently;
- helping us drive out the waste;
- creating an environment that encourages innovation;
- helping us to focus on the important numbers rather than the little ones;
- fostering a greater understanding of each others expectations;
- requiring us to look forward;
- making transparent and visible to all the transactional and indirect costs we would otherwise carry;
- allowing us to build capacity in skills, behaviours, knowledge, technology, and most importantly, people;
- getting us to define what the value proposition either should be or actually is;
- making us take a conscious decision to adopt it based on understanding the investment required to deliver the benefit;
- recognising it requires a continual focus on value creation and enhancement;
- having a focus for driving new behaviours and culture across our business;
- validating the effort and the competence of those focused on building long term business relationships;
- enabling the underachievers to collaborate raises the collective performance bar;
- rewarding those that have the persistence and resilience in endeavouring to make it work;
- involving us revisiting our business models;
- providing visibility to all of the wider stakeholder expectations, needs and requirements; and
- creating a need for year on year improvement targets to avoid complacency.

4. The key challenges facing organisations working collaboratively

- Having enough courageous clients, in the right position and with the right opportunities that are prepared to take a risk, have the faith and belief it will deliver, and invest in order to reap the long term benefits is a major challenge.
- Collecting good quality comparative data to keep the bean counters, auditors and sceptics on board is not always easy. Many savings that come from collaborative working are savings of waste achieved by getting it right first time while target costs can be higher than price bids – albeit not out-turn costs!
- Dealing with those organisations or people who are operating outside the collaborative environment can be challenging be they inside the client organisation or in the supply chain.
- Capturing whole life value/cost implications can be a struggle.
- Finding the right model for your business needs, now and in the future.
- Incentives – judging what size of carrot and stick to apply; being clear about the focus of the incentives and their impact on CAPEX/OPEX and whole life cost.
- Definitions of risk; how they enable or inhibit change in behaviour in client organisation.
- Having a procurement process which accurately reflects and validates claims of effective collaborative experience .
- Beginning to address some of the of the client, contractor and consultant frustrations listed in section 1, as well as some of the further issues covered in section 9.

5. The principles and practice of collaborative working

Collaboration is the act of working together in order to achieve joint goals in a more effective and profitable way than if these goals were pursued together in an uncollaborative way, or separately.

Collaborative working is:

- Value and Principle based
- A different mindset
- Fundamentally about trust, openness and transparency
- About understanding and living a set of agreed rules
- Being able to carry on mature dialogue
- About understanding and responding to the needs of all parties
- Ensuring that we have the right people with the right values
- **It is a hard business decision related to performance, efficiency and effectiveness**

Collaborative working is definitely not a let out clause. It is not an excuse for anyone or any party not to deliver; nor is it a panacea for all problems and issues. Neither is it something that can simply be applied via a contract. Neither is it a short term fix. It is not simply a process nor is it a contract, but it is a commitment. Above all it is not some hand holding soft and cosy relationship: it is hard business proposition.

So given that we have a definition of collabora-

tion what are the key pillars that support it and make it work?

Understanding what true collaborative working is

Getting a common understanding of what we mean by collaboration within a working arrangement is all too frequently neglected. Many people and organisations believe collaboration is an easy path – perhaps that it is just about being mates and having a beer with each other once in a while. It isn't. It is a difficult path to take that, while having huge potential benefits, it requires real commitment and change from the individuals and organisations involved. When you hear the phrase 'we are already collaborating', in the overwhelming number of cases what is really going is very superficial in nature, a premise built on sand.

Principles, values and mindset

Establishing a clear set of principles from the outset is key. Those principles should be used to resolve all issues and problems. Pure Alliances, for example has the principle of no disputes and unanimous decisions. Other examples include the 'Best for Project' principle. The values inform the behaviours that need to be adopted (see below). The principles and values should help to reshape the mindset to one of a single effective team working for each other to achieve the common goal and reach the common vision.

Understanding each other's needs – goals, objectives and drivers

It is essential to have clarity on, and really understand what success looks like for all. There needs to be a concentrated effort on creating a joint vision that can inspire and guide.

Understanding each other's needs starts with understanding not just what drives each partner but also why it drives them. Agreeing mutual objectives and then delivering on these promises helps to build the right relationships. This also leads to understanding where there are differences in goals, objectives and drivers and allows those differences to be managed while also pointing to where further opportunities may be identified and realised.

Focus and purpose

There needs to be a clear definition of roles and also a clear set of rules. Partners can then work together to empower people to make decisions for their organisations within this wider framework. People can then begin to focus their energy on positive outperformance and delivering efficiencies so that the cake can be grown for everyone. The joint management of business as well as project/programme risks can also then begin so that we have a better chance of predictability and reliability of outcome. Achieving all this will enhance the performance and reputation of everyone involved

Behaviours

The right behaviours are of vital importance to

successful collaboration. Having behaviours that indicate a real mutual respect for each other's agenda and about how you react when things go wrong is crucial. Having people with the right mentality and behaviours to enable great communication, and open dialogue based on effective and sustained engagement is key.

Doing what you say you will do increases trust. Through being honest and up front, the transparency of the implications and consequences of decisions and actions increases. No surprises has to be the aim.

The ability to be agile and able to react quickly to changing conditions is essential. The joint development of complementary skill sets will aid this.

Leadership

Leadership has to be both joint and joined up. It has to engage and get everyone behind the vision. It has to be forward looking and supportive. It needs to recognise that it is, in many cases, asking the team to work differently and that that can be frightening and challenging. It has to recognise and encourage that change throughout. Leadership is about setting an example through behaviour - not just words. Through the leadership asking the right questions and focusing on doing the right things collaborative behaviours can be spread.

The leadership also needs to be appropriately challenging to keep both client and contractor

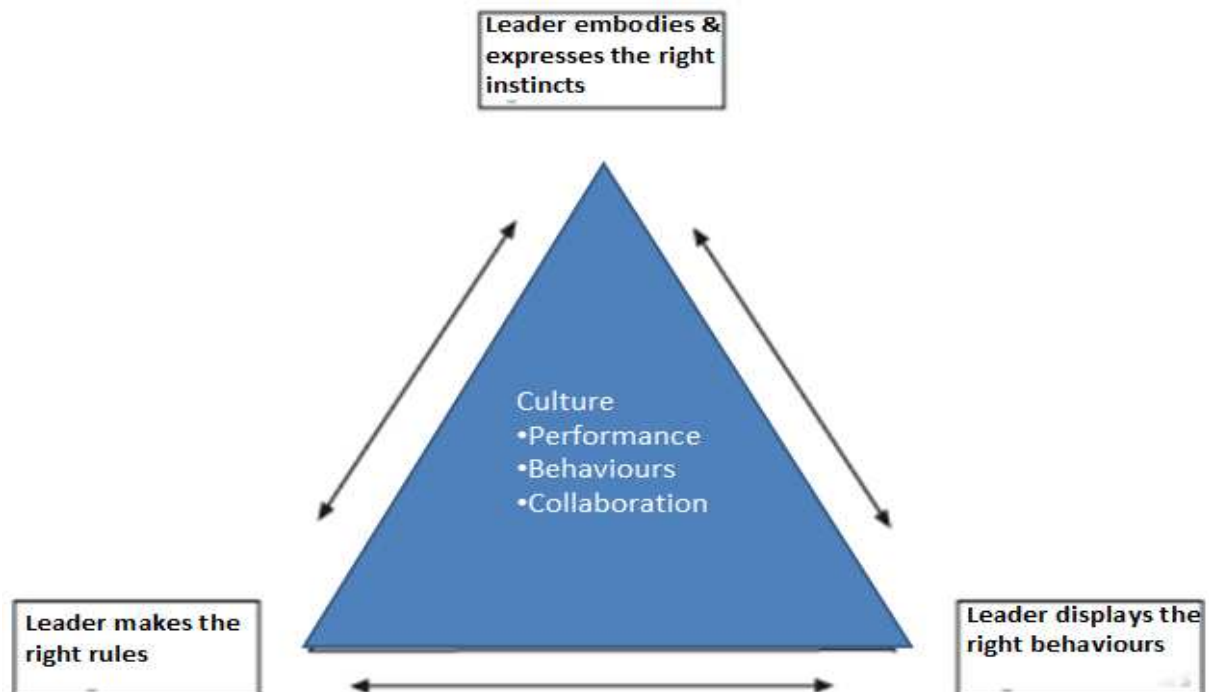
honest.

A leader's job is to building resilience, individual attributes and behaviours to consistently work in a collaborative approach.

“A lack of conviction, a desire to save money combined with poor leadership and communication is driving the industry back towards a culture it was told to forget over 13 years ago”. No Turning Back: the case for a renewed emphasis on Best Value and Collaborative Working in Public Sector Procurement. Constructing Excellence Wales

Developing demonstrable collaborative leadership at ALL the appropriate levels is key to achieving real collaboration.

Leaders must not only understand this but also put it into practice. They must be conscious role models and be able to challenge themselves and each other honestly as challenging individuals at board level regarding their own behaviours and contribution to the collaborative project can be difficult for subordinates. Displaying and engendering the right behaviours drives performance within a collaborative environment (see figure below).



Changing mindset and behaviours at the top management to demonstrate true engagement and commitment to organisational change in their own business is absolutely vital. A continuity of strategic approach, commitment and drive to see collaborative working through to a logical conclusion without chopping and changing is required. This has to be the key responsibility of a leader within a collaborative environment. Leaders need to be constantly selling collaboration to the people that are going to work within it.

The effort and investment to embed collaboration properly needs to be made so that it is sustainable even if the leader moves on.

Alignment

Alignment is required both internally and externally amongst all partners. The alignment of values and also potential conflicting pressures both of and on cost and profit must be properly understood.

Measuring the degree of alignment between the values of different organisations will help to understand what partners need to be doing to work together more effectively. Understanding that there needs to be a level of fit, but also recognising the value that difference may deliver will aid any collaborative arrangement. Creating an understandable and joint view of what actually constitutes value is a great starting point.

It is important to change the perception that un-

derstanding each others business objectives is a one-way process. It has to be about mutual understanding. Alignment can never preclude challenge.

Achieving true alignment and commitment within single organisations let alone between them is an area most clients and contractors struggle with. Internal behaviours between operating businesses, functions, geographical locations must be focussed upon as well.

Far too many organisations are happy to leave alignment to happenstance or to think it will sort itself out. It needs to be consciously and jointly planned for.

Learning and improvement

Without learning from experience and effectively deploying that learning we cannot improve. Like all the other principles mentioned here this is not something that will happen by accident – it needs consciously working on by all parties.

Preparation

Collaboration is not about being soft and loose or a substitute for lack of good preparation by the client. Collaboration needs to be properly prepared for. Diving into a collaborative working arrangement without this preparation can put extremes stress on both schemes and relationships. Deploying a collaborative approach pre-contract, during the tender process and through the contract negotiation is a great way to begin. Starting a collaborative approach here

6. What are the costs of collaboration?

If the costs of collaboration are not exceeded by the savings achieved, then it is not working. There may be additional fees to pay for facilitators and there may be additional costs for workshops and additional meetings between team members. These costs are easily identified and can be set against savings that are made. If duplication of resource is avoided and improved efficiency from teamwork is achieved, the costs should be easily extinguished by identifiable savings.

Where do savings come from?

At project level, savings against a realistically set target cost should be obtained through the avoidance or effective management of risk; efficiencies in terms of buying gains or innovative procurement; and gains made from improved production rates.

Organisationally, savings can be achieved by less duplication of roles, working more efficiently and, when programmes of work are being procured collaboratively, savings in procurement costs.

Clients also need to give thought to obtaining the right size supply chain to match workload. Less work may mean the need for less alliances and a more streamlined supply chain.

7. The client role in collaboration

Creating a common client skill set

There is a recognised need to 'professionalise' being a client – to make it more of an active role with a set of specific active skills and behaviours rather than just something that we are by default. Client industry collaboration and the sharing of best practice to get common standards in this is something to aim for. There needs to be a better understanding of the changing fundamentals of the client's role and how to better align with the roles of the various people/groups delivering the work.

The key issue

The question is do clients have the core intelligence, skills and capacity to manage effectively and do they know what best practice looks like?

A complicated role

There is no single client role in a collaborative arrangement. Roles can include Programme or Project manager, Supply chain manager, Investment Manager and more. It depends on your specific business model where you draw the line. At a minimum the client defines the required output/outcomes, parameters and budget. Other actions are generally in support of governance issues and brand value and its protection.

The client as project manager

There are an increasing number of client project managers. This is in part due to having to operate in an online/operational environment, with increased interfaces and potential investment

decision makers/influencers.

Client project managers increasingly have to try and align the confusing and sometimes conflicting agendas of stakeholders within the organisation. Behaviours, relationships and to some in the supply chain the perception of people dabbling can create confusion on who represents the client – is it operator/user, asset management or finance/investor? This adds waste and cost.

The client project manager should be central to aligning internal requirements, ensuring clarity and management of the scope. It is important that the client is fully cognisant of its real organisational drivers e.g. Quality, Cost certainty, Value for Money, Time. This will all have a potentially huge impact on the role. Trust is a big issue in getting this done effectively as people often change their minds!

If the scope is clear, the situation should be simple – the required outcome is a client function; but how that outcome is delivered is a contractor/supply side issue. If the scope is not clear the client project manager should have a plan to deliver greater clarity of required outcome. Ultimately, in defining the client project manager role you need to make an assessment of your organisation's capacity to deliver and maturity of the relationship with the supply side. Sometimes if the skills and capacity are not there then the tier one supplier can act as an integrator – but this requires real trust between parties.

Work on building trusting relationships with investors should be given a high priority in order to build confidence in the outcome and gain consistent clarity on requirements.

The wider role

Some elements of the client roles are less specific but just as important. Vital client roles include:

- Providing leadership
- Setting expectations
- Setting culture
- Setting behaviours
- Setting costs
- Enabling co-location
- Showing belief in the collaborative model
- Talking about behaviours - keeping them live
- Being prepared to change the commercial model if it generates the wrong behaviours
- Keeping it simple
- Defining success and critical success factors
- Rewarding and recognising project managers for delivering the best environment
- Managing stakeholders
- Looking at how you manage risk
- Thinking about how you motivate people
- Taking a strategic view – keeping away from the detail
- Defining what is needed, not what is wanted.

8. Creating intelligent clients and contractors

It is our belief that there is a sea change underway in Client/Contractor relationships. Both clients and contractors are increasingly looking for 'intelligent' partners who are able to understand and meet their needs to a greater extent than more run of the mill organisations.

The most effective form of collaboration will always be between these intelligent partners – both clients and contractors. What needs to happen to create them? Much of the following comes in the form of feedback both to and from clients and contractors to each other.

Creating intelligent clients

Most clients really need to take time to understand their own needs across their business. They need to look inward first and ask themselves how and what do they need to adapt. Understanding the interfaces and how they best operate and where to put in the effort and investment is always a good starting point.

Clients should be encouraging other risk willing clients to get out of their comfort zone and try something.

Clients should be always looking to simplify the way business is done and continually challenge themselves.

By giving as much forward visibility as possible clients can better enable others to make investment and development decisions.

Clients should also show leadership and start the relationship off during the procurement phase, and align the procurement strategy and behaviours with the business model.

Everybody doesn't need to know or do everything, however they need to be informed, competent, analytical and challenging – about the right things! As either a client or a contractor it is tremendously important to have people around you that can see the bigger strategic perspective and crucially have the power to ensure others align with it.

A contractor/supply side perspective

As defined by contractors, an intelligent client would:

- Tell the contractor what they need.
- Understand their own business particularly stakeholders, the costs/risks/benefits to business due to project, being prepared to address internal issues/blockers for benefit of project.
- Be clear about what they want – outcomes; key priorities; and how it will be measured.
- Give greater clarity of direction – what is wanted from the project, what is wanted from the supply chain as well as timely decisions.
- Explain their business case – explain what success is for them.
- Be far more holistic about collaboration.
- Understand where value is created.

If an intelligent client cannot answer some of the above then they shouldn't come to market.

In addition they should also:

- Be interested in mutual understanding—seek to understand the supply chain and allow the supply chain to understand the client to improve the management of risk, match organisations better at interfaces, improve incentivisation and business models.
- Give “Strong direction” - Provide rules within which we work/operate, so we know we are heading in the same direction.
- Be honest – when you engage us tell us everything, including what you don't know.
- we want to know about performance, workload, the chances of the project going ahead and feedback in general.
- Understand the implications of their decisions.
- Not use bidding to validate costs.
- Ensure there is a swift and clear decision making process.
- Not be overly specify.
- Demonstrate they understand risk & value/cost and benefit.
- Have a willingness to challenge and to accept challenge.
- Spend time investing in developing good long term relationship with key suppliers – all the way up the hierarchy.
- When there is a problem, to know how to leverage change.
- Accept the value of innovation – understand the importance to their business.

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- Understand the importance of terms and conditions/cash flow etc. to contractors and the waste it can cause as well as the impact it can have on relationships.
 - Understand other business drivers.
 - Use profit margin as incentive.
 - Know where to get good advice and understand the value it can bring.

Challenges for intelligent clients

- Building trust which is genuine and sustainable
- The Principles espoused are good – deployment can be improved!
- Openly sharing client strategies and option, and seeking ideas before formally going out to market.
- Understanding that collaboration is both an individual and an organisational competence.
- Learning – capture, sharing and implementation of improvements.
- Addressing the duplication, man marking and overlaps throughout the chain.

Creating an intelligent contractor/supply side – a client perspective

- Be clear about the value you bring and what is required to realise the benefits.
- Communicate up front with the client.
- Be ready to change your own business model to align with the client.
- Based on that there is a need to invest in changing skills sets and behaviours and roll these out across the workforce. Be clear about using the right people with the right attitudes for specific roles. Recruit and develop staff, crucially this means not only technical skills but also values and behaviours.
- We want to demonstrate that we are trying to be intelligent clients.
- We are looking for openness from supply chain for them to really challenge us - not just the usual stuff like more work, continuity etc. We want to know how we can take our relationship into new (and maybe risky) beneficial areas.
- What can the client side do for you? What are your top three wishes?
- What can you do for the client side?
- How do we collectively retain/maintain and demonstrate further value
- What can you do to help us manage our investors/stakeholders, and what can we do to help you manage your stakeholders/shareholders/corporate governance constraints?
- What are you doing to reconsider your role and business model – what skills and capabilities are you developing?

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- What ideas do you have which will help us?
 - How are they working effectively with other clients – can they share the best practice?
 - What forms of procurement or relationships are forcing them to either give the most or least value?

Issues for both clients and contractors

- Understand that you need to work hard on both yourself and your organisation, but that the first step is with you.
- Allow the best person for job to lead – be that client or contractor.
- Be open about what you think of each other.
- Strong leadership that encourages the right behaviour, recognise and reward collaborative behaviours.
- Learn, adapt and adopt from past experiences – and make sure the learning is implemented.
- Build in the best bits from all organisations involved; don't impose your own culture.
- Taking appropriate time and measures to understand competencies of all parties and create the best fit is key.
- Develop personal relationships, be open in dealings and get to really understand each other better.
- Minimise audit and process options which can import transactional waste and fear into the interactions.
- Identify KPI's which drive the right behaviour and best performance – don't start an industry.
- Remove the perception and mentality that we – our business, our sector, our relationship - are in someway special or different.

9. Further issues

There are a variety of concerns and issues which still need to be considered. These include:

Leadership and change

Where does the business and cross sector leadership emerge from to ensure the pace and direction of change is appropriate? Any change needs to be ahead of or in-line with the changes in the economic cycle. That the strategy and approach to change recognises and addresses the size and nature of the forces for perpetuating the current structures and ways of working is vital.

As a result leaders in one business may require and appreciate support from others, be they from the same sector or dealing with similar issues. There is no doubt a requirement for maintaining focus, and concerted action to back up intentions is needed. Such actions must deliver the right environments which have elements that can be identified, isolated and captured, then replicated.

“the need for change is as strong today as it was eleven years ago”. Never Waste a Good Crisis. Constructing Excellence

Client-supplier relationships

There are still a wide range of questions and issues surrounding the client-supplier relationship and how to make it more effective. Providing a consistent client role and perspective so that deliverers can get a handle on what's ex-

pected from them was seen as vital.

Making the relationship closer and increasing visibility and transparency between partners can enable clients to help in raising the capability of the supply chain. At the same time it can also enable clients to become more demanding about what they want. Clients currently perceive they have little visibility of what happens further down the supply chain about where the relationships and value are being delivered – there is a requirement to break down the barriers between tier 1 and the supply chain in tiers 2 and 3 to grasp opportunities so that better value can be achieved. Clients want to help with this.

One way might be by creating a critical mass of clients that will support the supply chain in forming its views on the most appropriate business models to proceed with. Business models that in part will have to address how any reduction in spending does not place undue limitations on investing in a new way of working. Change and improvement comes at a price, but that cost if well targeted can release value.

Selecting partners with the right cultural capabilities is of course the point from which all of this flows. This also necessitates having procurement capabilities which can achieve success in matching the best fit between client needs and supply chain competence.

This includes establishment of core high performance teams which when used on repeat projects will counteract the overall transient nature of relationships.

Lack of fit for purpose business models

Rapidly changing circumstances have left many business models unfit for their environments. Exchanging business plans with the supply chain is also an important part of better understanding what their capabilities are.

Target cost/whole life cost linkage

The link between whole life cost and capital cost is not an issue peculiar to target cost contracts. Whether the capital works are procured using a fixed price, lump sum contract or a target cost, achieving a link between whole life cost and capital cost presents the same difficulties that requires the constructor to have a long term financial interest in the schemes as demonstrated in DBFO schemes. Without a long term commercial interest, it is difficult to incentivise those responsible for delivering capital works to have a meaningful interest in whole life cost.

Some target costs and rewards are already linked into longer term results (BAA has a reward mechanism), but there was a recognition that while client budgets were ring fenced between CAPEX and OPEX, the challenge remained and contractors would often find themselves under pressure to save CAPEX even though the life costs would be increased by considerably more than the CAPEX saving.

Bidding

Concerns about provision of the key team can be mitigated by ensuring award is conditional on provision of the key team. Any tender interviews should be with the intended project team and not with the bid team.

Testing the culture/behaviour of the proposed project team is vital as is ensuring the method of tender assessment penalises aggressive tendering. If price is the only (or main) differentiator, then there is a high risk of aggressive tendering, particularly with an economic downturn. There have been examples of tender assessment methods where excessively low tenders attract a lower financial mark.

Trust

At a time of huge economic uncertainty, and where there has been an overall reduction in individual trust in organisations [Edelman Trust-barometer], it requires a huge concerted effort to increase the level of trust along the buyer supply chain. In part that can be improved by jointly understanding and working on what increases and erodes value. The current perception is that value erosion happens over there – be that in client organisations, contractor organisations or in tiers 2 and 3 of the extended supply chain. Limited thought is given to where it happens within my own organisation, and perhaps interestingly what value is eroded at the interfaces between organisations.

Value

A focus on how value is delivered may require some to face up to some uncomfortable truths and dispel some of the affirming myths and legends. It certainly will need leaders in all organisations to reappraise their own views on governance, compliance and measures of success.

Collaboration

Some leaders in both client and contracting organisations have “got the message” around collaboration, others have not. Additionally there is a perception by some leaders that there is “permafrost” through their organisation that will be an ultimate block in delivering the big prize. Vertical and horizontal fragmentation happens within as well as between organisations.

Across the civil engineering sector there is a view that despite Latham, Egan, Wolstenholme et al, step change will not happen with lone clients flying the flag in isolation of their peers. Likewise, the major contracting organisations will need to drive the same step change through their own downstream supply chain. This requires enough critical mass and momentum to force a permanent shift in the behaviour and attitudes inherent in conventional capital delivery.

The challenge remains then to better understand within an interdependent system what are the best ingredients to cement us together in

achieving mutual success. These ingredients include:

- leadership behaviours
- contract form and function
- relationships based on mutual understanding and respect
- collaborative attitude and behaviour
- business models
- value creation

Collaborative working round table

The Collaborative Working Round Table will continue to provide an environment for thought leaders and influential senior executives from major infrastructure and other client organisations and their respective supply chains to discuss and debate common issues and share best practice. Through discussion it will explore the formation and deployment of strategies; generate alternatives; identify best practice; understand how better outcomes can be achieved; find support and access to a rich library of leadership stories and ideas; maximising the return on working collaboratively.

The principles on which it will operate are: Lean and simple – not bureaucratic. It will aim to be flexible and inclusive, fostering multilateral rather than bilateral relationships. Prepared to explore a range of models, and constantly challenging our thinking about current approaches for delivering success. Recognising sacred cows and old ways may need to be fronted up to.

The opportunity: OECD estimate that in the next 20 years annually 3.5% of world GDP will be spent on infrastructure capital projects – some \$71 trillion.

“a business as usual approach by the public sector will waste an important opportunity to make infrastructure safer, more efficient and more effective”. Partnering for Value. Deloitte

10. What is required?

- To seize the initiative and develop a critical mass of clients and supply chain who are prepared to change the sector.
- To have a road map for the development of “Intelligent Clients” that are integrated, aligned and consistently exhibit the right behaviours across inward and outward facing functions
 - How do you do that?
 - The investment required – cost benefit case.
 - Leadership.
- To be clear about the strategy and plan for ensuring effective sustainable relationships that enable the development of an intelligent supply side, that is also integrated, aligned and consistently exhibit the right behaviours across inward and outward facing functions
 - How do you do that?
 - The investment required – cost benefit case.
 - Leadership.
- To foster collaboration across the client group to gather and share ideas and examples of how to implement the required change in delivery, and to better influence sustainable change in their own organisation.
- To identify best practice, learning and where things have not worked.
- To extend reach and influence down the supply chain.
- To understand business models that work.
- To recognise that collaboration is one of the core competencies/enablers of success and to identify the value and benefits as well as the why, when, how and whom to make it deliver on its investment.
- To systematically address current client/supply side frustrations, urban myths and impediments that hinder progress in addressing the implementation of effective capital delivery.
- To constantly use feedback and discussion to challenge our own thinking and ineffective models of delivery.

11. 2010 Attendees

<u>First Name</u>	<u>Last Name</u>	<u>Position</u>	<u>Company</u>
Mark	Adams	Project Director	RCT
Bernard	Amos	Director	Leornian
Russell	Bennett	Head of New Roads Unit, Transport & Housing	WAG
Alan	Brown	Director	Turner & Townsend
Charles	Burch	Director	JCPii
Fergus	Campbell	Senior Programme Manager	National Grid
Alasdair	Coates	MD Transportation	Halcrow
Greg	Craig	MD	Skanska Civils
Richard	Craig	Director	Atkins Highways
Diarmid	de Burgh-Milne	Director	JCP
Simon	Diggle	Supply Chain Manager	Highways Agency
Michael	Dyke	Construction Director	National Grid
Tim	Eaton	Commercial Director	Highways Agency
Dale	Evans	Alliance Ops Director	Anglian Water
Steve	Fox	Chief Executive Officer	BAM Nuttall
Adam	Green	MD Infrastructure	Carillion
Bob	Halsey	Contracts Director	Central Networks, EON
John	Harvey	MD Civils	WSP
Mike	Hawe	MD	NES
Alan	Hayes	Business Director	Amey
Andrew	Haynes	Head of Commercial	Crossrail/Network Rail
Sean	Horkan	Master Planning and Capacity Director	BAA
Christopher	Howes	Head of Corporate Strategy	Environment Agency
Darren	James	MD Infrastructure	Costain
Cliff	Jones	Senior Policy & Performance Manager	Dept of Health
Nirmal	Kotecha	Major Projects Director	Highways Agency
Martin	Land	Power Sector Director	Costain
Andrew	Lycett	CEO	RCT Homes
Andy	Milner	MD Consulting	Amey

11. 2010 Attendees

<u>First Name</u>	<u>Last Name</u>	<u>Position</u>	<u>Company</u>
Lucy	Mitchell	Contracts Manager	Lockheed Martin
Steve	Morgan	Capital Programmes Director	BAA
Andy	Mountain	Director Southern	Franklin & Andrews
Simon	Murray	Chairman	Osborne
Jag	Paddam	MD Infrastructure	Morgan EST
Matt	Palmer	Reengineering Director	BAA
Ian	Pellow	CEO	Halkin Capital
David	Poole	Procurement Director	Highways Agency
James	Preston-Hood	Health & Safety Director	Grosvenor
Alan	Price	Director of Projects	London Underground
Murray	Rowden	Director	T&T
Alex	Smale	UK Director	Mabey Bridge
Ray	Stephenson	P21 Programme Manager	Dept of Health
Maxine	Symington	Director	Wragge
Steve	Tarr	MD	Balfour Beatty Civils
Neil	Taylor	Partner	Chandler KBS
Simon	Vaughan	Director	JCP
Peter	Walkden	Commercial Director	Magnox Electric
John	White	Director of Strategic Programmes	NIRS
Carol	Williams	Commercial Director	Lockheed Martin
William	Wilson	Business Development Director	Signalling Solutions
Steve	Withers	MD Interurban	Amey
Lee	Woodcock	Director	Atkins Technology

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