

Long Term Partnering - Achieving Continuous Improvement and Value

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LONG-TERM PARTNERING

Achieving continuous improvement and value

A handbook

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FOREWORD

Improving construction is a mission to which I have long been dedicated. In 1994, in *Constructing the Team*, I concluded that the industry's traditional methods of procurement and contract management and its adversarial culture caused inefficiency and ineffectiveness. Addressing these issues had the potential for saving 30% over five years.

Since then, there has been enormous progress in both understanding and applying partnering. However, we must always remember that partnering, while it delivers real and measurable benefits, is never easy. That is something well understood in engineering construction which pioneered the development of partnering and alliancing. Sadly, it is a lesson that needs continual repetition and reinforcement, and some clients refuse to accept it. Reverse on-line auctions of sub-contracts may drive down prices in the short-term, but they will do nothing to improve long-term industry performance and they are totally alien to an open book approach to alliancing and supply chain integration.

We must continue to re-emphasise the message: partnering and alliancing may be difficult, but they work, and they deliver improvements. Going back to the laws of the jungle will get us nowhere.

This handbook makes an important contribution to the cause of effective and mutually beneficial partnering arrangements. It continues ECI's tradition of providing practical and pointed guidance for all of those involved in the construction supply chain. I commend it to all who must apply partnering in the often challenging circumstances of the real world.

Sir Michael Latham,
President
European Construction Institute

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THE EUROPEAN CONSTRUCTION INSTITUTE

The European Construction Institute (ECI) was founded in 1990 to 'build and champion a culture motivated to raising the performance standards of the construction industry across Europe'. It is financed primarily by its members, who comprise around 70 of the world's most innovative client, contractor and consulting organisations with bases in Europe.

ECI maintains an extensive programme to generate and communicate good practice on behalf of its members and the wider industry. To learn more about the ECI, its members and work, contact the team at the address below or visit the website at <http://www.eci-online.org>

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ACKNOWLEDGEMENTS

This handbook is the product of the European Construction Institute's long term partnering task force.

The project was partially funded by the UK Department of Trade and Industry (DTI) Partners in Innovation (PII) programme, whose support is acknowledged with appreciation.

The handbook was compiled by Brierley Stubbs who became chair of the task force following the retirement of Manfred Schlösser of Strabag. Manfred's contribution is acknowledged with gratitude. Ivor Williams, formerly ECI's Executive Director, also retired during the course of the project and his contribution is likewise recognised with thanks.

The Task Force was launched at an opening workshop in June 2001. It created three sub-groups to develop the research and special thanks are extended to the sub-group chairs for their dedication to the project:

Andrew Price	Loughborough University, Department of Civil and Building Engineering	Industry survey questionnaire
Katja Flaig	WS Atkins Research and Innovations Manager	Industry survey, response data research and analysis
John Sidney	BNFL Sellafield, Supplier Development Manager	Partnering implementation model
Stephen Weatherley	ECI ACTIVE Operations Director	Long term partnering workshop for SMEs (small and medium sized enterprises)

A detailed statistical analysis of the industry survey responses was prepared by Robert Duire Agen, a postgraduate student in the Department of Civil and Building Engineering at Loughborough University. A copy of his full report is available from Professor Andrew Price at Loughborough.

Case study material has been included from the following companies and their partners.

Company	Sector
BNFL	Nuclear reprocessing
COPA	Water (Specialist Supplier)
Foster Wheeler	EPM Contractor
Severn Trent Water	Water
Shell UK	Oils and Chemicals
United Utilities	Water

The task force is also grateful for offers of case study material and participation in the industry survey questionnaire on the part of the following companies:

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Alstec
BP Chemicals
Capital Value and Risk
Currie and Brown
Defence Estates
DSM Techno Partners
Europrojex
Foster Wheeler Energy
Franklin and Andrews
Goodtech Vanpipe
HM Treasury
Industrial Technology Systems
Ineos Chlor
M W Kellogg
Projen
Projen Engineering Group
Teeside Automation Services
The British Museum
W S Atkins

The European Construction Institute wishes to thank all of those who have been involved, in particular the members of the task force and sub-groups, the industry survey respondents, case study contributors, workshop speakers and meeting hosts and their administration teams. The Task Force also thank Terry Everett of the ECI staff for her assistance throughout.

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Brierley Stubbs	B2B Strategy Solutions	
Stephen Weatherley	ECI	
Ivor Williams	ECI	(until August 2002)

In addition, some one hundred individuals from all sectors of the industry and from seven European countries and the United States made significant contributions to the work of the task force. They are too numerous to list here, but the ECI would like to thank them all. Without their practical and informed input, production of this handbook would not have been possible.

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EXECUTIVE SUMMARY

Long term partnering is:

The development of sustainable relationships between two or more organisations, to work in cooperation for their mutual benefit in the requisition and delivery of works, goods and/or services over a specified period to achieve continuous performance improvement.

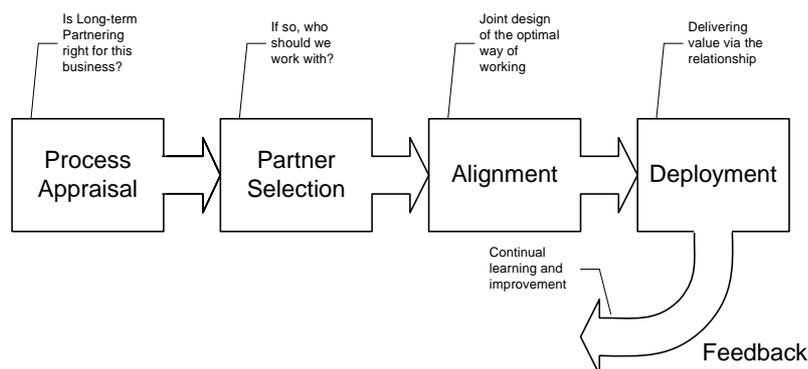
It offers considerable benefits to long term relationships, to clients, to contractors and other suppliers and to the industry at large. Risks present themselves throughout the long term partnering process, and their successful management is a key challenge to all parties.

This report does not set out to advocate the use of partnering in all long term supply deals. Where discrete supply packages, capable of accurate scope definition in terms of specification, quantum, delivery and price are to be purchased, traditional procurement methods are adequate.

However, traditional arrangements for delivering long-term contracts do not deliver best value. They fail to facilitate continuous improvement in both client and contractor performance and unnecessarily damage the returns that contractors can hope to achieve.

The impediments to improved performance could be removed or overcome by working together to achieve a greater understanding and management of the influencing factors. Long term partnering contracts are, in many cases, the way forward.

Steps to successful long term partnering are described using the structure of a process model:



During the last few years of relative economic upturn, the use of long term partnering arrangements has grown. despite this, attention has tended to focus on those arrangements that have proved successful. The failures are rarely featured and even those which purport to be successes often have problems which are not exposed due to their commercial sensitivity. There is therefore a continuing need for an

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independent risk analysis designed to give guidance to those parties either setting up long term partnering arrangements or requiring remedial treatment of existing contracts.

Twenty six principal risks have been identified in the context of long term partnering.

The handbook works progressively through the model, giving, for each process step:

- A description of what the step covers
- An account of risk-generating issues
- An analysis of the principal risks associated with the phase in question
- A readiness review presented as a check-list, cross-referenced to a series of long term partnering best practice techniques

A range of best practice techniques can be adopted to underpin long term partnering. These are described.

Appendices 1 and 2 cover the industry survey, which remains the only significant investigation into the incidence and nature of long-term partnering practice in Europe.

Appendix 3 is an anonymised case study of traditional procurement methods for long-term supplies.

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1. INTRODUCTION

Background to the task force

Partnering in the UK construction industry began to appear in the late 1980s during a period of economic buoyancy, when the buyers of construction products and services were investing heavily in capital assets and maintenance of facilities.

Whilst successful in delivering major projects within the controlled environment of a project scope and organisation, partnering was less successful within the framework of long term contracts where client and contractor business management regimes had conflicting business objectives. Additionally, the required culture of openness, trust and co-operation was difficult to cultivate where a greater cast of players was involved.

Deregulation and privatisation within the public sector, including transport infrastructure and utilities, created a need for a more commercial approach to procurement. Partnering elements, such as performance benchmarking and incentives and mutual business objectives, began to appear in framework/extended arm agreements.

ECI's partnering in Europe task force, which reported in 2000, identified three types of partnering:

- Project specific
- Strategic alliances (for the execution of a series of projects)
- Long term

The long term partnering task force was established in 2001 to build on the earlier work by developing practical guidance for the development and management of long term partnering relationships.

There has been increasing application of long term partnering principles in construction. In engineering construction this has covered minor projects, maintenance and shutdowns; and in public sector building and infrastructure work, particularly in the UK, in connection with Private Finance Initiative (PFI) projects, 'packaged' building and infrastructure projects and maintenance activities. Such principles enable the application of best practice in the management of design and construction. They encourage continuous improvement, value engineering, safety, health and environment (SHE) integration and the provision of operations and maintenance services with significantly reduced client interface and administration.

Multi-discipline contracts have also secured a role in various sectors of the construction industry where disciplines fall under the management of a single contractor. These offer a greater flexibility of labour resource and optimisation of integrated planning and scheduling, with other partner contractors involved where appropriate.

These long term arrangements are typically applied to continuing requirements which cannot be scoped or specified at the start of the contract. Valuation and payment mechanisms are normally based upon rates and prices procured up-front under

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competition but may also incorporate incentive arrangements to reward delivery of improved performance and cost savings.

Such procurement routes are widely used in the UK, allowing clients to concentrate on core business issues. However, their application in other European countries is less extensive.

This handbook identifies the key challenges to successful long term partnering arrangements and steps which can be taken to mitigate them during implementation, or to recover affected contracts. Successful management of these challenges to the long term partnership needs a recommended model which describes the process necessary for successful implementation and maintenance of the relationship over its full life cycle.

The material contained in this handbook is drawn from the experience of task force members, from the wider experience of the ECI and former ACTIVE membership, from an extensive industry survey and from case study material drawing on a broad range of experience.

The importance of managing risk

Partnering has achieved notable success in delivering major projects where scope is closely defined and a comprehensive project organisation is in place. However, it has been less successful when applied to long term contracts where client and contractor business management regimes have conflicting business objectives. Additionally, the required culture of openness, trust and co-operation has often been difficult to cultivate where a greater cast of players was involved.

The task force has, therefore, paid particular attention to identifying specific areas of potential failure and their mitigation. This is built on the output of an ECI/ACTIVE workshop held in October 2000 which considered the range of risks which can undermine or challenge long term partnering arrangements. This list was further developed and developed and tested in the industry survey. A total of 26 definitive risks were identified and these form a key part of what follows.

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2. THE BENEFITS OF LONG TERM PARTNERING

2.1. Definition of long term partnering

LONG TERM PARTNERING IS:

The development of sustainable relationships between two or more organisations, to work in cooperation for their mutual benefit in the requisition and delivery of works, goods and/or services over a specified period to achieve continuous performance improvement.

2.2. Benefits to be achieved through long term partnering

Contract-specific benefits

Benefit	Improvement
Cost reduction	Lower initial unit rates Increasing productivity Alternative output solutions
Profitability	Better returns for the contractor Lower client investment cost
Schedule	Shorter workpackage durations Greater coordination with other disciplines
Quality	Optimised designed solutions, installation and commissioning, leading to increased operational reliability of total asset and product output
Service	Contractor response times and contribution to “solution search” is maximised
Safety	Better planning and attention to constructability and access enables a safer environment with maximum working hours and minimum safety incidents
Reduced risk (to contract works)	Joint risk assessment Allocation to the best manager of a particular risk

Client benefits

- **Organisational**
 - Reduced need for in-house multi-functional capability. The client simply needs to maintain and enforce company standards.

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- Rationalisation of procedures with an emphasis on monitoring rather than controls, enabling a simpler organisational structure and reduced resource requirement.
- **Cultural**
 - An emphasis on team working and problem solving with a greater commitment to performance improvement from the most senior level to workforce operatives.
 - Continuity of working relationships, shared learning and development.
- **Human**

A more motivated and content human resource with enhanced pride in personal, team and overall company performance.
- **Communication**

Emphasis on progress and performance reporting with information cascaded from management summary level to detailed back-up for the contract management and stakeholder teams, ensuring that decisions are made on the best available information.
- **Production**

Impact upon production operations is minimised.

Contractor benefits

- **Stability (labour)**

Continuity of employment with a greater feeling of identity for operatives reduces attrition and facilitates investment in training and development and retention of specific experience.
- **Financial turnover**

Workload continuity enhances opportunities for profitable revenue and minimises uncertainty of future business.
- **Investment**

Continuity encourages investment in plant and equipment and in project facilities (eg visual imaging of new site accommodation to remove the “shanty town” image – partnering logos/corporate colours), investment in IT solutions (CAD design, virtual/3D object orientation, planning and resourcing tools, etc).
- **Company profile**

Successful and innovative partnering arrangements receive industry and media coverage leading to enhanced corporate and individual reputation and company profile.

General benefits

- **Industry improvement**

Best practice is captured and communicated widely, thus enhancing overall industry performance.

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- **Data collection**

Collection of performance data is an essential function of project and long term partnering and ensures the process of continuous improvement for both client and contractor. Partner specific data can be anonymously collected by genre eg

- market/industry sector
- supply category
- contract scope/value
- region

and used for industry benchmarking.

3. LIMITATIONS OF TRADITIONAL APPROACHES TO LONG-TERM PROCUREMENT

This section examines traditional ways of procuring long-term contracts and highlights their limitations.

3.1. Characteristics of traditional long term contracts

3.1.1. The supply management process

Every company has a requirement for externally-sourced supplies, ranging from basic administrative resources to raw materials, energy and manufactured components. In construction, supplies fall into two main groups:

1. Project specific, one-off or occasional purchases
2. Ongoing or continuous supplies

In larger companies, needs are identified within functional groups or departments, and purchasing authority may be decentralised to these groups who must apply published corporate policies and procedures.

Supplies can be grouped under generic category headings to suit the structure of the individual business, but which are recognisable in any company.

3.1.2. Categorising supplies and corporate leverage

In a competitive selection process, best prices can be obtained where a long term purchasing commitment is made, attached to an identifiable and substantial supply volume. In legal terms, frameworks are an open offer to supply at specific average prices under a range of circumstances. No contract exists until a work package is defined, scoped and instructed using an agreed instruction mechanism.

Therefore a key objective for any purchasing company must be to minimise (or optimise) the number of suppliers in each supply category, across the whole supply base and to rationalise the mechanisms/processes for call-off of work packages. This principle applies whether or not a partnering style is adopted, but it is an essential ingredient for partnering arrangements.

3.1.3. Commercial terms (methods of payment)

Under traditional long term supply deals, clients employ a wide range of approaches to the instruction and remuneration of contracted out maintenance and minor project works including:

- Fully cost reimbursable
- Target cost reimbursable (with and without incentives)
- Hourly paid supplementary labour
- Lump sums (with and without incentives)
- Measured unit rates + day work
- Annual lump sum
- Combinations of the above

None of these alone is likely to produce consistent and continually improving results. In traditional procurement, cost and performance are driven by market forces rather than a sharing of risks, opportunities and objectives.

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Lump sum prices per work package are often favoured by originators because they offer up-front surety of price which facilitates easy budget management and passes commercial and performance risk onto the supplier. However, a high volume of call-off instructions would prevent competitive procurement of lump sums, putting the originator at odds with commercial policy. Therefore, a schedule of unit/task rates, tendered within a framework contract for a term of years, offers a possible solution. However, lump sums combined with rates for repetitive activities being used in an open book accounting regime as benchmarks for potential cost savings offer an alternative but viable commercial arrangement.

It is worth comparing the merits of the three main options.

Lump sum

Advantages	Disadvantages
Up-front certainty of price	Requires capability and resource to define, scope and plan and supervise
Presents a best price opportunity	Managing the tender process Parties have different objectives
Transfers risk (minimum client involvement)	Likelihood of variations and claims Robust change control procedures required
Single point delivery	No client control over method of delivery No facility for experience feedback/data capture

Cost reimbursable and dayworks

Advantage	Disadvantage
Facilitates instant contractor response	Temptation not to define the scope
Opportunity for client involvement throughout	No incentive for contractor to minimize resource and increase efficiency
Labour rates can be validated (site or national agreement)	Requires records are kept and agreed High level of client input
	Difficult to predict and contain final cost No facility for experience feedback/data capture

Measured unit rates/rate per task or activity

Advantages	Disadvantages
Rates can be competitively procured up-front and reviewed at anniversary	Requires commercial input and a defined method of measurement.
Puts responsibility for performance and productivity onto the contractor	Impact of adjoining contract/operational activities
Facilitates performance data capture and productivity measurement	No incentive for contractor to increase efficiency and manage risks effectively if

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	not combined with performance/cost savings incentive scheme
Enables valuation of changes	Robust change control procedures required
Work package can be instructed without full scope definition	Client underperformance all at contractor's cost
Facilitates budget estimate and audit trail	Requires supervisor knowledge of contract

A number of criteria will determine the most appropriate approach, including:

- Volume of work and manning levels generated
- Nature of the work (for instance, opening up plant to gain access can be scoped and priced, but extent of cleaning of carbon deposit or repairs to trays cannot)
- Frequency of call-off instructions (a high number of instructions may render the lump sum approach impractical)
- Value of work package
- Duration of work package including lead-in time for any design work, materials issue

Across the disciplines, schedules of measured unit rates based upon average conditions are most frequently used incorporating mechanisms for payment on a reimbursable basis and for adjusting the rates to give more accurate value depending upon specific conditions including:

- Percentage adjustments for work package value bands. Low work package values attracting the higher adjustment
- Percentage adjustment for complexity. Productivity for installation per metre of pipework to a certain specification will be lower for complex systems around plant and equipment
- Location, eg pipework laid in ground level pipetracks will be less expensive than the same on pipebridges
- Work type, eg new build, work within plant shutdowns, replacement and maintenance
- Response times, emergencies and call-outs etc

Management oncosts (also known as preliminaries)

High-volume framework contracts more often separate the rates and prices for contractor management and site accommodation from the unit rates for measured work.

The ratio of these costs to value of measured work reduces as turnover increases.

Where these costs are included within the unit rates then the actual preliminary costs are recovered once a certain value is achieved. The contractor can gain or lose depending upon whether this turnover value is not achieved or exceeded.

Payment of management oncost separate from unit rates is preferable as this enables more accurate performance calculation.

Company overheads and profit

These may be included in the unit/task rates, or paid separately as a percentage addition to work package cost.

3.1.4. Supplier selection and tender evaluation

Traditionally, suppliers are selected through a competitive tendering process which focuses on price and cost.

The process involves a number of steps:

- Market analysis of available suppliers
- Advertisement and prequalification of suppliers
- Selection of tenderers from a list of prequalified suppliers
- Tender enquiry and evaluation (although negotiated procedures may also apply)
- Contract award and contractor mobilisation

The contractor's management and technical capability are normally assessed during prequalification and selection for tender, again reinforcing the tender selection process as a price- and cost-driven exercise. However, there is evidence that some organisations are now giving increased weight to some of the so-called 'softer' issues at this stage, including the alignment of the contractor to the client's business aims, objectives and culture.

Schedules of rates are evaluated and compared using a tender evaluation model which incorporates an annualised, quantified profile of all work items in the schedule of unit rates. For large framework contracts, accurate and comprehensive preparation of this model is essential to highlight the pricing strategy of each tender.

Cost advantages of competitive unit rates for low-volume specialist work within the model can be more than offset by rates which are higher by a marginal percentage for high volume work.

Where more than one contractor will be engaged within the category, this should be only on the basis of workload/resource planning and not to secure advantageous rates from each contractor.

3.1.5. Work instructions and budget management

Works instructions carry essential information, in addition to the description of works and supplies to be provided, which identify the contract, and the way in which the owner breaks down the cost of their asset base for the purpose of budget management.

This information will include:

- Instruction serial number
- Contract reference number
- Location reference
- Asset reference
- Expense category (capex, revex and their subcategories)
- Financial commitment (sets aside that amount of the allocated budget to meet the cost of the instructed works and compares the invoiced value with original commitment)

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- Originator ID reference. This also validates;
 - o Financial limit on the work instruction type (call-off, minor contract order etc)
 - o Financial authority of the originator
 - o Estimate of financial commitment

3.1.6. Payments process

Payment period

In the UK, there is evidence from a variety of sources that that average payment periods have not improved and have even increased.

Typically, contract terms and conditions provide for payment within 30 days of invoice date, or more usually to coincide with weekly or monthly cheque runs (days/dates allocated for issue of cheques to suppliers).

Invoices will usually be addressed to a single collection point within an accounts or contract management department where they are logged in the client's account system and then tracked as they circulate collecting signatures. Audit requirement will demand a minimum of two or more signatures, for instance the originator and their departmental line manager or a manager with the appropriate financial authority level.

This circuit of signature collection often causes delays when an invoice sits in the in-tray of an originator who might be on vacation, attending a training course, on sick leave or have other, higher priorities.

The task force found that on average actual payment periods were in excess of 60 days. With average work package durations of 4 – 6 weeks, the cash-flow logistics for the contractor with payment cycles of four months or more can be damaging.

3.2. Shortcomings of traditional methods of long-term procurement

The industry survey, direct experience of participants in the task force and case study material show that traditional arrangements for delivering long-term contracts do not achieve best value. They fail to facilitate continuous improvement in both client and contractor performance and unnecessarily damage the returns that contractors can hope to achieve.

The impediments to improved performance could be removed or overcome by working together to achieve a greater understanding and management of the influencing factors. Long term partnering contracts are, in many cases, the way forward.

3.3 Pre-partnering arrangements: long term frameworks

Long term contracts are not untypical at large industrial facilities, where the owner procures site-wide contracts from discipline contractors (eg mechanical, pipework, electrical, structural steelwork). These suppliers may provide services from a site-based residence, alongside the in-house direct works organisation, and under framework contracts which are placed for a period of 1-3 years.

The cumulative knowledge base of the client facilities, operations and objectives assembled by these suppliers is invaluable to the customer and puts the suppliers in an advantaged position when renewal of the contracts arises. The prospect of managing a long, disruptive and expensive learning curve when introducing a new discipline

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contractor to the site often deters the client from taking this option. Any commercial testing of the market becomes academic and merely a starting point for renegotiation of previously-agreed rates with in-house contractors. Faced with the unlikely prospect of success in the tender process, competitor suppliers with no client-specific site experience will often submit half-hearted bids and proposals. The focus therefore is on lowest rates and prices and retaining the existing contractor management and delivery team as a means of ensuring quality and commitment of service.

It is out of these existing long term contracts that the partnering deals have emerged, and as borne out by the industry survey, (see appendix1). They account for some 8 out of 10 long term partnering contracts.

4. OVERVIEW OF THE LONG TERM PARTNERING PROCESS

4.1. The model

This section introduces the long-term partnering model, with descriptions of the purpose of each phase and discussion of the types of activities carried out therein.

Long-term partnering is a distinct, but complementary, process to alliancing. Its key differentiator is the need to operate at an organisational and strategic level in order to develop improved business capabilities. This can be an open-ended relationship, whereas the common approach to alliancing is time-bound. The following table may help to illustrate the main characteristics of each:

Alliancing	Long term partnering
Time bound, targeted end date	Open ended, regular reviews of performance
Performance focussed via discrete objectives (e.g. project milestones, client deliverables, etc)	Performance focused via business delivery (growth, profit, cost base, etc)
Team formed from as many organisations as necessary	Primarily one-to-one relationships
Formal, legally binding contract underpins delivery of objectives	Joint agreement clarifies and supports relationship development
Vision, objectives and goals are clear at the outset	Vision is agreed, objectives are understood but may evolve, and goals emerge throughout the relationship

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The model has developed from broad industrial experience of partnering over recent years and shares many characteristics with those of alliancing. The key differences are the objectives of each stage, but skills developed in one field are easily adaptable to the other. The model can be illustrated as follows:

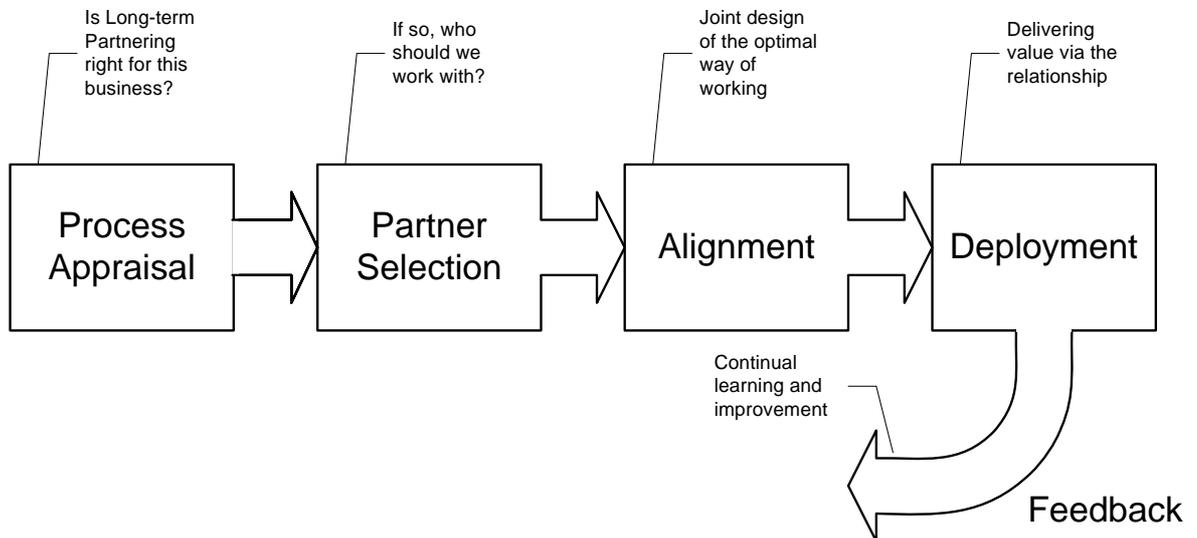


Figure xx: The long term partnering model

The model provides the structure for the process steps that follow.

4.2. Risk

The ultimate risk is not taking a risk James Goldsmith

The key to successful long term partnering is effective management of risk. An ECI/ ACTIVE workshop held in October 2000 considered the range of risks which can undermine or challenge long term partnering arrangements. This list was further developed and incorporated into the industry survey questionnaire.

A total of 26 definitive risks were identified abstracted under 9 headings.

The list of risks is shown below in order of perceived importance and frequency of occurrence, with the most important at the top (i.e. risk number 1). Part 2.3 of the industry survey (shown in appendix 1) provides more detailed information. The most significant risks (the top 19) are also shown in the appropriate stage in the process model with associated preventative actions.

List of identified risks (in order of perceived importance)

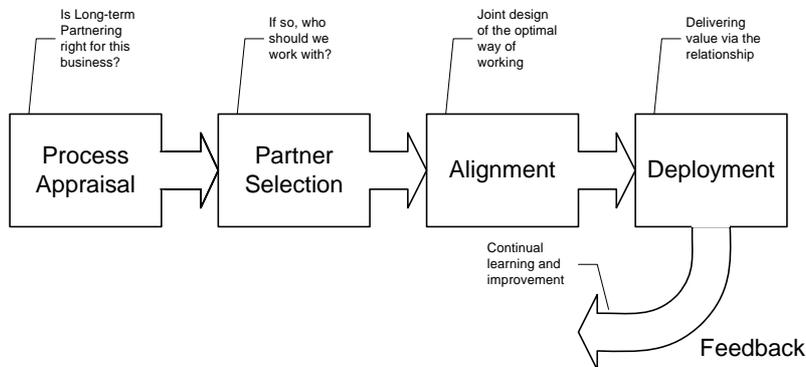
1. Failure to achieve cultural change
2. Risk allocation not properly managed
3. Changes to senior management
4. Insufficiently developed Partnering life cycle strategy
5. Prices offered do not meet client expectations
6. Insufficient workload

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7. Client performance failures
8. Change control procedures not adequate
9. Scale of risk not linked to incentive mechanism
10. Commercial attitudes, open book incompatibility
11. Risk not properly allocated, cascaded too far along the supply chain
12. Difficulty benchmarking with traditional procurement prices
13. Joint problem solving procedure not implemented
14. Poor contractor selection criteria
15. Sales team is different to delivery team or client procurement team differs from client partnering organisation
16. Insufficient time allowed up to award
17. Failure to realign contract administration procedures
18. Contract review procedure not agreed
19. Lawyer review of non standard terms leading to 'stalemate'
20. Economic climate
21. Selection criteria too onerous
22. IT systems/software coordination
23. Procedural interface/QA/safety
24. Poor results from partnering identified elsewhere
25. Contractor in dispute elsewhere
26. Contractor insolvency

5. LONG TERM PARTNERING PROCESS STEPS

5.1. PROCESS APPRAISAL



Editorial note: highlight 'process appraisal' box on figure above

5.1.1. Description

The purpose of this step is to determine the suitability of long term partnering for the enterprise. Although many successful businesses use partnering to add significant value, it is not suitable for all enterprises or at all stages of corporate maturity. It is far better to instigate an internal improvement programme if necessary than to embark on a complex and difficult relationship journey unprepared. Many partnering relationships fail due to the lack of preparedness of one or other of the partners. Partnering is not an elixir or miracle cure. Building open relationships has the potential to make us vulnerable, and as such should be embarked upon with an absolute clarity of purpose coupled with robust risk management.

Business objectives should be clearly understood by all organisations concerned. They should be easily communicated and this implies that they are embedded into the business in the form of a well-understood and robust strategic and business plan. It should be evident when they have been met, so they should be S.M.A.R.T. (Specific, Measurable, Achievable, Realistic and Time bound). This basic preparation is valuable to ensure that whatever benefits are delivered meet the needs of the home business, and it can limit the potential for misunderstandings and later disputes.

Understanding the *benefits* of long term partnering can be difficult as we often look at them in terms of discrete process outputs, e.g. lower costs, higher quality. Partnering often results in greater capacity to deliver benefits and this can be a legitimate aim of the enterprise, as improved outcomes should logically follow. This could include access to information at crucial process stages that leads to better or earlier decisions, and hence market advantage. A holistic approach at this stage can be highly valuable.

The *value chain* is where the benefits will materialise, and knowledge of each partner's contribution to value is a sound basis for constructive negotiations. This requires a robust picture of how the extended value creation processes work and clear definition of everyone's role within it. It is particularly important to anticipate areas of conflict that often arise due to competition over scope of work. In preparation, each party should understand those activities that it feels obliged to carry out itself

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(these may be so called "core" activities). This sets the initial ground to test the fit of any potential partner. It is also recommended that those activities that a partner is expected to own are defined, and a clear decision is made to not compete in this arena. Where overlap exists the final roles will emerge through selection and subsequent negotiation, but the previous steps should have addressed most of the threat.

Environmental opportunities and constraints will govern the rate at which long term partnering can be implemented. Often, and particularly in the public sector, there will be requirements to demonstrate competition. The internal environment is often overlooked and pre-qualification is reserved for other organisations. Strong leadership and line discipline is required to manage changes such as this, as legacy attitudes and behaviours must be addressed early.

No one should underestimate the amount of *leadership and commitment* required to develop and sustain a long term partnering relationship. Most organisations report the need for clarity among the leaders of the businesses involved, and the establishment of a specific budget to manage the development of the people in question and the external relationships. A steering group with sufficient authority to marshal resources is often cited as a critical success factor. These types of relationship regularly affect areas of the business that have little direct investment in the programme, such as IT, finance or sales, and they need to be tied in to the change via a whole-business approach.

Based on the main risks identified below for process appraisal, the important best practice techniques for this phase should also include the following.

- An unbiased review of the company's business objectives, the benefits that partnering can bring, and the importance of the value chain could result in an inappropriate procurement strategy being selected.
- Involvement of key stakeholders in the process appraisal phase, combined with effective communications relating to any proposed changes.
- Clearly defining the define process for procurement and the change process itself.
- Developing committed leadership and commitment to drive the culture change through.

5.1.2. Risk generating issues

The key risk generating issues are associated with the company's ability to select the most appropriate procurement strategy to suit future needs and requirements and implement the required process and culture changes.

- Failure to understand the company's business objectives, the benefits that partnering can bring and the importance of the value chain could result in an inappropriate procurement strategy being selected.
- There will be internal/external environment opportunities and constraints that will not only influence the type of strategy to be adopted but also control the company's ability and willingness to change. The ability to change also depends upon the company's ability to define processes for procurement and the change process itself. Change is not only about new processes but also often requires a shift in organisational culture to alignment with the new

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processes. This will require committed leadership and determination to drive the culture change through.

5.1.3. Principal risks

The principal risks associated with process appraisal are presented in table aa below.

Table aa Principal risks for process appraisal

Risk Rating and Description	Survey ref.	Category	Average Risk Factor (5=high risk)	Partner responsible	Avoidance/mitigation/management action
4.Insufficiently developed Partnering life cycle strategy	2.7.d	Partnering development timescale	3.2	Client	Prepare a realistic (resourced and costed) implementation programme. Present it to Contractors during selection.
6.Insufficient workload	2.7.a	Inappropriate circumstances	3.1	Client	Forecast workload should be accurate for 12 months look ahead
16.Insufficient time allowed up to award	2.7.d	Partnering development timescale	2.6	Client	Realistic implementation Programme. (Do not underestimate timescales) Agree slippage and adjustments with partner
19.Lawyer review of non standard terms leading to 'stalemate'	2.7.e	Agreement of contractor terms	2.3	Client	Tenderers must accept term before tender.
20.Economic climate	2.7.i	Eternal factors	2.2	Both	The partners should each include appraisal of economic climate within the business case.

In the interests of brevity, the lower-rated risks have not been addressed.

5.1.4. Readiness review

How to use the readiness review

The readiness review is presented with positive statements rather than focusing on risks as such, and this is intended to emphasise the beneficial factors within the model, rather than pitfalls to avoid. Each user will interpret this information in their own way, and hopefully augment this basic outline with specific factors that are relevant to them.

The objectives of this format is to assess the impact and confidence level of each aspect of long term partnering. The intention is to provide a working aid to planning and tracking the process by use of a systematic and adaptable framework to organise the various strands of information, and to introduce a discipline of prioritisation.

One important point to note about this process is the level of subjectivity and objectivity in each part. This is not an engineering assessment, where there is a mathematical solution to the problem. There will always be a high level of subjectivity in partnering as trust is about how people feel about each other, and cannot be objectively measured. This process cannot make the decision for you, and every organisation is ultimately responsible for who it chooses to work with.

Each section is broken down into statements (desired states for partnering relationships) and an assessment of readiness.

The assessment is structured in 4 parts;

- A description of the desired state
- A judgement of the importance of that state to the overall outcome
- An assessment of the level of confidence in the state being realised
- A list of any actions required to meet the required standard

The desired state

This is a compilation of the elements that go together to make a successful process. The initial list has been developed by a team with experience in this field, but this does not necessarily mean that it is right for everyone. The most important point is to work on this list until it comprehensively represents the current requirements. An example of this is that there are no specific skills or capabilities listed in the base schedule other than partnering/collaborative ones.

Importance weighting

Some elements will inevitably be more relevant to the decision process than others. The weighting process allows the organisation to focus its resources on the more critical areas via an open and measurable route.

Confidence level

This is an assessment of the current level of confidence that the desired state has been realised. Some supporting evidence should be available to support this assessment, and a "friendly" audit is strongly advised.

Actions and best practices

Any actions to either determine valid importance ratings, or to improve confidence levels should be stated along with owners. Support and facilitation should come from the use of best practices that are specifically aimed at the line item.

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Understanding business objectives

This sub-section is designed to ask the "why?" questions that can clarify the aims of embarking on a long term relationship with a partner.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
We clearly understand our business objectives and imperatives.			Review current arrangements: <ul style="list-style-type: none"> • Conflicts • Adversarial attitudes • Commercial policy • Organisation
Our objectives are S.M.A.R.T			
We have a strategic and business plan that embodies our business aims			
We recognise and include the relevant stakeholders in the proposed partnering relationship			Stakeholder analysis Communication strategy (drivers for change, benefits of partnering)

Long term partnering

Understanding the partnering benefits

This section looks at the possible advantages that partnering could bring to the enterprise, and what the enterprise could offer to potential partners.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
We clearly understand the potential benefits of partnering for our business			Senior management buy-in to benefits and appoint sponsor
We clearly understand the potential benefits that partnering with us can bring to our potential partners			
These benefits will be enhanced by developing a win-win strategic relationship			

Understanding the value chain

Partnering is characterised by an integrated view of the value delivered to customers. In order to achieve this it is vital to be absolutely clear about where, and how, this integrated approach must fit with one's own enterprise. This is to ensure that areas of overlap can be managed without conflict, and that core areas are preserved and not threatened by the relationship.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
We have a map of the integrated value chain that includes our possible partner(s) and the customers of the partnering enterprise			<ul style="list-style-type: none"> • Analyse expenditure by category/discipline, contractor, value • Allocate historical expenditure by Capex, Revex, Business Unit • Determine future spend
We clearly understand the core business activities that we will			

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<i>not</i> share with potential partners			
We clearly understand the core business activities of our potential partners and do not intend to compete within this relationship in those areas			Analyse contracts and set targets by: <ul style="list-style-type: none"> • Number and type of contractors • Core contractors
We clearly understand where our activities overlap and are prepared to negotiate a win-win solution to deliver mutually inclusive benefits.			

Internal/external environment: opportunities and constraints

What type of relationship is required to meet the operating environment of the enterprise, and how will this challenge the current internal environment and culture of your business?

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and Best practice technique(s)
We have a current environmental analysis for the business climate within which the relationship will operate. This includes opportunities for market share, revenues and profit, as well as constraints such as regulatory compliance and legal aspects.			
We understand the corporate culture and functional capacity required to maximise the potential benefits from this environment.			See Risk (1)2.7.b Failure to achieve required culture change
We understand our own company's current ability to manage this environment in terms of specific strengths and			

Long term partnering

gaps.			
We have strategies in place to change where necessary, whilst maintaining high standards of SHE performance and legal compliance.			

Long term partnering

Leadership and commitment

Change is not just about developing and implementing new processes. In most cases it also requires a shift in culture aligned with the new processes being implemented. Good leadership and commitment of senior management are essential to achieving and driving through cultural change.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
The leaders of our business are committed to supporting the development of open, mutually beneficial, strategic relationships with other organisations. They understand the obligations, opportunities, risks and challenges that this entails.			See risk (3) 2.7.b, changes to senior management. A charter and commitment statement is often produced and signed by senior management
A budget will be specifically allocated to invest in relationship building and staff development.			See best practice technique 4.2, integrated team working See Risk (1) 2.7.b Failure to achieve culture change Appoint a long term partnering champion
A high level steering group will be formed to govern the deployment of long term partnering.			See best practice technique 4.1, partnering boards and alliance health checks Group to support partnering champion

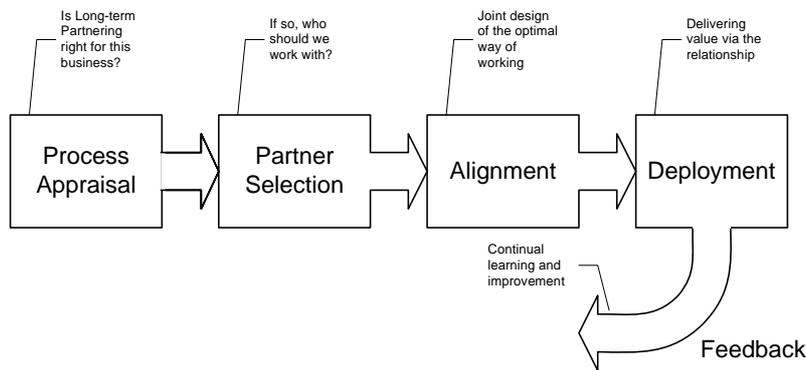
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Ability to define a process

The last stage of this appraisal is to determine the process that will be used to take the project further. The following points are examples of areas that the process will have to cover. No generic list can ever be comprehensively appropriate for any particular case, and therefore a close study of the specific risk areas and process needs should be carried out every time.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
<ul style="list-style-type: none"> • Our legal team have fit for purpose terms and conditions based on best practice in partnering • The terms and conditions for engaging partners are clear • We have a fully costed proposal and our capex and revenue plans can sustain it • We have an up to date risk analysis and management plan • We have an up to date competency/ gap analysis • Risks are allocated to the most appropriate owners • The timescale is understood and achievable • The dispute resolution procedure is clear • We have a pre-qualification process for our own business prior to engaging partners • We have a behavioural model for leaders and staff • We have engaged help to cover any areas where we need outside experience • We have trained and appointed managers to facilitate the personal change process for staff 			<p>See Risk (19) 2.7.e Lawyer review stalemate</p> <p>See Risk (6) 2.7.a Insufficient workload</p> <p>See Risk (2) 2.7.h Risk allocation</p> <p>See Risk (4) 2.7.d Insufficiently developed strategy</p>

5.2. Partner selection



Editorial note: highlight 'partner selection' box on figure above

5.2.1. Description

If long-term partnering is shown to be the optimal procurement strategy for the business, the next step is to identify, assess and engage a partner. This is a process that requires a level of detachment in order to assess candidates objectively, and the ability to stop the process if a suitable partner cannot be found. Remember that this is not about choosing a *client* or *supplier*, but is a commitment to build a new type of relationship. It may, however, result in new organisations coming together, and also the ending of some existing associations. It is common for partnering relationships to develop from existing client/ supplier business, and this can be a lower risk approach if, and only if, both parties have a strategic reason for developing together and the competencies to manage the change. It is neither realistic nor desirable to select a "clone" as a partner, however, they must be compatible with your own company. Most value is created around differences in experience, skills and perspective and these should be welcomed where possible. On the other hand, differences in attitudes to safety, empowerment, rewards and so on can easily become ground for conflict and should be dealt with in the selection process.

Behaviour is perhaps the most important factor in long-term partnering. It is the determination to be *relentlessly* constructive under all circumstances that will lead to stronger working relationships and ultimately to the hallmark of successful partnering, trust. If trust cannot be attained, then the whole enterprise is a great risk. Open, supportive behaviour is relatively easy in low stress situations and when things are going well. Under crisis situations, when time is short and particularly money is at risk, many people find it counter-intuitive to support others in meeting the higher goal. This can be simulated to some extent by specialists in workshop situations, but it is no substitute for real life. Pilot projects can serve a useful role in testing the behavioural compatibility of the partners.

Some organisations will be able to show a clear *track record*. Long-term partnering is a relatively new term, and it is possible that candidates have been building strategic relationships without using the exact language. This is particularly true of SMEs, who may not have the same resources to present their experience in the same way as larger firms. The key factor to look for is whether the relationships have delivered value over and above that which could have been achieved through traditional procurement methods. Another aspect of track record is the degree to which an

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organisation invests in its own people, and how it holds them accountable for working with others.

Culture can be a confusing term and is often mistaken for behaviour. In this case we define behaviour as something that individuals exhibit, whereas culture is the systemic approach to business. For example a company may have a large capacity either to promote or defend litigation, which indicates that it is likely to consider this route as an early option, whereas another organisation may invest in stronger customer relationships, negotiation and mediation skills. Culture, therefore, is the way an organisation interprets and approaches its environment. While it is highly unlikely (and possibly undesirable) that two different organisations will have identical cultures, they should at least be compatible and not a source of conflict.

The *objectives* of each organisation should be expected to differ, especially in detail. A characteristic of successful partnering is the celebration of each other's successes. This breaks down to the ability of both parties to draft a single set of objectives that satisfy all parties, including their common customer(s).

An organisation's *commitment* to partnering can be hard to assess, and is related to both *behaviour* and *culture*. If it is fully committed to developing this relationship, it would be expected that the majority of employees would be prepared to make it work, not just the bid team, and this would also be reflected in the organisation's strategy.

This handbook does not consider the traditional process of due diligence, which is more comprehensively covered elsewhere. However, there are some *financial* issues specific to long-term partnering. In the initial stages of the relationship there will be a period of investment, such as training, team building, relocation. This should be anticipated and a budget prepared that reflects the costs for each party. The potential partner's business should be able to sustain these costs and any others over the lifetime of the relationship. The potential work volume for the early stages of the relationship is also an important factor. It is desirable that there should be enough workflow to adequately build the relationship. However, it is equally if not more important for there to be early involvement of the key players from the contractor partner organisation and supply chain to enable the client-partner interface organisation to develop and the key working processes to be established. For this reason, where selection criteria place increased emphasis on 'softer' (e.g. culture) issues (relative to harder pricing information), it may be preferable for the selection process to begin at the earliest practicable opportunity.

The *terms and conditions* for the specific delivery contracts will vary and several models exist for alliances (NEC, etc). The specific issues for a longer relationship are more oriented to business processes. The example chosen here is the cost model, which may have to be compatible in order to implement an open-book approach to joint efficiency improvements. Alternatively, life cycle planning and management may underpin the client's business strategy requiring a more sophisticated approach. Other cases undoubtedly exist, and guidance should be sought from the goals of the relationship.

Performance measurement will confirm that the relationship is working, but it is essential that performance be defined to prevent confusion. At this stage the

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expectations should be set. There are many anecdotes about partnering relationships that have foundered because the expected massive savings have not materialised in the first six months. In practice it is hard to find examples of these relationships where sudden, sustainable improvements have occurred. Most successful relationships take one to two years of hard work to begin showing continuous improvements, but these are often significant and permanent. The initial performance estimates should reflect the dynamics of the process, and be realistic.

5.2.2. Risk generating issues

Traditionally, suppliers are selected through a competitive tendering process which focuses on price and cost.

The process will involve a number of steps:

- Market analysis of available suppliers
- Advertisement and prequalification of suppliers
- Selection of tenderers from a list of prequalified suppliers
- Tender enquiry and evaluation (allow also for negotiated procedures)
- Contract award and contractor mobilisation

The contractor's management and technical capability is normally assessed during prequalification and selection for tender, again reinforcing the tender selection process as a price- and cost-driven exercise. The problem with this approach is that insufficient weight is given to value added as a result of an improving relationship between client and contractor in a longer term relationship. However, there is also evidence that some organisations are now giving increased weight to some of the softer issues at this stage, including the alignment of the contractor to the client's business aims, objectives and culture.

Furthermore, much of the evaluation is concerned with comparing schedules of rates with little concept of the scope or extent of the work and how that might change over the contract period. For example, the cost advantages of competitive unit rates for low volume specialist work can be more than offset by changes in the nature of the work into high volume generic work later in the contract period.

Many long term partnering type arrangements which have been developed on the basis of price comparisons fail to deliver because there has been insufficient consideration of the cultural differences between the partnering organisations. These cultural differences can dramatically affect behaviours in areas such as mutual co-operation, communications, team effectiveness and clarity of outcomes. Many partner selection processes give insufficient weight to compatibility of organisational cultures.

Workload and resource planning are key capabilities to take into account in the partnering selection process. This applies both to the client and the contractor. It is often more important to measure and compare the effectiveness of deployment of resources rather than merely the unit rates paid to the contractor.

The introduction of private finance initiative (PFI) and other novel forms of procurement have led to the development of a more collaborative culture within business at large and a greater awareness of the benefits of these styles of working.

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These procurement routes provide the client with the opportunity to achieve key business aims, including:

- Removal of assets from the balance sheet
- Organisational rationalisation
- Concentration upon core business activities
- Reduced investment lead-in times
- Reduced maintenance costs
- Devolved or shared risk
- Higher levels of facility availability
- Price certainty

However, in the public sector, there has remained a concern that partner selection for these type of arrangements does not include sufficient elements of competition. There is a balance, therefore, in establishing long term partnering between minimising (or optimising) the number of suppliers in each supply category, across the whole supply base and remaining in touch with the market to ensure the partner assessment process leads to the selection of the most appropriate partners.

5.2.3. Principal risks

Risk rating and description	Survey ref	Category	Average Risk Factor (5=high risk)	Partner responsible	Avoidance/mitigation/management action
2.Risk allocation not properly managed	2.7.h	Allocation of risk	3.5	Client	Clients risk plan compared with contractor risk policy during selection and then aligned.
3.Changes to senior management	2.7.b	Client + contractor alignment	3.3	Both	Commitment to named key persons and nominees with succession plan.
5.Prices offered do not meet client expectations	2.7.e	Agreement of target cost	3.2	Both	Use reliable jointly agreed benchmarking data.
9.Scale of risk not linked to incentive mechanism	2.7.h	Allocation of risk	3.1	Both	Examine contractor's risk management policy, align with client requirements and agree how it will be recognised in the incentive scheme
10.Commercial attitudes, open book incompatibility	2.7.b	Client and contractor alignment	3.0	Contractor	Ensure team co-location. Staff inductions to include signing a statement of commitment. Identify source and alert line management. Corrective counselling (staff re-induction) Disciplinary procedures
11.Risk not properly allocated, cascaded too far along the supply chain	2.7.h	Allocation of risk	3.0	Client	Ensure both parties review their risk allocation policy together during alignment.
14.Poor contractor selection criteria	2.7.c	Contractor partner selection	2.7	Client	Prepare rigorous but fair and open process to review both in-house and new contractors.
15. Sales team is different to delivery team or client procurement team differs	2.7.c	Contractor partner selection	2.7	Contractor	Request attendance of specific functions at the selection interview and "named" organisation chart with proposals

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Risk rating and description	Survey ref	Category	Average Risk Factor (5=high risk)	Partner responsible	Avoidance/mitigation/management action
from client partnering organisation					
21.Selection criteria too onerous	2.7.c	Contractor partner selection	2.1	Client	
24. Poor results from partnering identified elsewhere	2.7.i	External factors	1.9	Both	
25.Contractor in dispute elsewhere	2.7.c	Contractor partner selection	1.8	Client	
26.Contractor insolvency	2.7.i	External factors	1.7	Client	

5.2.4. Readiness review

Behaviour

This is seen as a key enabler in the success of long term relationships. When difficulties arise in the lifetime of a partnering relationship it is often the style that the issues are dealt with, rather than who is right or wrong, that governs the continuing value of the agreement.

Desired state	Importance 1 - 5	Confidence level 1 – 5	Action(s) and best practice techniques(s)
Our potential partners consistently demonstrate constructive behaviour, even under stressful or risk enhanced situations.			Behavioural workshops and pilot projects. Open 360° feedback both on individual members and the team as an entity.
The people that we assessed above are either the same team that we will work with long-term, or are a fair representation of the behaviour expected with this company.			See risk (3) 2.7.b, changes to senior management. Agreed terms of reference on staff rotation and behavioural profiles.

Track record

The potential partner's track record is important. However, it should be recognised that many businesses have a customer focused, co-operative working style that may

Long term partnering

not have been formally called long term partnering. Many SMEs, for example, have necessarily developed this approach and are small enough to effect a consistent culture and adapt to market drivers more quickly than larger businesses.

Desired state	Importance 1 – 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
Our potential partners have evidence of building long-term strategic relationships with other companies.			References, interviews. Level of investment in preparation.
The previous relationships can be shown to have contributed to value over and above that which would be delivered within traditional frameworks.			Look for innovation, joint improvement teams, etc
The potential partners have a record of investment in their own staff and systems to facilitate improved performance.			Documented business processes and systems for recording feedback (lessons learnt) and implementing improvement measures.

Culture

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
Customer-client due diligence. In other situations they respond in a way that would help us to improve our performance.			References, interviews.
Compatibility. As well as working with us, they would complement our relationships with existing partners/contractors.			Use existing partners in selection process where appropriate.

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The potential partner treats its supply chain as we would like to be treated.			Key supply chain members involved at the outset.
The potential partner brings new ideas and innovations that could add value to our business			
Their client/contractor business model is compatible with our own with respect to risk allocation and specifically the sharing of risk.			
The company has an internal partnering approach, such that its relationship with its employees demonstrates strategic commitment to them.			Employee feedback surveys, HR policy.
The company is visibly committed to personal development of its employees, and to R&D where appropriate.			How much time and money is invested in cultural alignment?

Alignment of objectives

If long-term partnering works, it is largely due to all parties getting their share of the value created. If the relative objectives are incompatible, it is unlikely that the relationship can survive past the initial wave of optimism.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
Our potential partner's objectives are compatible with our own to the extent that a set of common goals can be drafted that would clearly satisfy all parties.			References, interviews.

Long term partnering

Commitment

This is a difficult parameter to judge. However, the level of corporate buy-in to this activity is a key determining factor in its success.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
All levels of the candidate organisation are bought in to partnering, from the top team through the departments.			References, interviews.
This a long term strategy for the organisation and it is prepared to accept lean periods in order to ensure success.			Use existing partners in selection process where appropriate.

Financial security

Although this would be considered as part of a standard due diligence, in this case we are concerned with a potentially longer working relationship. Some attention should also be paid to the volume of business that is likely to pass between the partners.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
The potential partner's business is sustainable for the expected lifetime of the relationship.			
There is sufficient workload to make the relationship viable.			
The long-term projection of workload is favourable for the relationship.			

Long term partnering

Terms and conditions

This refers to the specific areas relevant to long-term partnering. All other aspects would be managed by the normal business process.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
The cost model basis is compatible with our own accountancy practice.			See Risk (5) 2.7.e Prices do not meet client expectations
The legal framework makes provision for softer issues in engagement.			

Performance measurement

In order to determine the success or otherwise of the relationship, the ability to measure it should be tested. This is not the detailed development of key performance indicators, but is a method of defining the vision for the relationship.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
The expected financial rewards are satisfactory for all organisations involved.			
There is an agreed high level vision of where and how value will be added to our respective businesses			
There is a clear set of performance expectations that are measurable, realistic and time bound.			

Long term partnering

Behaviour is a key enabler in the success of long term relationships. When difficulties arise in the lifetime of a partnering relationship it is often the style with which the issues are dealt, rather than who is right or wrong, that governs the continuing value of the agreement.

Desired state	Importance 1 - 5	Confidence level 1 – 5	Action(s) and best practice techniques(s)
Our potential partners consistently demonstrate constructive behaviour, even under stressful or risk enhanced situations.			Behavioural workshops and pilot projects.
The people that we assessed above are either the same team that we will work with long term, or are a fair representation of the behaviour expected with this company.			See Risk (3) 2.7.b Changes to senior management. Agreed terms of reference on staff rotation and behavioural profiles.

Track record

The potential partner's track record is important. However, it should be recognised that many businesses have a customer focused, co-operative working style that may not have been formally called long term partnering. Many SMEs, for example, have necessarily developed this approach and are small enough to effect a consistent culture and adapt to market drivers more quickly than larger businesses.

Desired state	Importance 1 – 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
Our potential partners have evidence of building long-term strategic relationships with other companies.			References, interviews.
The previous relationships can be shown to have contributed to value over and above that which would be delivered within traditional frameworks.			Look for innovation, joint improvement teams, etc

Long term partnering

The potential partners have a record of investment in their own staff and systems to facilitate improved performance.			

Culture

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
Customer-client due diligence. In other situations the potential partners respond in a way that would help us to improve our performance.			References, interviews.
Compatibility. As well as working with us, the potential partners would complement our relationships with existing partners/contractors.			Use existing partners in selection process where appropriate.
The potential partner treats its supply chain as we would like to be treated.			
The potential partner brings new ideas and innovations that could add value to our business			
The potential partner's client/contractor business model is compatible with our own with respect to risk allocation and specifically the sharing of risk.			
The company has an internal partnering approach, such that			Employee feedback surveys, HR policy.

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its relationship with its employees demonstrates strategic commitment to them.			
The company is visibly committed to personal development of its employees, and to R&D where appropriate.			How much time and money is invested in cultural alignment?

Alignment of objectives

If long-term partnering works, it is largely due to all parties getting their share of the value created. If the relative objectives are incompatible, it is unlikely that the relationship can survive past the initial wave of optimism.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
Our potential partner's objectives are compatible with our own to the extent that a set of common goals can be drafted that would clearly satisfy all parties.			References, interviews.

Commitment

This is a difficult parameter to judge. However, the level of corporate buy-in to this activity is a key determining factor in its success.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
All levels of the candidate organisation are bought in to partnering, from the top team through to the departments.			References, interviews.
This a long term strategy for the organisation and they are prepared to accept lean periods in order to ensure success.			Use existing partners in selection process where appropriate.

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Financial security

Although this would be considered as part of a standard due diligence, in this case we are concerned with a potentially longer working relationship. Some attention should also be paid to the volume of business that is likely to pass between the partners.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
The potential partner's business is sustainable for the expected lifetime of the relationship.			
There is sufficient workload to make the relationship viable.			
The long-term projection of workload is favourable for the relationship.			

Terms and conditions

This refers to the specific areas relevant to long-term partnering. All other aspects would be managed by the normal business process.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
The cost model basis is compatible with our own accountancy practice.			See Risk (5) 2.7.e Prices do not meet client expectations

Performance measurement

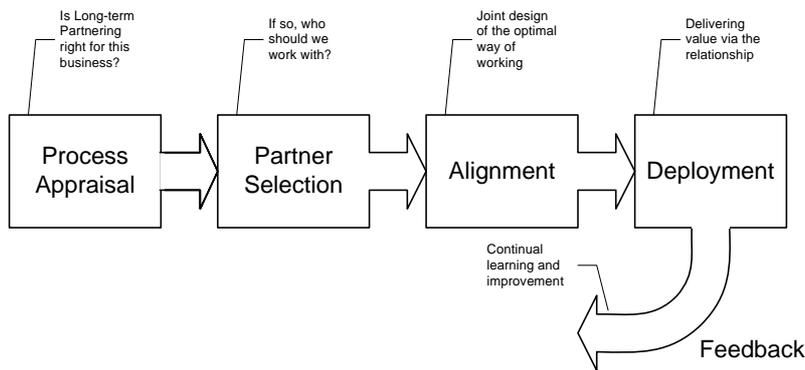
In order to determine the success or otherwise of the relationship, the ability to measure it should be tested. This is not the detailed development of key performance indicators, but is a method of defining the vision for the relationship.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)

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The expected financial rewards are satisfactory for all organisations involved.			
There is an agreed high level vision of where and how value will be added to our respective businesses			
There is a clear set of performance expectations that are measurable, realistic and time bound.			

5.3. Alignment



Editorial note: highlight 'alignment' box on figure above

5.3.1. Description

The process of alignment is intended to bring all of the organisations involved in the partnering programme together so that a common understanding and approach is reached in all areas where co-operation is demanded. The process should commence at the earliest practicable opportunity, possibly during the selection and appointment process. Throughout, it is important to respect each company's corporate identity, and not to expect anyone to compromise those factors that govern success for their organisation. There is, therefore, a balance to be found between designing joint co-operative initiatives, while maintaining those factors that contribute to the unique strengths of each partner. An open relationship should exist facilitating exposure of key business risks for both sides of the partnership.

Some of these issues will have been initially considered during selection; the alignment process is more in-depth and will set the tone for all subsequent activities. There is often a temptation to complete this stage quickly and move into deployment to reap the benefits, but it is vital that alignment is thoroughly addressed. It is better to deal with differences at this stage than to allow them to build into conflict, after all, the only difference between a problem and a crisis is the time available to sort it out.

Goal setting is a joint process from now on, although each organisation's interests are respected. It is important to find areas of compatibility among the set of goals, and to recognise where they could drive potential conflicts. Issues such as cost vs productivity, or market share vs product quality can either be areas of disagreement or creativity. Honesty at this stage about how important each organisation's goals actually are will pay dividends later. Once the goals have been agreed the *measures* can be developed.

Joint planning as to how the relationship will develop can be embodied in a strategy and action plan. This helps every one to understand what commitments they have made to the relationship, and will help to build trust.

Every organisation operates within some *constraints*, either internal or external. Regulatory frameworks govern many activities and these in turn will partially define

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organisational roles. Factors such as resource limitations, the requirements of other aspects of the business and various commercial realities will combine to affect the rate or scope of business improvement and these should be recognised and managed with a sense of realism.

Many organisations find that a jointly signed *Partnering Agreement* is a valuable reference point. This may or may not sit within the legal framework. It often takes the form of a charter that outlines the behavioural commitments of the partners. It should be visible to everyone affected by it, and it can act as a focal point for any steering group or partnering board that may be set up to oversee the enterprise.

Some consideration should be given to incentivisation within the agreement, as this may be an issue if organisations have different internal policies. The incentives can be more than direct financial rewards: access to new markets, stable workflow and business expansion could be examples of attractive rewards.

5.3.2. Risk generating issues

The case study reviews indicated the following areas to be managed to achieve partner alignment:

- a. Alignment of objectives
- b. Reorganise cultural and procedural differences
 - i. Management buy-in
 - ii. Staff inductions
 - iii. Develop openness, understanding and trust
 - iv. Team building
- c. Policy alignment
 - i. Risk management
 - ii. Problem solving
- d. Agree on procedures/practices to be adopted
 - i. Commercial/administration
 - ii. Dispute resolution
 - iii. Quality manual
 - iv. Safety procedures
- e. Detail the performance measures/agree targets
- f. Recognise time/cost (of alignment)

Failure adequately to address any of these can lead to pressures on the relationship and particularly underperformance against targets which in turn means that tangible benefits (reduced cost, quality, safety etc) are not realised.

Specifically, good counsel received from the case study partners was that the resources (time and cost) required for alignment should not be underestimated and should be carefully managed.

The highest rated risk arising from the industrial survey, failure to achieve culture change, resides in the alignment process (see *principal risks* table below) together with the third highest rated risk, changes to senior management.

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A robust alignment programme is therefore essential.

5.3.3. Principal risks

Risk rating and description	Survey ref	Category	Average Risk Factor (5=high risk)	Partner responsible	Avoidance/mitigation/management action
1.Failure to achieve cultural change	2.7.b	Client + contractor alignment	3.6	Both	Joint rolling programme of client stakeholder and contractor management partnering workshops
3.Changes to senior management	2.7.b	Client + contractor alignment	3.3	Both	Commitment to named key persons and nominees with succession plan.
7.Client performance failures	2.7.b	Client + contractor alignment	3.1	Client	Contract training programme for all stakeholders. Workload planning and IT communications
10.Commercial attitudes, open book incompatibility	2.7.b	Client + contractor alignment	3.0	Contractor	Ensure team co-location. Staff inductions to include signing a statement of commitment. Identify source and alert line management. Corrective counselling (staff re-induction) Disciplinary procedures
17.Failure to realign contract administration procedures	2.7.b	Client + contractor alignment	2.4	Client	Allow sufficient time and resource in the programme.

5.3.4. Readiness Review

Defining goals

It is as important to understand your partner's goals as it is to understand your own. Many problems occur when assumptions are made about goals, as subsequent actions can actually erode their attainment. This is the first real test of honesty and openness in the relationship.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
The client has shared a clear view of forward business with its partners.			
Each partner understands its own goals and has shared them with the other organisations.			Alignment workshops, independent facilitator.

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There is a common view on the relative importance of each stated goal.			
The goals are compatible and if they are achieved they will benefit each organisation in an equitable way.			Negotiating value into the relationship.

Measures, key performance indicators and critical success factors

In order to have a common view of when the goals have been met a set of meaningful and comprehensive measures must be agreed. These will probably include intermediate steps and way-markers, input factors such as training and output factors such as quality.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
Critical success factors and key performance indicators are agreed and SMART.			European Foundation for Quality Management (EFQM) excellence model, balanced scorecard, etc
The most likely barriers to achievement of goals, and measures of these have been agreed.			

Joint planning

Much of the value created through partnering comes from joint planning with the widest experience available to the process.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)

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There is a jointly endorsed strategic plan.			
Short term action plans to meet the near term goals have been jointly produced and endorsed.			
The processes required to meet the goals are the best combination from all partners.			
Significant risks/threats to successful delivery have been identified and agreed management/mitigation strategies developed.			

Constraint analysis

Each organisation brings its own mixture of skills and resources, as well as its own constraints, such as relationships with regulators and shareholders. This must be managed as soon as possible to limit the potential for misunderstandings, conflict over shared resources or common tasks, and possibly unexpected behaviour.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
The respective skill bases and overlaps are clear to all parties.			
Each organisation understands where others are flexible and where they are not.			

Partnering agreements

This section covers the written commitments that the organisations make to each other.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)

Long term partnering

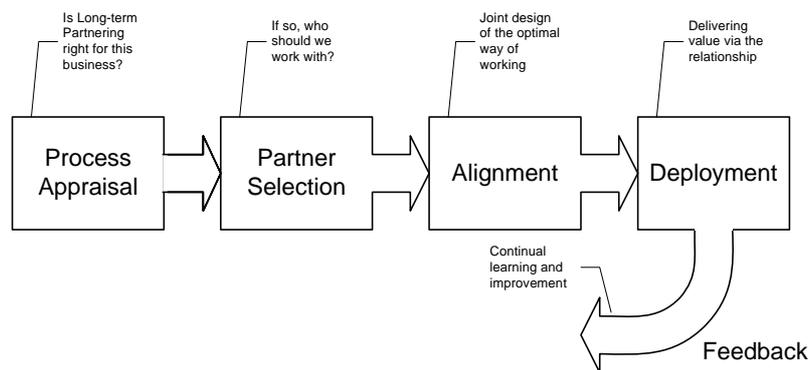
A partnering charter is co-signed by all parties explicitly stating the values to be upheld by the members			Charter should cover commercial, safety, people, environment, stakeholder, etc
Evidence of commitment to knowledge sharing and open 360° feedback.			

Incentivisation

Most agreements of this type are incentivised in some way or other. This can be direct financial reward for performance improvement, or more long-term aspects like repeating business, sharing in future profits, expansion to other parts of the business, etc

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice techniques(s)
An incentive plan is agreed by all members			Win-win negotiation skills or mediator
The incentive plan is consistent through all the partnering organisations.			
Personal/team incentives are equitable across the member organisations.			

5.4. Deployment and feedback



Editorial note: highlight 'deployment' box and 'feedback' arrow on figure above

5.4.1. Description

If the above sections have been about creating value, this is about capturing and retaining it. The area of deployment is also where the greatest leadership challenges lie, as previously championed behaviours may have to be challenged, and alignment of each individual organisation becomes a daily requirement.

Process integration will change the way people interact on a day-to-day basis. It does not necessarily mean merging processes, but is more likely to be mapping of how each organisation's processes interact. While there may well be scope for rationalisation and removal of duplication, the primary goal is to enable a high-quality working environment.

At this stage the *measures* will be developed to apply in some way to all personnel involved from every organisation. This will help to align behaviours and performance to the overall objectives; however they should be recognised as fair and equitable by those affected. Both input (actions and behaviours) and output (results and performance) measures should be derived in order to feed the improvement process.

It is the responsibility of management to demonstrate constancy of purpose and to display appropriate behaviours in order to build and strengthen relationships. A steering group of senior managers from each organisation can be a great help by removing barriers to, and creating opportunities for, progress. Communication will play a vital role in informing everyone of what is expected, and providing a safety valve for the inevitable doubts and frustrations.

Infrastructure includes accommodation, IT, reporting systems, etc. Every aspect can either be a source of co-operation or conflict, and they should be configured to help the relationships. Joint systems for sharing knowledge should be put in place. The most common and simple action is co-location of the teams to allow face-to-face meetings. However, this is not always possible where multiple sites are used.

The purpose of all of this is to get better, so *learning and development* are essential. This cannot be left to happen by itself, and should be a systematic and integral part of the workflow. It is difficult to take time to review and learn when every job is urgent

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and deadlines loom, but unless continuous improvement in performance is valued as much as working hard, then long-term partnering is unlikely to succeed.

5.4.2. Risk generating issues

Focus on short-term cost reductions

As noted in Sir Michael Latham's foreword, there is a growing interest on the part of some client companies in reverse auctions online, where bidders adjust their opening prices downwards in real-time bidding slots and in the face of visible but anonymous competitor rates. These can be efficient in procuring consumables and commodities if properly prepared and managed. However, this type of procurement is not appropriate for works services contracts where performance within the contract is critical to the end user of the asset being constructed, modified or maintained. They are particularly damaging in relationships where trust is a necessary component, and by focusing on a single transaction in the overall process, they can also be a misleading and divisive indicator of value.

Inability to deal with setbacks

Setbacks are inevitable in all business relationships, and partnering is no different. A partnering deal essentially incorporates shared risk arrangements. Risk, whether to agreed budget and schedule or to performance in areas such as quality and safety, normally translates itself to "bottom line" cost to each partner. Equitable management of that risk is essential, even when it may be counterintuitive to do so. Several organisations participating in the industry survey reported that they see setbacks as opportunities to test the strength of the relationship, and it can emerge stronger from difficulties if everyone keeps their nerve.

Having said this, over-reliance on the partnering relationship to solve all problems is also seen as a risk area. The balance of relationship and responsibility is an essential feature of successful partnering.

Continuity of support and participation

A common issue is change to senior management, undermining continuity of commitment and effective performance improvement. As the application of partnering spreads across the organisation, new challenges also appear. Whilst successful in delivering major projects within the controlled environment of a project scope and organisation, partnering is less successful within the framework of long term contracts where client and contractor business management regimes have conflicting business objectives. Additionally, the required culture of openness, trust and co-operation is difficult to cultivate where a greater cast of players is involved.

Another threat to continuity is the prevailing economic climate. The recession of the early 1990s undermined a number of long term arrangements due to the lack of spend by clients through the contracts.

Lack of meaningful feedback

The relationship will require regular re-alignment in order to grow, and this is often lacking because there is either not enough data, or insufficient time allocated for reflection and communication. The indicators that were agreed in the initial alignment are of no use if the data is not collected, and there must be a commitment to make sufficient time available to understand the information, decide on future actions and to make the work more successful.

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Becoming trapped by the learning curve

The development of the relationship can be a risk if it closes off better routes to value. This can occur because the prospect of managing a long, disruptive and expensive learning curve when introducing a new contractor to the site often deters the client from taking this option. Commercial testing of the market can easily revert to re-negotiating rates with the current contractors as competitor suppliers are discouraged by the apparently low chance of success.

Client non-performance leading to lower contractor performance

As the working arrangements develop and become more integrated, there is an increased focus on client performance that may not have been previously visible. Questions such as access to work areas, issue of materials and mess facilities can become challenges to the relationship. Where traditionally the client organisation may have treated contractors as lower priority than their own people, this cultural barrier has to be removed in partnering arrangements. This is often a subtle and stubborn issue that challenges individuals' perceived status, and must not be ignored.

5.4.3. Principal risks

Risk	Survey ref	Category	Average Risk Factor (5=high risk)	Partner responsible	Avoidance/mitigation/management action
7.Client performance failures	2.7.b	Client + contractor alignment	3.1	Client	Contract training programme for all stakeholders. Workload planning and IT communications
13.Joint problem solving procedure not implemented	2.7.g	Management of disputes	2.8	Both	Ensure the partnering manual includes agreed procedures.
17.Failure to realign contract administration procedures	2.7.b	Client + contractor alignment	2.4	Client	Allow sufficient time and resource in the programme.
18.Contract review procedure not agreed	2.7.g	Management of disputes	2.4	Both	Agree a schedule of meetings and reports and circulate to all stakeholders.

5.4.4 Readiness review

Process aspects

This deals with the detailed aspects of bringing people into the wider organisation, and enabling them to work together better.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
A facilitated induction process is available for all new staff, including team building workshops.			

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Process integration is a standard approach.			Processes include changes and variations, resources, risk management, authorisations, dispute resolution, etc
Continuous review and improvement is established.			Including customer feedback.

Measurement and monitoring

The main business measures and indicators will have been set already. This is about refining the detail and setting up reporting paths so that performance data is fed back to the key decision-makers.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
Detailed KPIs have been derived from the headline measures and agreed with the relevant business unit.			Detailed cost savings, work quality, etc
Monitoring of performance is regular, meaningful and consistent. It covers both input and output parameters.			Feedback should be useful to the person who has to make decisions based on it.
Incentives and rewards are performance based and seen as equitable by those affected.			Employee feedback surveys.
Provision should be made for measurement of softer issues.			

Ongoing management

The leaders of the partnering arrangement should have some specific time set aside to review and intervene as necessary in specific relationship-oriented areas.

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Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
A steering group that represents all members convenes at regular intervals to review the health of the relationships.			See best practice technique 4.1, partnering boards and health checks. Terms of reference are partnering oriented, key roles, such as relationship managers, are appointed where necessary.
Communication is open, with no surprises, successes championed, and effective across businesses, functions, projects and individuals.			
Management at all levels act in accordance with the principles of co-operative working.			Person-to-person marking minimised, single programmes, refresher training, best resource deployed, etc
Team and individual 360° feedback should be secured through appropriate processes and structures.			

Infrastructure

Each organisation should make the best efforts to manage its infrastructure in a way that is consistent with the other partners. This may include using common interface documents, such as service level agreements, or IT and procedures.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
Quality and safety are managed and reported in a way that is understood by all parties.			

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The reporting structure enables the best person for the job to be appointed at all times.			
Common internal customer/supplier formats are deployed, such as service level agreements.			
Procedures are clear, easy to use and accepted by all stakeholders.			

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Learning and further development

All successful partnering relationships have a strong element of improvement orientation. This is at all levels and across all stakeholders.

Desired state	Importance 1 - 5	Confidence level 1 - 5	Action(s) and best practice technique(s)
Examples of best practice are shared across all personnel.			
Specific events are held to review and plan for improvement across all levels and organisations.			
Value enhancing processes are embedded in the management systems and deployed where appropriate.			

6. LONG TERM PARTNERING BEST PRACTICE TECHNIQUES

This section describes a range of key techniques which can be adopted to underpin successful long term partnering. ECI plans to develop a number into full value enhancing practices, with detailed guidance and metrics.

6.1. Establishing partnering boards

Individual task force members had experience of long term partnering across a number of industry sectors. Together with feedback from the industry survey and case study material, those sectors which emerged as prominent in applying these tools included:

- Rail infrastructure
- Utilities – water and power
- Nuclear
- Pharmaceuticals
- Oils and chemicals
- Public sector buildings and infrastructure

The models below are based upon best practice developed by clients and their supply chains within these industry sectors.

6.1.1. Partnering board – establishing the process and members

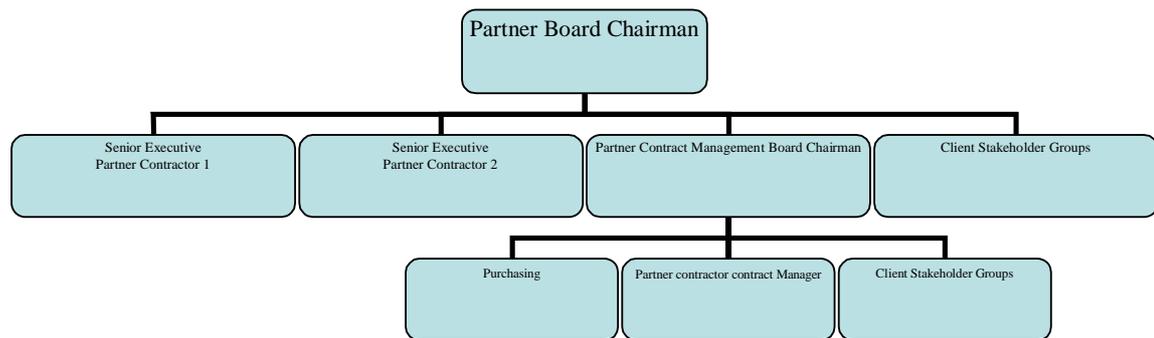
A partnering board will include representatives from a number of key long term contractors involved at the client facility. Its purpose is to ensure the top-down commitment to the long term partnering arrangements at the client facilities and overview the management of the contract performance.

Membership the partnering board should consist of senior executives/directors of the client and partner contractors preferably not directly involved with the contracts on a day-to-day basis, each with the influence within their organisation to benefit the contract.

The day-to-day management of individual contract performance is the responsibility of a partnering contract management team.

It is essential that all stakeholder groups are represented if the relationship is to survive the conflicting demands of each during its term. The intention to create a partnering board together with its objectives and management process should be clearly communicated by the client during the partner selection process. During this phase, the short-listed potential partners should be asked for their nominations for named members. It may also be useful to ask for their proposals for health check templates rather than the client being absolutely prescriptive.

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- Partner selection phase
 - ⇒ Client statement of objectives of the long term relationship
 - Include all client stakeholder groups objectives
 - ⇒ Client statement of intention to create partnering board
 - Objectives of the board
 - Proposed membership and responsibilities
 - Management process
 - Meetings (agenda and frequency)
 - Information/reports required (content and incumbents)
 - ⇒ Client proposals for a partnering contract management team
 - ⇒ Client requirements for health check reviews
 - Outline statement of client monitoring
 - Partner supplier proposals
- Contract award
 - ⇒ Further develop with selected partners, adapt and adopt
 - ⇒ Publish a partnering strategy policy document
 - Relationship objectives
 - Board objectives
 - Board membership
 - Management process
- Board members
 - ⇒ Senior executives of both client and contract partner capable of adequate influence within their company for the benefit of the contract and not directly involved in the contract on a day to day basis
 - ⇒ Chair: rotation of responsibility between contract owner (eg site engineering manager) and contractor partner (eg regional managing director) with annual term of chair.
 - ⇒ Client stakeholders senior representative
 - Engineering/contracts manager
 - Purchasing department
 - Operations management
 - Asset manager (representing all portfolio asset managers)
 - Site safety and security
 - Industrial relations

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- Other engineering functions (eg plant overhauls, workshops and stores, commissioning)
- ⇒ Contractor partners
 - Company directorate/senior executive
 - Key supply chain senior executive (eg equipment suppliers)

6.1.2. Partner board objectives

- The development of the partner relationship such that the agreed relationship objectives can be efficiently managed and monitored thus ensuring that all performance targets are achieved or exceeded.
- The definition of long term partnering given in part 2 of this handbook is the recommended overriding objective. However, partners might wish to incorporate other more specific issues eg to reduce the client revex and capex expenditure by a target percentage.

The functions of the partnership board are:

- To administer the partnership and partnership strategy
- To provide advice and guidance to the partnership management team in its implementation of the partnership strategy
- To be responsible for the management of all variations and to review at periodic intervals with the client
- To resolve issues or disputes referred to the partnering board
- To maintain the organisation and membership of the partnership management team
- To review the procurement and sub-contracting strategies of the partnership team members
- To advise on strategies and monitor the performance of the client and the partnership team members and determine all measures which may be required to retrieve any adverse trends with regard to programme, cost, safety, performance or quality
- To consider and determine the extent and impact of variations to the scope of work on both the target completion date and the associated cost
- Make recommendations on how new partnership contractors can be introduced
- Foster and monitor continuous improvement in respect of the partnership performance
- The company representatives of the partnering board are not authorised to agree amendments to the partnering contract

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6.1.3. Meetings - frequency and agenda

Frequency of the partnering board meetings will depend upon issues such as the size of the client facility and volume of work/level of spend through the partnering contracts. As membership of the partnering board consists of senior management and executives of the client and partner contractors, it is recommended that meetings are held quarterly.

The partnering contract management team will normally meet on a monthly basis and the report data/information for these meetings summarised and uploaded to board meeting.

Partner board agenda

For these meetings to be effectively managed the following should apply:

1. A board report should be developed and circulated to all members by the partnering contract manager, in advance of the meeting covering the agenda points below.
2. Each board member should understand the scope of each partnering contract, performance targets and incentive mechanisms.
3. Each board member should fully understand the management process and data provided and how it should be interpreted.
4. A presentation of the board reports, the partnering contracts and management processes will be made to the board by the partnering contract manager as soon as possible after the partnering board is formed.
5. The agenda will typically cover the following:
 - o Culture change management status
 - o Organisation and team integration
 - o Management processes and procedures
 - o Communications and interfaces
 - o Innovation
 - o Workload, resources and planning
 - o Quality management
 - o Safety management
 - o Contractor performance targets and KPIs
 - o Client performance and KPIs
 - o Payments and incentives
 - o Health check status
 - o Relationship risk and problems for board action

Partnering contract meetings agenda

This will cover broadly the same issues but specifically for each contract and in detail. Corrective actions which cannot be resolved by the team will be summarised for referral to the project board

6.2. Partnering health checks

These are designed to identify the obstacles and omissions which threaten to undermine the targets and objectives of the relationship such that corrective action can be taken as early as possible. Many of the corrective actions can be implemented by the management team: however, problems of a more corporate nature or created by

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external influences may require partnering board support. Health checks may be carried out at the same intervals as the board meetings but in advance such that the findings are available to the meeting.

Health checks will address the items covered by the board agenda and the following examples of checks and metrics are given as a guidance. Each of these issues can be developed and tailored to suit the circumstances;

Culture change progress

Culture change action	Effectiveness rating (1=high, 5=low)
Partnering champion appointed and responsibilities agreed and published	
Partnering board start up presentation and board visibility in promoting culture change	
Quality of client partnering induction/awareness programme – external facilitators	
Quality of contractor partnering induction/awareness programme – external facilitators	
Register of attendance at inductions and sign up to partnering code of conduct	
Partnering profile communication (newsletter etc)	
Visibility of achieved performance	
Partnering code of conduct developed	
Programme of team building events	
Method of supply chain/third party involvement	
Programme of regular team briefings carried out	

Organisation and team integration

Organisation	Effectiveness rating (1=high, 5=low)
Organisation chart published and understood	
Roles and responsibilities ditto	
Register of originators and financial authorities delegated and published	
Contract particulars summarised and circulated and scope of rates properly understood by originators	
Team co-located	
Is the contractors site based team complete?	

Management processes and procedures

Partnering specific procedures	Effectiveness rating (1=high, 5=low)
Client commercial policy and procedure document revised as appropriate	

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Standard forms and instruction process developed and available	
“Online” processes made compatible	
Joint quality manual developed and implemented	
Relationship risk register and management procedure implemented	
Value management and engineering procedure implemented	

Communications and interfaces

	Effectiveness rating (1=high, 5=low)
Interface matrix prepared and communicated	
Process for communicating with Stakeholders and third parties	
Process for community liaison	
Communications software protocol established – collaborative software, document exchange	
Experience/best practice feedback process	

Innovation

	Effectiveness rating (1=high, 5=low)
Success barriers identified and improvements monitored	
Suggestion box scheme in place	
Partnering personnel review and reward scheme in place	

Workload resources and planning

	Effectiveness rating (1=high, 5=low)
Joint workload planning and resource management in place and effectiveness of tools used	
Mechanism for stakeholder/end user input to planning	
Coordination with third parties and other partner contractor activities (including access permitry, free issue stores etc)	

Quality management

	Effectiveness rating (1=high, 5=low)
Are quality performance KPIs agreed and measured?	
Is there a process for end user satisfaction feedback?	
Are response times understood by originators? How is this recorded?	

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Is quality improving as measured against KPIs	
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Safety management

	Effectiveness rating (1=high, 5=low)
Are safety performance KPIs agreed and measured?	
Is safety improving as measured against KPIs	
Senior management commitment to safety Eg attendance at tool box talks	
Is there a jointly agreed safety improvement action plan?	
Is there a safety related discipline process?	

6.3. Integrated team working

Industry survey respondents indicated that team co-location and integrated processes are a significant factor in establishing the required attitude and culture for long term partnering. The vocal cynic, who seems to be manifest within every partnering arrangement, can be more easily dealt with by their peers than by an edict from on high. The buy-in to a joint mission statement and effort towards achieving this as a virtual team with a single identity was also seen as important. However, there are reservations about losing identity with one's employer.

Communications are also streamlined, removing the frustrations of unresolved contact and the emergence of an "them and us" culture.

However, there are commercial issues to consider. Early involvement of the contractor in work package scope development can deliver great benefits in ensuring:

- Resource planning is optimised
- Constructability issues can be recognised and resolved upfront
- Design solutions can be quickly facilitated
- Coordination with other trades and disciplines external to the contract (eg other partner contractors in multiple partner arrangements) is facilitated.
- Access requirements can be implemented earlier
- Shorter timescales and best value solutions can be achieved

But this contractor involvement comes at a cost. One of the preferred commercial styles for long term contracts is a schedule of unit rates and prices per described task (sometimes using these as a benchmark for future efficiency savings). The preliminaries (contractor's head office, site management and site establishment costs) may not necessarily be included in the rates but priced separately, such that over- or under-recovery of these costs against turnover is avoided.

Where preliminaries are priced separately, the contractor's up-front involvement in scope definition must be reimbursed. This cost must be balanced against the benefits, and on relatively low value work packages in the maintenance and minor works arena these might be relatively small.

6.3.1 Workload planning

Where high volumes of work are instructed through a long term contract, the client might consider awarding a contract to more than one contract supplier. This delivers certain advantages, ie:

- Contractor overload during peak periods of activity (such as major planned maintenance or plant overhauls) can be avoided
- Performance between contractors can be compared
- An element of competition throughout the contract term is maintained
- Occasional skills gaps are bridged. Specialist skills may be required from time to time (eg working with exotic materials) which only one or the other of the discipline contractors may have

Conversely there are disadvantages:

- The perception that client commitment to and benefits to be derived from a single robust partnering arrangement are diluted
- The positive working relationship could be undermined when workload falls and choices between partners have to be made
- The additional contractors must be accommodated on-site
- Avoidance of fallow periods is more difficult leading to abortive non productive or overhead cost

This imposes a requirement upon the client to take a more active role in managing existing workload allocation and forecasting of future workload. This can be difficult where there are multiple originators, in different locations in a facility, issuing unco-ordinated rework instructions for routine maintenance on a daily basis. This in itself can create resource stress for the contract supplier which is exacerbated by the introduction of a capex work package.

Workload coordination can be achieved through a continuous exchange of forward plans for maintenance work by each originating operating unit within the facility through a nominated pan-facility planning focal point who also collects capital work package proposals and superimposes them onto a master plan.

6.4. Involving SMEs in partnering

Within a large outsourced workload portfolio the biggest proportion of expenditure will be made with relatively few of the total suppliers employed. Research suggests that broadly a ratio of 80% of total spend, is with 20% of suppliers. Long term partnering contracts are normally applied to this area of core business.

Amongst the 80% of suppliers who service non-core business there is a high incidence of specialist SMEs and suppliers of ad-hoc services. Nevertheless, these suppliers often have to be co-ordinated or to interface with the core business contractors, either as supply chain subcontractors or as direct suppliers to the client.

Creating the opportunity for this SME group to participate in partnering contracts will facilitate a more complete alignment of the supply chain and generate greater efficiencies.

6.5. When to consider partnering

1. Ongoing requirement for supplies and services in one or more categories.
2. Supplies or services are incapable of being defined other than in generic terms.

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3. Generic description of services is capable of expression in measured unit rates (where the method of measurement either exists as an industry standard or can be created and defined as contract specific), or as work task specific.
4. Ongoing requirement generates a substantial turnover within each category which can be serviced by one or more category suppliers. (See Part 2.3 The Industry Survey Q2.5).
5. Category turnover will be generated through multiple call-off requests by one or more originators in different locations on an as and when required basis.
6. Supplies are of a type such that delivery criteria can be targeted and measured.
7. Risk can be shared as appropriate, eg work package definition and planning require both partner inputs to achieve targets (contractor takes risk on delivery resources – client takes risk on availability of agreed access).
8. Ideally suited to planned and reactive asset maintenance and minor project works which arise on an unplanned basis.

Example market sector applications

Sector	Application	Benefits/Influences
Retail, leisure	<ul style="list-style-type: none"> • Multiple outlets in various locations with standard asset format (facility and visual). • New build projects and maintenance • High street identity change 	<ul style="list-style-type: none"> • Standardisation of elements and components. • Virtual modelling and online web based tendering and procurement. • Reduced project times • Minimised client customer disruption • Bulk specification and purchasing of standard equipment eg refrigerators, display units, bedroom furniture, white goods.
Telecommunications	<ul style="list-style-type: none"> • Multiple stations eg ISP accommodation, transmitting stations, cable rings and consumer connections. • New build projects and maintenance 	<ul style="list-style-type: none"> • Reduced in-house asset management capability • Outsourced hassle factor (licensing, planning approval, landlord negotiation, customer liaison etc)
Utilities	<ul style="list-style-type: none"> • Network installation and maintenance 	<ul style="list-style-type: none"> • Regulatory compliance • Customer (consumer) charters • Outsourced hassle factor (road closures, public highway reinstatement, consumer liaison)
Public sector buildings and infrastructure	Housing, health care, prisons, highways, ports,	<ul style="list-style-type: none"> • Reduced project times • Application of whole-

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	bridges	life disciplines
Railway infrastructure	Renewals, replacements, maintenance, new build	<ul style="list-style-type: none"> • Regulatory compliance • Access and possessions management. • Safety requirements performance and monitoring • Timetable protection • Public accountability
Onshore petrochemical industry	Minor projects maintenance, and plant overhauls	<ul style="list-style-type: none"> • Stakeholder coordination • Corporate buy-in • Non productive element (access, site travelling time, workpackage planning and mobilisation)
Other supplies to non core/administration activities	<ul style="list-style-type: none"> • Printing and stationery • IT solutions • Fleet management • Office furniture • Staff travel and accommodation • Catering services and supplies 	<ul style="list-style-type: none"> • Stakeholder/end use coordination • Corporate buy-in and control. • Rationalised/centralised call-off? • Monitoring achieved savings

6.6. Basic principles of a long term partnering agreement

- Devolution of power
- Analysis of workload
- Service requirements
- Performance measurement
- Risk allocation

6.6.1 Devolution of power

The fundamental principle of a partnership which distinguishes it from other forms of contracting is that one party must not have so much authority that it can unilaterally dictate a specific course of action.

Expressed in project terms this may apply to issues as fundamental as:

- schedule
- budget
- staffing
- quality standards/specification

Naturally, all parties do not agree on all issues all the time and to avoid paralysis, one must be charged with the authority to decide for the whole team, having considered individuals' views and concerns.

It is essential for the client as the instigator of the partnership to be clear on what issues and autonomy it is willing to devolve to the partnership and this must be clearly stated at the outset. If the answer to this question is none, then partnership is unlikely to be a course of action which will deliver success.

6.6.2 Analysis of workload

The client will ultimately have to make decisions upon

- how much work is potentially available to be executed under a partnership agreement
- whether all available work should be executed under a single partnership agreement with one team, a series of separate agreements with one team or various agreements with separate teams

There are significant benefits associated with repeat business under a single long term agreement:

- higher volume often equates to lower cost
- the partnership team becomes more familiar with each member's requirements leading to greater efficiency
- administration (and costs for both parties) is reduced in developing new partnerships for each project
- team members stay together longer, interface more effectively and become proud of the long term association and success

6.6.3 Service requirements

Many client organisations involved in major capital projects retain at least some, if not a considerable, in-house group who are capable of delivering or participating in the delivery of projects. To enable the client to define the services required of a

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partnering arrangement a thorough examination of their own capability will be required:

This should cover the expertise available and that which the client needs to retain as part of this core business. Retained expertise is most frequent in process design but there is no reason why a client should not input any expertise into a partnership, so long as this is established at the outset.

Where the numbers of the in-house project group are significant this need not be a blockage to establishing a partnering arrangement. Such individuals' expertise can bring real benefit if they are incorporated in the project team under a partnering arrangement. What is most important is that the client avoids the temptation to run an in-house team in parallel with and to oversee the partnership. Such an arrangement will lose many of the benefits, cause unnecessary conflict and prevent the partnership from managing.

6.6.4 Measurement of performance

Successful long term partnerships only survive based upon the trust which develops between the participants. Central to the development of trust is the measurement of performance and the demonstration of success together with evaluation, early implementation of corrective action and plans for continuous improvement.

Measurement of performance can potentially be time-consuming and an unnecessary diversion of management resource away from their primary objective. Measurement mechanisms should therefore:

- concentrate on only those issues which will contribute to success
- be based upon gathering information as a matter of routine
- be easily audited with minimal effort
- contribute directly to management reports

Whilst there are a multiplicity of performance issues which could be measured on any project, it is important to ensure that particular emphasis is place upon:

- cost
- schedule
- quality
- safety
- plant performance
- environmental conformance

Worthwhile measurement must be compared against contemporary data. This can be achieved by benchmarking the levels of performance or anticipated performance against:

- recognised best practitioners and other organisations at the outset of the partnership
- year on year internal comparison
- regular checks against the external market place

The essence of partnership is that all participants benefit from the success of achievement and share in the benefits of exceeding and bettering agreed targets.

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Although inwardly the team benefit by sharing financial rewards, outwardly success is demonstrated through reported achievement. Therefore, long term benefit is more reliant upon reported demonstrable success rather than short term financial gain. The importance of performance measurement must not be overlooked even if it is not linked to financial incentives.

6.6.5 Type of formal agreement

Appropriate to both term- and project-specific partnering are a number of further options:

- Alliance A particular form of partnership which is based upon joint management of a project utilising both the client and one or more contractors' resources in a single integrated team.
- Joint venture A vehicle for bringing together the skills and resources of two or more organisations in order to generate enhanced commercial performance compared to separate operations.
- Consortium A type of joint venture, with risks and liabilities are clearly separated and not assumed jointly by the parties
- Extended enterprise Contractor group established and operating within client organisation as part of the client team.

In the private sector, partnering arrangements are normally implemented and agreed through a competitive bid process and subsequent negotiation of the finer detail.

6.6. Whole life asset management

6.6.1. Fragmentation

Whole life cost includes the cost of finance, design, installation, replacement of components at the end of their life, maintenance and use of the facility.

Since the introduction of the Private Finance Initiative (PFI) by the UK Government, for the procurement of public facilities and services, the property sector has developed techniques to predict the whole life costs of buildings. Through PFI, the private sector finances the capital investment and through life operation of a facility over a concession period. Through the transfer of risk, there is created a vested interest in the private sector contractor in optimising whole life cost.

Although the process industry client has traditionally financed all of these through life elements, the high cost impact of loss of production (the consequences of which can eclipse even the initial capital investment) demands high levels of plant reliability in order to minimise the effect of breakdowns and outages. The onshore and offshore process industry has therefore been involved in whole life asset management at component level for many years.

However, it can argued that in both cases (PFI and the process industry), the through life approach is fragmented and not wholly co-ordinated, with each of the cost components being developed independently to suit each budget holder's own priorities. Consequently, the cost of design and construction is developed with

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insufficient attention to the impact of design solutions upon the cost of replacements and maintenance and upon the risk thereby incurred to availability of the facility.

Although in the PFI model a single contractor consortium is appointed and most of the risk transferred to that vehicle, there remains fragmentation within the consortium structure both between the equity partners themselves and also with their subcontractors. Risk transfer is generally passed down the supply chain to the construction and facilities management subcontractors. Commercial polarisation at this level means that optimised through life costs are difficult to achieve.

The design and build subcontractor wants to deliver the lowest cost facility which normally dictates lower specification standards. The facility operator subcontractor wants the highest possible quality to keep their own operating costs as low as possible. Despite this conundrum, the PFI bid process brings together a through life team.

6.6.2. Creating whole life solutions

In long term partnering, the opportunity arises to bring together all parties with an interest at each stage of the asset lifecycle through integration and co-location of client and partner contractor such that through life issues can be addressed.

A number of features of long term partnering contribute positively to the delivery of whole life solutions. However, the task force did not find any examples of the application of whole life cost solutions in long term arrangements outside of PFI and DBFO (design build finance and operate) deals.

One reason is the high risk attached to consequential loss to the client operations in the event of failure of components being operated outside specified criteria and the inability to attach cause and effect to failure modes which can absolutely implicate the partner contractor.

However, the task force felt that some guidelines should be provided if commitment to best value is to be achieved.

- Contractor involvement in scope development
 - Best value solutions can be achieved through all party input to scope development of work packages when considering design, constructability, accessibility for operations, reliability, access for maintenance and cleaning, safety and environmental impact.
- Development of standard work scopes with fields for all of these issues will facilitate best value through life solutions.
- Reliability of operating plant can be a target KPI. It will be difficult to attach incentives to this within the contract incentive scheme due to the existence of influencing factors external to the contract. However, a commitment to measure and report reliability within selected work packages may generate value for both partners.
- Co-location and integrated teams
 - Development of a team charter which undertakes to mutually strive for best value solutions. This should include undertakings from each of the client stakeholder groups eg safety, quality control, operating units, engineering.

Case study - whole life solutions

Submersible rotating equipment was normally procured from specialist manufacturers and subject to a separate direct contract with the supplier. The client purchasing team selected suppliers on the basis of lowest cost against a 100% detailed specification. The rotating fins of the lowest cost solutions were fabricated from thinner, lower grade material, and third party gearbox and bearing specifications were also not optimised. Consequently reliability and length of service were adversely affected with consequential impact upon operations.

A long term partnering contract was made with an innovative supplier who demonstrated to the client engineering manager that the higher initial cost of manufacture using higher specification materials would be offset by the cost benefits longer periods between failures (guaranteed by the equipment supplier), thus reducing the lifecycle replacements and interruption to operations. Furthermore, a commitment to purchase all future rotating equipment would rationalise the fabrication process further reducing initial cost.

The equipment supplier also aligned their supply chain to mirror the exclusive deal with the client resulting in similar efficiencies and price reductions on their sub components.

6.7. Communications and collaborative software

Integrated teams and joint management procedures incorporating standardisation provide a platform which can maximise the benefit of having a real time document exchange and communications.

On large facilities, the client may operate a single site-wide networked management system or a series of individual systems incorporating;

- Financial accounting
- Budget management
- Site access safety and security
- Engineering planning
- Resource management
- Procurement, contracts management invoicing and payments

Proprietary systems exist which require significant client effort in tailoring the shell software package to suit their business operation followed by site-wide training of personnel. These projects can be expensive and demand the resources of key personnel, drawing them away from their line responsibility for long periods of time.

A number of web-based project collaboration packages are also developed and available in the market. The task force was not charged with evaluating and recommending these and the reader can conduct their own market research in this area. However, caution was expressed about valuable and commercially sensitive data belonging to the partners and being held on a third party fileserver.

Alignment of contractor and client IT systems is an investment which can be safely made within a long term contract on the basis that this investment will generate returns throughout the contract which will offset initial cost.

A cautionary note! If the relationship deteriorates or, if it is not “evergreen” and, at the end of the contract term, the client considers changing partners, then the logistics of disconnection and the legalities of data ownership must be addressed early in the partnering process.

Case study - joint IT initiative

Although there are “off the shelf” software packages available which can manage and report on items such as work package ordering, cost estimates and payments, performance and KPIs, workload planning and resource management, these are limited in functionality. Such applications are best applied when designed by the end users and developed using software writers committed to a specific client.

A delegation of client engineers and partner contractors visited one of the client’s other sites where a proprietary system had been installed. They concluded that such an installation was not affordable and it would be difficult to assess the contractor contribution.

A joint initiative to develop specific packages using a local software design consultant shared the modest cost of developing a suite of stand-alone applications which could upload data direct to the site management system was completed including;

- Call-off register and work package measurement, valuation and invoice logging
- Resource allocation and productivity monitoring
- Contractor workload planning and coordination
- Online minor contract field order logging
- Contract development request log

This suite of programmes complemented the joint performance and administration rationalisation initiatives and although no quantum of benefit could be specifically measured, it was considered that the overall 30% cost reduction achieved within the partnering arrangements was significantly influenced by their application.

Long term partnering

Appendix 1: The industry survey

The survey was conducted between March and June 2002.

Although statistical analysis has been made of the survey responses, the questions were designed to extract a snapshot of industry experience in long term partnering arrangements, and to collect a consensus on the extent to which the threats identified by the ECI/Active group were relevant and incidence of their occurrence.

The questionnaire was sent to:

- the ECI membership list
- the ECI Active membership list
- a sample of companies known to be participating in long term partnering. This included clients as well as the supply side, manufacturers, consultants, private and public sector. Companies were of varying sizes, including SMEs

The questionnaire consisted largely of multiple choice questions with a few open questions where respondents could describe their specific experience. It was designed to determine the extent to which LTP is used, first hand experience of problems encountered and successful corrective actions. The questionnaire finished with a section which was aimed at identifying suitable case studies that illustrate and support the recommendations in this handbook.

Section 1. Business classification (profile of respondents)

The first section aimed to classify the respondents business. In total 32 responses were received, of which 7 were anonymous. The first few questions were aimed at categorising the type of organisation, size, main business sectors and countries of operation.

The responses were distributed as follows (number of responses given in brackets):

- 28% private sector clients (9)
- 28% consultants (9)
- 19% contractors (6)
- 13% public sector clients (4)
- 6% materials/equipment suppliers (2)

13% (4) were SMEs, 2 consultants and 2 material/equipment suppliers.

55% rated the size of their organisation relative to others in their sector as large, 26% medium and 19% small.

The main sectors in which companies had LTP experience were:

- 25 % Process/manufacturing
- 17 % Pharmaceutical
- 16 % Public sector facilities
- 15 % Energy/utility
- 11 % Construction
- 11 % Transport/infrastructure
- 5 % Government/administration

Section 2. Long term partnering experience

(Q2.1) Agreement with definition

Respondents were asked in how far they agree with the following definition of long term partnering:

Long term partnering is the development of sustainable relationships between two or more organisations to work in cooperation for their mutual benefit in the delivery of services over a specified period to achieve continuous performance improvement.

81% agreed fully and 19% agreed but suggested amendments, some of which were:

- Replace ‘...between two or more organisations...’ with ‘...between aligned organisations to enhance mutual value and performance ...’
- From a public sector perspective the correct EU procurement terminology is ‘...delivery of works, goods and/or services...’

(Q2.2) Long term partnering based on existing relationships. Who are the partners?

The majority of companies, that is to say over eight out of ten, either awarded or are awarded LTP contracts to/from companies with which they had a previous supply relationship.

This has been identified as one of the main barriers for SMEs getting involved since most clients look for a successful LTP track record which SMEs find difficult to build up for that very reason. Indeed, three-quarters of SMEs stated that less than 20% of their LTP contracts were with clients with whom they had an existing supply relationship.

(Q2.3) Public private partnerships

Slightly more than a quarter of companies had been involved in PPP/PFI type of arrangements where public sector bodies partner with private companies to provide services and facilities.

(Q2.4) Adoption of partnering policy

When asked to what extent their company procurement policy encourages LTP, only two companies, one public and one private sector client, said it was policy across all procurement, while 85% applied it where circumstances suited. One respondent, an SME, stated that their company had a non-adversarial and collaborative code of conduct in relation to its entire business performance.

(Q2.5) Time and cost limits

The time and cost limits under which the respondents consider long term partnering deals applicable varied widely. The minimum duration was in some cases as low as six months but on average companies felt that between one and two years should be the minimum period for which they would enter into a LTP arrangement.

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SME contractors were all at the lower end of the timescale. Whilst seeing performance improvement advantage in the “quick win” early period of the long contract term, a lack of experience in what is involved in setting up these deals means it is difficult for the inexperienced SME to appreciate that greater benefits will only be realised after the initial set-up period.

Private sector clients felt that 5 years was the maximum duration, while public sector clients tend to have longer timescales of 7 and 10 years. All SME contractors said 5 years.

Half of all respondents stated that they had a minimum contract expenditure, below which they would not consider long term partnering. This ranged from £100k, which the majority of those who responded considered appropriate, to £1 million as cited by one major private sector client. The maximum contract expenditure was around £5 million for both public and private sector clients, with one exception, a large private sector client who let contracts worth up to £20 million. The value of other long term partnering arrangements in the UK public sector comprising “packaged” and injected projects could be as high as £750m or even greater when PFI deals are taken into account.

(Q2.7) Single and multiple partnering deals

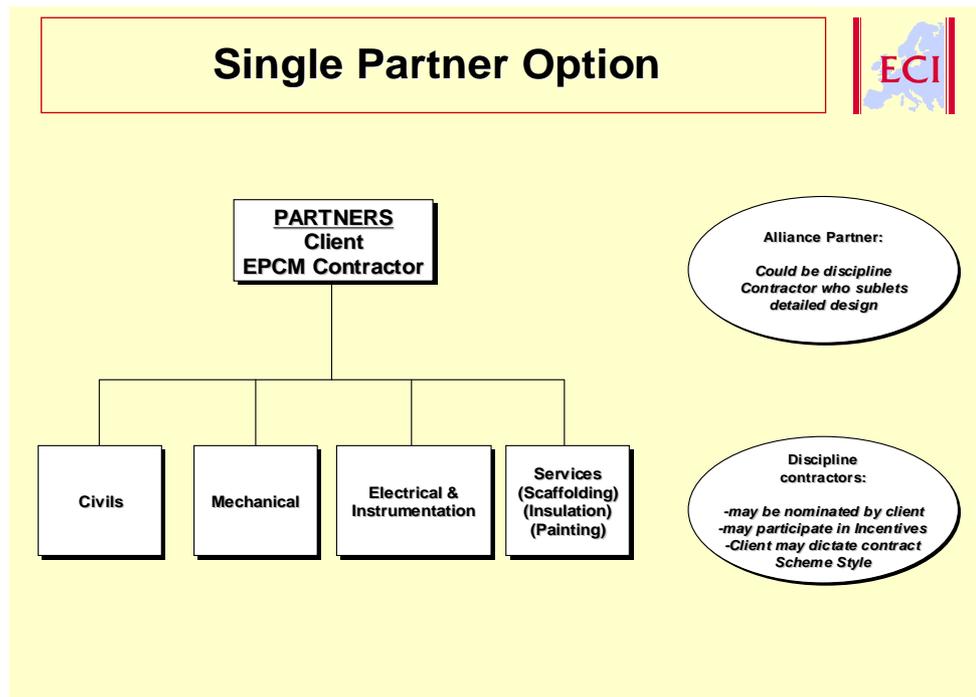
Single partner deals

Clients award a partnering contract to a single contractor who may in turn sub-let to discipline contractors. However, they are often excluded from the performance and incentive arrangements. The partner arrangement is between the client and the single partner only. However, excluding sub-contractors from any incentive arrangements might affect the full potential for efficiency gains and in certain circumstances may run counter to the partnering ethos that the contract sets out to achieve.

Multi-skill contracts are a variant of this **single partner** style. These allocate the responsibility for several interfacing disciplines within a work package to a single contractor. Typical examples occur on manufacturing sites where low-skill activities can be co-ordinated by a single contract manager who employs each skill group direct.

For instance, a work package to reinsulate pipework and equipment on an existing facility will involve services such as scaffolding/access, thermal insulation and industrial painting. Additionally, minor civils and steelwork (eg pipe supports) may be required within the package. Labour can be retrained to carry out one or more of these skills or the contractor manager may co-ordinate separate skill groups.

Such arrangements must be harmonised with the site industrial relations agreements and be capable of falling within and even enhancing safety requirements.

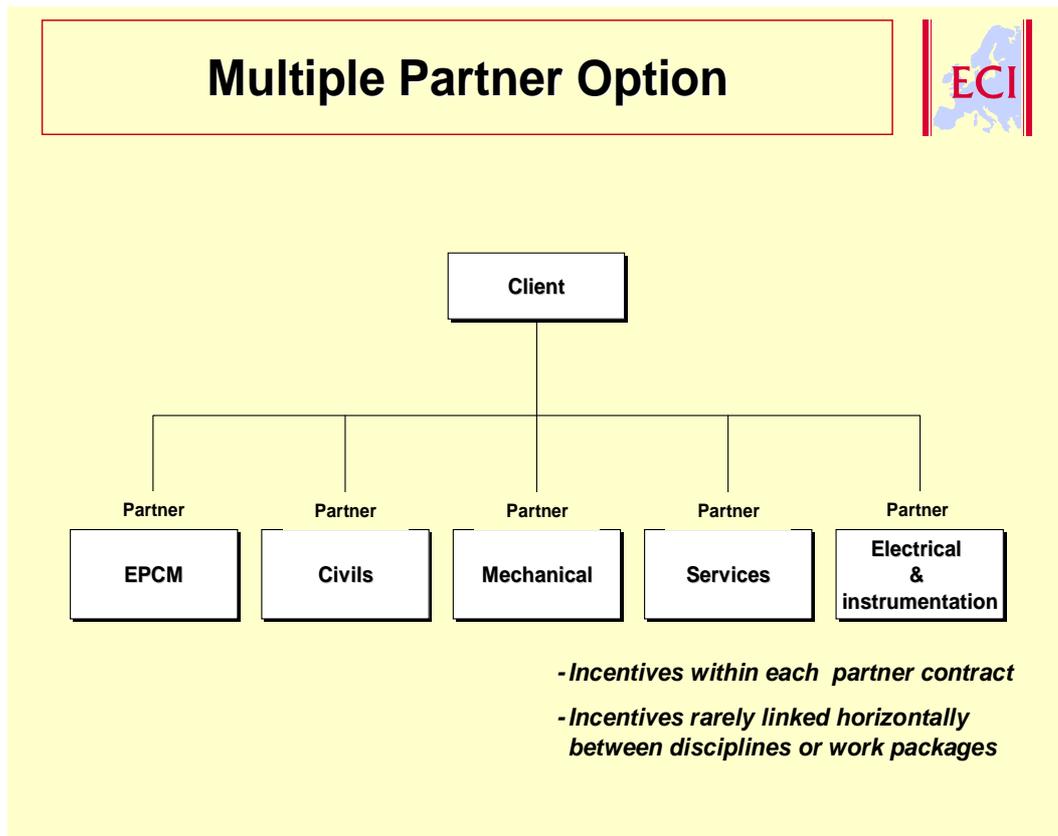


Multiple partner deals

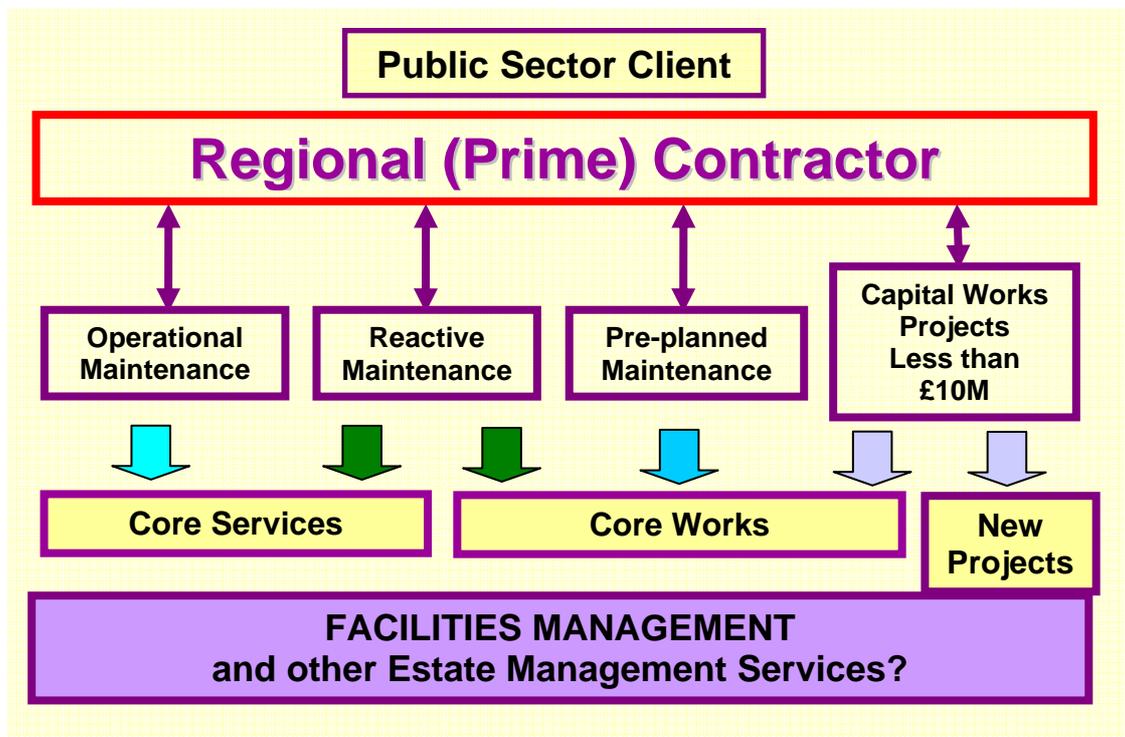
Under such deals, the client awards partnering contracts to individual discipline or work package contractors.

These deals are commonly applied where there is an ongoing programme of work in maintenance and minor project works based around an annual budget. In these circumstances, it can be difficult to create a relationship between the relative performance of each partner contractor except where they contribute to the same work package. In any event, work package values can be relatively low and there may be no value in incentivising their co-ordinated performance.

However, in the large and major project environment, **multi-partner alliances**, where each partner shares with the client, are more common.



Below is a variation on the model, as used extensively and effectively by a major UK public sector client.



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One-third of respondents stated that 90-100% of their involvement in LTP arrangements was as a single partner, while to 70% of respondents said that this applied to 50% or more of their LTP involvement.

Just under a half of respondents entered LTP arrangements as a multiple partner in under 30% of their partnering contracts.

Incentives – allocation and sharing

75% of those in single partnering deals prefer the incentive arrangement whereby performance targets and an incentive pool are specific to each partner contractor, whereas in the multiple partnering arrangement the companies prefer the scenario where performance targets and incentive pool are common to all partners.

In only just over 20% of both single partner and multiple partner contracts, supply chain sub-contractors participate in the incentive arrangements.

Three quarters of material/equipment manufacturers said that in their experience, supply chain sub-contractors participate in the incentive pool for single partnering arrangements. Surprisingly, only a small percentage of contractors said the same.

One material/equipment manufacturer's experience was to be very different to that suggested by contractors, hence the comment 'that'll be the day when subcontractors get to share the incentive pool!'

It would seem that instead of shared performance targets and incentive pools, in most cases these are specific to each contractor partner. A large private sector client explained that in their case, targets and incentives are aligned across all contracts but only rarely shared from one pool.

One public sector client would like to see the use of incentives and performance targets/measurement implemented on all projects and felt that subcontractors should always be allowed to share the incentivisation scheme.

For multiple partnering arrangements, respondents' experience indicated that both alternatives, namely the use of performance targets and an incentive pool common to all partner contractors on one hand, and performance targets and incentive pools that are specific to each contractor partner on the other hand, are similarly common.

(Q2.7) Risks and threats to long term partnering arrangements

An ECI/ACTIVE workshop held in October 2000 considered the range of risks which can undermine or challenge long term partnering arrangements. This list was further developed and incorporated into the industry survey questionnaire.

In this section of the questionnaire, the task force identified a number of key risk areas which can potentially occur during the partnering life cycle. The respondents were asked to rank these on a scale 1 to 5 (5 = high risk, 1 = low risk). They were also given the opportunity to add any others from their own experience.

A total of 27 risk areas, abstracted under 9 generic categories, were presented in the questionnaire. Respondents were asked to rank these under 3 question headings, viz;

- Risk rating
- Risk occurrence

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- Effective corrective action

(2.7.1) Risk rating

These areas perceived to have the highest risk were, in descending order:

1. Failure to achieve cultural change (this applies to both the client and the contractor).
2. Allocation of risk not properly managed with too much reliance on the partner relationship
3. Scale of risk not linked to incentive mechanism
4. Partnering relationship insufficiently developed
5. Changes in senior management

The lowest risk areas were:

1. Contractor insolvency
2. Contractor in dispute elsewhere
3. Selection criteria too onerous
4. Poor results from partnering identified elsewhere in the market
5. IT systems/software coordination
6. Procedural interfaces (QA/safety)

The standard deviation (measure of how widely spread the responses were around the average value) is similar for the top and bottom five. For most risk areas the full range was mentioned by various respondents: however most answers tended to be at either the upper or lower end of the scale.

Few respondents added other risk factors or threats. Those mentioned were:

- KPIs and failure to agree those
- Failure of client to honour their partnering obligations

(Q2.7.2) Risk occurrence

Respondents were asked to prioritise the five most commonly-occurring risk areas based on their company's experience. In descending order they were:

1. Insufficient workload
2. Client performance failures (permitry issues, free issue materials, scope definition, planning, etc)
3. Changes in senior management
4. Change control procedures inadequate
5. Prices offered do not meet client expectations
6. Allocation of risk not properly managed with too much reliance on the partner relationship

Differences to question 2.7.1. might be a reflection of the perception of risk versus those that are experienced in reality.

Key risks and threats according to the respondent groups

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Consultants and contractors in particular considered insufficient workload to be the main threat with over one-third assigning a high risk to the problem. Those clients who responded to that question interestingly all rated the risk as low.

A trend worthy of note is that the majority of those respondents who rated 'client performance failures' among the 5 most common risks, were actually clients themselves. Only one contractor and one equipment/material supplier put it among their top five.

The importance of adequate change control procedures was mainly acknowledged by consultants.

All but one contractor have seen their LTP arrangements undermined as a result of changes in senior management and allocated accordingly high risks to it. Only one client considered this an issue at all and then only one with low risk.

Consultants were the group most concerned about poorly-managed allocation of risk. The fact that only one client and one contractor respectively included this in their top five risks may be an indication that in practice it is often not a problem.

Some consultants and clients indicated the lack of adequate joint problem-solving procedures as a risk. This again was less of a concern to contractors and equipment/material suppliers.

Over two-thirds of the consultants found that the prices offered did not meet client expectations; interestingly less than one third of clients and only a quarter of contractors supported that view.

(Q2.7.3) Effective corrective action

When asked whether corrective action had been agreed for their top five key risks and threats the response was varied. Of those who replied, approximately half had taken corrective action.

1. Failure to achieve cultural change - 40% yes and 60% no
2. Allocation of risk not properly managed with too much reliance on the partner relationship – 55% yes and 45% no
3. Scale of risk not linked to incentive mechanism - 40% yes and 60% no
4. Partnering relationship insufficiently developed - 60% yes and 40% no
5. Changes in senior management - 45% yes and 55% no

One public sector client commented that clients are becoming more aware of the actions they can take at the outset to avoid problems later but it appears difficult to take corrective action once the contract is awarded.

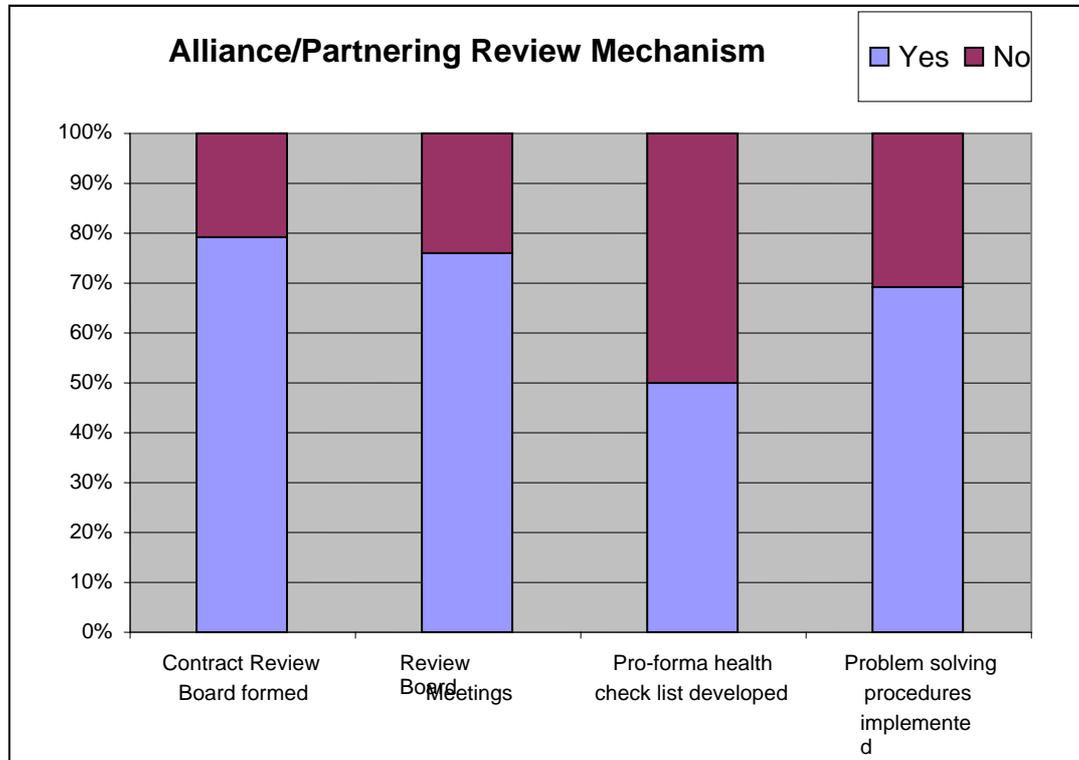
(Q2.8) Terms and conditions of contract

Respondents were asked about the terms and conditions of contract which they have used in their LTP arrangements. Forty seven percent of the respondents have stated that their involvement in LTP arrangements is usually within the client's own terms and conditions of supply/contract. One third stated that theirs usually involved industry standard forms such as NEC, JCT, FIDIC, IMechE. while only 12% used terms and conditions based on those of the supplier or contractor.

Section 3. Avoidance and management of risks to partnering

Respondents were asked whether their company had been involved with the development or implementation of alliance/partnering reviews designed to predict, avoid or take corrective action against risks to their LTP arrangements.

Four review mechanisms were given and the graph below shows their application.



Contract review boards were by far the most popular instrument to ensure the continued health of LTP arrangements. They were not only implemented but also used in 80% of the cases.

In most cases each of the four mechanisms were employed alongside each other. The health check pro-forma was least developed.

Section 4. Long term partnering best practice techniques

Respondents were asked to state if they have used the following long term partnering best practice techniques in the LTP arrangement experiences:

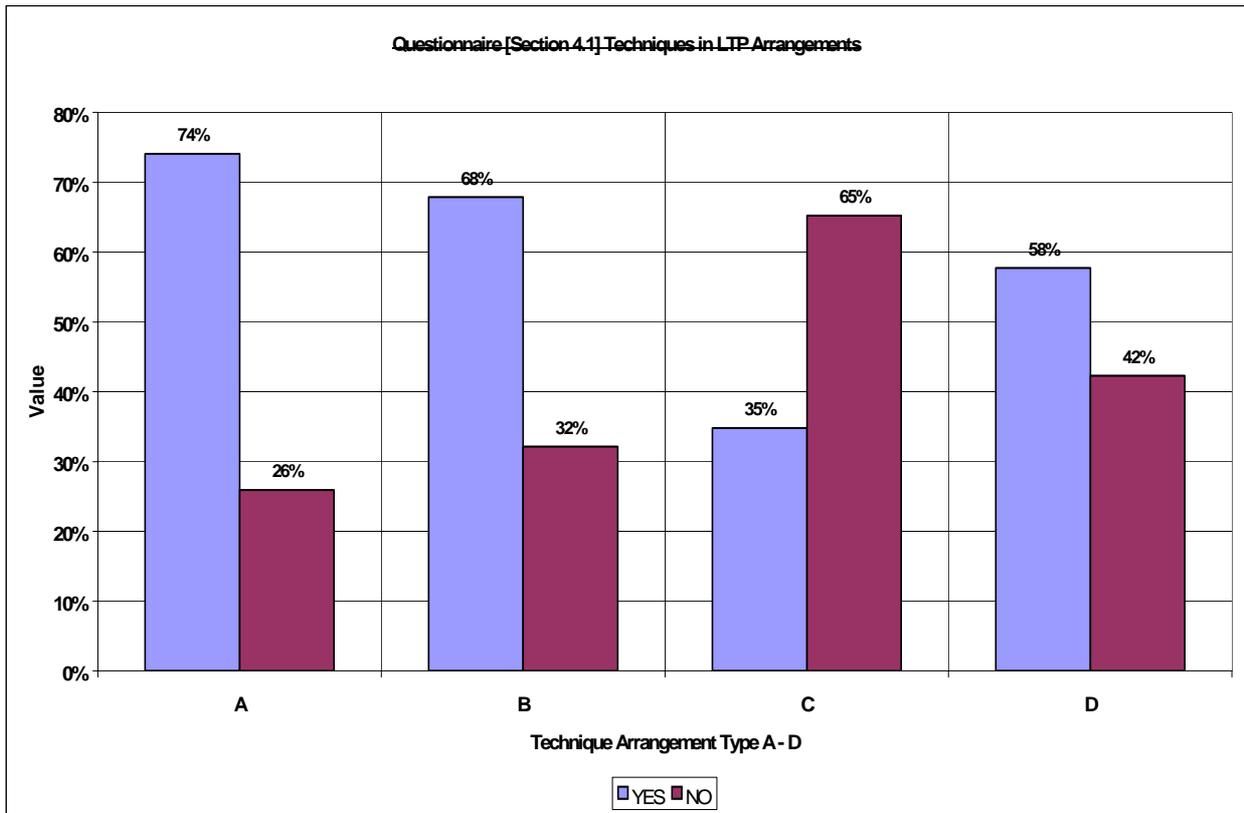
- A – Integrated team working/collaboration procedures (workplace development)
- B – Culture change training
- C – Communication and collaborative software
- D – Value engineering and whole life management recognition

Of the four, the use of communication and collaborative software was by far the most popular with almost seven out of 10 respondents using them.

Value engineering and whole life management techniques were still employed by four out of 10 respondents while culture change training was undertaken by one-third.

Integrated team working and collaboration procedures (work package development) were the least widespread, being used by a quarter of respondents.

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Other long term partnering best practice techniques named by respondents concentrate strongly on the use of common ICT (information and communication technologies), in particular:

- All work uses same computer desktop environment;
- Shared development of software;
- Use of electronic data exchange network and intranet/extranet;
- Documentation exchange;

Survey summary analysis

Respondents

Type of Company	Size of Company	Market Sector
29% Private sector client (10)	55% Large	24% Process/manufacturing
12% Public sector client (4)	26% Medium	17% Pharmaceutical
26% Consultant (9)	19% Small	18% Energy/utility
18% Contractor (6)		11% Transport/infrastructure
9% Materials/equipment suppliers (3)		26% Consultants
6% SMEs (2)		4% Public/other

All respondents had headquarters in the UK.

Long term partnering

Long term partnering policy

- When circumstances suit 85%
- Do not consider LTP applicable 9%
- Company policy across all procurement 6%

Duration and value of contracts

Duration; Minimum 2years – maximum 7 years

Value; £350k to £5700k

Single and multiple partnering

Single Partnering 75%

Multiple Partners 25%

Risks and threats in descending order

(5 = high risk, 1 = low risk)

- (average score)
1. Failure to achieve cultural change 3.6
 2. Risk allocation not properly managed (3.5)
 3. Changes to senior management (3.3)
 4. Insufficiently developed partnering life cycle strategy (3.2)
 5. Prices offered do not meet client expectations (3.2)
 6. Insufficient workload; client performance failures; change control procedures not adequate; scale of risk not linked to incentive mechanism (all 3.1)
 7. Commercial attitudes, open book incompatibility; risk not properly allocated, cascaded too far along the supply chain (both 3)
 8. Difficulty benchmarking with traditional procurement prices (2.9)
 9. Joint problem solving procedure not implemented (2.8)
 10. Poor contractor selection criteria; sales team is different to delivery team (both 2.7)
 11. Insufficient time allowed up to award (2.6)
 12. Failure to realign contract administration procedures; contract review procedure not agreed (both 2.4)
 13. Lawyer review of non standard terms leading to 'stalemate' (2.3)
 14. Economic climate (2.2)
 15. Selection criteria too onerous (2.1)
 16. IT systems/software coordination; procedural interface/QA/safety (both 2.0)
 17. Poor results from partnering identified elsewhere (1.9)
 18. Contractor in dispute elsewhere (1.8)
 19. Contractor insolvency (1.7)

Top 6 most commonly occurring risks

1. Insufficient workload
2. Client performance failures (permitry issues, free issue materials, scope definition, planning, etc)
3. Changes in senior management
4. Change control procedures inadequate

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5. Prices offered do not meet client expectations
6. Allocation of risk not properly managed with too much reliance on the partner relationship

There was a strong correlation between the highest perceived risks and the most commonly-occurring in practice.

Terms and conditions of contract

- 47% client's own terms and conditions of supply/contract
- 33% industry standard forms
- 11% other
- 9% supplier/contractor standard terms

2.4. Case studies

Case study material was collected through the interview process usually visiting the client location. A minimum of half a day was spent examining the methods adopted throughout the contract life cycle from the decision to partner through to the implementation and ongoing management of the contract.

Both partners were interviewed either separately or jointly and opportunity taken, where available, to also interview supply chain companies.

The task force undertook generally to use case study material in abstract format to illustrate the implementation model in the main part of the handbook. Additionally, case studies were presented at the workshop for SMEs held in January 2003 at Shell's Stanlow Refinery in the UK.

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APPENDIX 2: THE INDUSTRY SURVEY QUESTIONNIRE

APPENDIX 3: AN ANONYMISED CASE STUDY OF TRADITIONAL LONG TERM PROCUREMENT METHODS

Introduction

The case study takes the example of an industrial manufacturing complex with ongoing outsourced services and supply requirements against annual budgets. However, the same analysis can be applied to any corporate facility and operation. The reader is encouraged to consider the example in the context of their own company's involvement in their supply chain and their relative position in that chain ie:

- ***Vertical relationships***
 - Upwards – as direct suppliers to end users or subcontractors to a main contractor.
 - Downwards – as buyers of supplies and services either via direct contracts for supplies to their own company operations or as a contractor/managing agent on behalf of a client.
- ***Horizontal relationships***
 - Where their contract imposes a duty to plan and manage interfaces and coordination with other discipline activities.

This section illustrates those areas where both client and contractor productivity are adversely affected by features of traditional long term contracts which can be removed or mitigated within a collaborative environment.

These examples are not exhaustive, and in studying their own traditional arrangements, companies will recognise issues which, though unique to their business, will fall within similar generic headings.

When a large oil company targeted a team of engineers and managers at one of their major refineries to look at how they used contractors it became clear that they wanted many things in addition to lower real costs - improved management, better work performance and higher standards of quality, reliability and safety than they were already getting.

Ambitious targets for reduction in the real costs of contracting were set together with targets for higher performance in the areas of productivity, quality, safety and service alongside a program of rationalization of contractor numbers and contract management procedures. **Key to success was the implementation of long term contractual relationships with fewer contractors based upon *trust, co-operation, open book and shared objectives.***

Profile analysis of traditionally-procured long term contracts

Spend and contract activity profile

Analysis of these contracts on a typical facility reveals a range of statistics including:

- ***Annual expenditure of both capital and revenue budgets*** - for expansion, upgrade and maintenance works with a large combined site budget, of which

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a significant proportion is available to outsourced supplies. Just a 10% improvement would generate significant cost reduction.

- ***A register of outsourced discipline contracts*** - presented as;
 - Discipline/category (mechanical, civil, electrical)
 - Contract owner/sponsor
 - Contract number/reference and contractor name (there may be two or more contractors sharing the category workload)
 - Contractor performance rating (based upon end user feedback under a number of performance criteria eg cost, schedule, response, housekeeping and safety, permitry compliance, management and planning)
 - Annual value (per discipline) ranging from \$100k to \$5million expressed as total annual turnover or cost per activity/task package
 - Activity/task schedule (eg scheduled tank cleaning, site-wide scaffolding and access, pipework installation, civil and steelwork, drain cleaning, cable laying, valve repairs, electrical installation, instrumentation, insulation of pipework and equipment, supplementary labour)
 - Duration or term of 1 to 3 years
 - Pricing mechanism;
 - Cost reimbursable,
 - Day works (hourly/unit rates for labour plant and material)
 - Price per task/activity
 - Schedule of measured unit rates
 - Annual lump sum price
 - Combination of the above

An approved contractors list - of several hundred companies with active orders. 80% of spend is made through 20% of these suppliers.

- ***A range of ordering/requisition mechanisms and their annual incidence*** (total number originated per annum), including:
 - Contract development process for frameworks and project packages
 - “Call-off” requests (variously named site instructions, works requests, journal vouchers, etc) originated

against specific framework contracts

- Minor contract orders for one-off work package which require competitive procurement
- Field orders/instructions to “house” contractors (from the approved list) for works or supplies which fall outside of their existing commercial arrangements but within their technical scope (emergency response, restricted/hazardous areas etc)

Anticipated future requirements –client investment plans, scheduled overhauls, production demands (volume, quality)

Administration and procedures

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In addition to the contract and spend profile it is vital to understand the administration effort and processes required to support them. The following elements will prevail.

Commercial policy and procedures

- **Policy** – the corporately-stated preferred commercial approach required to obtain the best value and prices from the market. This might simply encourage competitively procured lump sum bids.
- **Procedure** – descriptive processes expressly designed to facilitate compliance with the declared policy incorporating a control regime requiring sign-off authorities. Typically, these will require all procurement to use the contract origination pro-formas and may include:
 - **Tender boards** Constituted of senior management representatives of corporate functions eg financial, engineering, production, purchasing. These boards will review major contract spend proposals and framework contracts and authorise the award of, or variations to, these contracts.
 - **Audit group** Setting out the policy for audit of compliance with the policy and procedure.
 - **Financial authorities** Identifying functions and grades of personnel to whom levels of financial authority are attached. The contract ordering and requisition mechanisms described above will each have their own financial limits. For example, a minor contract field order will have a higher works value capability than a “call-off” instruction, but the works originator/requester must have a compatible personal financial authority.
 - **Contractor prequalification and competitive tendering**
 - **Award of contracts** Authorities, financial limits and documentation required
 - **Post contract management and control** Progress reviews, meetings, completion and acceptance, invoices and payments etc
 - **Change control and contractual claims**
 - **Contract close**

Commercial services functionality

There are two key functions of:

- Purchasing and contracts
- Accounts payable

Depending upon the volume of contracts and spend, these functions may include a sizable team of professionals and administrative support.

Metrics can be established to quantify cost and effectiveness of these functions eg:

- Total department annual cost
- Average timescales for contract development and award
- Department cost as a percentage of total site capex and revex spend
- Departmental cost as a percentage of each contract annual turnover
- Actual payment periods (invoice routing and authorisation) versus contractual terms
- Number of invoices processed per annum/month.

Allocation and management of budgets

The most effective way to cut cost is not to spend it! Anon

An inherent difficulty of these framework arrangements described above is that they facilitate spending. The total capex and revex spend is comprised of individual budgets for production and functional units. In larger companies, these budgets are often set based upon trends in the previous year's spend. Functional and production managers and their teams are required to submit their budget proposals in quarter 4 of the preceding year. If the current annual spend against budget at that point in time is too high or too low, then commensurate spending activity tends to occur in order to justify budget proposals.

Analysis of spend at macro (site or contract) level, and micro (call-off) level in one of the case studies collected as part of the project indicated that:

- People will generally spend up to their financial limit, especially those without budget responsibility.
- Restrictions imposed by contract procedure will be overcome by illegitimate methods under the belief that higher operational priorities drive the need for service.

Financial authorities - abuse of procedure

For example, a product line running at temperature loss due to product saturated insulation material may have a significant consequential cost. The repair of the leak and re-insulation may cost a fraction of that loss and be recoverable within a relatively short timescale using the framework contractors. However, the work package in value terms may exceed the financial authority of the duty engineer. This can be overcome by splitting the package down into smaller parts which fall within their financial limits.

- The system is open to abuse by vested interest groups or individuals who may generate work orders which are unnecessary but create income opportunity for a favoured contractor in return for less visible favours.

Contractor workload planning and coordination – workforce productivity

On larger facilities there will be several works originators all with differing levels of financial authority to instruct works called off against the framework contracts. These originators will be responsible for different production facilities or site functions and each with their own set of priorities.

The result is an unco-ordinated demand upon the contractor's resources and originator expectations of service and response are often not met. The text in the box below highlights an important characteristic that is often fundamental to the success of any procurement arrangement. If the client fails to define the requirement clearly or act in a timely manner when client input is required, the project will inevitably suffer. In these circumstances, clients will often drop into 'denial mode' and the overall relationship may well suffer as a consequence.

Client non-performance leading to lower contractor performance

The industry survey found that the customer satisfaction questionnaire circulated by a contracts and commercial department indicated lower than expected levels of customer satisfaction. However, further study revealed that originators in two upstream production units were issuing a high incidence of emergency call-outs which attracted additional charges for attention to problems which:

- Had been present for several weeks but became production critical
- Were not true emergencies (in one case the production unit originator wanted to secure the contractor's resources before another unit which was planning an activity).

Awarding contracts to more than one contractor within the same discipline can overcome such resource pinchpoints. However, this can lead to under-utilisation of each contractor and falls in productivity levels.

Non-productive time issues caused by client non-performance

Our *pre-partnering* case study example found three areas of lost efficiency under the control of the client before the contractor was even at the "workface" viz:

- Access permitry
- Free issue materials
- Rest breaks

All three were affected by a combination of insufficient planning and "culture" obstacles (where the contractor activity was given a lower priority and response by the issuing supervisor).

Access permits

These are normally issued at the production unit control room by a duty engineer/supervisor who should have been advised that works are to be carried out. They are normally issued at the beginning of the day and are valid for the day of issue or for the duration of the contractor works. In busy periods there may be several permits to be issued.

Typical areas of breakdown are:

- Inappropriate attitude, where the contractor activity was regarded as less important and the commercial impact of delays not appreciated
- The control room not advised of the contract works to be done

This led to the contractor's team being held on standby with associated loss of productivity and earnings.

Free issue materials

The contractor mobilises a team and transport to collect free issue materials from a central store only to find that the materials have not been prepared for collection or priority given to production needs.

The cost of standing time waiting for issue, or having to return, is either left at the contractor's own cost or paid on dayworks.

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Rest breaks

On larger sites, contractors are accommodated in dedicated compound areas. These are often situated at a perimeter location and the contractor must take travelling time into account when preparing contract rates at tender.

National labour agreements may provide for morning and afternoon breaks which must be taken within employer-provided messing facilities, normally at the contractors' compound. Toilet and messing facilities provided for the client's production staff may be out of bounds to contractor labour.

Achieving continuous improvement and value

Prior to adopting a partnering policy, the client carried out a wide-ranging review of their contract arrangements for maintenance and minor projects works and supporting procedures. Their in-house contractor suppliers were involved in the review process through "away days", where the client and contractor management teams took time out away from the workplace to examine better ways of working. A frank and honest exchange of views between the two groups revealed a number of fundamental problems, viz:

1. Misalignment of objectives leading to poor contractor performance, high costs and administration burden
2. Adversarial culture
3. Inadequate contractor selection process leading to unfair competition
4. Contract procedures not compatible with high performance and a high incidence of non-compliance
5. Insufficiently prepared client supervision capable of matching that of the contractor
6. Loss of control over work packages (programme, schedule, quality etc)
7. Slow and inefficient supplier payment process

Misalignment of client and contractor objectives

Client criticisms of contractor

- Poor productivity/efficiency
- Low quality
- Poor safety record
- No stable workforce
- Risk pricing attracting high premiums
- Short term approach – repetition of learning curve (technical and cost)
- Little investment in new technology
- No interest in solving long term problems

Contractor criticisms of the client

- Unrealistic demands (tendering and execution)
- High risk allocation (heavy reliance on claims)
- Poor commitment by the client
- Inadequate information (scope, specification, design etc)

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- Delayed or incomplete provision of access/issue of permitry documentation
- Issue of free-issue materials not available to programme
- Management and cooperation
- No consideration of contractor workload
- High level of scope changes
- Too many masters (contract work originators)
- Weak planning
- Contractor not involved in planning
- Poor payment process
- Uneven pricing competition

Leading to

- Conflict, confrontation and adversarial attitudes

Inadequate contractor prequalification/selection

- Prequalification of contractors is often achieved through a questionnaire issued by a purchasing group
- This can be regarded as an administration exercise and often lacked the ownership of an engineering-based business guardian with a vested interest in the services to be procured and a technical ability to assess the response
- The questionnaires are often designed to collect only headline data on financial profile, management structure, resource (labour, plant, fabrication) availability, safety policy etc
- Little consideration is given to the contractor's ability to contribute to the design and scope development process, construction planning, equipment procurement and materials management

Contract originators insufficiently trained

Most large sites have a range of contract instruction mechanisms from:

- Site instructions raised at supervisor level with low financial authority
- Field orders requiring a tender process and with a higher financial authority
- Contract orders for larger work packages requiring competitive bids and tender board approval and a range of financial authorities
- Originators are allocated a financial authority level with little training in the use of the mechanisms and procedures leading to inappropriate use and abuse of the system, subsequently highlighted by internal audit group
- Additionally, originators were found to lack the appreciation of the effect of their own origination performance on contractor efficiency and the circumstances required for a contractor to achieve high levels of performance

Inadequately defined contract packages - "the contractor should know" attitude

- Poor scope definition
- Incomplete design/specification/materials information
- Failure to highlight working restrictions
- Key dates not shown on program
- No provision for scope change control and evaluation
- Failure to identify the need to co-ordinate with other contractors

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- Commercial basis for employment of other site contractors e.g. scaffolder not set out
- Risk responsibility not clarified

Failures in management of costs versus budget

The operations maintenance budget is usually an element of the production unit annual revenue budget with insufficient detail to facilitate parallel development of planned and emergent works requiring contracted-out support services.

The contractor is left to determine scope of remedial works. Often, more replacement than necessary is done by the contractor to ensure a satisfied client supervisor and prompt payment.

The result is out-of-control budget expenditure with an embargo in the last quarter of year and failure to carry out other necessary works.

Protracted payment periods

- Average construction period for work instructions is 4-6 weeks followed by preparation and submission by contractor of an invoice which is then circulated to collect authorising signatures. Together with the sheer volume of invoices being processed, this means that the contractor waits between 4 and 6 months for payment.
- The client needs to carry a large administration resource to process contract instructions and payments.

Incorrect payments and lack of audit trail

A failure by originators to understand the provisions of the contract, the commercial arrangements and basis of the contractor's prices leads to incorrect payments or lack of accurate back-up to invoices. These fail the test if an internal audit group undermines the confidence of the senior management team in the contract arrangements.

Conclusion

Traditional arrangements for delivering long-term contracts do not achieve best value. They fail to facilitate continuous improvement in both client and contractor performance and unnecessarily damage the returns that contractors can hope to achieve.

The impediments to improved performance could be removed or overcome by working together to achieve a greater understanding and management of the influencing factors. Long term partnering contracts are, in many cases, the way forward.



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