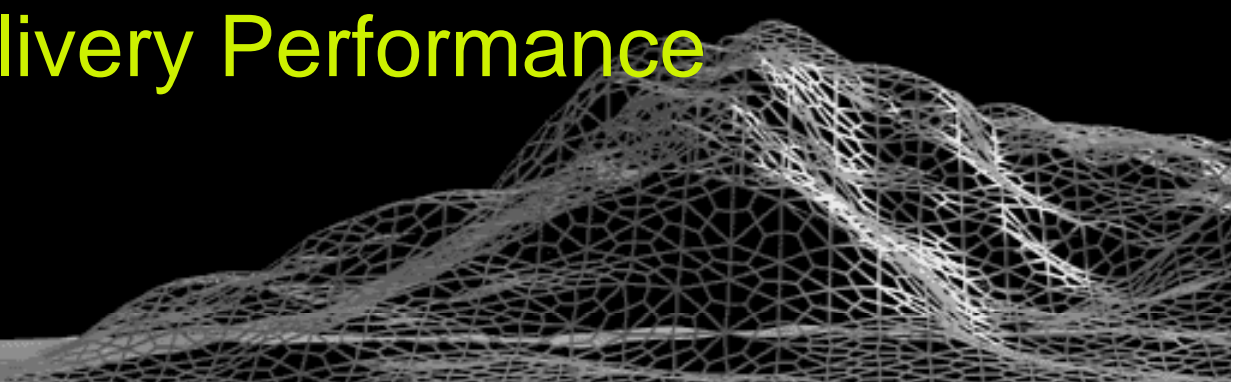




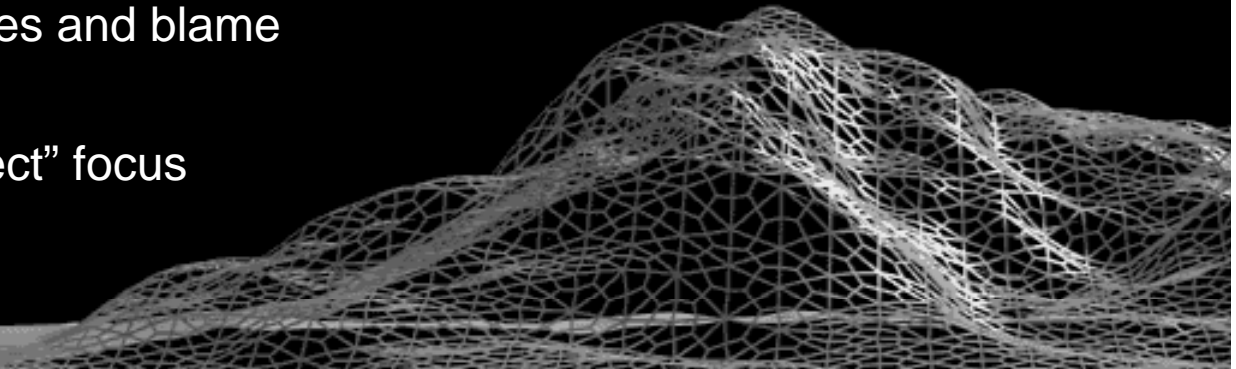
Alliancing

An Opportunity for a Step Change in
Project Delivery Performance



Typical Project Challenges

- Large capability development projects are often unique and complex
- There is a history of poor project outcomes (cost & schedule)
- Strategy of risk transfer to contractors has not worked effectively
- Adversarial relationships exist between customers and contractors leading to
 - lack of trust (“baggage”)
 - defensive attitudes and blame
 - risk aversion
 - no “best for project” focus



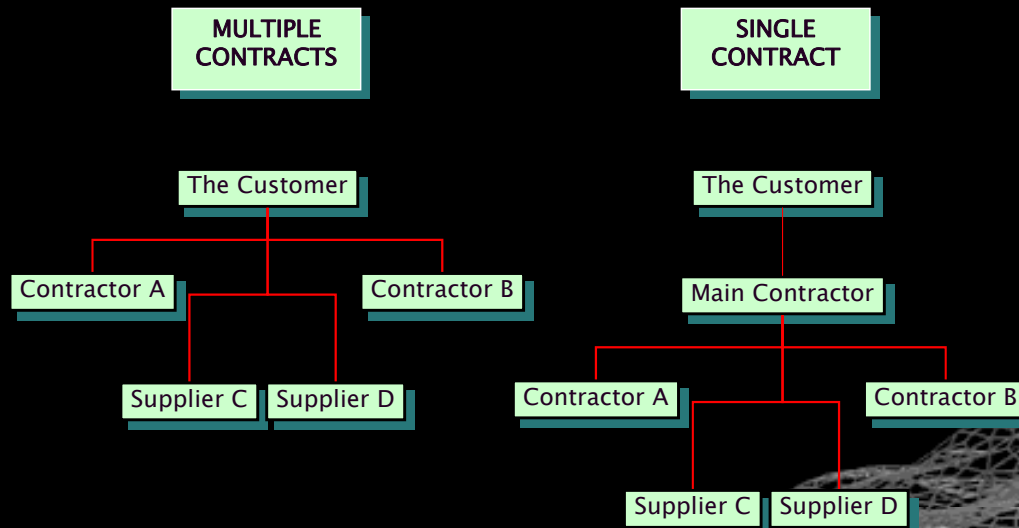
Characteristics of Execution Strategies

■ Contract Structures

- Defined scope of work
- Lump sum fixed price
- Damages for delay
- Bid competitively, adjudicated on price
- Open ended contract liabilities

■ Factors affecting outcome

- Scope of work is poorly defined
- Customer wants changes but doesn't like the impact
- No commercial alignment
- Customer managing interfaces between contractors
- Customer owns and manages project contingencies
- Contractors have little or no project focus



Objectives of the Parties

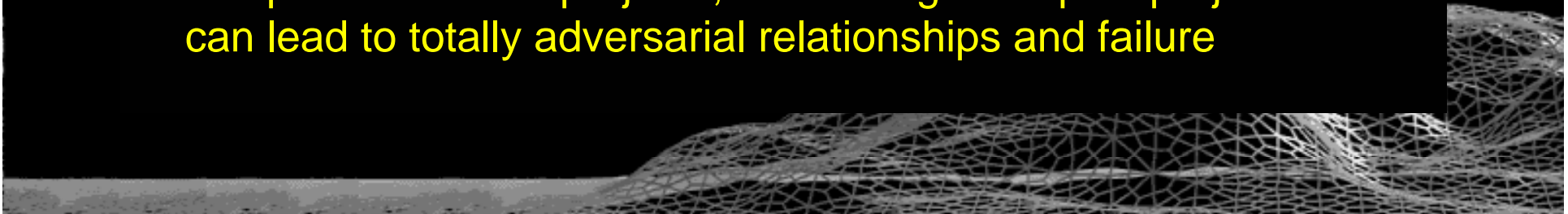
■ Customer Objectives

- Complete project for lowest cost and shortest schedule possible
- Transfer risk for cost and schedule
- Ensure required quality

■ Contractor Objectives

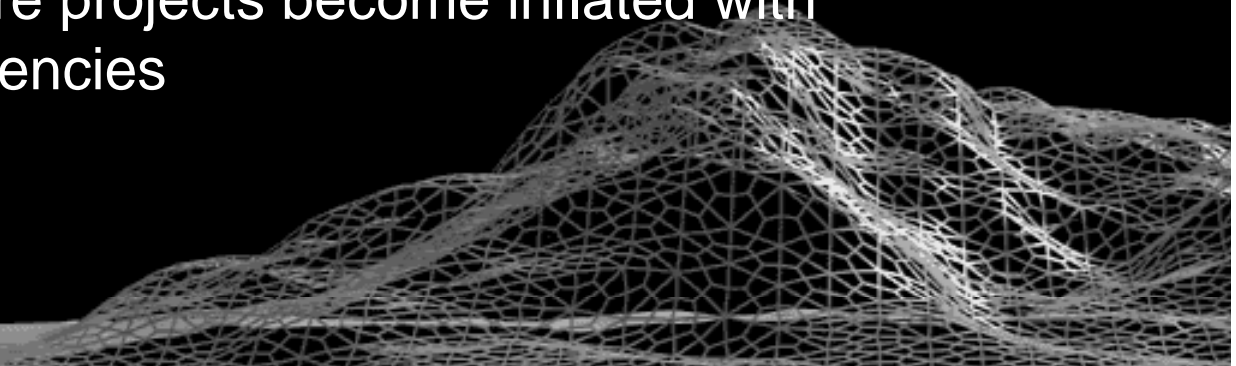
- Maximise revenue from contract
- Create maximum extra value from change
- Avoid risk for cost and schedule
- Generate maximum cash flow

These contradictory objectives can be accommodated on non complex or smaller projects, but on large complex projects this can lead to totally adversarial relationships and failure



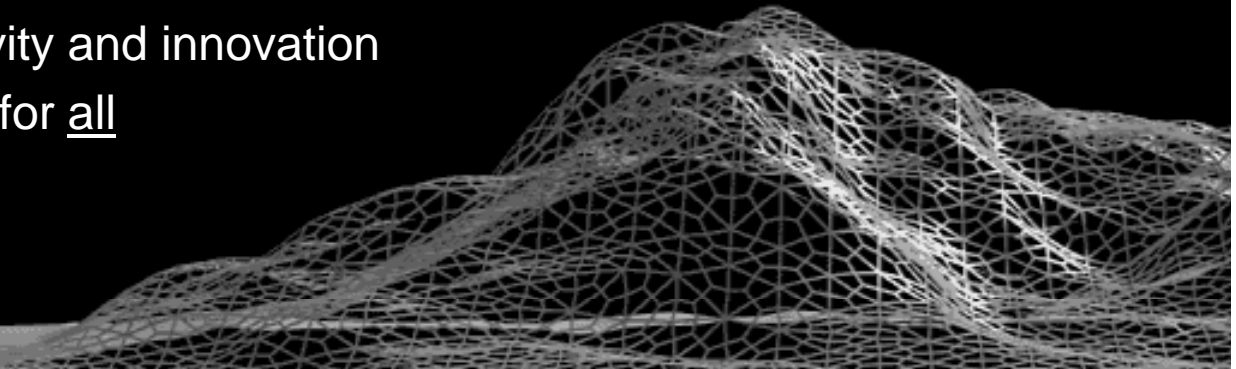
Typical Results for Complex Projects

- Poor outcomes
 - Over budget, and/or
 - Late completion
- No value for money
- Bad behaviour
 - Sour relationship for the future
- No success, all are losers
- Estimates for future projects become inflated with excessive contingencies



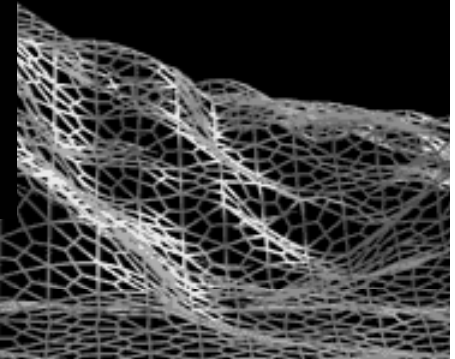
Common Needs

- Better predictability and certainty of project outcomes
 - For customers
 - For contractors
- Confidence that customers and contractors can work constructively together to deliver complex projects
- A different relationship between customers and contractors to deliver
 - value for money
 - challenge, creativity and innovation
 - improved results for all



What can an Alliance deliver?

- Other industries have demonstrated significant improvements in project performance
 - For customers
 - Up to 40% faster
 - Up to 40% cheaper
 - Higher availability over life of asset
 - Improved HSE
 - For contractors
 - Enhanced profitability through “earned” profits
 - Returns for innovation
 - Workforce performs to true potential
 - Enhanced capability, reputation and shareholder value



Alliancing - A Definition

A co-operative relationship between a customer and contractors / suppliers formed and designed for the express purpose of delivering significant project performance improvements and enhanced business results for all participants, *but.....*

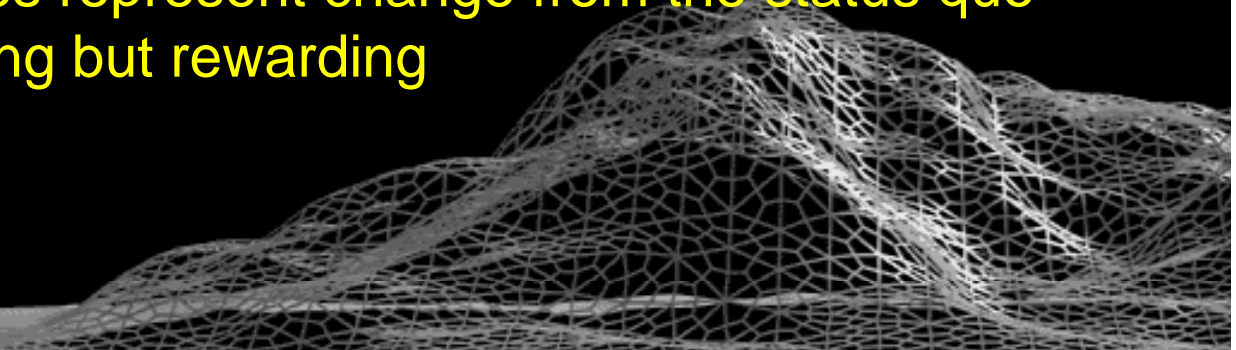
- Alliancing is not simply about having incentivised commercial arrangements - Risk/Reward
- Developing and implementing new and effective working relationships is just as important
- Properly designed commercial arrangements provide a strong incentive for transforming attitudes that drive traditional customer / contractor relationships
- Positive leadership and action is required to promote and sustain new working relationships



What is different?

- Key features of an alliance
 - Alignment and Commitment
 - Membership and Accountabilities
 - Risks and Contingencies
 - Contract Structures
 - Integrated Project Team
 - Culture
 - Behaviour

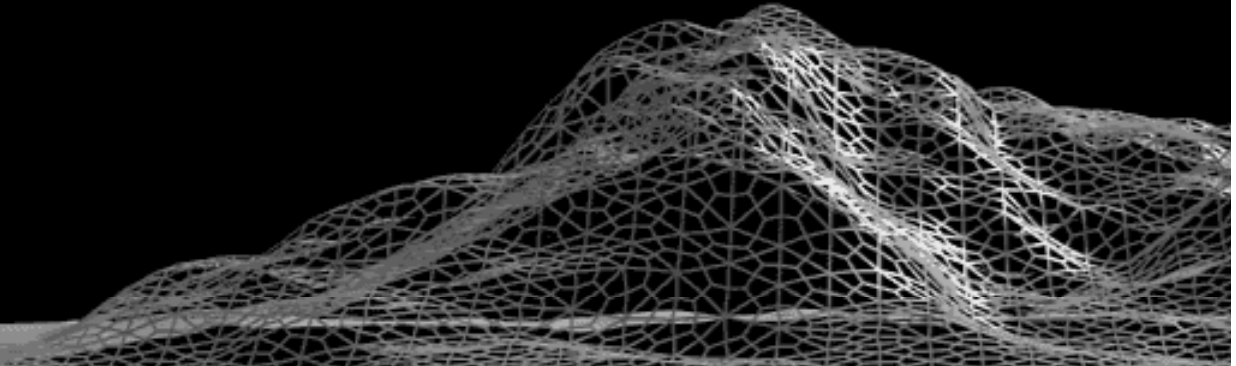
All of these features represent change from the status quo which is challenging but rewarding



Key Features

Alignment and Commitment

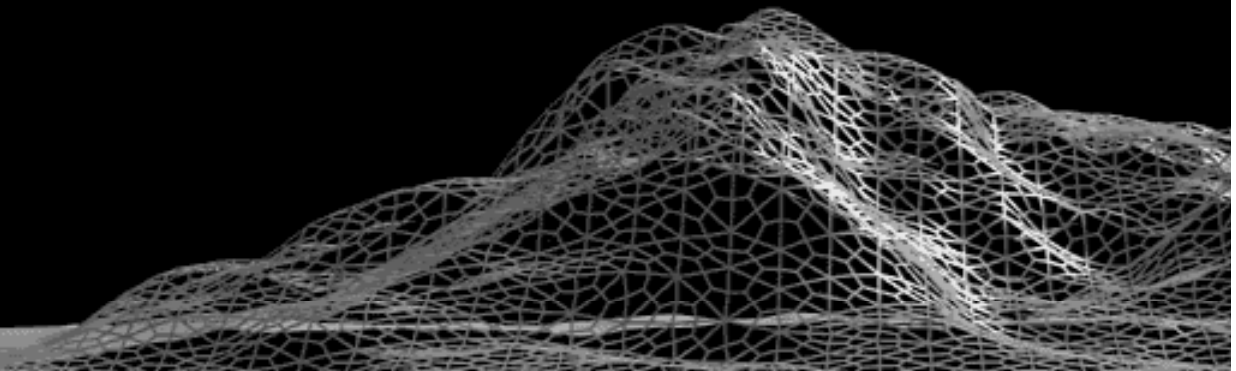
- The objective(s) for the Project are clear, challenging and cannot (or are unlikely) to be met by doing 'business as usual'
- The Alliance members are aligned and committed to the strategy and the Project objective(s)
- There is clear ongoing commitment, leadership and support from the senior corporate level management of all alliance members
- There is commitment and support (active where appropriate) from all stakeholders in the organisations of the alliance members



Key Features

Membership and Accountabilities

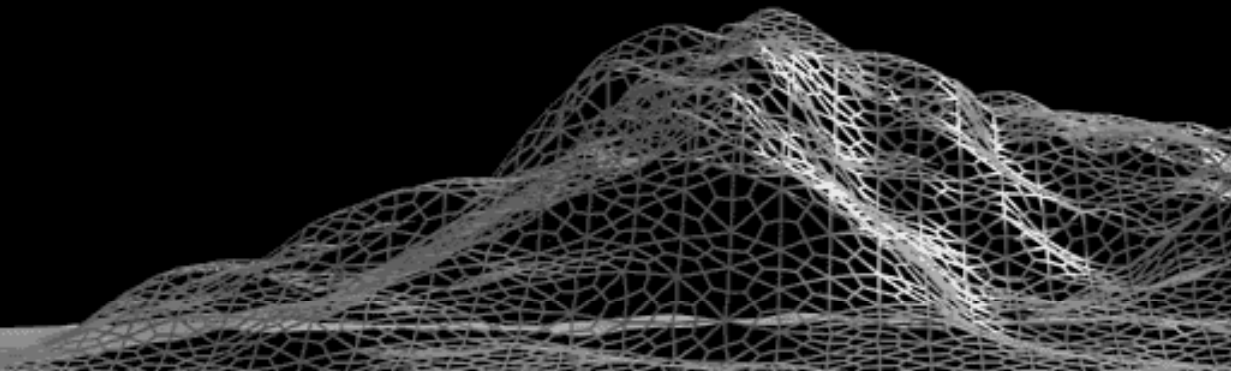
- The customer is a full integral member of the Alliance
- All key contractors/suppliers are included in the Alliance
- Each Alliance member, including the customer, has clear roles and accountabilities
- All members succeed or fail together



Key Features

Risks and Contingencies

- Risks are shared rather than transferred
- Project contingencies are jointly developed and are transparent
- Risks and project contingencies are jointly owned and managed
- The quantification of each member's risk or reward is defined by
 - each member's interest or share
 - the risk and reward mechanism

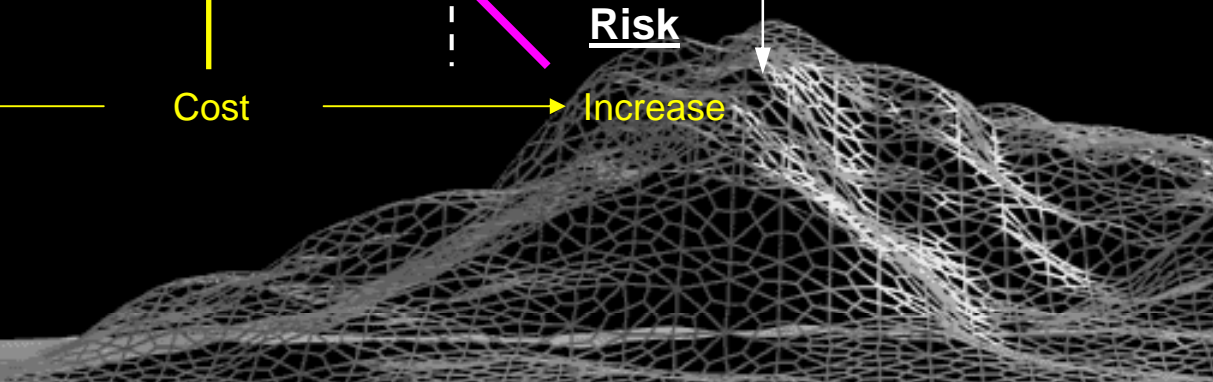
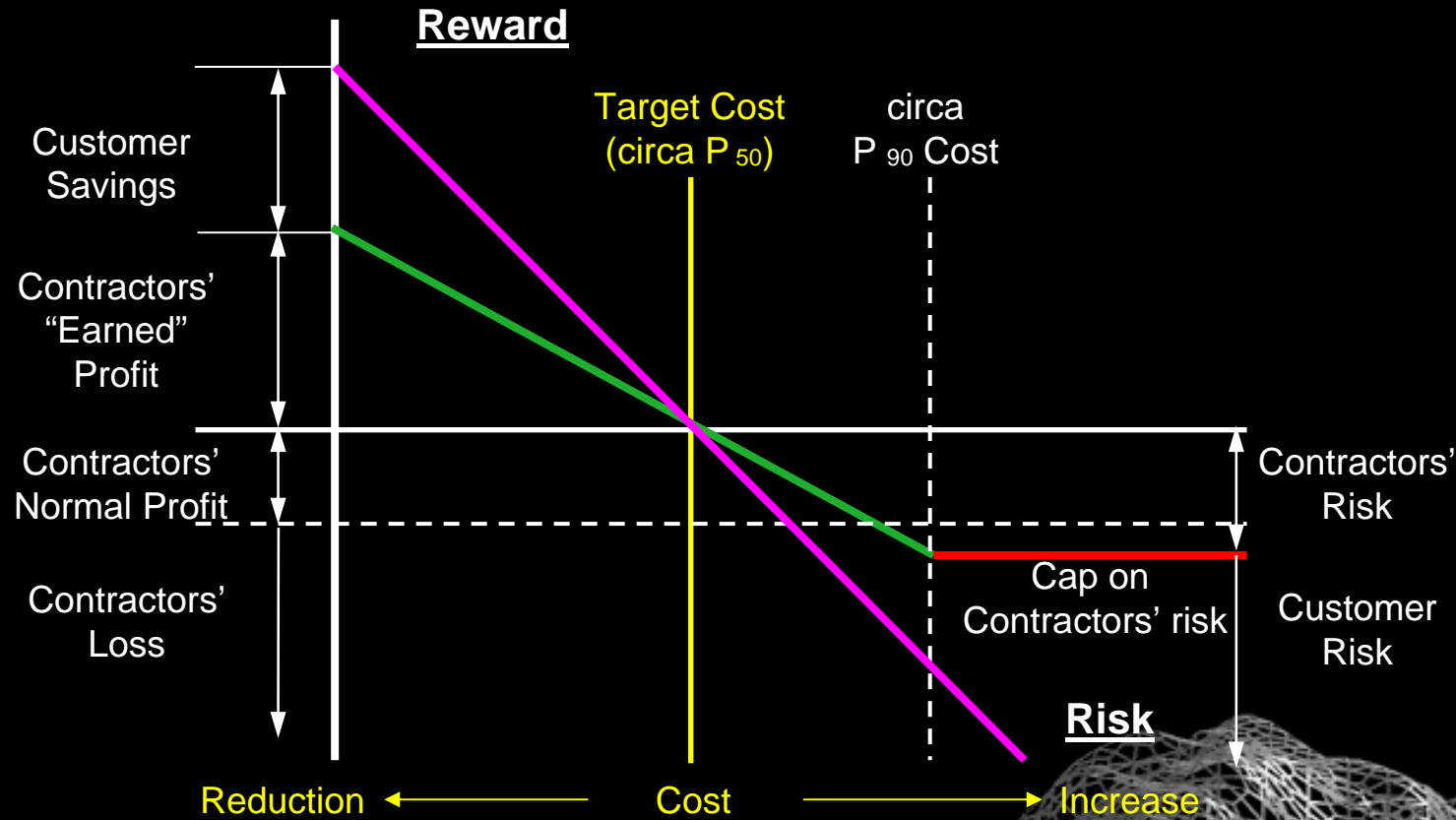


Key Features Risk and Reward

The risk and reward mechanism:

- Is clearly and unambiguously defined
- Offers superior rewards for superior performance and vice versa
- Is geared to Alliance rather than individual performance
- Is based on clear, simple and measurable Performance Criteria that reflect required overall project outcomes
- Has Performance Criteria Targets that are realistic and derived from jointly developed and agreed data
- Clearly defines the circumstances (limited) in which Targets may be changed once initially agreed
- Limits the Alliance Contractors'/Suppliers' downside risk

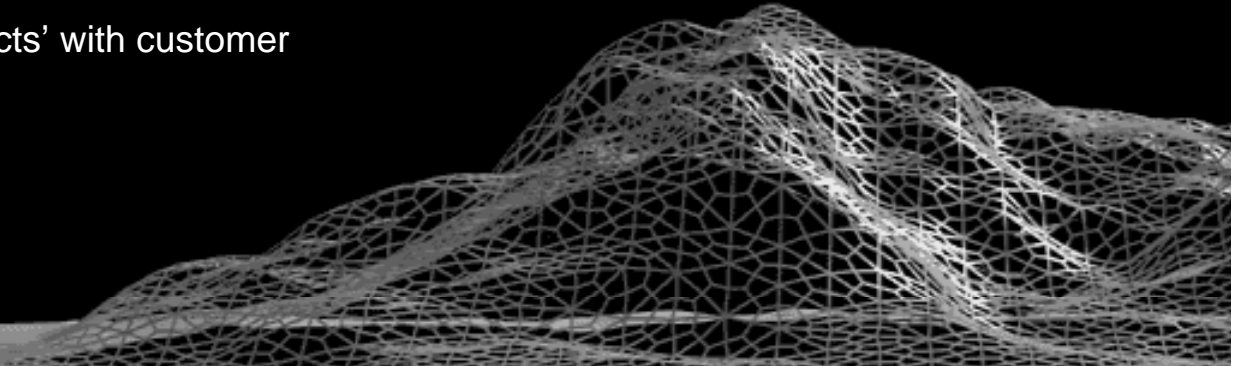
Risk & Reward Diagram



Key Features Contract Structures

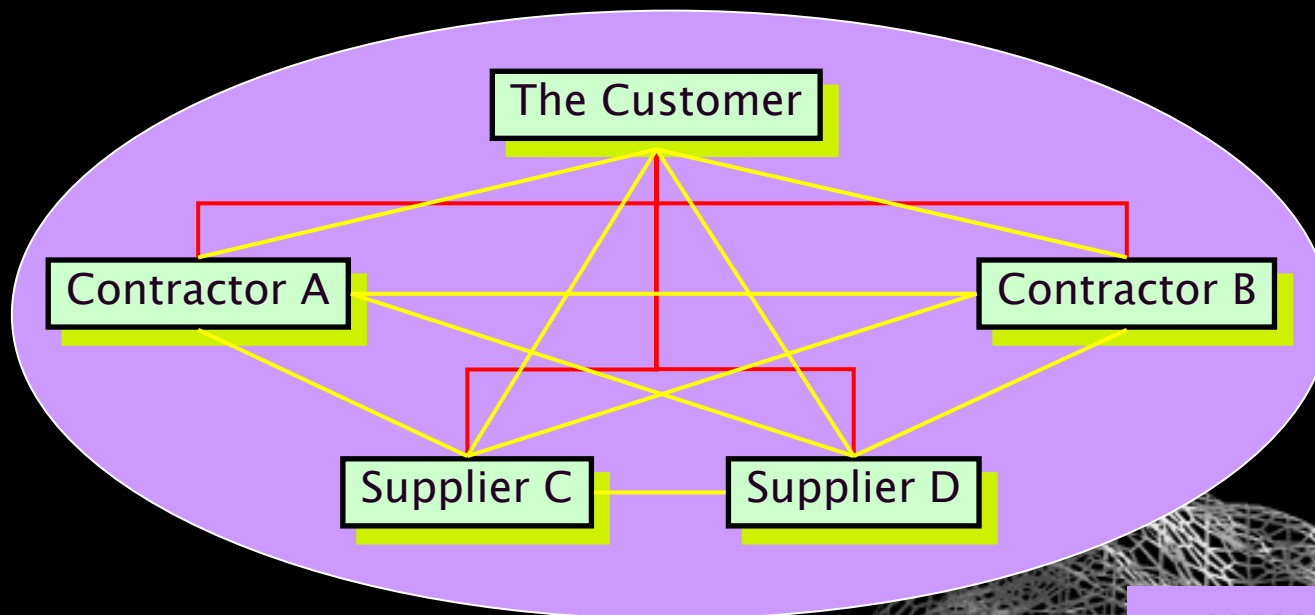
There are contract structures that:

- Achieve commercial alignment of the Parties
 - Alliance Agreement - Risk/ Reward Mechanism
- Provide alignment to and focus on desired Project Outcome(s)
 - Alliance Agreement - Objective(s)
- Underpin the development and implementation of behaviours appropriate to an alliance
 - Alliance Agreement - Principles
- Clearly define the accountabilities each Alliance Members
 - Individual 'Works Contracts' with customer



Alliance Contract Structures

WORKS
CONTRACTS



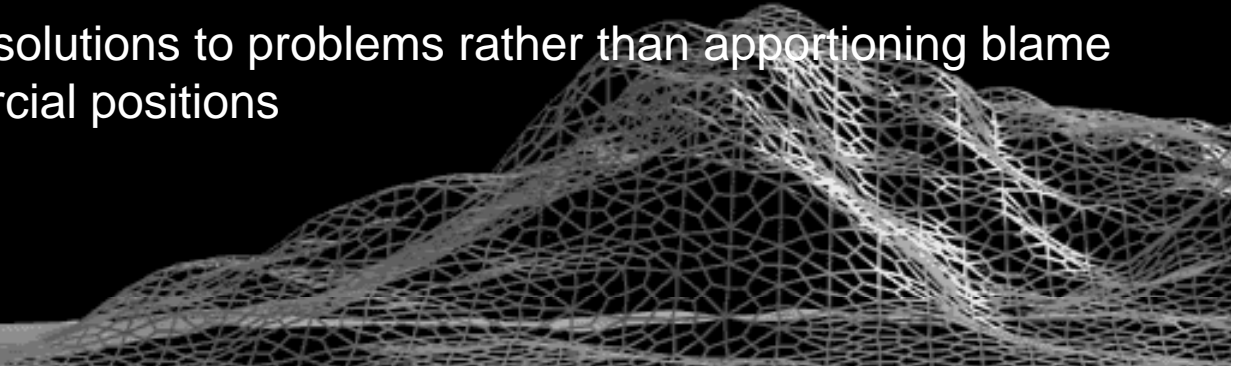
ALLIANCE
AGREEMENT

Key Features

Integrated Project Team

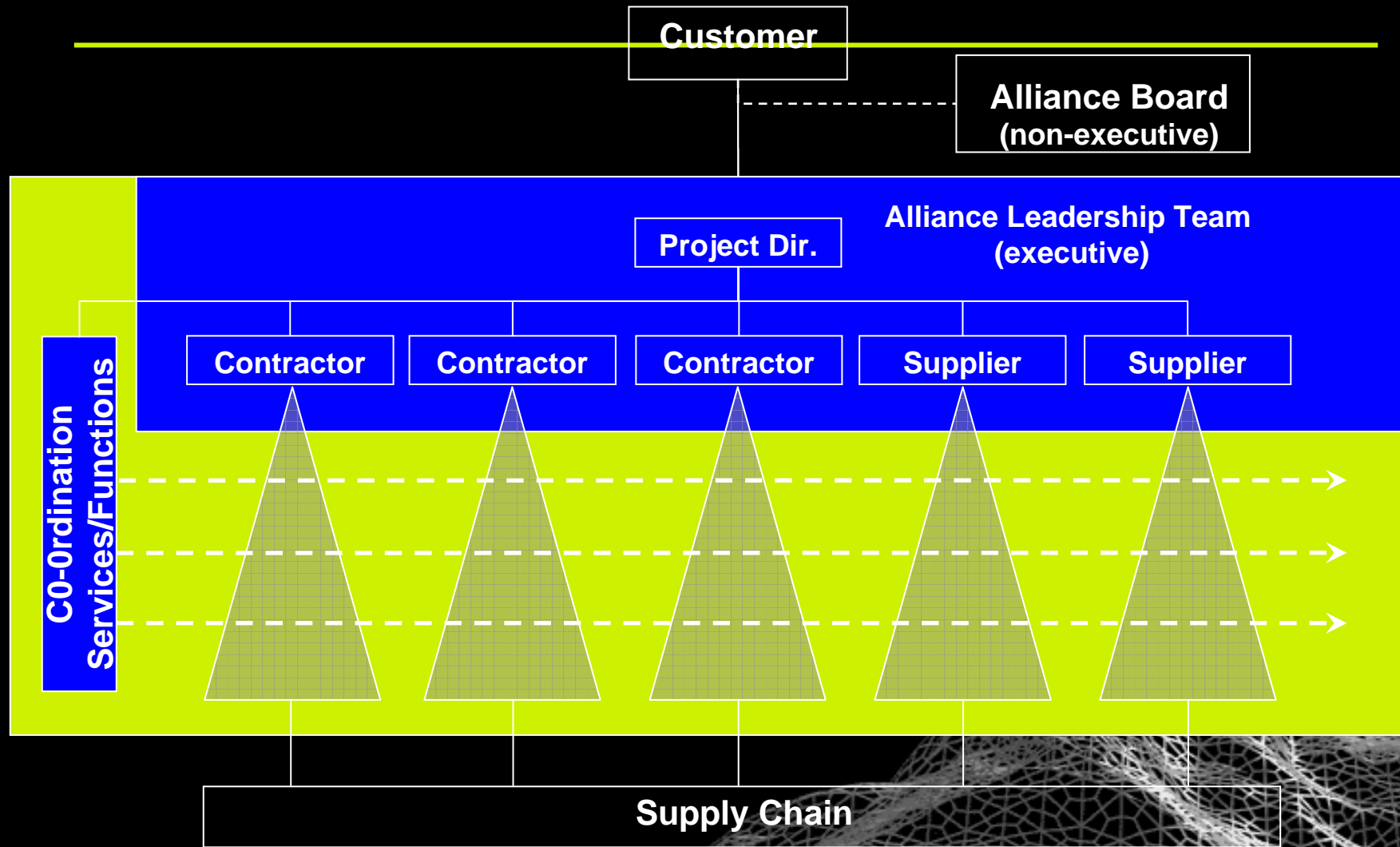
There is a fully integrated Alliance Project Team which:

- Is fully accountable for management and delivery of the project and is appropriately empowered
- Is constructed to recognise individual members roles and accountabilities
- Has collective responsibility for the overall outcome of the Project
- Takes joint decisions based on what is best for the project
- Has no duplication of accountabilities or functions
- Has shared common functions and maximises the use of common procedures and processes
- Is focussed on finding solutions to problems rather than apportioning blame and protecting commercial positions
- Is led by the customer





Alliance Management Structure



Key Features Culture & Behaviour

- Project delivery success is driven by the attitudes, skills and competencies of people
- Alliancing requires a culture of
 - trust
 - equality
 - openness, honesty and integrity
 - no retribution
- Behaviour must
 - promote challenge, creativity and innovation
 - create co-operative relationships
 - allow full mobilisation of the available skills and expertise



Key Features

Cultural & Behavioural Development

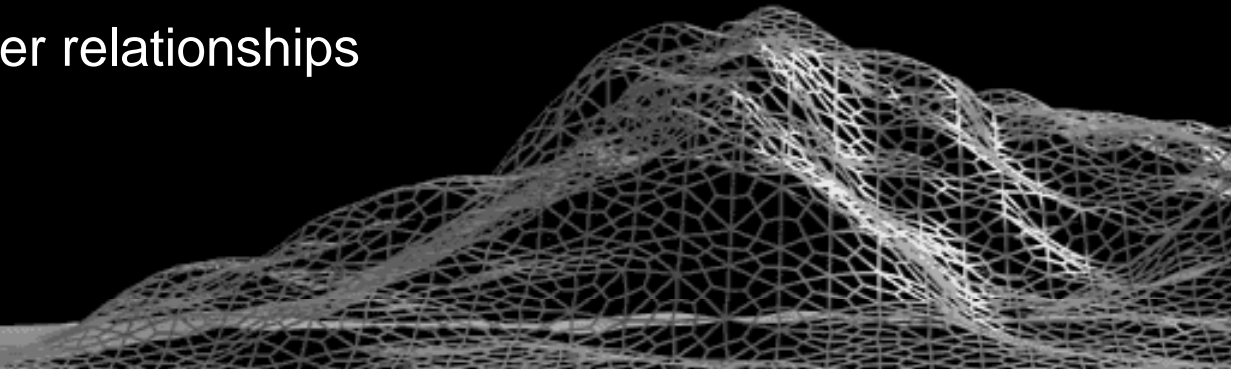
- The Project must invest in the transformation of culture and development of behaviour because
 - people find change difficult
 - they need tools, coaching and continuous support to be able to work in this challenging environment
 - managing this sort of change requires specific skills
 - failure to do so will seriously compromise achieving Project success
- Others should address these issues in the customer and contractor communities which interface with the Project
- The Supply Chain must be enrolled and aligned to this culture and behaviour

Evidence of change will emerge as project proceeds

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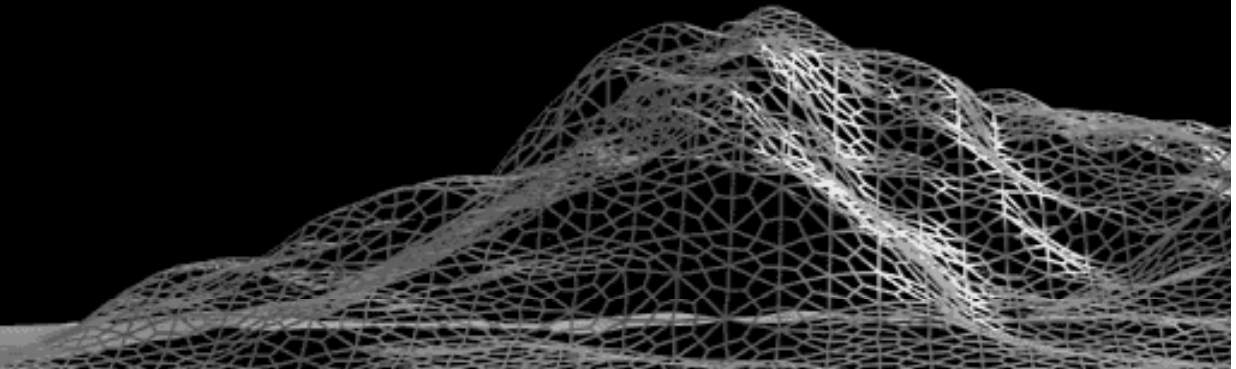
Impact for Customers

- Better predictability of
 - Project completion
 - Cost
- Improved returns for investments
- Reduced cost base makes further potential projects viable
- Better use of investment funds
- Overhead reduction - fewer personnel needed to deliver projects
- Flexibility in responding to issues
- Improved stakeholder relationships



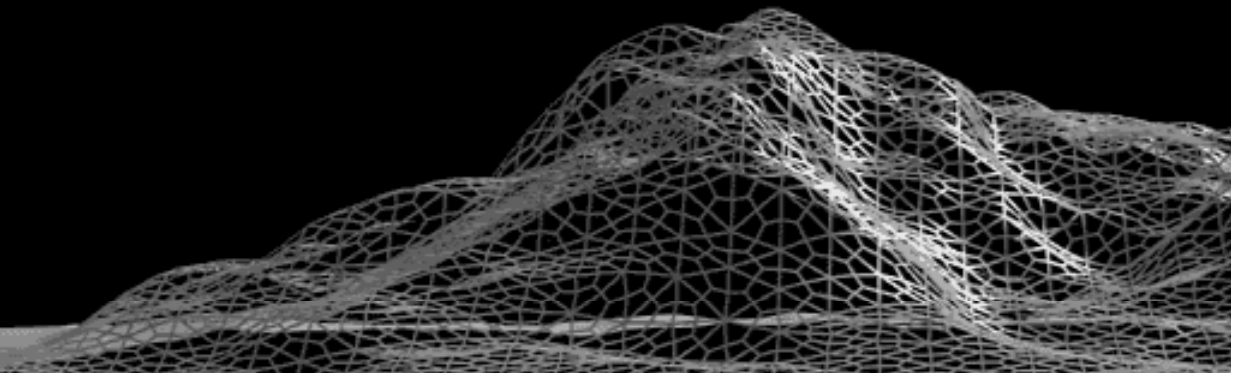
Impact for Contractors

- Enhanced business results for AMEC and other contractors
- Improved management of project and business risk
- Skills developed in Oil & Gas transferable to other industries
- Better interaction with customers leading to enhanced reputation and relationship
- Drives challenge to cost base
- Better cash flow



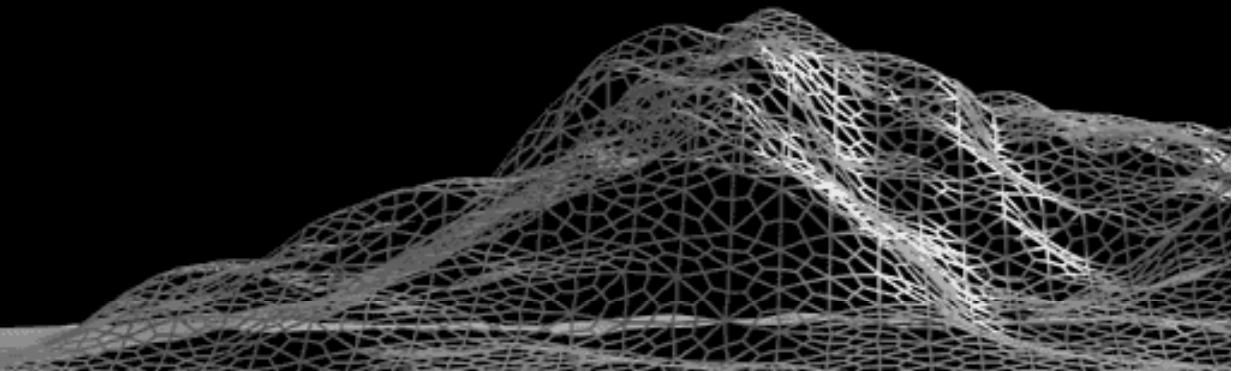
Mutual Benefits

- SHE improvements
- Engineering and project management innovation
- Developing performance of the supply chain



Summary

- Alliancing is a wholly appropriate execution strategy for large complex projects
- This strategy can deliver significant benefits for customers and contractors
- This is not an easy option, it requires
 - Strong leadership
 - Commitment



**"Insanity is doing the same thing in
the same way and expecting a
different outcome."**

Albert Einstein

