

What Place for Alliancing in Future Defence Acquisition?

by *Jenny Charteris*

Jenny Charteris is Managing Director of CPRC, advising leaders of major partnering, alliance and joint venture programmes across several sectors in the UK and Europe. Her defence experience includes the Aircraft Carrier Alliance, Team Complex Weapons, the MASS munitions partnering contract and the MoD/AgustaWestland strategic partnering arrangement amongst others. She says that at a time when the current model of defence procurement is looking distinctly unsustainable, we need the vision and courage to bring about a sea change in the procurement landscape, and suggests that project alliancing should play a role in helping to change the rules of the game.

“A changed boundary between DE&S and industry, with less ‘shadowing’, more joint working, long-term partnering, service procurement and alliancing that harnesses the capability of the defence industrial base”.

Key principle from *BLUEPRINT: The future operating model*, UK MoD (DE&S), January 2008

Power is core business in defence. Changing the dynamics of power to get better outcomes is what we do for a living. And the continuous search for improved models of acquisition is also about power: how to balance it between the customer and supplier to get better outcomes – for everyone. Collaborative forms of contracting, whether partnering, alliancing or joint ventures, do much to alter the power

dynamics. With the introduction of partnering over the past three years, there are plenty of examples of where the relationship between MoD and industry has started to shift from adversarial to collaborative. We win together or lose together, so we have to do things differently. At a working level we are perhaps starting to reach a critical mass of experience and understanding of partnering. After many years of ‘stitching each other up’, the greater transparency that partnering demands is gradually building trust.

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But for many, partnering simply doesn’t go far enough. In his article for this publication (February 2009), Professor Christopher Elliott concluded that *“the MoD wants cooperation, but remains shy of true collaboration ... Cooperation is a fair-weather arrangement dependent on behaviours, whereas collaboration is much harder-edged and requires the greater commercial courage...”*

Box 1: A Summary of Key Features for Partnering, Alliancing and Joint Ventures

Partnering is characterised by:

- Mutual objectives
- Joint decision-making
- Shared risk and reward
- Commitment to continuous improvement

Alliancing shares the same features, and also includes:

- An inherently “incomplete” contract (uncertainty)
- Joint management team (de-duplicated roles, best person for the job)
- Customer working seamlessly on the inside

Joint ventures have all the features of both, and also include:

- Creation of a legal entity
- Equity stakes for all partners

Note: In some sectors the terms ‘partnering’ and ‘alliancing’ are used interchangeably. Partnering is also frequently used to describe the mode of working inside an alliance.

There is also further debate to have on whether alliancing is itself a compromise, an unsatisfactory halfway house between partnering and the much clearer-cut construct of a joint venture. Scottish Water (publicly owned) have created a very successful JV to deliver a £2.3Bn capital investment programme for only £1.8Bn, generating savings of £0.5Bn as a result of the JV approach.

Box 2:**Definition of Project Alliancing**

Jim Ross, an internationally recognised authority on Alliancing and author of the *Project Alliancing Practitioners' Guide* defines a project alliance as:

A commercial/legal framework between a department, agency or government-backed enterprise (GBE) as 'owner'-participant and one or more private sector parties as 'service provider' or 'non-owner participants' (NOPs) for delivering one or more capital works projects, characterised by:

- Collective sharing of (nearly) all project risks.
- No fault, no blame and no dispute between the alliance participants (except in very limited cases of default).
- Payment of NOPs for their services under a '3-limb' compensation model comprising:
 - Reimbursement of NOPs' project costs on 100% open-book basis.
 - A fee to cover corporate overheads and normal profit.
 - A gainshare/painshare regime where the rewards of outstanding performance and the pain of poor performance are shared equitably among all alliance participants.
- Unanimous principle-based decision-making on all key project issues.
- An integrated project team selected on the basis of best person for each position.

Source: Australian State Government of Victoria Department of Treasury and Finance

And there is some evidence of a growing frustration with the limitations of defence partnering. Most partnering relationships are one-to-one when multi-party collaboration is what is really needed. Incentivisation is often weak and one-way, rather than being a genuine sharing of pain *and* gain. So much so that some have found that there is little genuine incentive to make savings within a given programme, for savings are immediately clawed back into more centralised budgets.

In this context, perhaps it is time for closer consideration and more informed debate about alliancing as a serious option. Alliancing takes partnering to the next level, creating far greater integration and interdependence, both commercially and operationally (see Box 1). Yet given that the lighter option of partnering is still in the 'forming and storming' stage as a procurement model, with best efforts buffeted by ongoing cynicism and misunderstanding from within the MoD, and apparent Treasury resistance to longer-term partnering contracts, is this sector ready for alliancing just yet?

Before going any further, some definition is needed. Distinct from supplier alliancing (e.g. between commercial players in the airline industry), Project Alliancing refers to a commercial arrangement between an 'owner' or customer (often public sector) and one or several private-

sector alliance partners (see more detailed definition in Box 2). Perhaps most significantly, the customer is *inside* the alliance, an integral part of the decision-making and a key participant in the management of risk. So, a project alliance causes a profound shift in the customer/contractor relationship, which can have an enormous, usually positive impact on project outcomes.

No alliance contract is quite like any other, and there is good reason for this. Alliances are designed for managing unique programmes amid conditions of great complexity. There is no one-size-fits-all model for a project alliance. And there is necessarily an overhead associated with establishing the right relationship, culture and behaviours to make an alliance work. There should be sufficient risk, complexity and opportunity for innovation to be achieved from in-depth collaboration to make alliancing worth the effort.

So what are the indicators that an alliance model may be appropriate?

Indicators for Alliancing

Where the contract must be entered into with conditions of 'incompleteness' (e.g. where it is known or likely there will be a change in technology or requirements, or where inputs and outputs are hard to measure), or where there

is a need for dedicated investment, alliancing can often offer the best framework. Other indicators include the existence of numerous complex risks, interfaces, opportunities or threats that can best be managed jointly (e.g. where there is complex integration required amongst several projects, difficult stakeholder issues and tight time frames), or the likelihood of scope changing due to political influence. How familiar these conditions look in the context of defence acquisition!

So far there are few, if any, examples of so-called 'pure' project alliances in the defence sector – the Aircraft Carrier Alliance is the closest, and this is really a hybrid alliance because of the contract structure. Yet project alliances are widespread in North Sea oil and gas, utilities and the construction sector, and those with experience of working in successful alliances – senior leaders and team members alike – are passionate about alliancing. People much prefer working in alliances. Why? Because a well-designed project alliance creates an exquisite balance of power, where openness and interdependence are *designed in* and made systemic rather than being optional. And in that environment the real issues surface and get dealt with quickly, and there is far greater probability of delivering a successful programme.

Captain Tony Holberry RN, the MoD's client director on the Aircraft Carrier Alliance, says "Successful alliancing is all about the contract and how we set it up. The alliance contract needs to balance power between the alliance partners. This also needs to be reflected in the way governance is structured and in the way key posts are filled, appointing the best available athlete from across the alliance partners."

Captain Holberry goes on to say that there is absolutely no doubt that the alliance construct has been important and valuable in progressing the Carrier programme, especially in the context of the recent equipment review. "We wouldn't have achieved as much without the alliance," says Holberry. "Sitting inside the alliance, working as part of the Alliance Management Team and being closely involved in the decision making at every step, makes a huge difference. It does work, but it's incredibly hard work."

Alliances are Hard Work

There is real cause for caution. Alliances are complex to construct and complex to run. The scale of many alliances, sometimes delivering several hundred million pounds of business each year, means that they amount to significant businesses in their own right. The programmes they deliver are going to be complex by definition, usually with long timescales. Yet alliances remain essentially temporary forms of organisation, and this temporary mindset can work against the success of the alliance.

One challenge of the temporary nature of a project alliance is that people working in the alliance continue to remain part

of different parent organisations with continuing loyalty and career aspirations in those organisations, making it difficult for them to take 'best for project' decisions when those decisions may favour another partner. Another risk of the perceived transience of the alliance is that alliance leaders are often reluctant to invest enough time and attention in establishing the alliance as an effective, high-performing organisation with clear vision and strategy. Alliance leaders frequently fail to go far enough in aligning partners' policies and processes, and in integrating teams, and then find themselves having to do remedial work later on. In one UK alliance, a potential gainshare pot of £50M was reduced to less than £5M, the root cause being a failure to align the partners' cost management and cost accounting systems, which in turn led to poor decisions being made on inaccurate estimates and forecasts.

Building Alliancer Capability

If alliances are to succeed, alliancer capability must be built.

It is well documented that a significant proportion of alliances fail to deliver their goals, but those which do succeed deliver very significant benefits, for example in reduced time and cost. Whilst it is useful to look at the characteristics of alliance entities themselves – the contract, structure, leadership and general state of health – to identify success factors, a significant piece of research by Draulans et al. concludes that the effectiveness of any alliance also relies hugely on the *capability of the partners*. So rather than asking, "What makes an alliance successful?", we also need to be asking, "What makes a successful *alliancer*?" In other words, the success of our alliances in defence will depend on how deeply we manage to build alliancing capability and readiness in our respective partner organisations, MoD and industry alike.

Key features of project alliances are widely agreed to be as follows:

- Single integrated team with the client on the inside.
- Collectively owned risks and reward.
- Decisions, including work share, taken on 'best for project' basis.
- Alliance partners, including the customer, incentivised to achieve outstanding performance against (or even to out-perform) core project objectives including cost, time and quality.
- Full 'open book' accounting.
- Culture of no fault, no blame and no dispute, with an uncompromising commitment to trust, collaboration, innovation and mutual support.

To what extent are the MoD and its major equipment suppliers ready, culturally and systemically, to make these features a reality at every level of any alliance?

Undoubtedly, the growing number of partnering projects has helped to break down some of the barriers and change some

Box 3:**The Critical Role of the Client in an Alliance**

There are two distinct roles for the client to fulfil inside a project alliance. The client director is a critical balancing force between the private sector partners who can often be direct competitors whose interests conflict when it comes to making 'best for project' decisions. At the same time, the client representative working on the inside of the alliance has a vital role to play in keeping the wider client organisation closely connected with the programme, ensuring that customer expectations and alliance decision-making remain aligned.

According to Holberry, "The MoD has a key role to play if our alliances are going to succeed. We need to take a strong position at the table, with a clear role and substantial objectives. It won't work if we play a vague role as the supporting cast. We also have to be prepared to appoint the right people with the right mindset. And we'll have to get much better at training people for working in alliances".

of the behaviours. But alliancing demands openness and collaboration of a different order, and there is some way to go in terms of preparing people, policies, processes and systems to work in this way with consistency, fluency and comfort. There will be no short cuts to building alliancing capability, though the progress on partnering provides good foundations. We cannot do the topic justice here, but some brief observations about some of the systemic enablers that would be needed for building strong alliancers and alliances are as follows:

- Commitment to educating people at all levels on the alliance construct. This includes both general understanding of alliances and the specific terms of a particular alliance contract, so that everyone understands how the contract balances risk and reward, pain and gain, and power across the alliance. People need to grasp in quite specific ways what the alliance contract means for what decisions they make, how they make them and how they implement them.
- Building far stronger capacity (including plans, protocols and practical methods) to enrol and engage the wider stakeholder community, in particular across the MoD community where a very diverse group of stakeholders can have enormous impact on the success of the alliance. In theory, the current implementation of the TLMC model and capability boards should help, but may also add unforeseen challenges of their own.
- Placing more emphasis on using supplier selection criteria that reward the ability to collaborate in the tendering process. Other industries have taken this far further than is apparent in defence contracting, such that the combination of technical capability and demonstrated capacity to work in collaboration frequently outweighs price in the weighting of selection criteria.
- Increased flexibility in personnel policies to enable leader continuity, giving more scope for promotion in post, and clearer recognition of alliance contributions in personal performance management regimes and reward mechanisms.

Finally, we must take seriously the need for the highest

calibre leadership in alliances. There is a great deal to say on this which again cannot be covered here, but essentially alliancing demands leadership, resilience and influencing ability of a different order, and the process and criteria for selecting leaders to key programme roles needs to give priority to these attributes. In some cases alliances appoint an independent overall leader as alliance director or 'COO' rather than appointing from within one of the alliance partner organisations – an approach that can introduce deep experience in alliancing from elsewhere along with considerable benefits in ensuring independent, 'best for project' decisions. Alliances also need open processes for appointing the best person for the job, rather than having roles assigned by, or reserved for, particular alliance partners.

Conclusion

It is widely hoped that after the defence review we will have a return to long-term thinking in defence contracting. Alliancing is not about to become the leading contracting vehicle for defence contracts, but it is an option that warrants serious consideration for our bigger programmes. There is much to learn, and much to be cautious about. Most importantly we need continued education and debate in the defence community to discover how to create genuine value through alliances. ■

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