

Alliance Based Defence Procurement and the P-3 Accord

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Abstract

Defence procurement is undergoing a general conversion from traditional methods towards targeted point project delivery with the aim to be more rapid and fundamental in reshaping systems, structures, and organisational culture. In November 2005, Defence Materiel Organisation implemented a Master Agreement between the Commonwealth, Tenix Defence and Australian Aerospace for Through Life Support of the AP-3C Orion using an alliance type arrangement known as the 'P-3 Accord'. Research was conducted on the extant P-3 Accord to better understand application of alliancing in Defence, determining if it is a more robust and sustainable alternative and recommending ways of improving the partnership.

Keywords

Defence, Alliance, P-3 Accord, culture.

Declaration

The research considered all ethical implications and was conducted in accordance with the relevant local, state, national and University SA policies, guidelines, regulations and legislation. Unless individuals have consented to being identified, all reports on the research will maintain confidentiality. The material collected from individuals through interview, observation, or other means will not be used in any way not authorised by those interviewed or observed. All material in this paper is based on unclassified and open sources and is acknowledged and credited appropriately.

Caveat

This paper has been developed on a "without prejudice" basis.

Alliance Based Defence Procurement and the P-3 Accord

Procurement in Defence is undergoing a general conversion from traditional methods towards targeted point project delivery. The increase in popularity of alternate procurement strategies demonstrates the Commonwealth of Australia (CoA) are attempting to improve project performance, in particular time and cost. Publicised evidence from the 2003 Kinnaird Review restructure evoked several emerging alternative procurement strategies between the CoA and industry from which highlighted the need for immediate change in Defence procurement in order to be more rapid and more fundamental in reshaping systems, structures, and organisational culture. The AP-3C Orion has been upgraded with various avionic improvement programs over its years in service driven by great advances in technological capability and changes in operating roles. Defence Materiel Organisation (DMO) recognised particular problems with coordinating multiple suppliers during these upgrades therefore identified a need to test the market for the Through Life Support (TLS) of the AP-3C until Planned Withdrawal Date (PWD). By November 2005, a Master Agreement (MA) was implemented between the CoA, Tenix Defence and Australian Aerospace to provide a 'Best for Weapon System' outcome using an alliance type arrangement known as the 'P-3 Accord'. An assessment on the extant P-3 Accord model and comparative Defence alliance type arrangements was conducted to determine if this is a more robust and sustainable alternative to traditional Defence procurement. The research methodology focused on identifying the endogenous benefits, barriers and overarching cultural aspects. Mindful the P-3 Accord is still working towards a mature alliance type arrangement, the outcome of the research assists the Australian Defence Industry and the general project management community better understand the application of alliance arrangements in a complex and changing Defence environment. The resulting series of recommendations are aimed at improving the partnership between the P-3 Accord Participants.

Culture is the bedrock, the final wall against which one leans one's back in a god-forsaken chaos.

John Cowper Powys



A *Procurement strategy* is ‘an overarching strategy which considers not only immediate or short term needs but also long term requirements’ whereas a *Contracting Strategy* defines how the buyer intends to engage the contractor or supplier [5]. In Defence, the buyer is the CoA and the contractor is one or more approved service providers known as Industry Participants. Contracting strategies implemented to manage projects within the Australian Defence Organisation (ADO) have changed dramatically over recent years from where the role focused on using traditional management skills to ensure the contractor produced the project deliverables on time. Today's contracting strategy within the ADO requires a holistic approach in which human issues are considered and there is recognition of the creative elements of projects. Evidence clearly demonstrates the establishment of any successful contracting model resides on a layer of interdependent competencies comprised of leadership, communication, culture, relationships, Integrated Product Teams (IPTs) and governance.

Traditionally relationships between the Government and industry contractor seldom improve over time instead can easily deteriorate to the point of being adversarial. Alliancing is not partnering, but there are similarities as both change the project management culture to a collaborative environment with common goals, open communications, and cooperative management practices. Alliancing was first pioneered between British Petroleum (BP) and seven contractors in the North Sea in the early 1990s. BP found that its traditional contracting methods emphasised the lack of trust between parties, and in large risky projects, frequently resulted in budget blowouts and time over-runs [17] [22]. Two project alliances were set up¹ with successful time and cost outcomes from both resulting in a worldwide interest in the concept of alliance contracting. The success was attributed to the freedom from the constraints of traditional contracting.

Consequently, major changes occurred in Australia in 1998 as Defence embarked on a reform program to achieve further gains in efficiency and financial management. The key principles were to sustain a viable and competitive Australian industry capability to promote effective competition for non-core work and allocate work on best for project and Value for Money (VFM) basis. The published Defence White Paper 2000 continued the reform program resulting in the creation of the DMO.

¹ The Hyde project and the Andrew project delivered six months ahead of schedule and £160M final cost reduction from estimate.

Ultimately the Government decided to adopt a greater strategic approach to Defence acquisition and in 2003, the Defence Procurement Review, otherwise known as the 'Kinnaird Review', was publicly released. The Kinnaird Review suggested the Defence White Paper 2000 'contract' was not fulfilled based on actual performance against proposed outcomes. An adversarial culture, disputes over variations and invoices and cost and schedule overruns characterised the traditional Defence contracting model. The Kinnaird Review identified that;

'there needs to be more change, that it needs to be more rapid and more fundamental in reshaping systems, structures and organisational culture'.

The Government's objective is to have a sustainable Defence industry base, with efficient, innovative and durable industries, able to support a technologically advanced ADO [11] and requires a close partnership between Defence and those industries. Australia must maximise industry self reliance to support military capabilities otherwise the Australian Defence Force would be vulnerable to denial from foreign supply.

Traditional (general) contracting under Australian Defence Force Contract (ASDEFCON) suffers from many advantages and disadvantages. This contracting method has traditionally been slow. There are project concerns from the onset because once a price is agreed, the interests of the contractor is to minimise cost and risks in order to maximise profit, which is often at the expense of project outcomes such as quality, technical performance, schedule or cost. The CoA interest is to minimise risk by transferring to the contractor whilst maximising project outcomes regardless of the impact on the service provider's profit margin. Today's modern approach to Defence procurement has funding and schedule more critical and control less important. The selection of industry choice to deliver a project often involves prioritising and selecting proposed alternatives which is vital to the procurement life cycle because 'project selection = future commitment' [2].

Project alliancing in Defence is in its infancy. To further illustrate, the relevant Section in its entirety is extracted from the 582 page Defence Procurement Policy Manual [9].

4.3 PROJECT ALLIANCING

- 1 This chapter is currently under review. If you require advice on project alliancing please contact the Contracting Help Desk through the Contracting Policy intranet website at <http://intranet.defence.gov.au/dmoweb/sites/PS/>.
- 2 Advice from the General Counsel, Defence Materiel Organisation must be obtained on any alliance contracting proposal. The CEO Defence Materiel Organisation, or the relevant Division Head, must approve any use of project alliancing methodology in a Defence Materiel Organisation contract.

Regardless of its infancy, the ADO is steadily increasing relationship strategies to focus on long term arrangements, fewer contractors, quality outcomes and a cooperative and integrative approach. The alliance relationship strategy is not based on competition rather on who is the best partner in a shared outcome. The CoA should only consider alliancing whenever project risks are such that the traditional contracting approach is unworkable and cost-benefit analysis shows the benefits of managing risks and opportunities outweigh the costs of establishing and supporting the alliance.



Figure 1 AP-3C Orion [24]

DMO needed to better manage integration of new capability and support extant systems on the AP3C Orion as systems and equipment were becoming obsolete, new technology brought new capability, there were changes with mission and operational requirements, and logistics support issues were escalating.

The sheer number of contractors working on the AP-3C platform became a complex task of managing each and required a common collaborative approach between CoA and selected Industry Participants. Consequently in 2004, DMO initiated a Block Upgrade Program (BUP) to coordinate the engineering of capability enhancement projects in order to maximise the availability of the AP-3C fleet. With Defence focusing on choosing appropriate relationships, Tenix and Australian Aerospace were specifically selected as both entities have experience on the AP-3C and hold Authorised Engineering Organisation status for their respective Weapon System engineering activities.

Why the Accord? The origin of Accord is Old French acorder which means ‘reconcile, be of one mind’. The Latin meaning is cor or, heart. The Oxford Dictionary defines Accord as, ‘agreement in opinion or feeling’. All suggest relationships, attitudes, values, behaviours and culture hence support the need for a holistic approach in which human issues are considered. The origin of the P-3 Accord started with the selected parties jointly engaged under the ASDEFCON sole-source process to develop a proposed “pure alliance” model.

In February 2005, the “pure alliance” was dismissed by the CEO DMO due to objections on the use of “no blame” and “alliance”. The proposed model was amended to include risk allocation to each Participant and replace the “pure alliance” concept of risk sharing. A hybrid / modified alliance model was subsequently proposed and eventually known as the current P-3 Accord model with signing of the MA on 09 November 2005. As cited in [18], ‘The P-3 Accord is a modified form of the pure alliance arrangement but the essential elements are maintained.’ The intent of the P-3 Accord is to ensure each Participant has a collective objective, responsibility and a vested interest in delivering successful project outcomes by taking collective ownership of all project risks and shares in the pain and gain depending on how actual outcomes compare with pre agreed targets.

In essence, the P-3 Accord is a risk strategy with the intent to minimise variations. Risks are shared equitably, but not equal, under pre-agreed pain/gain share to the point where the non-owner Participants profit is lost and then the owner wears the risk. An alliance (or P-3 Accord) arrangement is not universally applicable or desirable and will not work for all projects. Based on information presented, it is logical to use the P-3 Accord as:

- Allocation of risks are difficult to price;
- There are complex interfaces in the activities;
- There are difficult stakeholder issues;
- Schedule flexibility may be required;
- Scope is difficult to define with uncertainty in the long term;
- CoA involvement in all stages of the project life cycle therefore adds significant value; and
- Threats or opportunities are better managed collectively.

Figure 2 below, cited in [22] depicts the P-3 Accord Model against the Traditional Model.

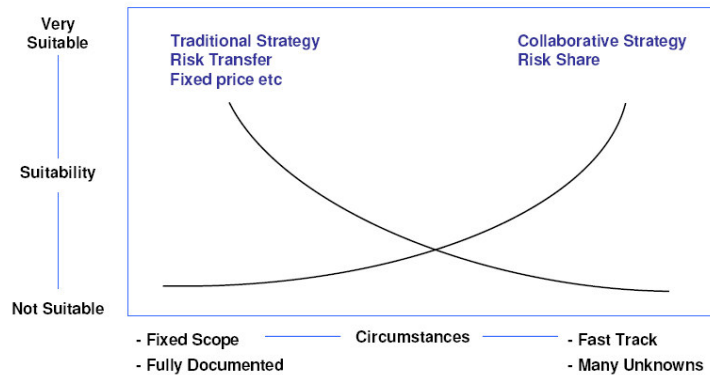


Figure 2 P-3 Accord model versus the traditional model

The provisions of the MA offers substantial benefits, in particular, a significant reduction in time required to conduct tendering arrangements with costing estimates obtained via an “open book” policy.

A three limb remuneration system is used:

- Limb one – all direct project costs and project specific overheads;
- Limb two – corporate overheads and profit at agreed rate (100% at risk);
- Limb three – incentive. A cost portion and KPI (time, quality, milestones etc) portion (100% at risk). An equitable pain/gain share on project outcomes to pre-agreed targets.

Liquidated damages are not applicable as schedule over-runs which cause an increase in cost become part of the Limb one actual out-turn cost. The actual remuneration depends upon performance against Target Cost Estimate (TCE) and KPIs with minimum remuneration the reimbursement of costs. The salient point with this remuneration system is that the TCE is not adjusted for variations. Variations have plagued traditional Defence contracting over many years and often seen by the CoA as an opportunity for the contractor to make a profit. The contractor has an interest to avoid variations in the P-3 Accord as obviously the costs will go up therefore less profit. Figure 3 below depicts contract scope variations that occur with traditional contracting versus the reduction in variations using the P-3 Accord.

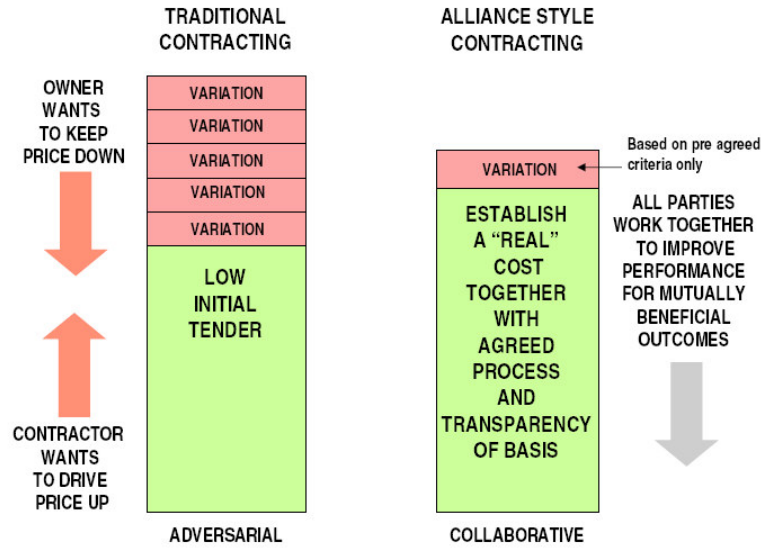


Figure 3 Contract variations using traditional and alliancing

Any alliance type arrangement, “pure” or otherwise, requires strategic and tactical levels of management. To provide the strategic direction, the P-3 Board was created and represented by all Participants. DMO established a Joint Management Office (JMO) for performing project Governance and implementing the strategies, goals and objectives set by the P-3 Accord Board. The P-3 Accord Governance framework as cited in [13] is depicted in Figure 4 below.

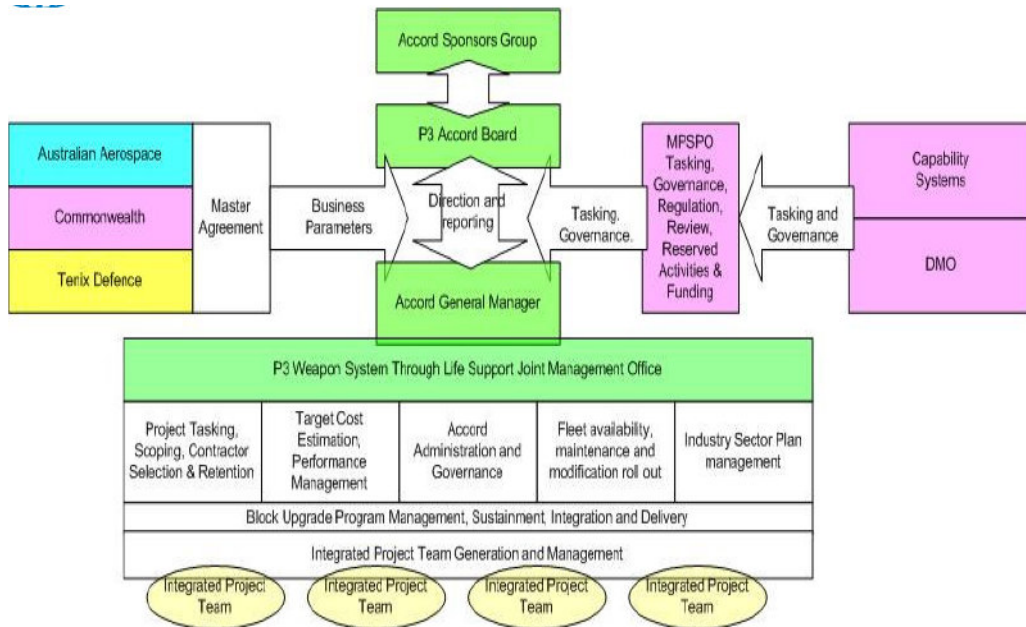


Figure 4 P-3 Accord governance framework

A SWOT analysis was conducted on the P-3 Accord as shown in Table 1 below.

Table 1 P-3 Accord SWOT analysis [13]

Strengths	Weaknesses
<p>Culture Culture, attitudes and behaviours of the Participant organisations are brought to the P-3 Accord to be aligned with the overall scope of the business model.</p>	<p>Culture Amalgamating the different cultures of Government and Industry Participants.</p>
<p>Image ‘The Accord brings together the existing positive images of the respective Participants, which in combination present an image of an organisation with a comprehensive, professional capability to manage and deliver the Services’ [13]</p>	<p>Image The P-3 Accord alliance type arrangement is not publicly known or accepted outside of the Participants.</p>
<p>Organisation Flexibility to determine appropriate organisation for the JMO and IPTs.</p>	<p>Organisation The JMO is organised primarily for weapon system upgrades and new capability but not sustainment. Recruitment and attraction of skilled people with domain weapon system experience proves difficult.</p>
<p>Process Each Participant has substantial process knowledge to cover P-3 Accord business. ‘Accord arrangement facilitates adoption of “best of breed” process from any Participant for use’ [13]</p>	<p>Process Key business processes have not yet been fully implemented. Each Participants processes may not be compatible with others. Specific CoA processes cannot be tailored for P-3 Accord processes.</p>
<p>Data Each Participant has existing Data Management Systems to manage complex data requirements.</p>	<p>Data Entire data processes have not yet been fully implemented.</p>
<p>Product Each Participant has a proven track record in delivering quality services.</p>	<p>Product ‘CoA commitment to product not guaranteed prior to Second Pass Approval.’ [13] P-3 Accord can come at an increased cost with commitment to Industry Participants.</p>

Opportunities	Threats
<p>Customers P-3 Accord model fosters close working relationship to customer to have common understanding of requirements, budget and priorities.</p>	<p>Customers Close working relationship to customer may incorrectly influence requirements or priorities. Customer may not flow information in a timely or accurate manner.</p>
<p>Environment Establishes a benchmark to deliver capability to weapon systems. Can also assist to improve CoA financial management processes and IT</p>	<p>Environment CoA can terminate P-3 Accord arrangement. CoA at times perceives the P-3 Accord as subcontractor. ‘Under performance by Accord will lead to degraded perception of its value to the CoA.’ [13]</p>
<p>Competitors ‘Collaborative engagement of competitors through the Australian Industry Capability Plan can produce mutually beneficial arrangements for provision of specialist (non core) Services to the Accord.’ [13]</p>	<p>Competitors The CoA can arrange Third Party arrangements (outside the P-3 Accord) if better VFM.</p>
<p>Political and Regulatory Environment</p>	<p>Political and Regulatory Environment The DCP can change the PWD.</p>
<p>Suppliers Long term arrangements with key suppliers.</p>	<p>Suppliers ‘Key suppliers retain monopsonistic advantage in negotiation for supplies.’ [13]</p>
<p>Market Each successful project delivery improves the discernment of the P-3 Accord alliance type arrangement within the DMO thus improving consideration of potential work to Participants.</p>	<p>Market The market is highly competitive with skilled resources. The P-3 Accord is AP-3C weapon system specific and therefore may have limited term.</p>

‘The underlying concepts of alliancing are well intentioned, but it lacks a robust and ongoing project management methodology to implement the strategic outcomes required by corporations or large and complex projects’ [14].

An assessment questionnaire was distributed to the P-3 Accord community with an overall response rate of 44% from 59 people and also to the ANZAC ship and Air Warfare Destroyer (AWD) programs ² as a comparative analysis to respond to the research hypotheses. To achieve the aim of the research, the current Project Management Maturity Level (PMML) of each model needed to be evaluated.

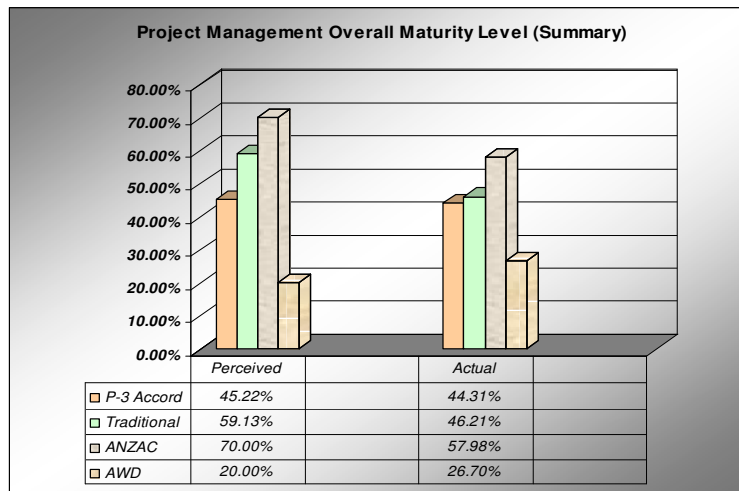


Figure 5 Overall project management maturity level summary

The resultant PMML was as expected considering the time of development with each model. Analysis of the knowledge areas and other factors provided a more detailed examination.

² Due to the small response rate from the ANZAC ship and AWD alliance, the data collection provided a guide only and did not warrant a basis in providing deterministic results.

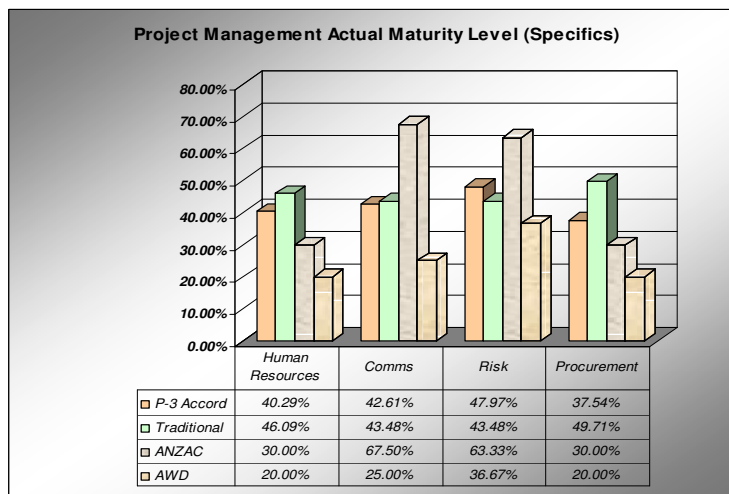
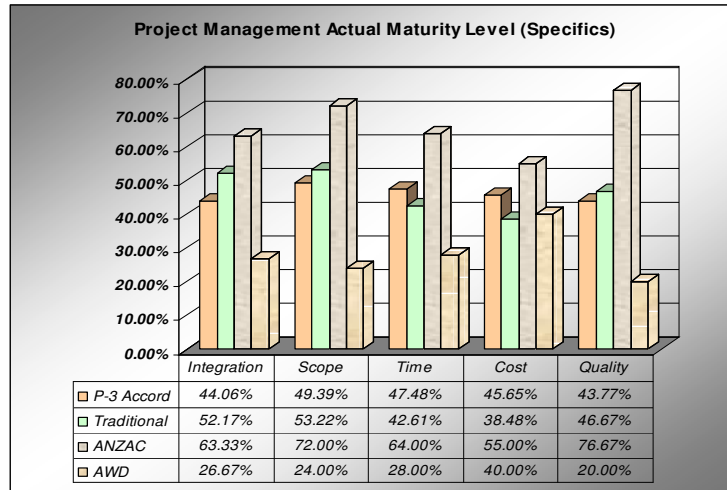


Figure 6 Actual project management maturity level by knowledge area

The main observations were:

- The P-3 Accord is on par with all traditional knowledge areas except for procurement management. One possibility for this observation is the P-3 Accord currently has limited exposure to contract closeout [3].
- The highest levels for the P-3 Accord are risk and scope management which is a direct reflection of the environment and nature of work.
- The second lowest levels for the P-3 Accord were the “soft” facilitating functions of human resources and communications management.

Overall, the P-3 Accord copes better with other factors than traditional as depicted below.

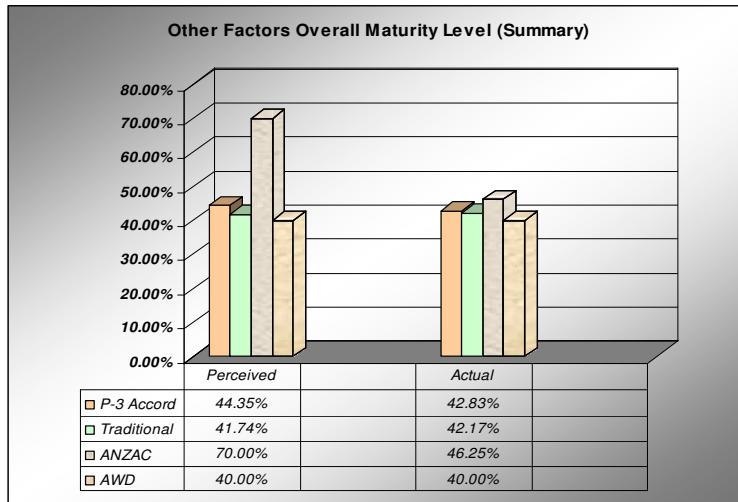


Figure 7 Overall other factors maturity level summary

Figure 8 below further examines the other factors by category.

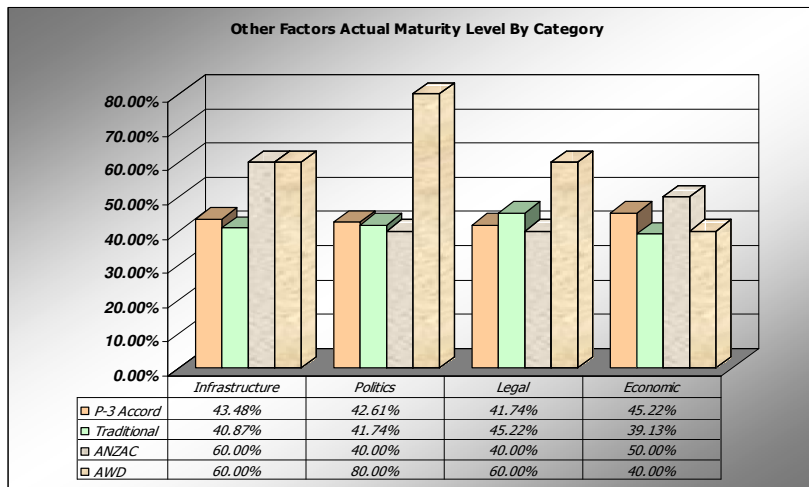
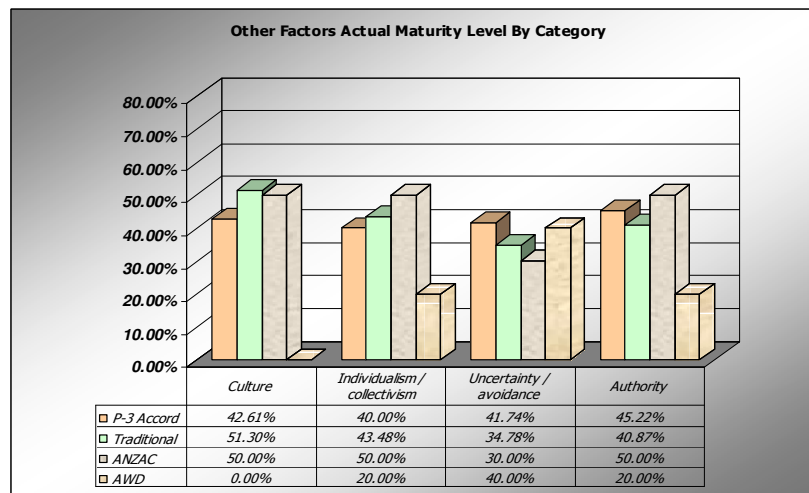
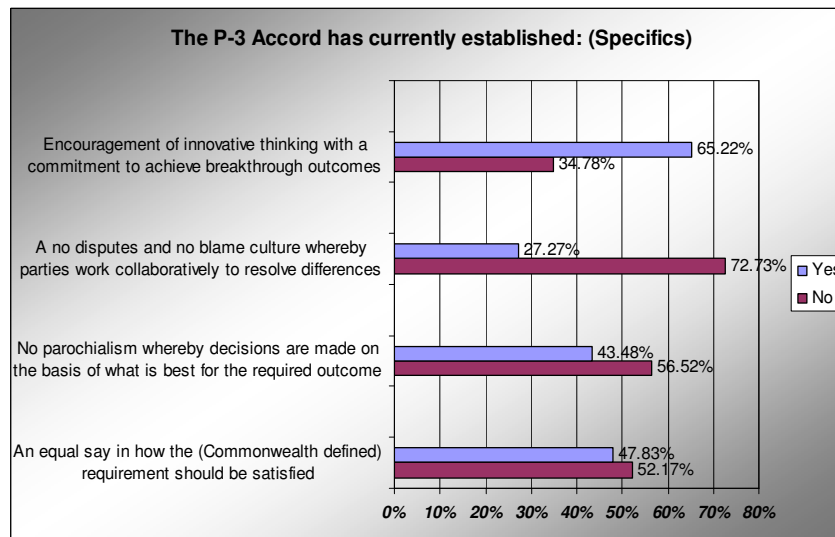
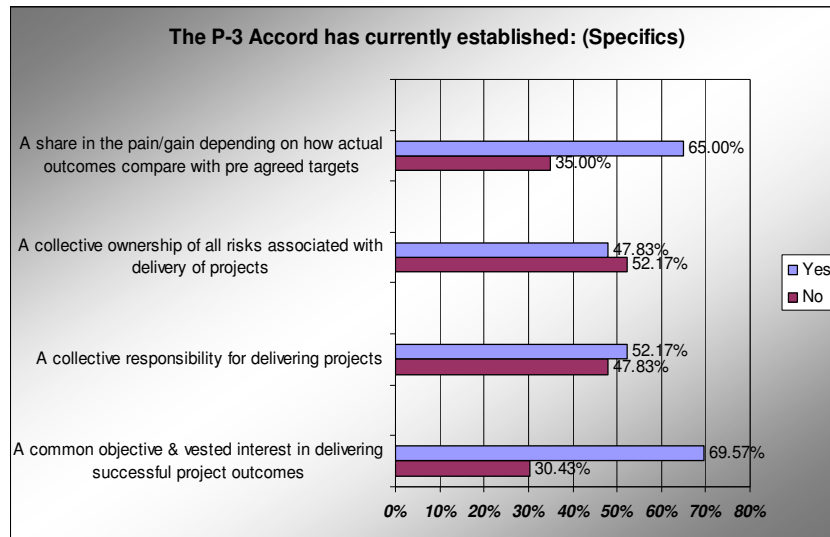


Figure 8 Other factors actual maturity level by category

In summary:

- Limited cultural acceptance is evident within the P-3 Accord compared to traditional;
- The maturity level for the traditional model is not as effective as expected; and
- The maturity level for each of the alliance type arrangements was as expected.

The maturity level of set P-3 Accord KPIs was examined as follows.



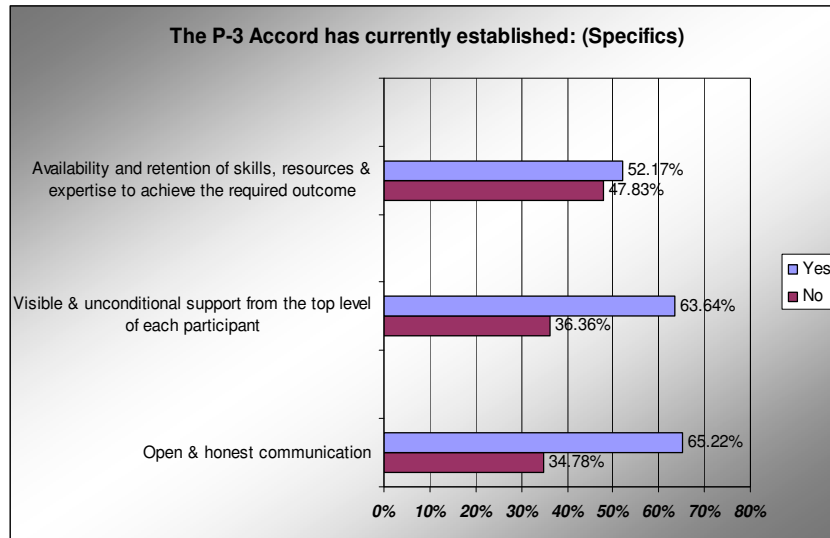
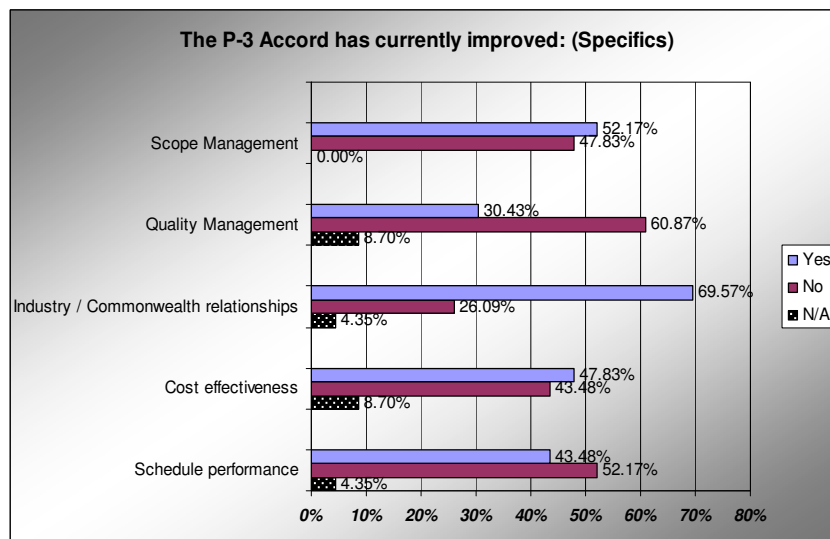


Figure 9 Results from level of established areas within the P-3 Accord

The highest result was a common and vested interest in delivering successful project outcomes. The risk sharing indicated a high result as expected. The main surprise was the higher than expected result regarding open and honest communication in contrast to previous discussed which raises the possibility that although communication may be accurate when received there may be insufficient or un-timely communication channels. The cultural factor continually produces a low result (27.27%) and combined with the mid range result of staff retention (52.17%) and the low maturity levels of human resources from previous results, this area appears the most volatile. CoA dominance with decision making surfaced as an issue and requires improvement (from both sides).

From the traditional model, the P-3 Accord has currently improved the following.



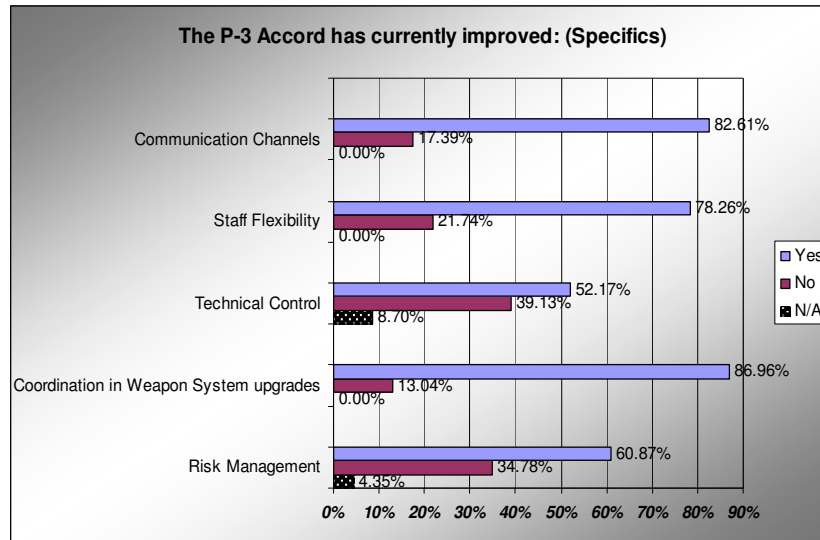


Figure 10 P-3 Accord results for improving specific areas

Alliancing is not suitable for all projects and while the P-3 Accord attempts to solve the disadvantages of traditional procurement, it is not a universal panacea. Even though the P-3 Accord does offer a new paradigm for CoA / contractor relationships in a non-adversarial and mutually profitable environment it too is not without challenges.

- 1) The P-3 Accord is currently not seen as a “virtual organisation” in having individuals confident the interests of their respective parent organisation are attended to whilst promoting the interests of the arrangement.
- 2) Industry Participants are attempting to establish a collaborative arrangement yet persist to be competitive, predominately in work share allocation.
- 3) The P-3 Accord model does not have all the features of a pure alliance rather it is an alliance type arrangement.
- 4) There is a fundamental problem observed in the Procurement Plan 2003 where the private sector models cannot be easily transformed into the Defence management process due to different accountability requirements.
- 5) Defence need to further develop the skills and processes necessary to work with industry in line with commercial best practice for long term partnering, including the capability to monitor and improve productivity and to benchmark costs [8].

- 6) The spiraling costs of personnel and technology place immense pressure on the CoA to increase and maintain Defence spending³. This places uncertainty on whether the CoA can fund the planned Weapon System upgrades and casts doubt to industry on future business planning, investment and workforce recruitment and retention [19].
- 7) Key observations of the research based on interviews and questionnaires were:
- With respect to achieving the aim of the research, “Can the alliance type arrangement of the P-3 Accord provide a more robust and sustainable alternative to traditional Defence procurement strategies?”
 - 60.87% of Participants stated yes;
 - 8.70% of Participants stated no; and
 - 30.43% of Participants were non-committed.
 - The actual maturity level of the P-3 Accord is almost the same as the traditional model, at 44.31% to 46.21% respectively ⁴;
 - The P-3 Accord project scope and risk management maturity levels are much higher than the rest of the project management knowledge areas;
 - The P-3 Accord is marginally higher than the traditional model to cope with influence from other factors, at 42.83% to 42.17% respectively;
 - Compared to the traditional model, limited cultural acceptance (27.27%) is evident within the P-3 Accord (and AWD);
 - Over 75% of the subjects interviewed or responses to the questionnaire stated that the P-3 Accord will produce more successful project outcomes in comparison to traditional Defence procurement;
 - 70% of respondents believe there is a common objective and vested interest in delivering successful project outcomes;

³ ‘Defence spending needs to be increased and maintained at no less than 2 per cent of Gross Domestic Product (Janes Defence. 2007).

⁴ In contrast, ANZAC alliance is a much higher maturity level at 57.98% with AWD at 26.70%.

- 87% of respondents believe there is improved coordination in Weapon System upgrades;
- 83% of respondents believe communication channels have improved;
- Human Resources rated the lowest for project management maturity across Defence (P-3 Accord, ANZAC Ship and AWD); and
- There is evidence the P-3 Accord has changed the stakeholder's interest in cost management in particular project costs are better predicted and risks profiled.

As of March 2007, there is a high degree of confidence to prognosticate from the outcome of this research the future of the P-3 Accord (and Defence alliancing) will be robust and a sustainable alternative to traditional procurement. It may be premature to determine the future of the P-3 Accord based on the results but what this research has done is provide key indicators. This paper proposes a number of recommendations to bring reforms to the P-3 Accord in no particular priority.

Recommendation 1: Accept the P-3 Accord is not a “pure alliance”. It is a collaborative arrangement in which the CoA have adopted a ‘lesser’ form of alliance and to reiterate [22], ‘it must be understood it may not in fact ever generate the same high performance environment and outcomes as a pure alliance.’

Recommendation 2: Strong and focused leadership based on a holistic approach to project management. Cited in [12], management and leadership are two separate systems for achieving results through collaboration.

Recommendation 3: Develop a One-Team corporate culture having leaders “Walk the talk”. When the walk and the talk do not line up, it is the walk that shapes the culture. ‘It is common knowledge now that a large percentage of mergers – figures are often quoted at around 70 per cent – fail because of cultural issues’ [23]. A framework for change is implemented through a culture development plan.

Recommendation 4: A separate identity for the JMO and P-3 Accord. ‘A unique identity for an organisation is a prerequisite to develop its own individual culture.’ [10]. This is essential for the JMO to acquire solidarity, establish its own culture and develop emphasis on commercial and business drivers. Section 7.9.1 of the P-3 Accord MA was not appropriately considered to lessons learned from the ANZAC program by stating the JMO will be physically collocated with MPSPO.

Recommendation 5: Establish relationships based on trust and mutual respect. This is established by sharing information; improving morale; and encouraging collaboration to improve processes for a common purpose.

Recommendation 6: IPTs have been initiated but effective IPTs need to be structured. IPTs must not be stand alone, in other words not just specific to the project rather should be structured for the overall cause of the P-3 Accord. Cited in [14], ‘stand alone IPTs do not remove the fundamental and traditional project management barriers to dealing effectively with complex and uncertain projects.’

Recommendation 7: Adhere to the P-3 Accord Charter with precise articulation to Schedule 2 and 3 of the P-3 Accord MA. There have been occurrences with regard to confusion in work share allocations. In addition, there is no general obligation to adhere to the P-3 Accord Charter.

Recommendation 8: Avoid duplication between the P-3 Accord and Individual Participant’s way of doing business. Silos of individual business thinking must be reduced.

Recommendation 9: Project procurement management requires additional focus. This includes freeing CoA funding to either commence project work or cover Industry Participants during down time. CoA must improve current delays from estimate submission to contract to issue funding / Purchase Orders as this severely impacts industry.

Recommendation 10: A more holistic consideration of the project management concepts is required. The P-3 Accord must foster creative approaches rather than just process driven approaches [15].

Recommendation 11: Focus on the attraction, selection and retention of skilled resources. The impact of organisations struggling to attract key professionals in a highly competitive marketplace is compounded by limited skilled CoA resources available.

Recommendation 12: Identify and mitigate any resistance for the need to change. Resistance to any changes to the ongoing development of the P-3 Accord model are expected but must be managed and mitigated. A change management plan is vital.

Recommendation 13: Establish a P-3 Accord Communications Management Plan. The P-3 Accord structure has project teams located in geographically disparate environments, otherwise known as virtual teams.

Additional Recommendations

- The CoA culture has rigid existing policies in place therefore Industry Participants must be allowed more control to enter into financial arrangements with other companies for expediency;
- Reduce and amalgamate the current geographically displaced divisions to a common location in order to create their own culture;
- Increase CoA resources and involvement in IPT's; and
- Industry Participants must better understand the customer and their environment.

Further Research

The following research topics have evolved from the outcomes of this paper:

- Will Industry Participants evolve and become “like their master” and adopt CoA processes, procedures and policies thus losing sight of their commercial aspects?
- Can inherent commercial misalignment between public and private sectors be overcome?
- Can the alliance TCE assure best value for money with the absence of price competition?
- How to attract, select and more importantly retain a highly skilled workforce?
- How to remove CoA funding delays irrespective of the efficiency for Industry Participants to fast track procurement processes?

To conclude, there is a great deal at stake with the P-3 Accord as this agreement was implemented at high risk for all concerned in a paradigm shift from traditional procurement. Significant cost has been spent and reputations are at stake.

In summarising the future of alliance contracting, [17] cites,

‘If both parties are committed to working together and sharing the risk, the benefits for all in adopting an alliance system of contracting will outweigh the perceived gains to one party in traditional methods of contracting. The challenge in alliance contracting is getting the alliance members to work as a team and to leave corporate identities and egos at the gate.’

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