

Anecdotes from Alliancing

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Abstract

Contracting by alliance or by partnering has become a recognised style of doing business in New Zealand over the last five years. New Zealand Worley Limited has had the benefit of executing a number of contracts in this manner with a variety of clients. In the main, the outcomes have been successful. However, the road to harmonious alliancing is fraught with major and minor difficulties. These range from each participants' ability to accept and adopt the fundamental philosophies associated with contracting by alliance to the matter of dealing with the number of birthday "shouts" on a project. Using a series of anecdotes from actual projects, the paper highlights some of the pitfalls and triumphs experienced by various project teams.

Contracting by alliance is not a sinecure. It will not allow operators to extract more for less from the contractor, nor will it allow the contractor to make more profit for less work. But if it is developed and exploited to the full it will reduce whole of life costs by a significant margin, improve the working environment in which we conduct business with each other and enhance the profitability of the contractor.

Introduction

Late last year in Perth, there was an entire conference devoted to the matter of conducting business, particularly in the oil and gas industry, by "alliancing". I did not attend, but I did thumb through the conference papers and I decided that the topic was in danger of becoming overworked, dropping it inevitably into that "ho hum" category. To my mind that would be nothing short of a disaster for our industry, because I believe that the whole issue of outsourcing and contracting by alliance is one of the most exciting developments in the history of the industry.

So this paper is not going to set out multiple lists of advantages and disadvantages associated with alliancing, nor is it going to rely on a pack of overhead projections showing smart diagrams which invariably rely on a complicated presentation to demonstrate what should be blindingly obvious to a thinking person. Instead it is going to call on a series of anecdotal experiences drawn from working in the oil and gas industry in New Zealand over the last five years. Hopefully this will offer some measure of lighthearted relief which will be thought provoking.

For the record, the origins of this contracting revolution go back to the 1980s when Charles Cowan of the United States Corps of Engineers championed the vision of "going back to the way people used to do business, and putting the handshake back into business." This had a profound

effect on the building and construction industry in the States, and like many good ideas, it began to spread.

A little later, spawned in part by the North Sea CRINE initiative, the oil and gas industry launched its own version. While people, particularly lawyers, have been at pains to draw a distinction between partnering and alliancing, the concepts are the same. As a leading figure in the construction industry in Australia has observed¹:

"If partnering is doing business the old-fashioned way, with a handshake and smile founded in mutual trust, respect and sharing of objectives, then it is a concept as old as Methuselah. What is new, and exciting, is that this concept is being applied to what some observers might say has been the last bastion of the knucklemen - the construction industry - where conflict has been for such a long time accepted as a normal, and indeed even perversely comfortable, element in our way of doing business."

And this question of perverse comfort I will come back to².

Taking the Plunge

There seems to be at least two ways of establishing an alliance style of project: firstly, by going out to conventional competitive tender and adding a clause in the tender documentation along the lines of "Company may wish to conduct an alliance style of contract with the successful tenderer"; and secondly by the Company deciding in advance of the project that its new strategy, heartily endorsed by senior management, will be to contract by alliance. It then goes through an extensive pre-qualification process with a number of service providers, selects the one it feels most suits its culture and with which it would like to work and finally establishes the project parameters with its chosen partner over a period of time. The competitive element is removed once the prequalification exercise has been completed.

The latter process is time consuming, requires considerable foresight and planning and as a consequence tends to provide an excellent foundation for what is a very difficult transition from old style to new for company and contractor alike. The former process on the other hand, is quick; it suits the typical project schedule and is at best only partially successful. Once the initial contract has been established in a competitively tendered contractual environment, the task of shifting company and contractor into a fresh, trusting, centrally focused team becomes infinitely more difficult. Cynics would say that it is doomed to mediocrity at best.

Here at New Zealand Worley, we have worked under both patterns with a number of different client companies. In all cases, they have been enlightening, but, if I may be allowed to abuse the Orwellian metaphor, some have been more enlightening than others. The contrast in styles emanating from New Zealand companies has been quite striking and consequently, the degree of success has varied. It is possible that some clients have embarked upon project work trying this style of contracting because it is vogue, while others have made a corporate commitment to such a philosophy and have painstakingly worked through the formative steps with their chosen service providers.

The Key to Success

Whatever the route taken to initiate an alliance style of contract, the key to success is the establishment of a common set of goals for the whole alliance team. These must satisfy operator and contractor alike. First and foremost the operator must achieve the new plant build or the modification and expansion of an existing facility that is the object of the project. In turn the contractor must make a profit so that it is able to continue to trade and provide a service in the future. Each partner must respect the other's fundamental objective. But more important, each partner must understand the other's necessity for achieving its objective. There are many complimentary objectives relating to time, budget, level of profit, engineering excellence, safety and plant operability, which enhance the fundamental goals and these too must be respected and understood by both parties. Very often these are used to establish and monitor performance for the duration of the project in the form of Key Performance Indicators or KPIs.

Sounds simple? Well, in theory it is, but in practice it requires patience, determination, attention to detail, a measure of self effacement and an unparalleled commitment on both sides of the alliance to challenge the paradigms which are so prevalent amongst operator and contractor. Just because your revered rotating machinery engineer has always used cast steel when specifying a particular compressor casing, it may not suit the project's minimalist design criteria. The result is cast iron, a cost saving to the project and a disaffected engineer who feels his integrity has been called into question. Such situations must be managed for the alliance to be effective.

This particular matter is now history, but when asked for further comment, the engineer in question confessed to having major difficulty with alliancing, regarding the whole issue as little more than a fad and preferring "to meet the enemy head on" rather than being asked to work alongside. What was it that G Duff said about "perverse comfort"? Optimists would argue that there's a lot of work to do to shift such entrenched paradigms in

individuals who have 30 odd years of experience in the contracting industry. Realists would say, "don't bother - find someone else!"

Beware the Clayton's Alliance

Plant operators tend to build special relationships with their key suppliers for equipment, spares and support engineering. These relationships must be acknowledged, respected and above all, understood by the Alliance project team. The operators' procurement staff may have been very happy rubbing along with such vendors while the plant has been in a routine operational mode. It is even possible that a modicum of complacency has crept in. But when dealings pass to a schedule and price driven project, the atmosphere can change dramatically. Notwithstanding, the alliance project now has the challenge of trying to meet the alliance goals without upsetting the long term relationship established between operator and vendor. Invariably these two objectives run counter to each other which results in conflict within the alliance project team and must have special attention.

Whilst on the subject of vendors, beware the Claytons alliance! Fresh from the excitement of winning a new contract which was subsequently labelled "an alliance", a particularly important vendor found itself caught up in the euphoria and was told that the contract/purchase order for its services would be an alliance too. However, the expectation of the vendors required performance became magnified to an unreasonable level and it found itself being asked to jump through flaming hoops in the spirit of alliancing. In subsequent negotiations the vendor rechristened "the alliance," "the liars" and raised its contractual guard accordingly.

Alliances are not a sinecure. They will not magically produce more goods or a higher specification for the same price, nor will they allow more engineering to be performed for the same or less money as before. What they will do is to provide the climate whereby vendors and designers will be happy to lower their guards and optimise their services for the overall goal of the project. In the short term, this may result in a piece of equipment being manufactured to a higher specification or more engineering hours being consumed in order to reduce the whole of life cost. But confidence and trust is soon compromised when vendor or engineer is penalised for such an approach.

The Needs of the Individual

The theory of making up the project team with staff drawn from the operator and the contractor is without doubt of great value. A combined team saves the inevitable doubling up of personnel normally associated with person-to-person marking. It also reduces any latent tendencies from the operator's personnel to indulge in "shoulder overlooking". But spare a thought for the process engineer who has been running a plant for the previous 10 years and now finds himself in the midst of a project team hell-bent on ripping his plant apart and increasing its capacity by maybe 50%. Suddenly his goals of the last decade, which required him to extract the maximum safe and consistent performance from the plant have been replaced by those of the project team who have a punishing schedule and an even tighter budget. This is a hard change for anyone to come to terms with overnight and can lead to some real frustrations within the team. They can be resolved, such that the individual and the alliance can both be winners, but it takes perceptive project management and an excellent team spirit to pull it off.

Additional challenges for the project management to come to grips with will come from the inequalities which surface as a result of putting personnel together from employees of differing cultures. Does the plant electrical engineer, recently seconded into the alliance team, receive payment for overtime or is she on a salary? She is now working beside another electrical engineer from the contractor who is paid by the hour. The potential for dissatisfaction is inevitable. The alliance design team has been established in the design consultants' offices in town away from the plant. Has travel to and from the project office been addressed for the plant electrical engineer and her colleague? These issues will do much to disrupt the harmony being generated by the new project alliance if they are not tackled early on in the development of the project. As there are so many issues which must be attended to at the outset of a project, this area is invariably overlooked.

"The team" should be a constant theme for an alliance. Whereas the contractor should be well versed in the assembly, routine running and disassembly of successive project teams, this may not be the case with the operator. Consequently individual players may well find it difficult to integrate and focus on a common goal outside their normal zone of comfort. Residential team building courses, action learning with key, if not all, members of the alliance team at the outset of the project, backed up by constant reinforcement of the ideals, will pay guaranteed dividends. The pressures of the project will constantly challenge the structure and integrity of the team, and those who have invested the time and effort into building and maintaining a sound base will be appropriately rewarded.

One designer was heard to comment that alliances are good value because the number of birthday shouts has been seen to increase compared with the old style of contract. When pressed further on this issue he felt that the scope for the resolution of minor problems in a friendly environment was a huge improvement. It wasn't clear whether this took place in the pub or in the office. That is not important, what is relevant is the environment created to facilitate resolution of problems/differences at an early state before disruption to the project.

Cost and Schedule

Not all projects can boast adherence to the original budget once completed. It is easy to blame the contractor for failing to estimate and then to control the project expenditure adequately, which may well be justified. However, many of today's fast track projects are driven by a commercial need for the operator to maintain or advance its position in the market place, and as a result there may not always be sufficient time allowed in the schedule to verify the robustness and accuracy of the initial estimate as the project advances. Whatever the root cause of the problem, the fact that the work is on a brownfield site will always compound the issue.

Confrontational style contracts had a classic method of dealing with such a situation which centred on three or four phases, namely: variation to contract, dispute, arbitration and if really knotty, litigation. Clearly no matter how the contract between operator and contractor is couched, the operator's board will still be required to find the extra capital which will have its inevitable consequences. However, it is in such a situation that the alliance team really begins to earn its keep. The embedded culture which has focused on the operator's overall project objective from the outset is now able to continue doing just that without being distracted by one or more of the four phases of retribution identified above. If the contract terms have included some financial risk/reward strategy, it may be time for the contractor to face up to some of the risk. A contribution from the contractor's side of the alliance, even if it is of modest proportion compared with the size of the budget increase, can go a long way towards healing potential rifts.

Once again, the passage through such an occurrence is difficult and requires communication, trust and commitment throughout the alliance. The proof of success for the contractor will be future work, and for the client, the knowledge that the situation was dealt with objectively and fairly!

Conclusions

The material for this paper has been gathered from New Zealand Worley's experience to date. The events are real, only individual company and employee names have been omitted. Despite the aspersion and innuendo, the results of the project work described have been positive, success being measured in part by adherence to budget and schedule. Perhaps a more significant measure is the degree of satisfaction felt by the respective members of each alliance. In the case of the operator this may be measured by its willingness to maintain the relationship into the future in some form or another, and in the case of the contractor, by whether it has been able to make a profit and thereby maintain its operation for the future.

The prospect of being able to develop this style of doing business in what is left of the 90s and then on into the twenty-first century is exciting and I believe that the rewards for all parties will be considerable. However, there is much work to be done to achieve these rewards and it may be for some that the "perverse comfort" of the old way is just too much to give up.

Footnotes

1 Duff, G. 1994. Current Practices in Strategic Partnerships: 53 AJPA 29, 30-1.

2 Ibid

Authors

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