

# Rethinking how capital programmes are delivered

Event Report – 21 February 2018



---

## Rethinking how capital programmes are delivered – Event Report

---

On 21<sup>st</sup> February 2018 over 60 high level representatives of ECI were joined by colleagues at CII at the offices of Fluor in Amsterdam to debate *Existential Crisis - Rethinking how capital programmes are delivered*.



Delegates were welcomed by John Fotherby, Chair of ECI and Arne Siewertsen, DM Project Controls & Estimating, Fluor our hosts for the day. Paul van Weert, Shell Global EPC Manager and Bernd de Jonge set the context for a sector that needs to change. Paul spoke of the need to halve the costs of capital projects to enable them to do twice as many projects with the same allocated budget, not through putting more cost pressure on supply chains, but through fundamentally rethinking the delivery model. From a client perspective they want to see more continuity and learning across projects, greater standardisation and higher levels of collaboration. Bernd made the case for making capital programmes more affordable, investable and bankable through better utilisation of capital. He proposed that more R&D, greater use of digital technology and more collaboration were the keys to delivering projects more effectively.

There was significant agreement amongst delegates that the sector is facing an existential crisis, with 87% either agreeing or strongly agreeing. On the topic of whether we need to rethink capital programme delivery there was overwhelming support in the room with 96% agreeing or strongly agreeing.

### Operating System 2.0

Stephen Mulva from CII introduced the concept of Operating System 2.0: Unlocking Project Value which aims to create an industry that is adaptable, agile and more responsive to the complex realities we face. Please see [Stephen's presentation](#) for further information. Stephen stated that 40% of project cost is 'transactional cost' and that eliminating this is necessary in driving down project cost. Stephen also stated that raising finance for multi-billion dollar projects was time consuming (due to delays in project sanctioning) and extremely expensive. While the industry must change beyond

recognition, there would be jobs 'for all' because we would, as an industry, be doing more projects but people would be doing different jobs for which they would need to train.

86% of participants were supportive or strongly supportive of Operating System 2.0, however almost half (45%) were unsure as to whether their organisations are well placed to take advantage of Operating System 2.0. In terms of which aspect of Operating System 2.0 was most critical the commercial model was the clear leader with 56% of the vote, followed by procurement systems at 14% and technology & systems and human resources at 12% each.

There was strong support for the operating 2.0 manifesto with the highest commitment to collaboration (78%), innovation, creativity and inventiveness (74%) followed by a focus on total cost of facility ownership (56%) and reduction in organisational layers and information gaps (48%).

Comments from participants included:

- There are significant parallels with the issues facing building & civil construction... potential to work together perhaps?
- The good news is that most of this stuff exists in some form elsewhere which means it's a highly credible plan. A great example of ignoring the existing practice and introducing intuitive processes.
- It is actually all about behaviour change throughout the whole value chain from investor through to manufacturer.
- Overcoming resistance to change will be one of the major challenges.
- Our one chance to transform from within before we are disrupted from outside.



## Opportunities

Participants then met with their peers to consider the opportunities around capital programmes considering four outcomes included:

- For owners, data and transparency across the supply chain is key.
- For EPCs issues emerged around collaboration, standardisation and efficiency as well as focussing on whole life value rather than just operating costs.
- Manufacturers and vendors proposed greater standardisation and innovation alongside a share in both risk & return. They also proposed an opportunity around leasing proposals.
- Demand-side consultants wanted to see greater reward for industry based on long-term project success and rewards for innovation. They also wanted to see long-term relationships, continuity of work, portfolio so that lessons learned can be applied on future projects.
- Supply-side consultants wanted to see reduced friction and lower costs of entry, transparency and fit and greater organisational memory.
- The academics proposed 3 recommendations:
  - Align industry to small number of key success factors and then work together on these
  - Create space for academic involvement, e.g. PhDs
  - Robust baseline and measurement over time

## What will it take to make a difference?

**Finance** – Create a demonstrable platform to show what people will get when they invest.

**Behaviours** – A need to build trust across the supply chain from the top down, existing hierarchies often prohibits trust.

**Trust** – Create an industry structure that supports move to more granularity and transparency e.g. the way Amazon has done in the grocery sector.

**Shared Gains** - common targets & incentivisation with a single integrated project team sharing risk and reward – the current contractual model does not support this.

**Big Data** – Effective data management and sharing will create transparency and enable new entrants into the industry and create more investment. There is an opportunity to explore and de-mystify activities such as block-chain.

**Mindset** – Needs to be more than a procurement framework, it needs to include a contractual, legislative and collaborative framework. This requires client leadership to deliver and drive.

**Leadership** – Leadership needs to be defined and often comes from crisis.

**Collaboration** – Projects such as Heathrow T5 and the Olympic Park demonstrate the value of collaboration. Owners need to be educated to mandate change and not drive down costs and create an adversarial environment.

**Receptiveness** – Collaborative leadership is the right leader at the right time, who is receptive to change. Have companies contracted out too much leadership?

**Benchmarking** – Look at the business context, careful not to misuse benchmarking data, especially on project costs.

## **Actions**

There was overwhelming support for the proposed work programme with 92% of participants strongly supporting or supporting the agenda. There was strong commitment in the room to participate in theme groups (85%) and work on demonstration projects (30%) and we firmly expect ECI to grow with 5 organisations stating an intent to join ECI.

ECI agrees to:

- Create a briefing document and set of briefing slides on new models for those present to brief their teams and supply chains on what's in it for me.
- Revisit the Active toolkit along with ECITB
- Help ECI members to talk with their clients about the new model and facilitate feedback via a linked in group.
- Explore options for a measurement theme group

We will be organising a follow-up Members Forum in April followed by our Annual Conference in June to ensure momentum is maintained on this work programme.

## **Chairman's Conclusions**

“The “how” is substantially about behaviours – labels such as “partnering”, “collaboration” etc are meaningless unless there is a fundamental shift in the way we deal with each other (owners, contractors, vendors etc) formally through contracts and informally in day to day exchanges. In his presentation at the GE Oil / Gas Conference in Firenze in 2016 Thierry Pilenko (then CEO of Technip) said that if we wanted to get project prices down by 40% a change in behaviour was required. He too used the HSE analogy – drive behaviours from the top to the lowest operating levels.

Thierry Pilenko noted in Firenze that while agreement was being reached at the top of organisations, the “message” was not getting down to the lower levels in the organisations. I observe the lack of behaviour change all the time – disputes occur because of human behaviour that often has at its core the toxic mix of ignorance and arrogance. While I applaud OS2.0, I fear this runs the risk of not producing the desired results, not because it is a bad idea but because of human behaviour.

Therefore whatever project / programme delivery system we are working to and irrespective of technology advancements, ultimate success will, for the foreseeable future, depend upon how we work together as an industry. Even though this industry tends to treat psychology (the science of human behaviour) as voodoo, I believe that the ECI conference built around the “how” of project delivery and the corresponding behaviours required for effective, efficient and economic performance will continue the active debate and drive for change initiated at the ECI/CII event on 21 February 2018.”

***John Fotherby, Chair ECI***