

Leadership Breakfast Meeting – Tuesday 8th March 2016

Guest Speaker – Simon Addyman

Key themes

Simon's opening statements

- > The role of procurement in the creation of capable project organisations and what that may mean for us an industry.
- > What is the optimum relationship between client and contractor?
- > The need for the creation of capable project organisations. And if we do talk about them, the separate parties to the organisation tend to talk about having a capable project team to deliver their part of the commitment, we rarely, I would argue, talk about the whole project organisation.
- > The activity of procurement disconnects the development front end from the delivery execution end of projects, creating inherently unstable project organisations.
- > How do we use procurement to better connect the 'demand chain' and the 'supply chain' of projects to create more capable and resilient project organisations, a 'project chain'?

Summary of experiences in 5 key areas;

- 1. Prioritising value over cost** – we tendered and evaluated on the business case
 - Everything is grounded in the business case (we don't spell out what we are trying to do)
 - Bid on business case
 - Evaluation - Measure lost value
 - Weightings against benefit £
- 2. Creating Capable Organisations** - Integrating demand, integrating supply and then integrating demand and supply – whole organisations!!
 - Demand - Talk about client and stakeholders – not a collective unit
 - Put too much on supply chain
 - Time to become capable – dialogue stage
 - Why don't we procure integrated supply chain, sign one big contract
 - We integrated through risk register
 - Public inquiry – involvement of contractor – no objection
- 3. Effective v's Efficient** – what do you want to buy? OR What don't you want to buy?
 - Sometimes easier to know what you don't want
 - We need innovation in both
 - Innovation doesn't come without competition
 - New triangle of requirement, risk and benefits
 - Buy products that will give us value over time
 - Get supply chain competing for range of products you want to buy i.e. effective products
- 4. Networks not Hierarchies** – Information exchange –Necessarily complete / sufficiently complete
 - Projects don't get delivered solely through hierarchy's but networks
 - Social networks within projects
 - Balance of managing contracts (transactions) v's Interdependence – cooperation v's coordination
 - Information exchange – decision making – self organising networks in KTP
- 5. Persuading people to innovate** – Persuading people to innovate – create rhetoric / narrative
 - Creating a narrative – not persuading them they should do it – persuading them the alternatives are worse.
 - Help them understand what they don't want.
 - Create a team of leaders – you manage up more than down

Additional points

- > We concentrate a lot on the supply chain – need to think more about the demand chain, as its very complex
- > Supply chain – complex acquisition. Integrated capability to see what people require at the right time
- > Supply chain tend to think about short term projects
- > In a competent supply chain you can filter up
- > Need a cognitive supply chain
- > Demand chain – working in cost plus environment
- > Demand chain determines procurement
- > How do we create the right environment for innovation? It's an important issue, look at Crossrail drawing on innovation. How do you drive innovation to a team already fixed to a contract? Create a hub and get people excited about it. We get the most innovation at the procurement stage
- > Innovation predominantly lies in the supply chain and they will only give it to you when they win the contract
- > Innovation – you know it when you see it!
- > We need competition to innovate
- > Going forward the chance to be involved earlier in the integrated supply chain helps innovate effective product persuading people to innovate
- > 3 types of innovation – Different/ Better and New
- > Risk – all risks have a price whether positive or negative
- > Risks also have opportunities
- > What risks are the best value, they are different to everyone and this determines how you are going to go about it
- > Accept the risk if its manageable and equitable
- > 15,000 to conduct procurement – no one has done this and the scale of it too bold. Couldn't afford to put strategy at risk if balance sheet not adequate enough to take the risk.
- > Sometimes trying to transfer the risk to the supply chain counterproductive, inadequate, can't manage it and don't focus on delivery value, collaboration or innovation.
- > 15 page contract – Can we simplify it? It is a guideline of what we should be doing.
- > Contract isn't good when things are going wrong but when they are going right who needs a contract anyway.
- > Depends on the nature of the transaction – when someone is paid to pull the contract to pieces, people wish they would have put it together better
- > When dealing with complex projects we need to focus more on the outcomes.
- > Working on the client side is much more complex – we need to understand client side
- > 50 – 80% of what they do is routine in project organisations
- > Leave project managers to manage uncertainty and complexity
- > In term of target cost arrangement – Can fix price and cost reinvestment – doesn't matter as long as you understand transactional uncertainty
- > Broader timing, in all my time, I have found if you give someone risk you vote their intention to defend the risk they have taken on.