WHAT MAKES AN INTELLIGENT CLIENT?

Report of seminar 166 held on 16th November 2011 at the Institution of Civil Engineers, 1 Great George Street, London

SUMMARY
KEY CONCLUSIONS

• Leaders of projects have to manage the boundary between stability (predictability) and instability. Under pressure (stress) the brain directs energy to the part of the brain that deals with survival, rather than to the part that deals with creative decision making. Perception, not logic, drives behaviour.

• An (emotionally) intelligent client has to understand people and build trust.

• An intelligent client should understand and define its needs (of the project); define its requirements fully; select the contractor competitively and fairly and reward through incentivised contracts; support the contractor and enforce the contract fairly; bring projects together to make the whole (programme); commission the projects and measure their effectiveness.

• In addition to specifying its requirements and outputs, the client should tell suppliers what the client will not do.

• When specified by the client, the contractor can align its own internal incentives with those of the client.

• Clients should be willing to clear obstacles for the contractor to benefit suppliers.

• Insurers consider the reputation of the client and its record in delivering projects. Changes in senior management may impact on premiums. Intelligent clients can modify requirements for bonds in relation to the type and structure of the project risks.

• Within certain clients such as the MOD, contractors often have the longest on-project knowledge because of the cycling of senior civil service posts. However, clients can structure which components should be kept in-house and which can be contracted out for external support, while still ensuring a virtual enterprise.

• Public sector clients cannot be a single entity because of the political dimension.

• The client culture can impact on a project – for example the desire for, or avoidance of, new techniques.

• ‘Bottom-up’ impacts on clients can result from trust and results from the supply chain leading to a lighter hands-on role from the client.

These are the views of Malcolm Noyce, Executive Director, MPA
Performing as an intelligent client is not about finding smarter ways to extract value from contractors and the supply chain. It is about wisdom and leadership, a compelling vision, a clear strategy and the ability to galvanise human energy and organisations. True project success also requires behaviours which bring people together for a common cause and attitudes which breed trust and cooperation – in the end it is more about people than processes.

At this full day seminar speakers from academia and the public and private sectors looked at what makes an intelligent client. Through the presentations, and the discussions that followed, delegates heard different perspectives on how the intelligent client can build an organisation, a culture and a positive environment where customer, stakeholder and supplier relationships thrive and generate value through major projects.

The event was chaired by Tim Banfield, Director of the National Audit Office (NAO). He provided some background and context to the day with a brief overview of the key issues arising from NAO reports on major projects.

The first presentation of the day was from London South Bank University. It looked at how the emerging discipline of applied organisational neuroscience brings light into how change can be facilitated, creativity maintained and integration effected.

Intensely adaptive though they are, human beings have evolved to be highly resistant to change. Real, persistent and sustainable change within an institution or an enterprise can be far from easy to establish and maintain. This is a considerable dilemma when change is necessary or desirable and creative solutions to complex problems are being sought.

Leadership involves effectively handling the competitiveness, volatility and conflicts that are inherent in human beings pursuing strategic and operational objectives. The key skill is the managing of relationships, and the key attribute is having intelligent emotions. In whatever setting, leaders have to minimise risk and uncertainty. The risk is that they try to do so by maximising on predictability and control.

Following a brief introduction to the human brain and how it works, the session described not only the conditions that the project leader must create to make sustainable change possible, but the mechanisms by which that can be done. It also demonstrated how human energy flow within complex organisational systems can be mapped and tracked.

In summary, it was suggested that risk in organisations can be reduced by becoming aware of the way the brain and the mind functions, and recognising that the drivers of good leadership are intelligent emotions.
The second presentation, given by Integrated Systems and Strategies, considered why consistent success in the execution of major projects and programmes remains elusive. This is despite the investment put in over the last 30 years with different tools, models and methods, such as Prince2, 6 Sigma Lean and risk management.

Evidence suggests that some critical fault lines are more attributable to governance and strategic decision making, rather than issues at the tactical end of the spectrum. The session considered how effective Boards are at creating the right environment for projects to succeed. For example, do they understand the right business models and do they place sufficient emphasis on developing capability through leadership and the ‘soft’ people issues? How well do they perform as an agile, problem-solving team? To what extent is a Board able and willing to examine its own appetite for change?

Illustrated by various strategies based on a systems approach, the presentation went on to consider good governance as the key to building healthy projects for the future. A possible major project business model was outlined, developing from a simple ‘V’ diagram through to a holistic governance model providing a gold standard for the intelligent client: a governance framework covering all the important issues which lead to success. It was noted that teamwork, trust, wisdom, credibility and confidence are all vital ingredients in making the major projects model successful.

Techniques that can provide a more substantive and scientific view of how well projects are working as a human endeavour within an organisation were outlined – for example, scenario-based training, leadership models, coaching and personal development.

In the third presentation, BAA looked at the intelligent client from the perspective of the private sector.

In recent years BAA has been evolving its capital project management process, replacing reliance on partnering, alliances and framework agreements with a structured intelligent client model. Reasons for the changes were discussed, with particular reference to the Heathrow Terminal 5 programme.

The new model involves the ‘Ten Commandments for the intelligent client’. These commandments – or principles of operation – were outlined, describing how they are being employed in current developments at Heathrow, including a new Terminal 2 building.

For example, the first commandment involves understanding and defining the need – BAA now put their master planning team into the capital programmes organisation, and start with a master plan. The second commandment involves specifying the requirements fully: this includes being specific as to the outcome and intent in the contract so that a contractor has a reasonable idea of the client’s expectations, and defining risk allocation.
It was explained how through these principles of operation the organisation is transforming its workforce into a true intelligent client, focused on outcomes and benefits and less reliant on consultants and contractors.

In summary, the intelligent client:

- Prepares for changing the business model as the external environment or market changes.
- Adopts good proven contracting techniques.
- Develops professional programme managers.
- Spends two thirds of their time on: defining need; specifying requirement; chunking the work; selecting sources; devising smart contracts; integrating and commissioning.
- Follows the ‘Ten Commandments’.

As a major supplier to BAA, this presentation from Balfour Beatty looked at how the BAA approach to the intelligent client has worked from the supplier’s perspective.

It started with a reiteration of the importance of leadership, noting that management is about making sure things are done right, whilst leadership is about inspiring people and getting them to aspire to where you want them to go.

A truly intelligent client organisation needs an individual champion who has the passion and energy to bring something about. It also needs leadership skills backed by a capable organisation. A focused and disciplined leadership means more clarity and definition about the project, and clearer guidelines in the contract as to who does what.

The session went on to examine how the ‘Ten Commandments’ of being an intelligent client have worked from Balfour Beatty’s point of view, and the principles that align the intelligent client and supplier.

It concluded with an overview of the lessons learned. For instance, a disciplined customer and supplier relationship that engenders collaboration and mutual support needs to be sustained. It is important to achieve a mature definition of specifications and resist the temptation to change. As regards safety, the intelligent leader’s passion for safety should be utilised to engage with the workforce right at the bottom of the organisation and embed a safety culture at all levels.
Clients seek to minimise costs and to maximise value for money; intelligent clients also factor risk into these calculations. Against a background of economic volatility and an extremely difficult environment for contractors, protection of the client’s position in relation to major projects requires careful risk assessment, and an understanding and analysis of default risk.

Zurich’s worldwide surety network is primarily concerned with managing default risk, and this presentation started by looking at the different types of risk in major projects, and some of the limitations in analysing the risk of default.

It went on to examine how risks can be moderated and described the mechanisms that are available for risk mitigation.

A range of risk mitigants can be utilised, which should be structured to reflect the characteristics of the project throughout its life cycle. These include careful selection procedures and contract drafting, structured payment terms, obtaining third party warranties and step-in rights together with parent company guarantees and performance and other bonds from financial institutions. The optimum protection against future default, and therefore the best value for money, can be obtained by understanding the nature of each of these protections and using them in combination.

This joint presentation came from Atkins and Atos, both of whom are members of the group of companies that has worked with the MOD over a number of years, providing independent technical and management services. The group was formed because there was a perceived need for independent support which could not only deliver the services available, but could offer advice about making the MOD a more intelligent customer.

It was explained that the MOD needs to improve the outcomes from the money it spends each year on equipping and supporting military capability.

Simultaneously, the current economic situation and the Strategic Defence and Security Review decisions require reductions in MOD operating costs associated with procurement and in its civil service headcount.

In planning how best to reform the acquisition process and organisation the MOD is putting considerable thought into what constitutes an intelligent customer. It is looking at the core activities it needs to maintain within its Defence Equipment and Support organisation to ensure that it can act at both programme and project level to provide an effective long-term interface with suppliers.
This presentation put forward a detailed case for implementing an intelligent customer for defence. It discussed the key issues faced in defining, contracting and managing MOD programmes, and examined a potential customer model that is flexible, intelligent and would reinforce the ability to manage these issues.

It was noted that for a variety of reasons, defence is not a straightforward environment in which to sustain an intelligent customer. However, as current pressures drive change across the sector the intelligent customer role will be no less important, and sustaining it should be a key consideration.

CONCLUSION

During the day’s proceedings it became clear from the wide range of views and perspectives that what characterises the intelligent client depends on the circumstances.

The Chairman suggested that there is no neat solution to the issue, or indeed how the characteristics of the intelligent client might come together to define the whole. A good place to start a longer discussion would be the White Paper produced by the International Centre for Complex Project Management on managing complexity, along with the NAO’s report entitled NAO Guide: Initiating Successful Projects.
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BAA Airports Ltd
BAE Systems
Balfour Beatty plc
BG Group
Capita Symonds
CH2M HILL
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Costain Ltd
Cranfield University
Crossrail Limited
Defence Infrastructure Organisation
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