

## MANAGEMENT: EC HARRIS



# BUSINESS OUTCOMES: FRESH THINKING

Programme management is a well known delivery tool but according to EC Harris it needs a new twist – the introduction of a commercial edge that links projects with business outcomes. **Margo Cole** reports.

**A**ccording to built asset consultancy EC Harris, the time is right for a fundamental overhaul of the industry that should radically affect the way projects are procured, costed and managed. The driver for this change is the tough economic environment and its impact on construction clients.

“Many clients – particularly in the regulated industries – are facing challenges of a scale they’ve never known before,” says EC Harris head of service and people Matt Bennion. “In the current economic environment, clients need rapid and sustainable reductions in cost to meet new performance requirements and customer/consumer expectations. Regulatory, policy and competitive pressures are adding to the challenge.”

Before, he says, clients tended to focus too much on the successful delivery of an asset as the benchmark of a project’s success, rather than whether it achieved the wider aims of the business, and it is this aspect that is being brought into sharper relief by the tougher



**“Clients are facing challenges they’ve never known before”**

Matt Bennion

financial market.

“All of those things together are creating the need for a step change in performance by our clients that is not just about capital delivery but about a reassessment of the link between the delivery of an asset and the return on investment of that asset,” says Bennion. A director at one of EC Harris’ water industry clients adds weight >>

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» to this statement.

"How to deliver significant capital investment programmes, funded by a weighted average cost of capital, requires companies to review their finance options," he says. "Companies are generally looking to out-perform against their final regulatory determinations to give funding headroom. This requires double digit percentage efficiencies to be delivered from final business plans. The question is, where are those efficiencies going to come from?"

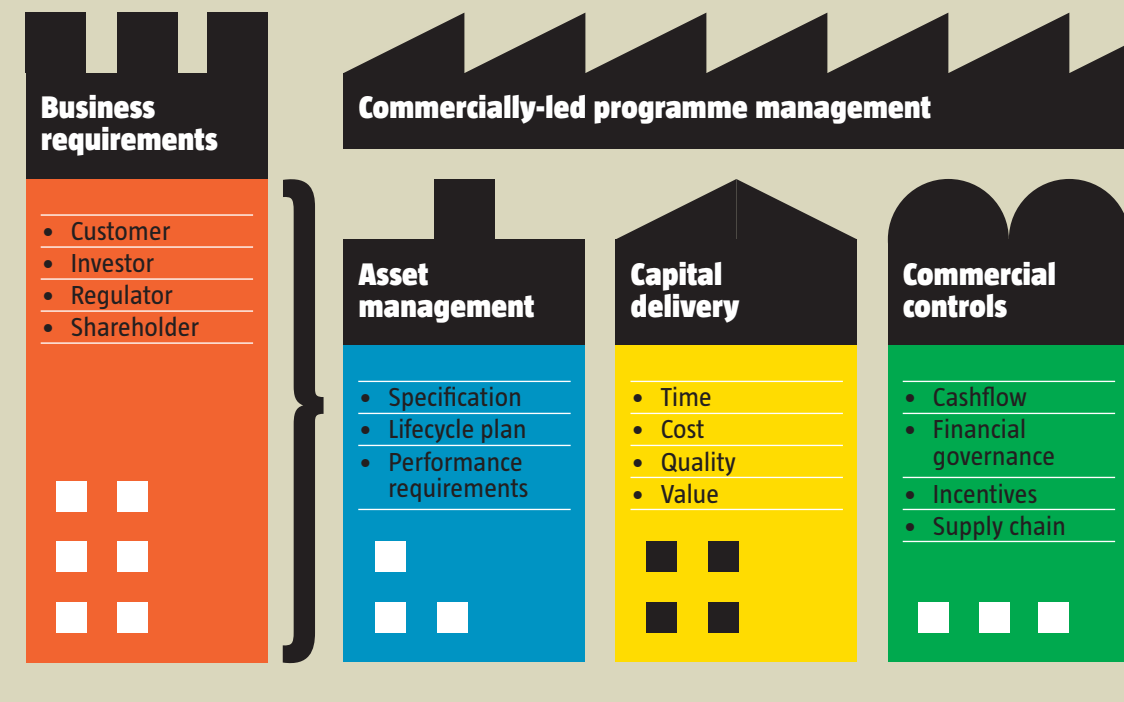
Bennion says investment in capital projects needs to be clearly linked to client business outcomes. For a water or power company these outcomes are clearly defined by the regulator, with an emphasis on cost efficiency and benefits to the customer. For private firms business outcomes might include shareholder dividend or sales.

"If you know where you've got to be, you can break that back down into projects that you need to get there," continues Bennion.

While this may all sound fairly logical, EC Harris says it represents a fundamental challenge to a large number of organisations and – in some instances – may result in companies having to change their operating model, particularly when it comes to the traditional split between capital and operating expenditure (capex and opex). Capital programmes should be evaluated against the overall business goals of the company, and considered in conjunction with operating costs over the full lifecycle of the asset. "You can't just focus on capital delivery," says Bennion. "You might be making the wrong business decision."

But, you might argue, lifecycle costs are already taken into account in the procurement of many major assets, particularly in PFI projects. The difference, says EC Harris head of programme management Nigel Miller, is that "lifecycle" should not simply refer to the construction and operation of an asset, but should start much earlier. "For a number of years we've experienced a focus on the capital element of a project," he says. "Initiatives like Latham and Egan were specifically focused on driving 30% out of the cost of capital projects, and led to mechanisms to do that, like Procure 21 and BAA's frameworks. "But we are finding

### Commercially-led programme management



## NUCLEAR



**"What looks like a minor variation at programme level could be a major change to a subcontract and could introduce huge risks down the line"**

Paul Stapleton

Commercially-led programme management is all about money, and certainty. On a costly nuclear programme those elements are particularly vital. As EC Harris head of energy Paul Stapleton says: "What looks like a minor variation at programme level could be a major change to a subcontract and could introduce huge risks down the line."

The client needs to understand how changes affect the programme and the impact of those changes."

EC Harris is finding the burgeoning nuclear sector fertile ground for commercially-led programme management. Nuclear has a high capital cost up front with long payback, which puts its funding way beyond banking norms.

By bringing in an organisation offering commercially-led programme management skills a client can strengthen its in-house commercial approach. Bringing more certainty to the process aids in securing capital from the investment market.

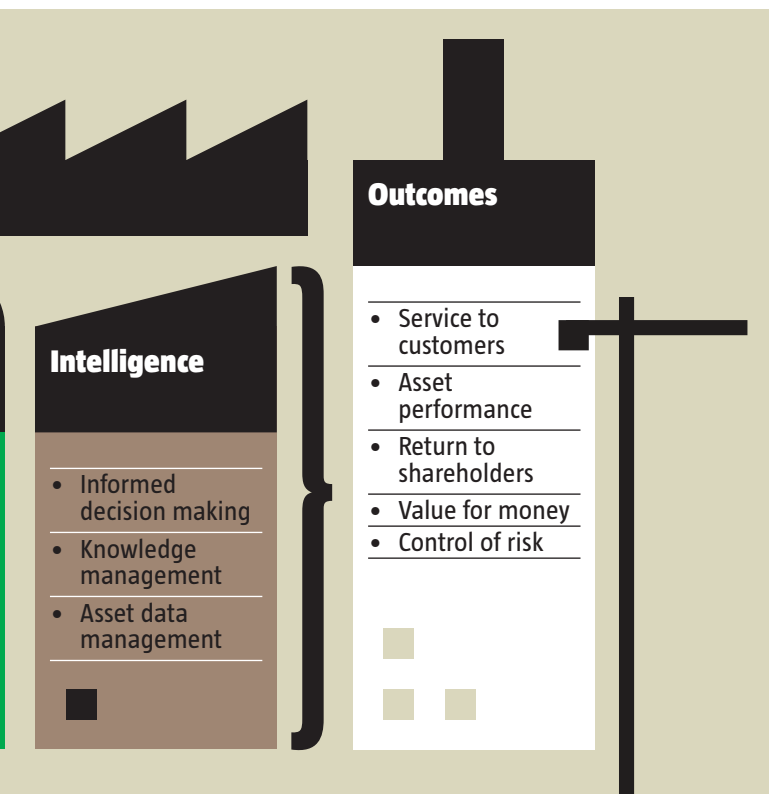
EC Harris is currently working as a key adviser on a major nuclear new build programme for one Central European client. "We are in right at the beginning of the

cycle," Stapleton says. "The client is reviewing its preferred technology. We are guiding and advising the client, looking strategically at its approach to the market. Countries are competing in capitalising on the nuclear renaissance and it is key to create a programme that is attractive to all the stakeholders and the supply chain. Our work involves delivering certainty of programme, demonstrating secured financing and then appropriately contracting with delivery organisations."

EC Harris collaborates with its clients to put suitably qualified and experienced personnel in place to strengthen the team. Stapleton says that it is the flexible commercial approach, knowledge and experience that make his firm different to other programme managers.

The next market for the commercially-led programme management approach, he says, is offshore wind, which, like nuclear, has a high capital cost up-front and has complex delivery.

"The industry is learning as it goes, building up its experience, but it will mature. We are looking to provide an end-to-end service from initial concept to operation and maintenance."



## HOW DO YOU USE IT?

### A guide to commercially-led programme management by EC Harris head of service and people Matt Bennion

Having established the business need and the key strategic risks, the next stage is to create a benefits case for change and a commercial framework for benefits realisation. This is used to assess, design and implement the functional (finance, information, HR, capital delivery, asset management, supply chain) changes and projects required to deliver programme objectives. Against this, a baseline plan is developed from which to set targets and measure change. There are three main attributes

required to make this system work:

- Requirements: Define success criteria and remove uncertainty as this will provide confidence in delivery
- Interfaces: Identify and manage these, otherwise the outcome will be sub-optimal
- Risk management: Understand cause and effect, identify the issues and convert solutions back into requirements

This logically linked approach will improve the return on investment through more informed decision making and governance around benefits prioritisation and realisation, using management information that constantly projects forward with trend analysis to identify any corrective action required.

This creates an organisation consequence where assigning clear accountability within the client organisation is a prerequisite.

## ROADS



**“Engineers are not going to be less important, because they’re really good at what they do, but sometimes the commercial bits are bolted on”**

Brian Fitzpatrick

**W**hile it may be easier to identify clear “outputs” for utilities companies, EC Harris head of highways Brian Fitzpatrick believes commercially-led programme management is equally applicable to the highways sector. “It is no less commoditised in highways than in those other markets,” he says. “The important thing is to get the different attributes of the scheme clearly defined.”

In fact, he adds, there is an argument that the sector has become a little bit too over-engineered, and a commercially-led programme management approach is required to reassert the right priorities.

“Greenfield sites have outputs that are time specific or lane specific, and are very construction orientated, but for the majority of work there is not much complexity. It becomes more complex where we have to take into account congestion, but that is simply an attribute of a project that needs to be understood – part of the process of identifying what you need, what the outcomes are and what attributes you’ve got,” he says.

According to Fitzpatrick, programme management is “more

readily applicable to the creation of an asset”, such as a road, than to maintenance and operation, and the firm is about to put its skills to the test in a programme management and advisory role on Abu Dhabi’s £16bn transportation programme. The contract involves both green and brownfield sites, roads, bridges and tunnels, as well as road safety and traffic management schemes.

“We are looking at all of the different elements of the master plan, understanding project attributes and interdependencies, and then putting a plan and priority behind all the different parts of the programme – identifying the common procurement strategies, and the different supply chain skills needed to get maximum value,” he explains. “There may be specific elements that are procured separately, but the management and procurement are joined up in a coordinated fashion,” says Fitzpatrick.

Back in the UK, Fitzpatrick admits the scope for commercially-led programme management is more limited, but clients can still benefit. “The Highways Agency is a mature client and its suppliers are very intelligent,” he says. “There’s nothing we can tell them about

how to build, but some of the commercial disciplines we can bring they appreciate – including time and cost certainty.

“Engineers are not going to be less important, because they’re really good at what they do, but sometimes the commercial bits are bolted on. Similarly the big management consultants and accountancy firms have got all the systems and processes, but sometimes they dip their toes into commercial waters they don’t understand. Our approach allows the client to manage the trade offs between technical and commercial issues in a more informed way.”

Fitzpatrick predicts a programme management approach could result in the “collectivisation” of road building and management projects with, for example, local authorities bundling together road programmes in different parts of the country to achieve economies of scale. “There will be a lot more thinking around how we collectively deliver these things,” he says, suggesting that local authorities in London might join forces to manage highways assets.

However, Fitzpatrick believes the “more comprehensive programme management opportunities for highways are outside the UK”.

## MANAGEMENT: EC HARRIS

### RAIL



**“It’s evolutional and requires top down commitment”**

Mark Prior

In the rail sector EC Harris is initially targeting commercially-led programme management at less mature overseas clients that are developing new networks, rather than the UK market with its very established processes and procedures.

“There are a number of opportunities in the Middle East, not least the United Arab Emirates,” says EC Harris head of transportation Mark Prior. “It is easier to put new processes into a young organisation.”

That is not to say the firm is shying away from UK organisations like Network Rail and Transport for London, just that it recognises that, without good data to prove the approach, those organisations will be more reluctant to adopt a new idea. EC Harris says it will have that information in rail within a year.

“A commercially-led approach to programme management would be a shift for UK rail clients,” Prior says. “But, given the coming austerity measures; what they need is a management delivery plan that properly quantifies and manages risk, which this approach can do. At the moment people tend to rely on contingency risk management, which doesn’t drive improvement as the contingency just gets expended, rather than managed.

“Rather, you need to ask, at each of the project’s various gateways; are the risks identified, are they quantified and are they being managed? Current risk management tends to be more of a tick in the box exercise. It needs more vigour.”

And you need a client committed to introducing the process.

EC Harris has been working with

a blue chip UK organisation on managed service provision for the last 18 months with a reshaped organisation, and the results are starting to flow through. “But it doesn’t happen overnight; it’s evolutional, and requires full top down commitment from the client organisation,” Prior says.

“Our approach is collaborative, rail is traditionally run by engineers; they understand its design. We are not after taking their space but are seeking to provide some glue for the delivery team.

“We need to keep everyone focused on asking why we are doing the programme; what are the expected outcomes; and, if one [outcome] is an increase of 20% in passenger capacity, then make sure everyone and every decision is aligned to that; and then managing the risk.”

» a broadening out of clients’ requirements, because they are looking at how you affect business performance through asset management capability and processes.”

EC Harris is promoting what it calls “commercially-led programme management” as the mechanism for setting capital asset procurement in the right business context, in contrast to traditional project management, which focuses on achieving the best result once the decision has been made to build.

“We tend to talk about “project management” in the stage that refers to delivery of the capital element,” explains Miller. “But by the time it becomes a capital project you’re only influencing cost, not the commercial output of the business.

“Strategic project management should come before project management, and cover things like the feasibility design, early engineering and early planning. And before that are the elements that ensure the business case for your project is linked to your outcomes, including business planning, benefits realisation, requirement planning, configuration control and financial planning. Programme management integrates all these elements, and the main influence you can have on business outcomes is by developing

commercially-based programme management.”

Bennion adds that, while clients have deployed programme management for a number of years, this has tended to focus on “governance, control processes and procedures required to govern programmes effectively”, and a more commercial approach to programme delivery is now required.

The firm argues that a fully integrated approach to business planning should ensure that no projects are commissioned in isolation, and any major spending within an organisation is assessed to identify whether it actually contributes to achieving the stated business outcomes. In this context a “project” could be anything from a PR campaign or financial planning tool to a multi-million pound power station. But to achieve this, many companies will have to change the way they work and look closely at their existing methods of governance.

“Many of our client organisations have for many years, been delivery organisations, but they have to elevate themselves to an “intelligent” client function,” says Bennion. “That requires many things to happen – for example a change in the operating model to bring the right skills to bear at the right time, or even bringing different skills into the organisation.”

Adopting a commercially-led programme management approach might result in contracts being awarded differently, according to Bennion, who says that in the oil sector construction contractors are already paid on the basis of the volume of oil coming out of the ground. In regulated sectors like water, where clients are at the mercy of five-year funding regimes, contracts could be bundled together across the entire period, with performance incentives linked to the achievement of asset performance outcomes for customers, rather than work being let individually to fit with the funding available in each year.



**“You could get some serious benefits of scale”**

Nigel Miller

“You could get some serious benefits of scale, because things are bound to be different in a £1bn project compared with a £20M project,” says Bennion. “If you put together a collection of projects, you can integrate your supply chain in different ways and look at the underlying assumptions that are made about productivity, and incentivise the contractor accordingly.”

He advises clients against the usual drive to accelerate delivery, instead pausing to get the business plan right and to identify the key business outcomes. And, although changes are inevitable during the construction phase – either internally driven or due to external forces, – if the outcomes are clear, it should be easy to identify how these changes affect the overall plan.

In the brave new world envisaged by EC Harris, clients will be much more knowledgeable about what they are procuring and suppliers will be willing to engage with them in a different way, perhaps working to different forms of contract, or with payment based not just on delivery of an asset, but on maintenance cost or output. The consultant believes this “step change” in the way the industry operates is essential if client organisations are to get the best value for money in the current tough climate.