

On target

Work is underway to improve procurement within the Ministry of Defence. Tim Banfield outlines the progress

When the words "procurement" and "National Audit Office" appear in the media, it is rarely good news. Overspends, claims of incorrect specification, late delivery. Many Whitehall departments are familiar with the reports. But now the Ministry of Defence, its suppliers and the NAO are looking at ways to manage military capability faster, cheaper and better. This is far from a simple job. We are undertaking studies looking both at the complex cultural systems influences and how to make improvements.

Each study - and so far two have been completed - examines how well a specific issue is being managed in the defence environment and explores how the same issue is assessed and managed by overseas and commercial comparators. The first report, Driving the successful delivery of major defence projects: effective control is a key factor in successful projects, identified the contract as a key component of project control.

From bitter experience, most project managers will know that while a good contract cannot guarantee a successful project, a bad contract will make failure more likely. The report, published in June, looked at how contracts can maximise the likelihood of successful project outcomes. Its reference point is the start of negotiations with a preferred supplier. It does not examine the methods - whether competitive or otherwise - used to select a potential supplier, but the NAO will consider the effective use of competition in a future study.

So what did it find? The main message is that there is no 'one size fits all' solution; rather the precise form of a contract must depend on the specific circumstances of the

project and the aspirations and roles of stakeholders. Commercial acumen is key.

Step by step

The contracting outcome gold standard has three elements. First, the timely agreement of a contract is like managing a mini-project in its own right. The process has to be well planned, agreed and understood. It should be resourced with suitably experienced and trained commercial staff and involve all stakeholders in the contracting process, not just commercial officers and project leaders. For example, at Virgin a "whole team" approach is taken in assessing suppliers and negotiating contracts. This is in recognition of the insights employees are able to bring from previous experience, to assess how well potential suppliers could work with them.

Second, contracts are mostly likely to support successful project delivery if they are negotiated against a common information base and with an understanding of stakeholders' aspirations. One of the key recommendations is to actively test all parties' understanding of the contract before final commitment. On the defence AS90 artillery systems project, for example, contractors were given bespoke training to ensure they understood the complex application of a range of pricing mechanisms. They also used scenario-based questioning to ensure understanding of the contract in general.

The third factor builds on our earlier report on Effective Project Control, which concluded "successful working relationships are characterised by team-working, trust and honesty". For example, the MoD NITeworks project agreed clear codes of behaviours for all contractors, defence staff

and other external companies' staff. The contract should also provide suitable incentives to underpin behaviours likely to lead to successful outcomes and to protect both parties in case of problems.

However, the evidence showed that penalties should be used with care and where possible incentives would be preferred. The Queen Mary 2 and Toyota, for example, are very reticent to use penalty clauses mainly because of the damaging effect they have on working relationships.

Informed choices

Finally, given the diversity of potential contracting strategies, the NAO is developing a method to help MoD and industry teams make a more informed choice of contracting strategy. This should match the detailed circumstance of each case based on the circumstances of the procurement. The tool is being developed in full consultation with MoD project teams, commercial managers and industry teams and draws together existing good practice, guidance and processes. It also builds on the gold standard criteria identified in the two NAO reports.

The tool takes a three-step approach to the development of a contracting strategy. Step one is to help the user to assess a range of procurement influences to identify the appropriate procurement circumstance. There are five key influences which help to understand the type of procurement circumstances faced. Step two takes this information and, using guidance from good practice, develops the most appropriate contracting strategy. Step three is an ongoing review of the process as it develops.

The tool has been designed for use from the earliest stages of a project to promote consideration of the contracting strategy. It aims to provide advice and best practice examples specific to particular circumstances and provide a checklist to ensure that the right considerations are dealt with at the right time. Overall, it aims to increase awareness of contractual issues within project teams. The MOD is now taking forward the full development of the tool with the aim of implementing it by the end of this year.

Tim Banfield is a director at the National Audit Office responsible for defence acquisition and project delivery

*Taken from Supply Management magazine Features,
5 October 2006*