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Five problems and five solutions in complex project contracting chains



The early morning hours of 14 June were a time of immense fear, uncertainty and sorrow as the 67-metre, 24-storey Grenfell Tower burned, killing at least 80 and injuring over

70. Its surviving residents, tenants of the Kensington and Chelsea London Borough Council, have seen their lives turned upside-down in the aftermath, and the charred remains of their home have become a byword for official mismanagement in the popular media.

Among the stories of penny-pinching and warnings going unheeded in the decision to retrofit the tower with flammable aluminium panels is the news that dozens of companies comprised the complex contracting chain responsible for the tower's renovation. A lead contractor, a separate project manager, a buildings services engineering firm, an architecture practice, a cladding manufacturer, a ventilation contractor, an insulation supplier – these are just a few of the largest contractors that delivered an array of services in connection with the project.

If this situation sounds familiar, it's because it is. Complex contracting chains characterise many ambitious projects across the private and public sectors. Managing them is a highly demanding technical, financial and, above all, cultural effort, in which all players must not only play their own roles properly, but also ensure the overall success of the activity.

An echo from the past

When the Grenfell situation became clear, it reminded me strongly of the Deepwater Horizon disaster in the Gulf of Mexico in 2010. A BP-branded offshore drilling rig suffered a major explosion and blowout, which killed 11 workers and spewed millions of gallons of hydrocarbons into the Gulf of Mexico for five months.

In the Deepwater Horizon case, as in many thousands of other wells, pipelines, pumping terminals and other activities across the upstream oil and gas sector, a very large proportion of the activities was carried out not by the international oil company (BP in this case), but by a network of large and small contractors and subcontractors. Some estimates suggest an average 75% of such activities is commonly contracted out across the industry.

Like Grenfell, a litany of failures appeared at the heart of the disaster. Equipment failed to work, oversight mechanisms were inadequate and inconsistently applied, fundamental roles and responsibilities were never spelled out clearly between the partners. Each party in the contracting chain had responsibility for their own particular job – the primary cementing of the well, for instance, or supplying the blowout preventer – but, it seems, no one had overall ownership for the project as a whole and its integrity and ultimate success.

Following the Deepwater Horizon, I co-wrote a report for the International Institute for Environment and Development – Shared Value, Shared Responsibility: A new approach to managing contracting chains in the oil and gas sector. In it, my co-author Emma Wilson and I argued that the risks and challenges inherent in such situations relate not so much to the parties' legal responsibilities or the expectations of external stakeholders, but to an area we dubbed managerial responsibility. These are the efforts applied by parties in the contracting chain to maintain good performance throughout, over and above their own particular tasks. **Without an effective means to uphold managerial responsibility, contractors lose control over the outcomes and impacts, and risk being unable to uphold their legal responsibilities or stakeholder expectations.**

Five challenges

While Shared Value was clearly focused on the upstream oil and gas sector, many of the themes apply broadly to others. Whenever large numbers of specialised tasks, groups of people, specialist materials and equipment come together, there is the potential for managerial challenges. Among the specific challenges we identified were:

- **Lack of a sense of shared responsibility** throughout the contracting chain and across stakeholder groups. We found considerable fragmentation across a project, without a sense of shared ownership of activities and outcomes overall.
- **Weak links beyond the first tier of contractors**, leading to low visibility and awareness of the risks and impacts further down the contracting chain. Partners in the chain are encouraged to delegate risks and responsibilities downward rather than ensuring collective accountability.
- **A ‘tick-box’ mentality** may prevail, which undermines implementation of standards, systems and procedures. The focus is completing procedures on paper, rather than supporting partners to deliver results.
- **Procurement processes pay insufficient attention** to environmental and social standards, and contracts fail to provide incentives for good performance, with price and timely delivery outranking social, environmental and safety factors in real-world practice.
- **Corruption and patronage** hamper effective contractor management. This affects not only the ability to ensure environmental and social protection, but to deliver local economic benefit as well.

Five solutions

Our future vision of success involves a range of solutions that can help to improve the robustness of processes and quality of outcomes:

- **Ensuring a culture of teamwork** and shared ownership between lead companies, governments, contractors and subcontractors to develop not only the practical tools but the mindset and attitudes that support joint accountability and project success.
- **Less reliance on paper exercises**, more on culture and communication, ensuring partners support each other in identifying and resolving problems proactively and quickly.
- **Emphasis on long-term time horizons and outcomes**, with contractors’ and subcontractors’ roles clearly contributing to the overall performance of the project and broader long-term goals – for the community, the companies and the project itself.
- **Improved industry-wide practices** to increase capacity among all companies involved in the sector to operate proactively and responsibly and transfer knowledge and lessons learned from one project smoothly to the next.
- **Meaningful engagement with stakeholders** – from all participants in the chain – to ensure that concerns are understood and addressed adequately and in a timely fashion.

It will undoubtedly be many months before we are fully aware of the decisions and chain of events that led to the tragic fire that night last month. But complex projects will carry on regardless – and it is imperative that local authorities, companies, contractors and communities all take a hard look at their practices, culture and capabilities to anticipate and deal with crisis – honestly, no matter how unlikely such a situation is deemed to be. Lives are lost all too often.