

Factors Influencing Contracting Relationships

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Rice Global E&C Forum

October 11, 2005

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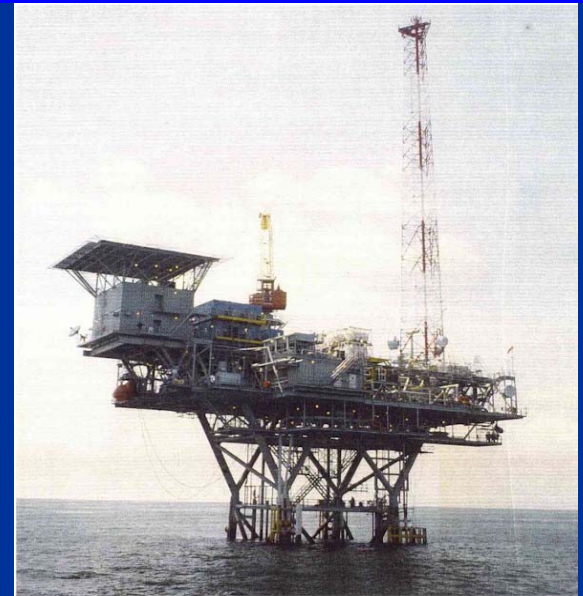
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Discussion Topics

- Historical Approaches/Results
- Reasons For Changes in Contracting Approaches
- Key Factors Influencing Contracts
- Current Reality
- Future Possibilities

Historical Approaches/Results-1

- Traditional-3 Bids and Buy
 - Relatively Uncomplicated Structure
 - Work Relatively Well Defined
 - Risk Environment Understood
 - Successful for Conventional Work



Historical Approaches/Results-2

- Low Price Environment-Alliancing/
Partnering/Risk-Reward Mechanisms
 - Goal to Improve Efficiency/Schedule
 - Complicated Structures
 - Attempts to Share Risks/Rewards
 - Results Mixed-Least Complicated Most Successful



Historical Approaches/Results-3

- Resource Holder Influence-EPIC
 - Difficult Environments
 - Scope Immature (i.e. the “E”)
 - Risks Not Well Understood
 - Execution Problems
 - Results Generally Disappointing



Reasons For Changes in Contracting Approaches

- Contractor Proposals.....Be Careful What You Ask For.....You May Get It
- Business School/Consultants Fads
- Host Government Requirements
- Owner Core Capability Decisions
- Contractor Performance

Key Factors Influencing Contracts

- Approach to Risk Management
- Contractor Strategies
- Owner Strategies
- Demographics
- Project Environment/Characteristics
- Personal relationships
- Culture

Risk Management Approaches

- Owner Takes all Risks
- Contractor Takes all Risks
- Risk/Reward Mechanisms-Performance Related
- Balanced Risk Allocation-Party Best Able to Manage the Risk

Contractor Strategies

- Extend Scope of Services
- Buy the Job/Make it up on Extras
- Tell the Owner What They Want to Hear
- Go Around Project Team to Owner Management
- Avoid Risk or Put It on Subcontractors

Owner Strategies

- Outsource PM/Engineering Capabilities
- Minimize Interfaces
- Transfer Risk
- Satisfy Host Government/JV Partners

Demographics

- Owners and Contractors Have Similar Problems
- Experience Gaps
- Cultural Situations
- Looming Retirements
- Limited Resources
- Training Needs in New Areas

Project Environment/Characteristics

- Host Government/JV vs. Sole Ownership
 - Approval Processes
 - Local Content Requirements
- Location-remoteness/physical characteristics
- First of a Kind vs. Experience Base

Personal Relationships

- Strategies for Dealing with Change
- Based on Trust and Integrity
- Problem Solving vs. Adversarial
- Cultural Aspects
- Leadership Often Makes a Key Contribution to Overall Success

Culture

- Owners
- Contractors
- Traditional Approaches
- Local Ways of Working
- Evolving Societal Issues

Current Realities

- It is the Best of Times..... It is the Worst of Times
- High Price Environment-Abundance of Projects
- Skill Gaps-Owners and Contractors
- Shift in Market Dynamics from Competition to Scarcity
- Contractors More Selective...Clients/Jobs/Risks

Future Possibilities

- One Option
 - New Competitors Enter the Market-Balance Supply and Demand
 - Pendulum Swings Again!!
- Another Option
 - Rational Risk Allocation-Party Best Able to Manage
 - Longer Term Relationships-Learning Curve Benefits
 - Pricing/Incentive Structures which Protect all Shareholders

Questions?