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INFRASTRUCTURE

MINING & METALS

NUCLEAR, SECURITY & ENVIRONMENTAL

OIL, GAS & CHEMICALS

# Delivering CASG Transformation

# 1 Introduction

This paper is in response to a discussion **s47G**, during which Bechtel undertook to provide a short paper expanding on the features of Management & Operations (M&O) contracts and other models as vehicles for enterprise transformation. Bechtel recognises that the transformation path that CASG are on, following the direction set by the First Principles Review, means that a M&O construct may not be appropriate in the near term or potentially at all. This paper therefore also offers suggestions on how CASG might approach the next 18 months or so of the reform journey, taking as a start-point the conclusion of Bechtel's current Task Order in April 2016.

## 2 Ingredients of an Effective Reform Program

Bechtel has substantial experience with a large range of commercial models, from consultancy and advisory services, through to strategic business partner and management insertion constructs, to M&O contracts. Each has unique benefits and drawbacks, and a transformation journey may progress through several models before reaching steady state. For example, the UK Defence Equipment & Support organisation journey began with consultancy support, currently employs the business partner model and has positioned this as a step towards a potential later M&O construct, should the government so decide. From our experience we observe four features as critical for an effective reform program of the type facing CASG, as follows and depicted in Figure 1.

**Holistic Approach.** Reform of an enterprise can be simplistically categorised into micro and macro effects. The micro effects refer to the improvements in individual projects and contracts that can be achieved through the employment of better tools, skills and performance management, while the macro effects relate to the additional benefit seen through consistent application and aggregation of these improvements at an organisation-wide level. A holistic approach is vital if the enterprise is to unlock broader strategic improvements and efficiencies, particularly in staffing (resource flexing across teams), management information (consolidation of consistent data) and supplier management (leveraging suppliers at the portfolio level).

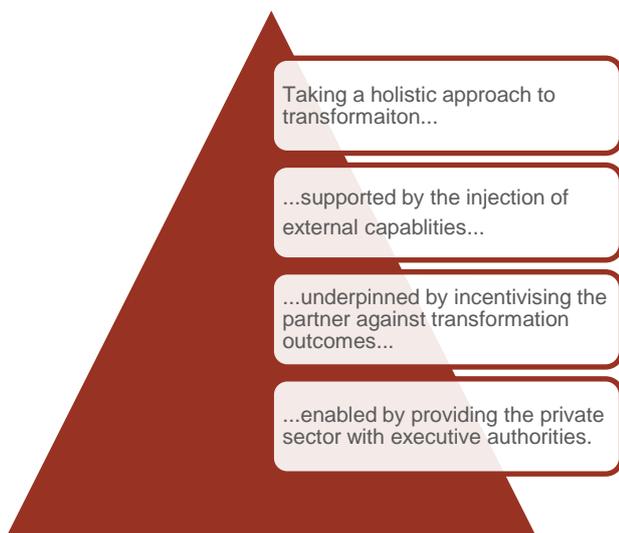


Figure 1: Features of a successful reform program

**Injection of External Capability.** One of the common drivers of reform is the need to narrow the gap in project and contract management capabilities between the organisation in question and its supply chain. Narrowing all but small gaps requires the injection, at scale, of best practise external capabilities, knowledge and experience. This in turn means partnering with the private sector.

**Roles and Responsibilities.** The nature by which the partner is engaged to support the program is crucial. As well as providing the requisite acquisition and sustainment tools and capabilities, the partner should help ensure these capabilities are embedded and effectively employed. Specifically, linking partner reward to transformation *outputs* and *outcomes* ensures alignment with the client's ultimate goals.

**Authorities.** Coincident with the role of the partner in supporting reform is the authority vested in it to effect

change **47(1)(b)**

A variety of transformation models are available, as summarised below, which satisfy these four conditions to varying degrees.

**Consultancy / Advisory.** An external organisation is brought in to provide advice on enterprise transformation and operation, but with no risk transfer and no remit to drive delivery of the transformation activities. Effectiveness is limited by the potential for incoherence across contracts, the focus on design rather than design plus implementation, and the input-based contracting arrangements which provide little performance incentive.

**Managing Contractor.** An external organisation is employed to improve performance of individual projects, potentially taking on risk against outputs and outcomes. This can generate rapid results at a tactical level, but will not tackle structural issues or deliver strategic coherence. Change is unlikely to endure beyond the tenure of the contract.

**Strategic Partner.** An external organisation is contracted to provide enterprise-wide support, typically including project and supplier management tools, training, organisational design and advice on matters ranging from business transformation to day-to-day operations. This approach ensures consistency and coherence of advice, albeit the contractor has limited authority to implement the suggested changes.

**Management Insertion.** An external organisation is contracted to provide a team of senior managers to operate within the client organisation and exercise executive authority over its staff. In addition to the advantages of the Strategic Partner model, Management Insertion has the added benefit that the provider can be incentivised against the delivery of the transformation program and against demonstrable improvements in enterprise performance.

**Management & Operations Contractor (M&O).** An external organisation is contracted to take on all responsibility for the day-to-day running of the organisation, including its transformation, but with the government maintaining ultimate ownership and strategic control over the body. The contractor would typically be incentivised against enterprise performance measured on an output and outcome basis.

**Privatisation.** The organisation would be transferred from government ownership into private sector ownership. The owning company would be incentivised to transform and operate the organisation in accordance with market conditions. Government control over such an entity would be limited, in a way that is often seen as incompatible with a government's need for strategic control over the acquisition arm of its defence apparatus.

47(1)(b)  
[Redacted text block]

### 3 Design of an M&O Model

The M&O model has three principle benefits over the alternatives:

- 47(1)(b) [Redacted list item]
- [Redacted list item]
- [Redacted list item]

The following paragraphs provide details on how this model can work in practice.

#### 3.1 Structure

Under a M&O model, a private sector entity is contracted to take on all responsibility for the day-to-day running of the organisation in question, including its transformation, but with the government maintaining ultimate ownership and strategic control. The contractor would typically be incentivised against enterprise performance measured on an output and outcome basis. In essence, whereas a Management Insertion model sees private sector managers holding executive positions within a Commonwealth body, a M&O model sees ownership of and responsibility for the body transferred to a private sector partner for the duration of the contract. This increases the freedom and authorities vested

in the partner, enabling a greater pace and depth of reform than could be achieved under the hybrid responsibilities and authorities of the Managing Contractor model (and far greater pace and depth than could be delivered under the more advisory-style Strategic Partner model). In other words, a M&O model passes the internal transformation challenge in its entirety to the selected contractor, along with the authorities needed for the contractor to be able to apply commercial best practice to improve performance.

47 (1)(b)

### CASG Today

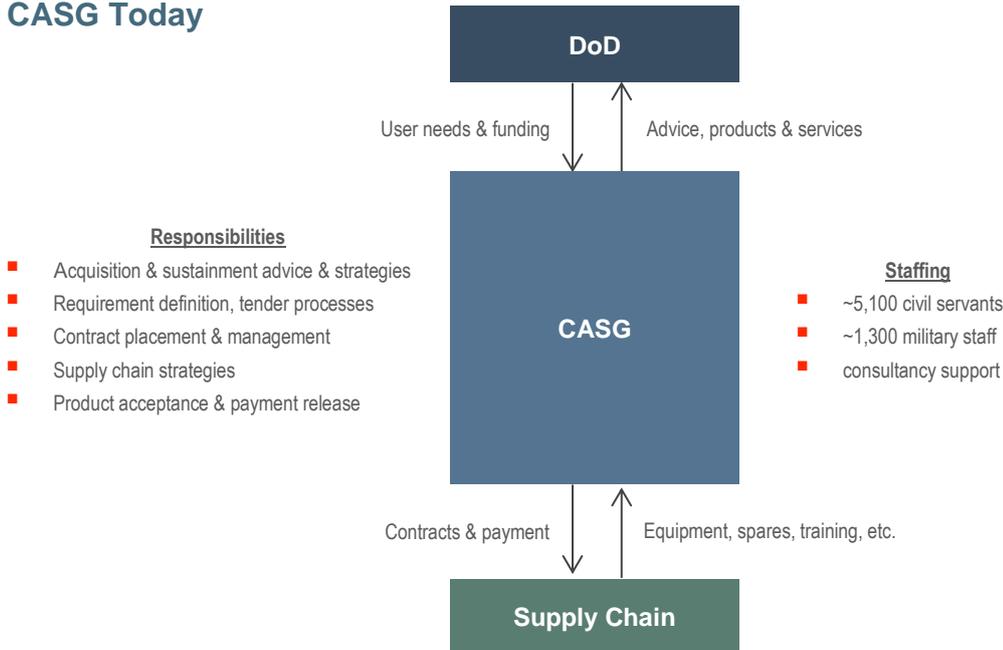


Figure 2: CASG today

47 (1)(b)

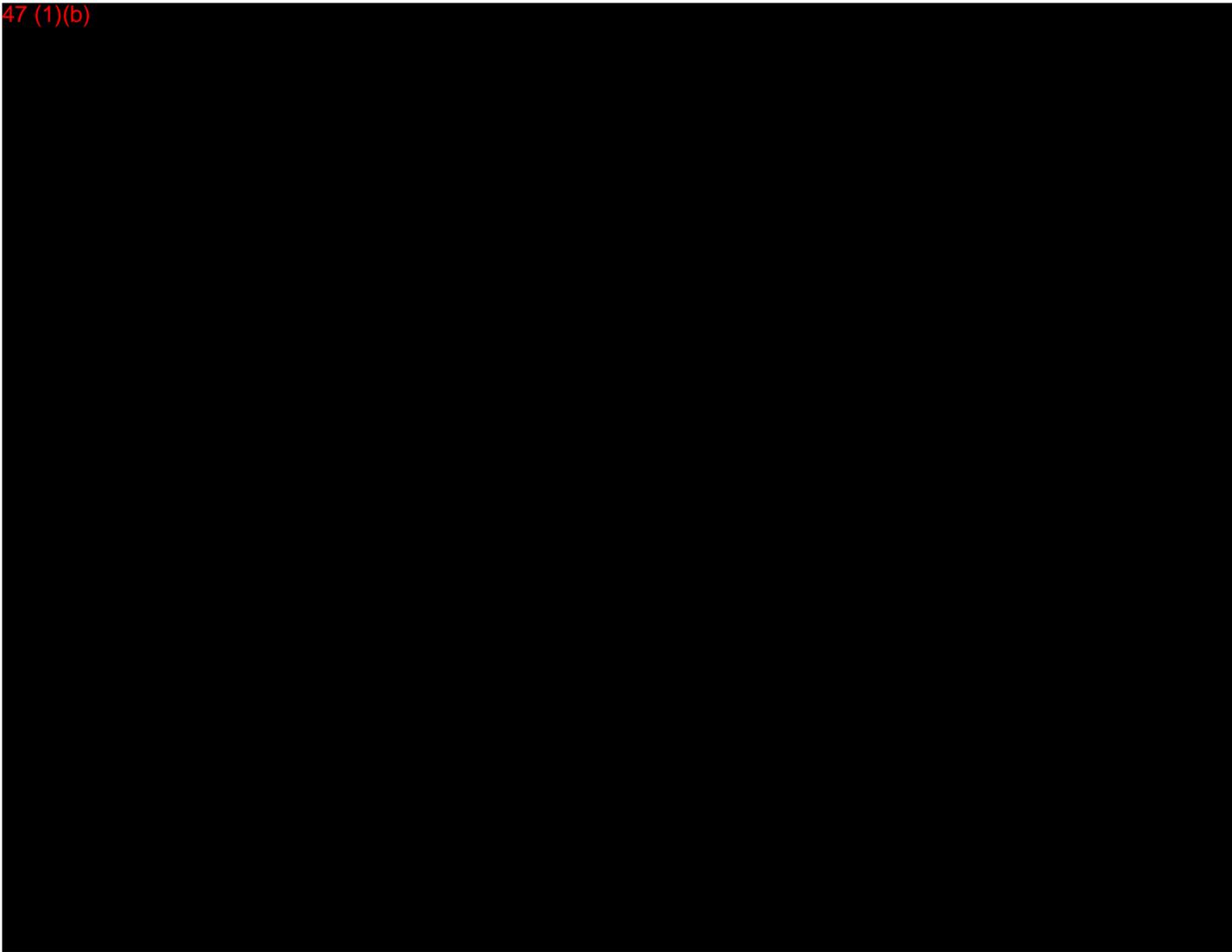
The contract would heavily incentivise the M&O contractor to ensure CASG Pty Ltd delivered against the Commonwealth's priorities, such as executing the portfolio of work to progressively more challenging quality, time and cost targets. In addition, the contract would typically have off-ramps and/or extension options, to provide the Commonwealth with the flexibility to change M&O contractor as desired, as well as further incentivising contractor performance. Finally, the Commonwealth would retain certain rights and strategic control over CASG Pty Ltd throughout the contract period (e.g. through a special share), enabling it to limit the actions of the M&O contractor in pre-determined areas (e.g. appointment of key staff or change of ownership), and terminate the contract and re-assert direct DoD control if required.

Under this structure DoD has two distinct roles: Requestor and Governor. The former refers to the existing sponsor and requirement-setting activities performed by the military staffs and strategic centre, determining what should be acquired and supported. The latter Governor role is responsible for monitoring and policing the performance DoD is receiving from the M&O contractor. This role exists in DoD today, but as a light-touch, to be based eventually on formal Service Level Agreements between CASG and the wider DoD. Under an M&O construct this would firm into a contractual relationship, likely staffed by select CASG employees retained in the DoD **47 (1)(b)**

### 3.2 Contract & Phasing

Direction is provided by the DoD to the M&O entity via two routes: the contract, which specifies the standards of service expected; and tasking, which sets out the specific deliverables required (to be provided in accordance with those standards of service). Tasking is therefore highly fluid, whereas the contract would be expected to be broadly stable throughout the term (a typical M&O might have a base term of around seven years, with extension options based on performance).

**47 (1)(b)**



A M&O contract is essentially adjustable to reflect the maturity of the subject organisation. A second-generation M&O contract would therefore be expected to benefit from the performance and capability baselines established under the first contract, thereby enabling more aggressive commercial arrangements from the outset.

Likewise, the nature of M&O contractor inputs would be expected to vary with time. There would be a preparatory transition phase between contract award and contract start (maybe four to six months duration), staffed by a mixture of specialist contractor transition experts plus the future senior M&O management team, working alongside DoD and CASG staff. Post contract start, the M&O contractor would second senior managers into the Operating Company, as well as seeding staff at lower levels to inject scarce skills in targeted areas (e.g. to help establish new functions) and to provide critical masses of change agents at pivotal points. 47 (1)(b)

[REDACTED]

[REDACTED]

[REDACTED]

The overall aim is to upskill the Operating Company, such that by the operating phase the Operating Company is reducing its reliance on contractor secondees at both executive and subordinate levels. This is a strong indicator that the new skills and behaviours are being embedded in the Operating Company, and provides the DoD with flexibility around the future management of the Operating Company, for example, making it easier to change the M&O contractor or reshape the Operating Company, should future circumstances require this. It also frees the contractor to concentrate more on strategic management of the business, and on fine tuning and continually improving Operating Company performance. 47 (1)(b)

[REDACTED]

### 3.3 Other Considerations

A good project and contract management entity needs a good customer in order to perform to its potential. The Governor role is therefore critical both to manage the interests of the Commonwealth and to enable the performance of the M&O entity. The Governor would logically be established through the retention of select individuals and groups from the existing CASG to provide the necessary contract-management expertise, potentially supplemented in the early days by private sector support 47 (1)(b). Thereafter, a key consideration must be the retention of a critical mass of skills and capabilities in this role such that it remains sustainable over time. 47 (1)(b)

[REDACTED]

Likewise, the relationship with the Requestor is critical. Establishment of a M&O model is a means of professionalising this relationship, as the increased discipline and objectivity exhibited by the Operating Company when forecasting and assessing the implications of requirements decisions and changes acts as a forcing function on the Requestor, both helping and requiring the Requestor to match this new, more structured way of working. Bringing stability and objectivity to this relationship – and thereby understanding the true cost of customer decisions – was seen as one of the key objectives of UK defence acquisition reforms.

47(1)(b)

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

The Operating Company would also expect to receive seconded Military staff from the DoD, predominantly to provide expertise on requirements management and real-world utilisation of equipment. However, some military staff may also be seconded for development reasons, such as to prepare them for roles in the Requestor function. Military staff already operating within CASG would be assumed to transfer as secondees into the new organisation, but the number of secondees would likely reduce somewhat over time to better target just those roles that truly require military expertise (plus an allowance for developmental postings), thereby freeing up some military staff for duties elsewhere.

Depending on the structure, the Operating Company may also be reliant upon the DoD for certain shared services, such as corporate IT, office facilities or some aspects of HR. 47(1)(b)

[REDACTED]

Additionally, legislation is sometimes required for the establishment of M&O entities, depending on the exact authorities being transferred. This can act as a driver of the transition timescale, albeit it tends to be a parallel activity to other preparations.

### 3.4 Case Studies

The M&O model has been commonly used to run the US and UK civil and military nuclear enterprises for several decades, as well as various defence entities, 33 (a)(iii). Furthermore, the UK government has put in place legislation to allow its Defence Equipment & Support organisation to transition in future to a M&O arrangement, should it so decide. In Australia, the approach taken with the Commonwealth Employment Service in the 1990's had many parallels with a M&O model. Some examples of current Bechtel M&O contracts are provided below.

33 (a)(iii)

#### US Naval Reactors

Bechtel manages and operates several components of the US Naval Reactors enterprise (Figure 5), including the Bettis and Knolls Atomic Power Laboratories, and Bechtel Plant Machinery, Inc (BPMI) – a 47G providing design, acquisition management and fleet logistics support (akin to many of the roles of CASG) for reactor systems. 47G

[Redacted]

#### Reagan Test Site

Bechtel has operated the Reagan Test Site ballistic missile defence facility on Kwajalein Atoll in the Pacific 47G since 2003, with 100% mission success, 47G We have completed 25 infrastructure projects on schedule and under budget, 47G

[Redacted] while helping reduce cost by consolidating materiel requirements and facilities. 47G

33 (a)(iii)

33 (a)(iii)

#### Y12 / Pantex

Bechtel manages and operates the Pantex Plant in Texas 33(a)(iii) and Y-12 National Security Complex in Tennessee – key elements of the US nuclear security enterprise – under a combined \$33 billion, 10-year contract that began in 2014. This requires leading work across two sites over 1,000 km apart, containing 51 nuclear facilities, on a combined land area of more than 33,000 ha, with more than 7,800 staff. Bechtel was brought in to consolidate and transform the sites and is applying industry best practise to improve mission delivery, enhance health, safety, security and environmental performance, and achieve cost efficiencies of some \$4.6 billion over the life of the contract.

#### Lawrence Livermore National Laboratory

Bechtel has responsibility for the management and operation of the Lawrence Livermore National Laboratory (LLNL) – 33 (a)(iii)

[Redacted] Prior to award of this contract, LLNL had been run by a public institution since its founding. The M&O mission is to run and transform the enterprise in order to better deliver customer requirements, provide effective management, bring efficient business practices, and ensure safe, secure and environmentally responsible operations.

33 (a)(iii)

## 4 CASG Next Steps

Even if it were decided that a M&O model represented the preferred approach for CASG, it would likely require up to two years to enact such a change. For the intervening period – and regardless of whether a M&O is the intended end-state solution – we would recommend the early adoption of a Management Insertion model as the best means of continuing the CASG transformation. This recommendation is driven by the ‘ingredients for successful reforms’, as set out above. Against these criteria, only the Management Insertion approach provides the combination of strategic coherence coupled with the ability to rapidly implement and embed change.

Given the ground-work already laid in CASG through both prior reform efforts and the more recent First Principles work, we believe CASG is in a sufficiently mature state to move quickly to a Management Insertion model as the most effective means of furthering the transformation to a Smart Buyer.

### 4.1 Reform Status

CASG is now focused on implementation of the First Principles Review conclusions and, in particular, development of a new Capability Lifecycle, implementation of the Smart Buyer and development of a new Business Framework for CASG. This is in addition to work outside the Capability work stream on people and behaviours. 47(1)(b)

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

### 4.2 Way Ahead

We believe that the best means to maximise the chances of success during an 18-24 month implementation phase is for Bechtel to insert a management team into CASG to augment the current CASG leadership. This Bechtel team would be tasked and authorised to help lead and coordinate the implementation effort, working closely alongside DoD staff. 47(1)(b)

- 1) Providing direct support to key senior managers across CASG (both central staff and domain leads), with sufficient authority to help coordinate and drive forward implementation work;
- 2) Leading a central coordination team to pull together and manage the implementation effort; and
- 3) Embedding staff into key areas of the organisation to accelerate change. This might include: consolidating the existing large number of SPOs; supporting project teams piloting the new Smart Buyer approach; enabling establishment of the new PMO; and developing new mission critical functional groups such as project controls and commercial.

47(1)(b)

[REDACTED] We see Project Controls and Commercial as the highest priority areas to address in the establishment of the CASG ‘balanced matrix’ and associated functions, while the Project Management cadre represents those staff most skilled and experienced in the coordination and overall delivery of both change programs and organisational outputs. These three functions would play a critical role in the establishment of the new CASG PMO, 47(1)(b)

Bechtel staff would also be selected based on their broader experience of, for example, change management and organisational transformation, the design and establishment of systems and processes, training and development, and Six Sigma. 47(1)(b)

47(1)(b)

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This structure is represented simplistically in Figure 9.

### CASG with Management Insertion

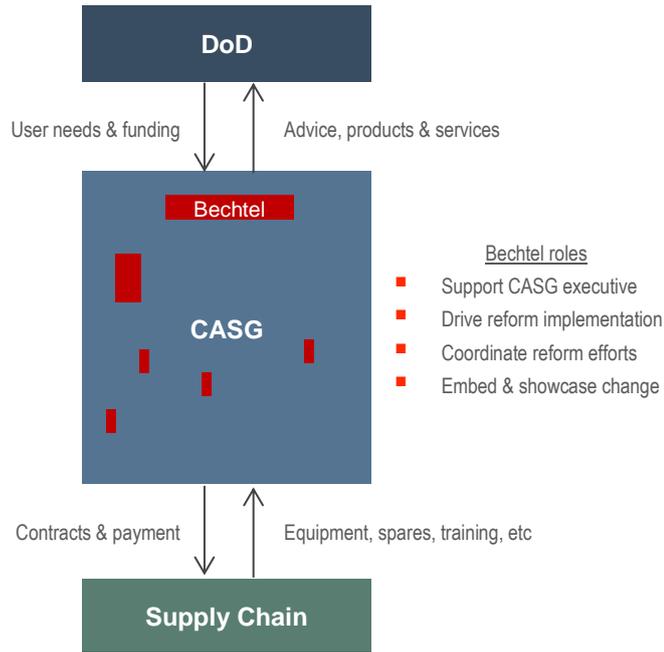


Figure 9: CASG supported by Management Insertion

47G

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- [Redacted bullet point]



The result was that the program was delivered ahead of schedule and under budget, against a backdrop in which 33 [REDACTED] had been spent prior to 2002 without delivery of any enhanced infrastructure. Through our use of tools including Performance Based Leadership and Six Sigma, a culture was embedded that pursued efficiency, right first time solutions and the elimination of rework, delivering over 33 (a)(iii) [REDACTED] in hard savings and nearly 33 (a)(iii) [REDACTED] in cost avoidance.

This performance also led to the formalisation of a long-term collaborative arrangement between Network Rail and Bechtel, since used for schemes such as Crossrail and Reading, where Bechtel staff are integrated into Network Rail teams to help lead, manage and deliver these complex programs.

## 5 Conclusions

The basic objective for CASG is to progress up a performance curve over time, through the injection of external capabilities and the delivery of a successful transformation program. This performance curve can be considered as a sequence of small steps, commensurate with incremental increases in capability and delivery. These steps can be packaged in a number of ways: for example, the majority could be delivered through an M&O model, or the initial steps could be taken via a Management Insertion model, potentially succeeded by another model at the appropriate time.

We recognise that the DoD's decision on which steps to package into which model for CASG must take account of an array of internal and external factors, and the realities of existing reform efforts. However, Bechtel is committed to supporting the DoD in the transformation of CASG and would be interested in assisting via any model where we believe we can be effective in delivering DoD's goals. This would include both M&O and Management Insertion models.