



# **VESTED For Success Case Study**

**The Royal Australian Navy FFG Enterprise:**

A Journey from Antagonism to High Performing Relationship

**A Report Authored By:**

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Bruce McLennan sat at his desk, his head swimming on a warm and sunny Australian summer day during the Christmas stand-down in 2007. He had been tasked to draft a letter summarising all of the supplier performance issues to the CEO of the Defence Materiel Organisation (DMO). Suppliers were not performing; they offered unrealistic schedules; they bid low and then found profit in growing the scope of work and change orders; they captured niche monopolies and used them to leverage prices charged for supplies by up to 300%. Simply put, a majority of the Senior Advisory Panel believed suppliers could not be trusted. However, McLennan found himself conflicted between the organisational realities before him and the apparent less-than-wonderful relationships.

"Initially I was tasked to write a letter to the CEO of the Defence Materiel Organisation could basically chastise these naughty suppliers. It was only when trying to put the letter together, I came to the realisation there was almost a linear transfer between the commercial motivations that we were creating and the behaviours we were seeing."<sup>i</sup> In other words, McLennan believed, at the very crux of the matter, Defence needed to change. "Suppliers were simply responding to the conditions set by the guys with the money, in this case the Navy. I thought to myself, 'If there was indeed a direct relationship between the motivations and behaviours, then surely we would be able to generate the desired behaviours by creating the motivations that would encourage them.'"<sup>3</sup>

Instead of drafting the letter, McLennan wrote a staff paper – *Doing Business – Naval Upgrade, Repair & Maintenance Industry Sector*. The response from McLennan's peers and executives was lukewarm; most agreed with the theoretical concept but thought it impractical to implement. McLennan fought furiously against the naysayers, encouraging them to forego the master-slave mentality the Navy had created with suppliers. "Industry is nothing but a mirror of us. We pay the cheques. If we use sticks, the contractors have to modify their behaviour to mitigate against the stick. We have to change first. Then contractors can come to us. They can participate and show value by taking risks and coming up with ideas themselves. We need to focus on the outcome. That's the leadership key that will lead us into a place of growth."<sup>iii</sup>

McLennan's paper sparked what would be a 10-year journey to make the shift from an antagonistic contracting approach to one describes by academics as "relational contracting". But McLennan was not alone.

The journey focused on two critical enablers:

- 1) adoption of relational contracting practices which meant a shift from arms-length and highly competitive contracting process to a collaborative approach
- 2) adoption of a performance-based "Group Maintenance Contract" which focused on improved asset management practices that leveraged the strengths of both the Navy and strategic industry partners.

Together, these two principles became the hallmark of what is now known as the FFG Enterprise. The FFG Enterprise is a term that describes the collaborative approach relationship between the Navy and two suppliers – BAE Systems and Thales. The FFG Enterprise exists to provide the Royal Australian Navy with materially seaworthy FFG guided missile warships - *on time, every time* - until they are withdrawn from service. There are currently four frigates (vessels) supported by the FFG Enterprise.



Today the FFG Enterprise represents the best of the best between the Navy and suppliers.

## Group Maintenance Contract

Michael Houghton – Director General of Major Service Ships - believed the Group Maintenance Contract concept was tailor-made for the FFG, which was drowning in transactions with unreasonable maintenance expectations written into contracts for no reason. Houghton believed Group Maintenance Contracts would enable a commercial structure in which the Navy **and** suppliers worked **together** to define the scope of work and solve problems. “People who understood the requirements best were placed together to challenge documents and create collaborative solutions.

The Group Maintenance Contract was what University of Tennessee researchers would classify as a typical performance-based logistics contract. The Group Maintenance Contract replaced the endless passing of paperwork with collaboration at levels of the work being done.”<sup>iii</sup>

## Relational Contracting Approach

Changing the commercial nature of the contract was only half the battle. The Australian Navy also knew they needed to change the mindset of how they treated the supplier. The other part would lie in changing the culture in which the Navy worked with suppliers along the way.

It seemed an insurmountable task considering a culture filled with senior people averse to change. Navy personnel clung to the comfort of the status quo and did not choose to learn, or even read about, new ways. To make matters worse, there was a Navy hiring freeze at the time, which translated to reluctance to replace those who reached retirement status. The folks left were entrenched in long hours and big-time stress. There was clearly unhappiness. Oh, so much unhappiness.

Mona Shindy (then Director of the FFG SPO) and Mark Bailey (Shindy’s deputy) were two early leaders in making the shift to use relational contracting principles. Shindy and Mark Bailey decided to tackle the naysayers and negative culture head-on. Captain Shindy called the department together with a rallying cry: “This is what we have. We are not getting more help. If you want things better than what you have...if you want less stress, we need to dare to step out and try something new<sup>4</sup>. Captain Shindy’s common-sense words struck a chord within the ranks and helped light the flame of new thinking. She went on to host frequent workshops called “offsites” which were designed to provide safe places to hold difficult discussions.

A key part of the relational contracting process was developing a formal Charter that aligned behaviors with the performance-based goals to achieve an efficient, effective, economical sustainment of the frigates. The FFG Charter "sits atop" the traditional performance-based contracting framework between the Navy and the suppliers. A key feature of the FFG Enterprise Charter is the documented agreement concerning relational ideals.



The Vision was *One Team delivering excellence in FFG sustainability*. The charter also defined the Mission as *Materially Seaworthy FFGs to meet the Navy mission on time, every time*.

The documents represented a fresh mindset with behaviors leaders hoped would grow from theory to credible results.

## The Coffee Club

Success was enhanced by three leaders making a conscious decision to demonstrate to the entire FFG Enterprise that it was essential to live the behaviours agreed to in the Charter. The three men included Captain Brad Smith as the Royal Australian Navy FFG System Program Officer, Tony Mills, FFG GMC Program Manager Maritime / Asset Management - Thales Australia, and Andrew Laing, Project Manager FFG Integrated Materiel Support Maritime & Integrated Systems - BAE Systems Australia. The three men committed to a relationship based on outcome and trust – and to lead their organizations by living the principles of the Charter.

Captain Smith recounts; “We show others we are serious about the behaviours and values and that the Enterprise is focused on the outcome for all. When we sit together openly in the coffee shop, we talk and engage in such a manner that everyone witnesses collaboration that is ongoing and natural.”<sup>9</sup>

In February 2017, the parties revised the original Charter to make it more actionable and understandable by the rank and file. A quick comparison between the original Charter and the revised Charter shows a marked difference in tone. The new Charter reflects a focus on specificity, accountability, and teamwork. It speaks directly to the culture of the organizations and the mutual trust and collaboration reflected in behaviours. Two important elements were added. The first was an objective to lead and drive change not just within the FFG Enterprise, but across the broader Maritime Systems Division. The second was an emphasis on safety, a critical factor that was made easier by the straight-forward communication between individuals.

## Measuring Success

Captain Brad Smith and the Coffee Club have proven the “soft and fuzzy” relational contracting concepts Dr. McLennan espoused way back in 2007 with hard, quantifiable results. Today the FFG Enterprise is not only meeting its goals – but is seen as a role model for the Australian Navy. Rear Admiral Adam Grunsell - head of Maritime Systems Division – is full of praise for what the FFG Enterprise team has done. He points out that relational contracting is a concept that sounds good in theory but often falls apart in practice. BAE and Thales have proven it could work. “BAE and Thales would normally be competitors. But they came together under the FFG Enterprise and made this an award-winning project. The Charter was a single piece of paper which committed the parties to missions and values, and to work to outcomes rather than hide behind what was in the contract.” He adds, “It’s been an incredible success.”<sup>10</sup>



Hard numbers back up the Admiral's assessment. They include (but not limited to):

- The number of days an FFG is available for service **increased from a low of < 210 days to > 300 days.**
- A significant improvement in the quality **from 67 Significant Defects in 2015 to 16 in 2017.**
- **In excess of 20% realised cost savings**, in the order of AUD\$28 million per year
- **45% savings** on a like-for-like scope of work
- **46% reduction** in costs per task
- **43% reduction** in labour hours per task
- **44% reduction** in labour costs per hour
- **8+ labour hour reduction** per Technical Repair Specification (**TRS**), a document which informs the costing and conduct of maintenance, as a result of process improvements identified through Lean Six Sigma (**LSS**) activities
- **100% on time or ahead of schedule** delivery of the FFG capability out of maintenance
- **25% increase** in the achievement of Material Ready Days (MRDs)

## Lessons Learned

One of the biggest lessons learned is when contract language does not fully support the intent of a relationship, friction can and does occur when one partner will “gains” at the other partner’s expense. This misalignment creates a risk that the contract could be used to the detriment of FFG Enterprise objectives. With this in mind, the FFG Enterprise leadership still follows contractual guidelines, but not in an adversarial manner. The mantra has become “contracts are tools not weapons.”

This lesson has led to the FFG leaders exploring the work at the University of Tennessee on the Vested business model. A key finding in UT’s research is that how you structure a deal matters. In fact, the most effective performance-based contracts transcend the concept of “pay for performance” for supplier-controlled service levels/metrics and shift to a highly collaborative approach based on the buyer and supplier achieving boundary spanning business outcomes. While adopting relational contracting practices can yield tremendous results, the results are only as strong as the leaders and their willingness to follow the behaviours outlined in the Charter. The Vested methodology developed by UT researchers closes the gaps between the “real deal” and the “paper deal” through a structured and step-by-step methodology.

Perhaps the voice of Captain Greg Laxton best captures the need to look at the Vested methodology as the way to sustain the FFG Enterprise for the long run. "The strength of the enterprise is this one piece of paper sitting atop everything else. One person could do a lot of damage. Vested offers stability for the long run for the FFG program and provides a roadmap for others to create their collaborative relationships."



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## FOR MORE INFORMATION

Visit the University of Tennessee's website dedicated to their research on the art, science, and practice of highly collaborative relationships at [www.vestedway.com](http://www.vestedway.com) where you can download white papers, watch videos, read articles and subscribe to our blog or register for one of UT's courses.

We also suggest the following additional reading.

Read the [Unpacking Relational Contracting](#) white paper - download at [www.vestedway.com](http://www.vestedway.com)

Read [Getting to We: Negotiating Agreements for Highly Collaborative Relationships](#)

Register for UT's [Collaborative Contracting Course](#)

## ABOUT THE AUTHORS

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