

Creating value in a new millennium

... and winning a public franchise based on health, the environment and sustainable growth

Creating value—it's a phrase heard frequently in boardrooms, offices and plants across the nation. How do we get more from less and add greater value in the process?

Such questions occupied delegates in this September's annual meeting of the Engineering and Construction Contracting Div. of AIChE, where the theme was "Creating Business Value Through Capital Project Delivery." Their examination revealed numerous opportunities for the E&C industry to "sharpen the saw" to remain competitive.

In keynote presentations, panel discussions and small group workshops, the need kept surfacing for new tools and more effective approaches to the global economy.

Cause for concern

An assessment by Independent Project Analysis Inc. (IPA)—of some 500 projects of more than \$7 million in 36 chemical process industry companies—revealed serious flaws in commonplace approaches to owner-contractor agreements.

IPA found, for example, that "EPC lump-sum contracts are generally associated with poorer rather than superior project results from an owner viewpoint." IPA also said "the use of incentives as an alternative to EPC lump-sum contracting has no discernible positive effect on project performance ..."

International standards are another area of neglect. That's particularly sad in information systems, where greater involvement and focus by U.S. firms could increase global productivity. What's needed is common specifications on a global scale. In general, Europe and Japan view standardization as far more important than it's seen in the United States. That's why our allies are dedicating financial and intellectual resources to gain a competitive advantage.

The public franchise

Keynote speaker J. Roger Hirl, President and CEO of Occidental Chemical, described the public franchise of the future as driven by environmental, health and safety issues. The public's "right to know" is being superseded by a "right to advise" and, in some cases, a "right to decide" how business will be conducted.

As we move closer to a truly global industry, Hirl said he sees the protection of health and the environment as issues that will take on broader scope as we deal with sustainable development, global warming, international standards and public resistance to chemicals in the environment.

He said regulatory issues are moving from the technical realm such as process safety, clean air and solid waste management, to the political arena with concerns like children's health, protection of confidential information, environmental justice and frontiers in med-

ical science.

To be allowed to manufacture, engineers and contractors will need to understand and act in accordance with the technical and political priorities we face today as well as the legislation we expect in the next century.

Challenges will also arise as multidisciplinary teams, rather than lone engineers, manage many of those issues.



A new paradigm

So what's ahead for the E&C firms? How will they consistently add value for their customers while competing in a rapidly changing global economy?

Keynote speaker Dick Cheney, Chairman & CEO of Halliburton, former Congressman and U.S. Secretary of Defense, told the group they must deal with change.

"In a changing world," Cheney said, "our search for value is a relentless quest to succeed ... the high-value differentiator today will be perceived as an industry standard tomorrow. Only those companies who have mastered change and continuously deliver value to the customer will survive ..."

Hirl, on the other hand, pinpointed "agility" as the cornerstone of success.

"Agility," he said, "is an ongoing institution," and partnerships and alliances of the future will be built on agility. Agile companies, he said, build a precise understanding of their business, manage for the future, feel discomfort with the status quo and practice unquestionably straight talk.

For the millennium, Hirl sees the value chain as "value for all, slighting none."

So a new paradigm of how to operate is emerging—one that requires a clear understanding of what's required to maintain the public franchise. For without that, value will erode, rather than grow.

Let us know how you are affected!

A handwritten signature in black ink that reads "Peter".

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