BOYADJIAN & ASSOCIATES

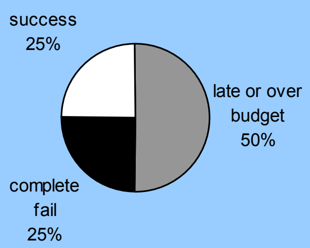
PROJECT FINANCE & MANAGEMENT CONSULTANTS

Note No. 20043 - October 2004

Why Are We Doing This Project?

Organizations undertake projects all the time. But how often is the decision to undertake a project based on a strong business case? How often are proposed projects reviewed and approved by executive management? How often does management review the purpose, direction and progress of a project during its lifecycle? How often does management end up asking itself "Why did we take on this project in the first place?"

The answers to these questions, respectively, would probably be: "Rarely," "Sometimes," "Occasionally," and "Because it seemed like a good idea at the time." In fact, many organizations have difficulty turning their business ideas into reality. These days, the traditional measures of a project's success extend well beyond "On time, on budget, and to specifications" to include such criteria as "Delivery of anticipated benefits, engagement of stakeholders, and organizational adoption". Easy to say, of course, but hard to do in practice.



Project performance statistics show that 50 percent of projects end up late or over budget. Twenty-five percent fail completely. Only 25 percent actually succeed.

Boyadjian & Associates is a leading consultancy specialized in Project Finance and Management. Committed to excellence, totally independent and focused on client satisfaction, Boyadjian & Associates provides strategic financial advice, project development, management and related consulting services for investors, engineering firms, building contractors and governmental authorities.

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Project Challenges:

Every project faces challenges and risks. These can be numerous, and their impact can vary depending on the scope of the project and the approach used. As organizations become more focused on special-purpose projects, the complexity of managing risks increases.

The risk profile of a given project is largely a product of the complexity of the project and the maturity of the project processes. Examples of complex projects are those that involve:

- Complex transactions or initiatives that have a significant organizational impact, such as mergers and acquisitions, spinoffs and global initiatives;
- Significant dollar investments, such as enterprise system implementations;
- Customer and supplier initiatives such as technology implementations, portal implementations and e-markets;
- Compliance – or regulatory-related initiatives that require strict assurance that objectives will be met within acceptable timelines; and
- Cost reduction through outsourcing and shared services arrangements.

In project management, the metrics of on time, on budget, fit for purpose are dependent variables. For example: a decision to cut cost (budget) will shorten the work (time) allowed to complete the project and (potentially) reduce the quality of the work.

Similarly, a decision to improve the quality of a project will increase the cost and time required to complete the work. The "extended" criteria are also dependent. Executive management should decide which of these are the driving criteria and control the project accordingly.

To avoid project "belly flops", management can create and control projects in such a way that they have the best possible chance of success.

Projects That Meet Business Objectives

It may seem obvious, but any project undertaken by a company should be driven by business objectives; projects that do not clearly advance the aims of the company should simply not be undertaken. Many organizations review their business goals on a regular basis and adjust them for a variety of reasons. The review and approval of projects should be fully integrated into this process.

Unfortunately, many organizations lack the kind of structured process that should be followed when deciding to approve and initiate a project. In our experience, projects are often approved haphazardly, or without a clear understanding-and articulation- of the intended goals.

While the project identification and approval processes differ from organization to organization, we have generally found that the following steps help to ensure that proposed projects are properly reviewed beforehand:

- **Formally review potential projects:** Compare all proposed projects with the organization's strategy to determine whether or not they are properly aligned. Since available budget dollars are usually fixed, it is imperative that they be allocated to the projects that will provide the greatest value and payback to the organization. Senior management should determine appropriateness. Potential projects that are in line with business objectives and which promise the greatest benefits move to step two.
- **Develop a sound business case:** Each organizationally strategic project should have an associated business case. The business case should be compelling enough to justify the budget dollars. The business case should include a quantification of benefits, and as much supporting evidence as possible. If senior management reviews and approves the business case, then the project moves to stage three: developing a project charter.

- **Create a project charter:** The project charter should document, among other things, the business need for the project, expected benefits, project scope and objectives, detailed cost/benefit analysis, project outputs, impact to business processes, key performance indicators for tracking success, and any assumptions and constraints. The project charter should be reviewed and approved by senior management. The timing of this step can overlap with the beginning of the project planning processes.

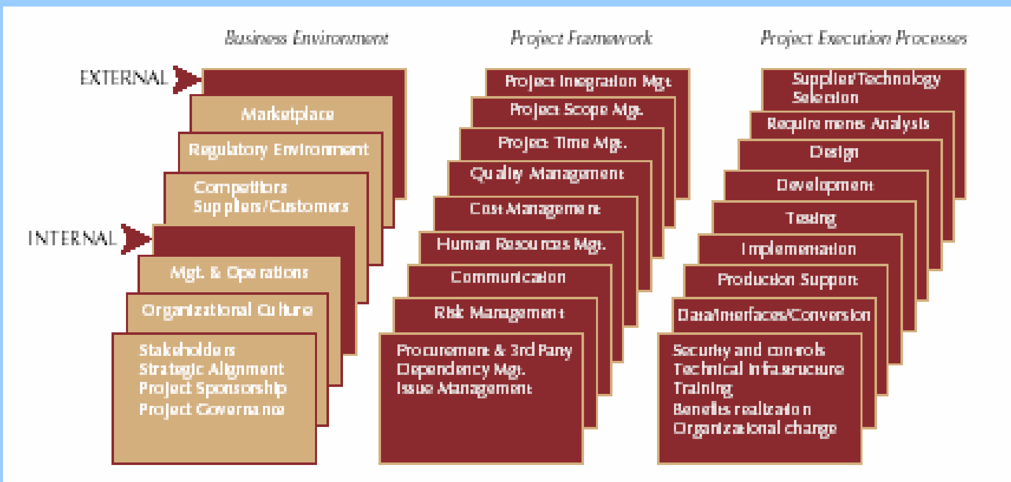
Controlling the process that leads to project approval will help get things off to a strong start; however, this is only the first step. In order to maintain the goals of a project throughout its lifecycle, a control process should be designed to tie the project back to the business objectives that first generated it.

Control throughout the Lifecycle

These controlling processes are essential if a project is to be properly monitored. Adherence to the business case and the project charter must be maintained as it progresses through its lifecycle. Many organizations take for granted that the objectives of a project will be automatically met, properly initiated or not. Controlling processes can have numerous incarnations, but there are three key perspectives they should always possess:

1. **Project Internal**: Internal controlling processes cover the microlevel detail of managing a project, such as resource management, work stream project planning, budget control, and document management. They should be maintained within the project team by a project support office or similar function, and roll up to external (macro) control

Critical Three Project Risk Areas:



Business Environment: Projects do not operate in isolation. They are part of the larger organization and, as such, will be influenced by factors beyond your control. You must consider these environmental factors, because they will affect your success. These factors largely equate to the scope and content referred to as the Project Context.

Project Framework: The project framework includes areas within the project manager's direct control or ability to influence. They include elements such as project management structures, sponsorship, dependencies and staffing. These are often guided by internal policies and procedures, but they can be significantly altered by the use of external vendors that usually utilize their own approaches and tools.

Project Scope and Execution: The overall project scope and the approach to execution carry inherent risks. The scope includes all processes that are required to complete the effort and develop the product or produce the planned benefits. The execution processes include the activities performed to achieve the projects product and realize the expected benefits. Although the processes can be considered separately, these activities often occur concurrently. The actual execution is often guided by a particular development life cycle, but it also covers project activities such as organization change management and benefits realization.

processes. It is rarely necessary for internal controls to be visible at an executive management level.

2. **Project External:** External controlling processes monitor such key areas as project scope, high-level timelines, budget, quality, risks and issues, and status should be reported to a project steering committee every month or two. These steering committee meetings are the primary link between the project and senior management. Project managers should also be required to report their progress toward meeting key performance indicators defined in the project charter.

3. **Independent:** In addition to directly monitoring the project, it is useful to get an independent perspective. In spite of their best efforts, it is impossible for project management teams to maintain a completely objective view of their projects and the associated risks and issues. Impartial, experienced professionals should be engaged to perform independent reviews of a project. Results should be reported directly to senior management and compared with the external reporting.

Project controlling processes are a necessary component of project management. The additional cost (approximately 3-5% of the overall budget) is minor compared to the benefit. It is money well spent.

What To Do With the Updates

Even with properly initiated project approval and controlling processes in place, it is still possible for a project to fail. Senior management must take seriously their responsibility to monitor significant projects. One organization that did not saw a project triple its projected budget and double the time to completion. The project manager reported the project 75% complete because 75% of the budget had been used. In fact, only about 25% of the work required had been completed at that point.

Once a project is approved and control processes are in place, senior management must commit themselves completely to the project if it is to enjoy success. And, since business conditions change continuously, it is vital that upper management stay in sync with their projects, and that project managers regularly provide objective and accurate progress reports.

Here are some suggestions conducive to success:

- Appoint an executive owner for each strategically significant project.
- Assign key executive stakeholders to a steering committee to oversee each project.
- Encourage, and enable, any organizational change associated with the project.
- Enable an escalation process to address issues that can’t be resolved by the project teams.
- Ensure that the steering committee clearly defines the content, and scope, of status reports from project management, not the other way around.
- Be proactive-don’t assume everything is OK.
- Ask the tough questions.

Conclusion

While there is no way to completely eliminate the risk associated with undertaking a large project, establishing proven processes for reviewing, approving, controlling and reporting on projects will greatly improve the odds. Senior management should have the opportunity to decide whether or not a poorly conceived project should be stopped before it starts.

They should know—at all times—whether or not a project is on track, and be able to pull the plug if it is not. In any case, no senior manager should ever need to ask why a project is being undertaken, because he or she will already know.

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