

MAJOR PROJECT INITIATION - MAKING THE RIGHT START



Highlights from the Major Projects Association 2016
Annual Conference held on **21st – 22nd September 2016**

Continued investment in UK major projects and infrastructure is accepted as a critical driver for the British economy. Effective project initiation – getting these major projects right from the start – is key to successful delivery and in determining whether the expected benefits are realised.

As set out in the Major Projects Association's recent thought piece: *Major project initiation – making the right start*, much work has been done over the last few years across the public and private sector to help boost performance in this area.

The Association's 2016 annual conference saw members once again tackle this important issue. Discussion and presentations centred on four key issues:

1. Communicating to society and customers the value of investment in major projects.
2. The trade-off between capital expenditure (capex) and operational expenditure (opex), and defining a whole-life investment approach.
3. Managing stakeholders to create clarity of vision and realistic objectives.
4. Identifying critical success factors and best practice; benchmarking; and learning lessons.

The need for strong leadership on all major projects, whether in infrastructure, transformation, ICT or service delivery projects, was consistently reinforced. However, it is clear that in an increasingly interconnected world, leadership focus from the very start of projects must now extend beyond the project team to include customers and stakeholders.

COMMUNICATING THE VALUE OF INVESTMENT IN MAJOR PROJECTS

Conveying the positive impact of major projects to a wider community requires leaders to apply a world-class approach to stakeholder management. They need to boost inclusion to involve the public and external stakeholders more actively, and monitor the world around to understand the risks their business or project might pose to society.

'Initiation has suffered from being thought of as "what we have to do before they'll allow us to start digging".'
Alex Carver, Partner, Freshfields Bruckhaus Deringer LLP

Good project initiation starts with leaders 'radically engaging' with stakeholders and customers to communicate truthfully, clearly and without jargon. Conversely, the wrong form of engagement will either stop a project or add cost in the longer term.

The level of public scrutiny and intolerance of failure on major projects was highlighted as a major factor impacting the way that, particularly in the public sector, initiation was approached. Specifically, this pressure and the rigorous processes designed to justify all decisions can tend to mitigate against innovation on major projects.

'We need to restore the trust between people and business. When business and society work together both tend to prosper, and major projects are one of the most obvious points of contact between business and society.'

Lord Browne of Madingley

It is a global issue. The World Bank recognises that well-functioning institutions are critical to translating investments into improved public services and, more importantly, into sustainable services that change lives permanently. Embedding institutional development into the project initiation stage is vital to improve the quality of decision making across the project life.

However, it is clear that often, for example in the transport sector in India, existing approaches have failed to capture this long-term impact of investment. In response the World Bank is developing an Institutional Development Routemap to promote strong leadership and empowered client organisations, and to encourage top-down support for long-term institutional strengthening.

DEFINING A WHOLE-LIFE INVESTMENT APPROACH

This focus on longer-term performance and the need to boost project outcomes – for customers, stakeholders and society – was highlighted as an increasingly important consideration during project initiation. In a world traditionally divided between capex and opex, the challenge for major projects was to set up and make decisions with the biggest gains in mind.

'There is a tendency to focus on the engineering, procurement and construction phase of projects and not on the asset management. Many of the risks are perceived to sit in the capex phase where it's easier to measure performance to a programme and budget. People tend to see the opex phase as someone else's problem. I think that is a big mistake, and a lot of value is lost with this approach.'

Jonathan Cole, Offshore Managing Director, Iberdrola Renewables, Scottish Power

That means recognising the value of operational and maintenance efficiency and productivity gains across the whole life of the investment. It means understanding from the start that savings in capex can be dwarfed by even small increases in production or reductions in opex. It means starting projects with the end user in mind, understanding that small decisions in the engineering, procurement and construction phase can equal large gains across the whole life of the portfolio.

GEOLOGICAL DISPOSAL FACILITY – CASE STUDY

The planning, design, construction and long-term management of a geological disposal facility to contain and isolate the UK's radioactive waste is a major project of national significance currently being developed by the Nuclear Decommissioning Authority.

A number of observations were made ahead of the project being presented for public consultation:

- The vision statement must align with stakeholder need and be open and transparent in all of its dealings.
- Both stakeholder mapping and messaging need to be clear about who the stakeholders are and how they interrelate.
- A strong business case is needed, backed by cross-party political support from the very top of national and local government.
- A recognisable figurehead, experienced chief executive and well-developed supply chain strategy are essential.
- The right governance structures are needed to convince stakeholders that the project is ready to engage with the local community.

CLARITY OF VISION

Creating clarity of vision and alignment of objectives across major project stakeholders was also identified as a critical part of successful project initiation, both within and beyond the organisation. Project teams must be clear about what they are trying to achieve before making commitments to the public, stakeholders or the supply chain.

'It is all about ensuring that your stakeholders are bought-in to what you are doing and that you are open and transparent at all stages.'

Michael Flynn, Programme Director, New Tube for London, Transport for London

In the infrastructure world the **Project Initiation Routemap**, developed by the Infrastructure and Projects Authority, is now becoming the go-to framework to achieve this buy-in. The plan is to develop this document and apply it across a wider portfolio of project types.

However, the reality of the fast-moving, modern political world is that Ministers want to make announcements as early as possible, making it challenging to set realistic expectations around cost and schedule. Programmes are now in place to assist senior civil servants in the UK Government to understand better the context of early policy decisions, and to boost the help they can provide at these early stages of projects around alignment of objectives.

'Almost all policy announcements lead to projects and almost all projects spring from policy announcements. Ministers like to make these announcements – often before the context has been checked out. That can lead to extraordinary expectations around cost and schedule. It is about educating the policy professionals around the need to do proper assessment before policies are announced. Ministers now have much more awareness of the conditions that lead to project success.'

Tony Meggs, Chief Executive, Infrastructure and Projects Authority

IDENTIFYING CRITICAL SUCCESS FACTORS

Central to the programmes put in place by UK Government is the ability to identify critical success factors for effective project initiation, establishing best practice, benchmarking this success and then learning lessons on the next projects.

Discussion over the optimum level of investment that project leaders should expect to spend on project initiation put the figure at between 5% and 10% of the project cost. But a one-size-fits-all approach was felt to be a dangerous tactic. The more certainty you need on the project, the more that you are likely to invest in initiation, all the time bearing in mind how much risk you are likely to eliminate by spending that money.

While scale of investment is always a good measure, the predictors of success on major projects are consistently identified as being the quality of leadership and the quality of the work that goes into the initiation – hence the need to assess and benchmark quality as well as scale of performance in the project initiation phase.

Project leaders must challenge their teams regularly, to ensure that projects come in on time and to budget without gold plating or by artificially inflating budgets. The use of benchmarking initiation phases is a key way to test assumptions. The way a project starts determines how – or whether – it finishes, often many years later. And while lessons can be learnt from all projects, we do not always apply those lessons consistently.

'Projects that are well set up have a higher probability of succeeding. Projects that are poorly set up have a high probability of failure. Our aspiration is for there to be no major programme starts without a realistic assessment of cost, schedule and benchmark performance. We need to develop the methodology to do it better.'

Tony Meggs, Chief Executive, Infrastructure and Projects Authority

'The only thing that we learn from history is that we never learn from history.'

Lord Browne of Madingley

THE NORWEGIAN PROJECT INITIATION MODEL – CASE STUDY

Norway has pioneered a novel two-stage gate review process for approving major projects.

QA1 stage: the viability of the project comes under scrutiny by the Norwegian Cabinet based on the independent project review – either approved for further investment, sent back for revision or rejected.

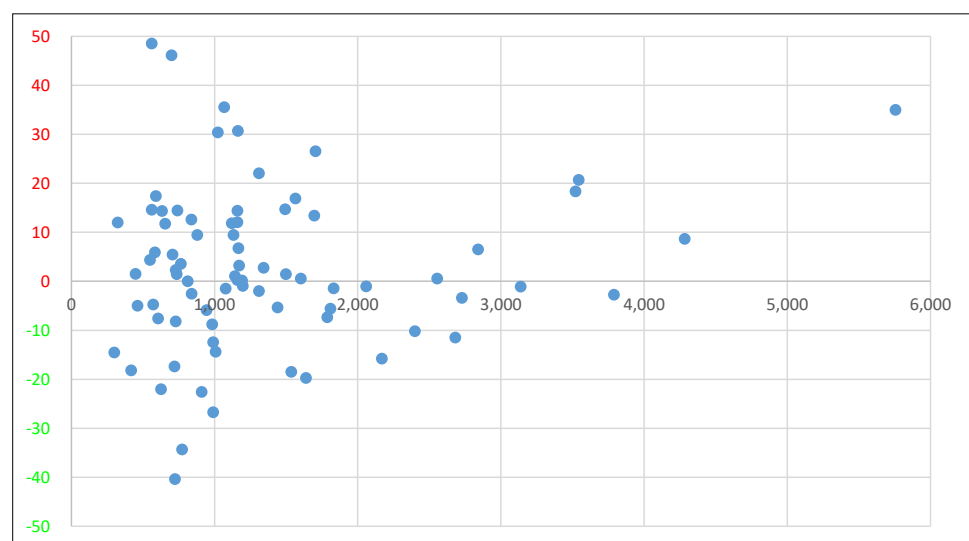
QA2 stage: after investment in basic engineering the project is presented for funding. This procedure improves transparency, and by anchoring governance as high as possible ensures political commitment. The independent review reduces the risk of 'whispering campaigns' for pet projects.

However, while bad projects can be axed at an early stage, in some sectors Norway has seen series cost escalation between the QA1 and QA2 stages due to underestimating at QA1 stage, scope creep and 'gold plating' – a problem, given the political difficulty of stopping projects at QA2 stage.

Cost deviation in Norwegian projects

Cost "overrun"
(%)

Cost "savings"
(%)



Cost deviation relative to the size of the P50 budget (percentages)

(Peder Berg, Deputy Director General, Ministry of Finance, Norway)

BRITISH AIRWAYS AND BMI MERGER – CASE STUDY

Half of business mergers in the UK actually destroy value. Effective project initiation was critical to the success of the nine-month integration of the failing BMI business into BA – the largest airline integration in history.

The five key steps to success:

- Ensure from the start that interdependencies between disciplines do not slow down the whole project.
- Control the project scope, communicate it and then integrate. Optimise later.
- Give the team on the ground time to ‘work the problem’.
- Review and change the team as the project moves forward. Use feedback loops to identify lessons learnt.
- Identify the people who will be affected by change and find ways to help them.

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‘Small mistakes are usually the fault of the project director but the really big mistakes are most often down to the business not understanding the project. Initiation is not just about getting the project set up correctly but about getting everyone bought into the project.’

Nekkhil Mishra, Deputy Director, Oil & Gas, IPA Global

POINTS FOR FURTHER DISCUSSION

- How can society and customers be more effectively included in the discussion and valuation of investment in major projects?
- Can project initiation help capture and reinforce the added value of whole-life investment approach to major projects?
- What additional work and support is needed to help promoters and politicians create clarity of vision and realistic objectives from the start of projects?
- How can the critical success factors for project initiation and best practice be captured effectively and passed on via benchmarking and lessons learnt?

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