For Boards and their 'Accidental Sponsors'

6 guiding questions to implement Policy, Strategy and create value through projects

Never Stand Still

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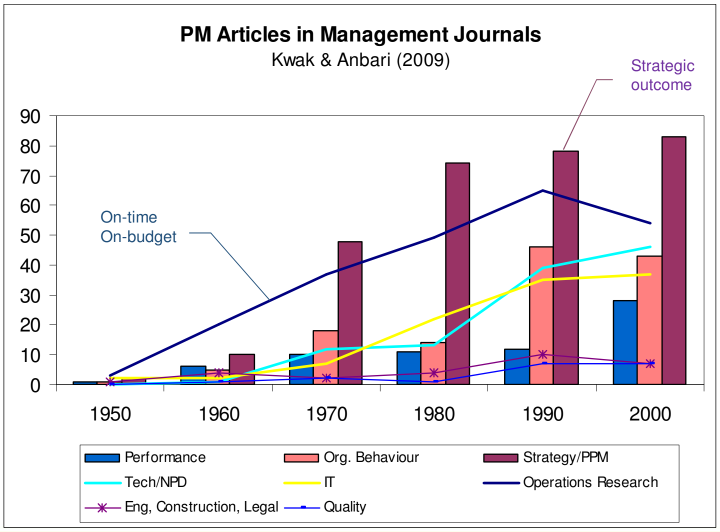
Overview

- Introduction – Projects & Strategy – a boardroom issue
- An overview of the literature
- 6Q Governance™
  - 6 Guiding Questions
  - & when to ask them
- Conclusion

Projects are increasingly used to implement strategy



Very large strategy to performance gap

- Projects account for between 20-40% of all economic activities *(Schoper, Wald, Ingason, & Fridgeirsson, 2018).*
- But:
  - Fewer than 10% of strategies are fully implemented

    Source: Kiechell, W., 2010. *The Lords of Strategy*. Harvard Business Press, Boston.
  - 2/3 of IT projects deliver no benefits whatsoever
  - ¾ of mergers and acquisitions never pay off
  - most large capital projects fail to live up to expectations
  - majority of efforts to enter new markets are abandoned in a few years
  - 70% of new manufacturing plants are closed in their first decade

    Source: Lovallo, D., & Kahneman, D. (2003). Delusions of success: how optimism undermines executive's decisions. *Harvard Business Review*, *81*(7).

Does Strategy matter?

- **For small businesses** ineffective strategy contributes to the problem of 50% surviving no longer than 5 years and 64% surviving less than 10 years *(Watson and Everett, 1996)*.
- Poor strategy in **large businesses** results in underperformance. In a five year study of under-performing US organisations *(Booz Allen Hamilton, 2004)*
  - 60% of the value destroyed was due to strategic errors
  - 27% to operational errors
  - 13% to compliance problems.
- In the **public sector**, strategy is a confused concept (Stewart, 2004) and we often talk about policy instead.
  - A study of the State of Victoria in Australia, normally considered an exemplar, found $100B had been invested into projects over a 10 year period without any evidence any high level policy goals had improved (Young *et al.*, 2012).
  - A follow up study in the State of NSW also in Australia suggested that more generally, only one in five policy goals are positively impacted (Young and Grant, 2015).

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Dysfunction at the top …

"The key role of the board should be to ensure that
… **management is … striving for above average performance,**
taking account of risk" *(Hilmer 1993 p5)*

[yet]

top managers seldom consider projects to be a matter of direct concern
(Crawford, 2005)

Boards approve around 40% of all projects *(KPMG, 2005)*. However:

- 50-80% of the time projects do not deliver the expected benefits? *(Young, 2006)*
- 29-46% of the time ICT projects are approved with either inadequate or no information? *(Deloitte, 2007)*.

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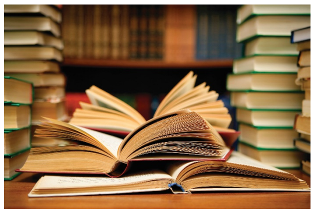
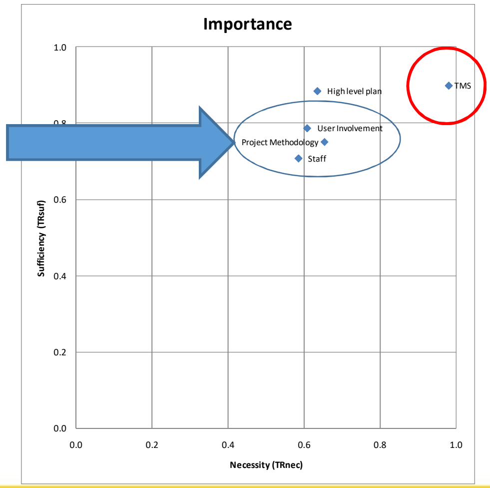
Dysfunction at the bottom …



Project Management Literature



"If TMS is the <u>most</u> important CSF, then much of our current research and practice is misdirected" *(Young 2008, 2013)*

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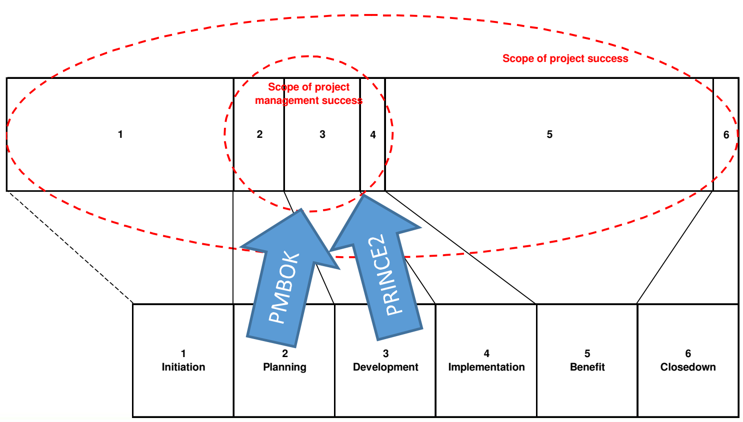
Why? – PM success vs. Project success



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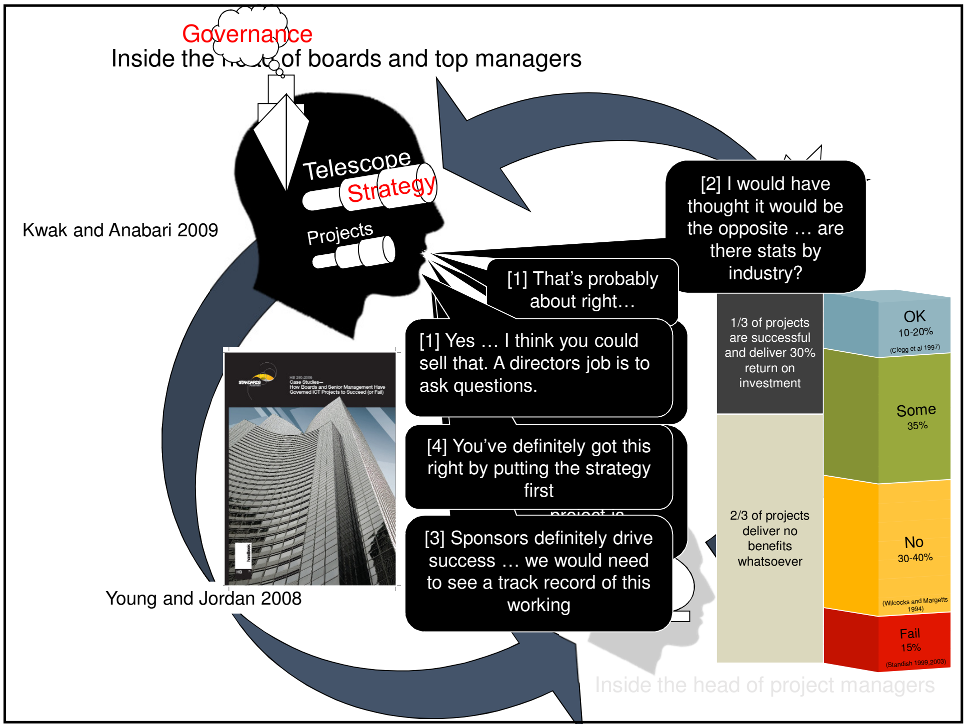

6Q Governance™

Q1: What is the desired outcome?

Q2: How much change is required?

Q3: Who should be the sponsor?

Q4: How do we measure success?

Q5: Do we have the right culture *[to respond to changing circumstances]*?

Q6: Monitor: are we on track?

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Q1. What is the desired outcome?

- Projects are funded without a business case 33% of the time *(Ward, Taylor and Bond, 1996)*.
- In addition to this, 27% of the time project sponsors admit that they exaggerate the benefits in order to get funding *(Lin, Pervan and McDermid, 2005).*
- The implication is that at best, only 40% of projects have any clarity on the desired business outcome.
- The business case is commonly treated as a hurdle to be jumped rather than than as the first opportunity to seriously evaluate where effort should be directed.
- It is up to the board and the top management team to call out such behaviour and impose more rigorous discipline to investment decisions.

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Q1 War story – What is the desired outcome?

The board of a top listed company was considering a proposal for an increase in the budget of an IT project that was fundamental to its international operations.

The project commenced some two years beforehand. The task of developing a concept statement for the project was a part-time job for an executive with some business and IT experience. The project estimate was around $35m, with an NPV of net benefits of $50m.

The next stage was the development of a feasibility study and business case. This stage was managed by a general manager with business and IT experience. This was his last assignment before retiring. At the end of this stage, the project team had grown to 30. The project cost estimate was $75m, and the NPV of net benefits had grown to $100m. It was close to a year since the concept paper was submitted - a lot of time had been wasted, and the benefit estimates turned out to be "reverse-engineered" to meet required benefit targets.

The company's board approved continuation to a build stage, with an initial pilot site. The project was managed by someone with little direct project management experience. By the end of the pilot stage, the project estimate had increased to over $120m and the NPV of net benefits had increased to $200m on increasingly doubtful estimates. Another year had passed to get to this point. Over $50m had been spent ... though, surprisingly, no-one could be sure how much had been spent ... the company did not have a project accounting system or a cost/schedule control system.

The project's benefits were in areas of new and increased revenue from overseas operations and reduced costs. It was fairly evident that the benefit estimates were way overstated, and there was sufficient reason to believe that costs were understated. A 5-page paper was developed to brief the board and seek approval for a further increase in budget. The 5-page paper drew attention to the existence of a more detailed document which was available on request from the company secretary's office.

The 5-page paper was presented to a silent board by an executive director. The request was approved. One of the board members commented later that everyone knew that they were being lied to, but no-one was prepared to ask the questions that would bring this issue out.

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Q2. How much change is required?

- ½ to two thirds of projects either fail outright or deliver no discernible benefits (Young, 2006) hence, the biggest risk of any project is that the benefits will not be realised and the strategy/policy not be implemented effectively.
- benefits are generally achieved through organisational and behavioural change.
  - It is relatively easier to deliver a new output e.g. software, road, bridge.
  - It is much harder to get people to change to use the output in a way that the desired benefits are realised.
  - It is a common error to define a project too narrowly around the delivery of an output and forget about the need to promote behaviour change.
- Change is considered only 40% of the time (KPMG, 2005).
- If it is going to be too difficult to get people to change their behaviour, then there will be times that it is better to defer or even not to start a project.

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Q1 War story – How much change is required?

Background

SkyHigh Property Investments is a subsidiary of a major investment bank. SkyHigh had trebled in size in only four years. The organisation had over 100 major properties, many thousands of tenants, and thousands of investors. The enormous growth in complexity was imposing operational stresses on the organisation. The CEO was acutely aware of it because two companies in the industry had recently lost market share because poor operational systems had undermined investor confidence.

Project Initiation

The CEO recruited a new chief operating officer (COO) and also recruited Paul Major from a competitor to work with the COO. Paul started by interviewing all 100 staff to identify the major issues. Paul found SkyHigh had 'bad systems, bad processes, bad support structure and the wrong mix of staff'.

Establishing Project Governance Structure

A steering committee was established consisting of only the COO, Paul, the head of IT and the head of finance.

Paul interviewed each of the key stakeholders to determine what the new system should do. Paul felt it was important not to restrict the list of requirements but made sure it was clarified whether a requirement was critical, nice to have or a wish list item. In making this distinction Paul made sure he understood the underlying business process.

To manage other commitments each interview was restricted to about an hour and additional interviews were scheduled as necessary. In practice it took about four interviews per stakeholder.

Once these initial interviews were finished a 30-page document was prepared summarising all the requirements. Paul added his prioritisation of the requirements and sent it back to the stakeholders for confirmation.

Paul said, *'I was very conscious that no package would be able to do everything and tried my best to manage expectations'.*

Package Selection: Understand Work-Arounds And Tradeoffs

The first key task was to compare potential replacement systems with the requirements document. *'We narrowed down the selection [quite quickly] to the two with the business clearly favouring one while IT preferred the other. We had to work through issue by issue before IT signed off on the final package.'*

Paul was primarily a business user and recognised his weakness in matters IT. He could have forced the issue but he chose not to, recognising the important contribution IT had to make.

'[Neville] took the time to explain to me the implications of various decisions [in business language].'

Neville said 'we had a standing joke at the beginning of each day 'Paul, time for your tutorial'. 'Paul wanted to understand and made the effort'.

As each issue was raised Paul would systematically interrogate with the following set of questions: (1) Why it is essential? (2) What happens if it doesn't? (3) What happens if it breaches our standards? (4) How can we work around this?

The governance structure and the attitude of the decision makers clearly made a difference.

Sometimes the workaround was that senior management would formally acknowledge acceptance of certain risks, risks that the individual department could not accept[1]. In these cases Paul would talk to the COO (who would in turn talk to others as necessary), get approval in principle, and formalise this with an e-mail from the individual department noting the risk and a response from the COO accepting the risk.

In other cases, IT would develop the workaround solution[2] even if it would cost them more time operationally. Their attitude was 'if this is what the business wants and we can find a way to work around the problem we shouldn't stand in the way even if it creates more work for us.'

This issue highlights that the general approach followed was to discuss and try to convince. Interviewees commented:

'We always felt like we were heard ... there were lots of meetings and sometimes they went over time [to discuss issues that were important to us]... We accepted the pressure to meet the deadline but we were never pressured into accepting something we couldn't accept'

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Q1 War story – How much change is required?

However there were also times a less conciliatory approach was followed. The COO admitted to saying 'we don't want to hear this sort of argument' and it was reported that Paul would occasionally put a user in his place based on his knowledge of the overall business process and not allow someone to insist on an inefficient current practice.

By the time the package was selected, there was a good understanding of what it could and it could not do. The limitations were understood, workarounds had been developed and the risks were acknowledged and accepted by the appropriate stakeholder.

The entire senior management team had attended a separate strategic briefing session with the potential vendors to evaluate their suitability as a long-term partner of the business. The successful vendor commented, 'I knew from the moment I walked in, that this project would be successful' [because of the level of understanding and support from the senior management team].

The commitment of the project team was very high but the COO knew he was taking a gamble because 'we are going to change to suit the system'. All existing business processes were changing.

'You look at the culture, the willingness to change and the perception of how big an issue you're fixing … it took us a lot of time, a lot of communication, and lot of discussion to reach this point… there was a desire to improve, we knew what we wanted from day one and we had everyone's buy in … I knew the type of people I had and how far I could push them … in a different organisation this would have taken twice as long [eg. Government]'

Project Implementation: Monitoring And Managing Risks

A detailed project plan was developed and the project was subsequently monitored very closely against both the project plan and a risk management plan.

There was a lot of informal communication on a daily basis to ensure issues were being raised at the regular weekly meetings of the project teams, and the systems working group. Paul focused on one-on-one conversation, making sure he knew what the real issues were while a project officer managed the administrative processes.

The steering committee met fortnightly on a formal basis mainly to ensure the risks were being managed and to check that the benefits were still likely to be realised.

Interviewees described this period as being almost incident free albeit very intense with very long hours being worked. They had their regular job that included year-end reporting and also had to clean/correct their data from the various existing systems and preparing it for upload into the new system.

Some in the finance department were also new to their jobs. No one described any difficulties except for one incident. Paul recalls that at one steering committee meeting the COO noted to one of the other managers 'you're falling behind' and the next day the problem was resolved. The COO recalls saying something stronger in this incident: 'If you can't do it in time, we'll find someone who can.'

A detailed review of the minutes of the various meetings reveals that unexpected incidents did occur with the potential to delay the project. The implications on the overall project were noted, options for resolution were discussed, and they were assigned to specific people for resolution. All of the incidents were resolved in two weeks or less. Interviewees attributed this to the formal and informal governance structure allowing rapid identification of issues, the rapid escalation of issues, the high-level of senior management ownership (willing to take decisions and accept risks) and the type of the people on the project (driven to achieve).

In the final go/no go meeting, everyone signed off. It was made clear to everyone that they did not have to sign and go live with the new system for their particular module and that a workaround would be found.

The COO said 'the people who did this work are still with us now'. His implication is that the way you manage this risk is by assigning tasks to people who care and would be accountable.

Outcomes

A year after the implementation all the interviewees consider the project a success. Not long after the go live dates the whole project team was taken out to dinner to acknowledge their work.

In project management terms it is a clear success because it came in on-time and below-budget and worked. 'A much higher level of data integrity. The accounting close off on the 31st December was a far cleaner process (and has probably overcome the problems that caused the poor audit result in 2001). The processes are maturing'.

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Q3. Who should be the sponsor?

- The sponsor is important because projects depend on behavioural change for success.
  - The right project sponsor must be personally committed to pushing through the necessary changes and will have the authority to influence the key stakeholders.
  - The right sponsor will personally intercede to resolve issues as they arise and use his/her own political capital to influence the key stakeholders to make the necessary changes for the desired benefits to be realised.
  - The larger the scale of change required (Q2), the more influential and committed the sponsor needs to be.
- Assessing the commitment of the sponsor is necessarily very subjective.
  - The sponsor will generally appear very enthusiastic and committed at the time a project is presented for funding.
  - The board, or its delegates, need to assess whether the sponsor is lying or deceiving himself/herself.
  - Imagine for example it were possible to put a very large dipstick into the sponsor and then pull it out to find out how much BS had been presented.
  - If the sponsor passes this subjective test, the project can proceed, but if it does not then it is likely the project will suffer from a lack of top management support and eventually fail.

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Q3 War story – who should be the sponsor?

Agency – a scientific organisation with a track record of success with IT. Helped build the fourth mainframe ever built in XXXX
[the Project] Federal mandate for the Agency to move from a cash based accounting system to a accrual based accounting system.
No one wanted to use the Agencies limited resources on a financial system. They wanted to focus on the science!
There was also no confidence in the finance department – 3 underperforming IT systems over the years and staff that only knew cash accounting (they couldn't get a job anywhere else).
They hired a new senior manager (from Defence) to take on the job but she took her time to understand how the organisation worked. Over the course of a year she slowly came to the personal conclusion that the Agency needed a proper accounting system, and it wasn't a waste of resources. People kept stopping her in the corridor and asking her when would she start the project, but she didn't allow herself to be pressured until she was personally committed to the project. She realised "I wouldn't get a lot of time with the Agency Head … and the project was at the bottom of the totem pole (in the organisation)".
Three things help turn the situation:

- [A confidante] She spoke to the board member that helped recruit her who reassured her "you can do this"
- [An ally] A senior manager who joined her to form a steering committee (of 2) and signal to the organisation this is serious
- [an insight] one of the underperforming systems was only perceived as a failure because of a lack of senior management support. She could trust the staff member who led the project and get a different result by being more hands on in her sponsorship.

Project started typically by identifying the functionality the new system should have and then comparing that to the functionality of various systems. SAP was chosen and first major issue arose because a manager associated with the existing underperforming system insisted that the choice should be to further upgrade the existing system. He firstly spread rumours the sponsor was unpatriotic and later accused her of impropriety. The sponsor, whose office was on a different floor to the project team, would come down to visit frequently to find out how things were going. Whenever she sensed something was wrong she would call a meeting to surface the issues not knowing what would come out. A colleague said "she was very brave (in her approach)". When the formal accusation was made, she dealt with it calmly and transparently and eventually cleared the air and allowed the project to proceed. The accusing manager ended up taking stress leave and finally resigned.

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Q3 War story – who should be the sponsor?

The Project proceeded by seeking help from consultants to develop a project plan to implement SAP. This led to the second major issue because the project plan specified a certain resource level and the Agency did not have that many staff to spare. Only the left-over and newly appointed people were allocated to the project … they called themselves the "second eleven". The consultants and the project manager were constantly at logger heads because they were missing project milestones. However, the sponsor continued to visit the project team frequently to "shine on them" and help them rise to the occasion. The project manager, sponsor and steering committee eventually tapped into the Agency's depth of experience with IT systems and radically changed the project plan. They eliminated the 'time-wasting' signoffs and cut back on testing because they had staff that could build a super-computer and knew IT systems well enough to know when a system was ready to go or not (not recommended in a normal organisation). There were other problems that arose but all of them were resolved through open channels of communication with the project sponsor, the steering committee as necessary and the dedication of the project team.
There were multiple factors at play in the eventual success of this project but when you compare the success of this project with the perceived failure of an earlier project with the same project manager, the only real difference is the support of the sponsor and her senior management ally on the steering committee. The conclusion is that the passion of the sponsor makes the biggest difference between success and failure and it is therefore essential to find a sponsor that truly believes in the value of a project and who will personally intercede when issues arise.

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Q4. How do we measure success?

- The fourth 6Q Governance™question (Q4), is to determine how success will be measured.
  - It is important to do this before a project commences because a powerful project sponsor will instinctively change the success measure to match whatever is achieved.
  - It is important to have a success measure in place that will alert the board if a project turns out to be unlikely to achieve the desired benefits.
  - The success measure that is chosen should motivate both the sponsor and key stakeholders.
- Sometimes it will be possible to address Q3 and Q4 at the same time.
  - For example it might be possible to gauge sponsor commitment by asking if s/he is willing to link his/her annual bonus to the successful realisation of the desired benefits. This is a common technique in the financial sector because here money is a strong motivator.
  - In the public sector a different approach may be required. For example, a status incentive might be offered such as a knighthood if someone can pull something off.

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Q1 War story – how do we measure success?

TechMedia was established early last century as a semi-government entity to operate in a niche market of the media industry. It was quite a political organisation reflecting the entrenched culture, processes and functional silos that had evolved over its long history.
[Project] TechMedia's culture was being changed through the appointment of a new CEO from the finance industry. Technology was one of the main tools underpinning the change. The year 2000 (Y2K) provided a convenient trigger to replace the financial system and further modernise the organisation. A steering committee of the organization's most senior managers chaired by the CFO evaluated options ranging from $250,000 a work-around to a $10M Enterprise Resource Planning (ERP) system. They interviewed between 25 to 30 of the major vendors and found that although financial systems would solve the immediate Y2K issue neither they nor the small ERP systems had the functionality to support TechMedia's operational activities. It seemed only the big ERP systems had the functionality to underpin their growth
[Board reluctantly convinced] The preferred choice was presented to the board, but 'they were not convinced we could pull it off because they had all been bitten by an IT disaster in the past'. They initially needed to be convinced that buying a future product was a good strategy and then they kept asking for more figures and delayed making the decision for around 12 months.
A senior manager felt strongly that the board should have made a decision earlier.
'They vacillated. They could have decided to upgrade [the existing package] earlier ... In this case there was a lack of action. Decisions were almost made and then more justification was required. Because of this time lost, corners were cut and benefits were lost.'
Consultants were engaged to help justify the decision. They helped senior managers identify and individually sign off against $6 million of benefits to be realised over 5 years. The consultants reported 'these savings as conservative … reflecting only 50% of the available savings' but added, '[TechMedia] will need to re-engineer their processes to take advantage of the opportunity offered in the technology selected'.
The proposed budget of $10M was sold to the board partly on 'the mantra of survival' and partly on 'the huge benefits of ERP'.
The board 'was eventually forced into making a choice by Y2K' but the delay 'reduced the amount of time available to implement'.
[The Project – stated and unstated objectives] It was decided to implement in two stages. Stage 1 was to replace the financial system to meet Y2K compliance. Stage 2 was to follow and implement the other requirements. One manager described stage 2 as 'less important' but in fact would be where most of the benefits of the board justification document would be realised. The problem is that the general strategy of the organisation had being developed by relatively few people at the senior level. The project had been justified to the board for its business benefits but it was justified to the organisation for its technical advantages. There was no consensus in the organisation of exactly what was needed and none of the interviewees explained the selection criteria in similar terms.
'We never really understood why the ERP was selected or what it was supposed to achieve.'
'The hot points of ERP were that we had 23 different systems, of which only a few talked. The sales talk was about replacement of 23 with one'

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Q5. Do we have the right culture?

- The fifth 6Q Governance™ question (Q5), is to ask whether there is the right culture to ensure all the relevant information is being reported.
- The insight underpinning this question is that all projects operate with varying degrees of uncertainty and success is dependant on the teams ability to adapt and change plans to respond to emergent issues arising in the project (Dvir and Lechler, 2004).
- There needs to be a culture where all stakeholders feel free to raise issues as they emerge when they sense the benefits may be affected.
  - The culture is shaped by the response of the sponsor and project manager to potentially bad news.
  - If unexpected information is welcomed and explored staff will continue to raise issues as they arise.
  - If the culture is not right, information will not be as freely volunteered.
- Another way to express Q5 is 'are we getting all the relevant information?'

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Q5 War story – do we have the right culture?

Agency - Whenever she sensed something was wrong she would call a meeting to surface the issues not knowing what would come out?
SkyHigh

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Q6. Monitoring – are we on track?

- The sixth 6Q Governance™ question (Q6), is related to Q1 and Q4: are we on track to realising the benefits?
- Only 13% of the time are projects tracked through to benefits realisation (KPMG, 2005).
- Similarly, in a preliminary survey conducted for this research none of the board members interviewed have stated they have an effective process to cancel failing projects.
- Q6 should be asked every time the steering committee meets and there has to be the willingness to intercede to change the scope or cancel a project.

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Q6 War story – monitoring?

Techmedia? – difficult senior managers

- A senior manager was particularly difficult. He would always state that he was committed to the project but he allowed the ERP to be implemented in his area with a number of shortcomings. Because of his seniority, the project team was unable to force issues with him. He disagreed with some of the early design decisions and felt that he was 'being shouted down by the other members of the steering committee'. He withdrew psychologically from the process and eventually left. His replacement couldn't understand why processes in his area had not been reengineered and started to blame the system, which was significantly slower than expected. The CEO was briefed on the issue, but it did not become clear to the CEO that he had to intervene until it was too late.
- User acceptance was delayed because the technical problem took almost nine months to resolve. However, the entrenched culture of TechMedia appears to have compounded problems. Two similar functions were performed in different functional groups but 'the groups didn't communicate to realise that they should have integrated … and what happens now is that information has to be double entered.' A number of major reengineering initiatives in one division were not going well and senior managers concluded that too much was being attempted at one time and some initiatives had to be deferred. The board accepted management's assessment of the situation but were quite unhappy that the technical functionality had been implemented without the benefits being delivered.
- Minutes of the steering committee noted two major risk items for the entire length of the project. Mitigating actions were never taken, both risks eventuated and the predicted difficulties occurred.

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When do you ask each 6Q Governance™ question?

	Stage of project				
Governance Question	Initial	Early	Middle	Late	Total
Q1 Vision	0.275*			0.207**	
Q2 Change	0.285*	0.451**	0.311*		0.371***
Q3 Sponsor	0.333**				
Q4 Success Measure				0.264*	
Q5 Culture					0.522***
Q6 Monitor			0.671***	0.507***	

***** denotes significance at a 1 percent level, * denotes significance at 10 percent level,**
***** denotes significant at 5 percent level***

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War story – initiation

??

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War story – initiation – early – middle

??

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War story – middle – late

??

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War story – overall (change & culture)

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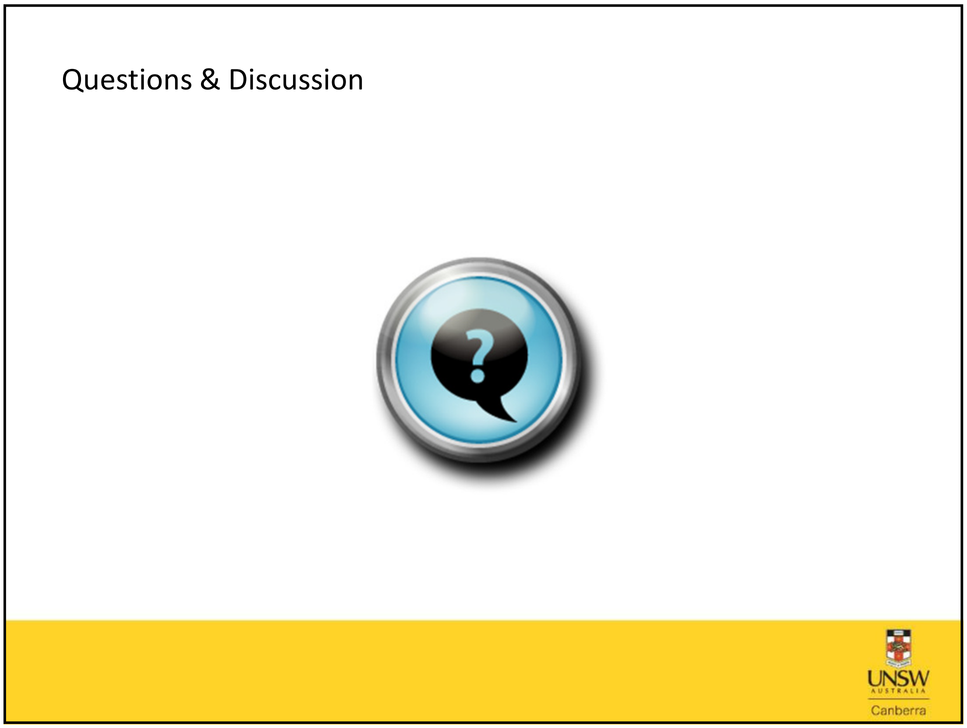
Conclusion

- A major shift in emphasis may be required:
  - Boards and top managers may have to accept that they personally have the most influence whether a project succeeds or fails
  - Boards, top managers and their advisors may have to accept that the current 'expert advice' has less impact on success than previously believed.
- 6Q Governance™ offers boards and their top management teams a way to govern their projects more actively
  - they are unwise to continue with the current practice which ranges from benign neglect to what Deloitte have called "tantamount to negligence" (Deloitte, 2007).
  - The key is for the governance team to use their time strategically and focus firstly on clarifying the benefits and then on managing organisational change to realise the benefits.
  - There needs to be a recognition that projects deal with varying degrees of uncertainty and effective governance needs to monitor and respond to emergent events.


Questions & Discussion
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