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Project Portfolio Management: top line growth, bottom line transformation

In the Firing Line:

The impact of project and portfolio performance on the CEO

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Introduction

What are the primary measurements for rating CEO performance? For corporate boards, business analysts, investors, and the trade press the metrics they deploy are relatively binary in nature; what is being done to generate earnings, and what is being done to build and sustain high performance?

As for the market, interest is primarily aroused when operational and financial performance falls outside planned commitments for the year. When organisations announce better than predicted results, they usually experience an immediate increase in share price. Likewise, poor results have an obviously negative impact on the share price and impact the role and tenure of the incumbent CEO.

This highlights how accountable CEOs are for performance, and the spotlight is getting brighter as CEO turnover rates continue to rise. According to the latest CEO Succession report into 2,500 of the world's largest publicly held companies by the analyst firm Booz & Company, a higher proportion of Chief Executives are staying in office than was recorded in 2009, but 'rates of CEO turnover are still much higher in general than they were in the 1990s, and the pressure on performance remains as great as ever.'[1] The report states that the average tenure of a holding company CEO was 6.6 years in 2010 compared to 8.1 in 2000, amid the fervent pressure applied by investors who still feel entitled to double-digit growth despite the economic downturn. The tenures for more operationally involved executives are even shorter, falling to an average of 4.9 years, with a far higher chance of departure inside the first four years. These findings suggest that CEOs are 'finding the demands of the job more pressing than their predecessors did.'

Nowhere is this more pronounced than in project-intensive industries, where the ability to deliver complex, lengthy projects representing huge capital investments defines success. Projects are not just the delivery of a product or service to a customer inside a predetermined schedule; they form a contractual obligation to shareholders and stakeholders alike. This is why the number one reason for executive downfall is 'failure to execute'. Hence the intimate connection between executives and projects, with the latter providing CEOs with the platform to demonstrate that their organisation has the capabilities and competencies needed to meet and, whenever possible, exceed their customer commitments.

The opposite is also equally true – projects need executive sponsors – particularly as the scope of project portfolios has expanded in recent years to the point where success is almost always beyond the sole control of those running individual projects. Execution is highly dependent on the availability of a range of resources that are typically not under the direct control of any one project delivery team. These dependencies, which are essential for execution and delivery within the portfolio, are less often in the domain of the delivery function and more often in the domain of the executive.

The danger for the CEO is that the risk of failure is ever present, ranging from manufacturing delays and supply chain issues to labour shortages and scope creep. This risk is enhanced by the involvement of secondary suppliers providing services critical to overall work schedules, and magnified further across a portfolio of programmes and projects underway at any one time – and all set within a global context. All can impact planned return on investment and have an inevitable impact on the share price – the primary empirical measure of day-to-day performance.

Such operational failures point to poor strategic control of business operations, failure of the strategic plan, and a lack of tactical agility to respond effectively to changing market conditions. Any significant failure within the extended portfolio, with the resulting potential to impact shareholder returns, therefore creates uncertainty of the CEO's strategic vision at board level. "When uncertainty over CEO talent increases relative to other sources of variability, firm performance becomes relatively more diagnostic about CEO talent, increasing the board's ability to detect low talent incumbents and exercise their firing option when warranted."[2]

This paper will explore the direct link between the health of the portfolio and CEO performance. It will provide an overview of the responsibility the CEO has for implementing and maintaining a culture of accountability, offer examples of some of the higher profile project failings in recent years, and detail the capabilities available to the CEO to mitigate the risks residing in their own portfolios.

Accountability snapshot:

Cost blow outs – Brookfield Multiplex

When Wembley Stadium finally opened in March 2007, total construction costs, initially assessed as £326.5 million, had risen to £900 million causing the prime contractor Brookfield Multiplex to absorb huge losses on a fixed price contract worth £445 million.

Difficulties with the redevelopment of the 90,000 seat stadium prompted the resignation of the company's founder and executive chairman John Roberts as the group blamed 'cost blow outs' for the spiralling cost of the stadium.

In outlining a case to sue both the engineering consultants behind the project and the steelwork contractor, Brookfield Multiplex claimed there were at least 11,000 changes to the original drawings, and that initial designs were 'not correct, constructable, coordinated and consistent.'[3]

Establishing accountability

The CEO is responsible for weaving accountability into the very fabric of the organisation as the basis for producing outstanding performance. It's a simple concept, but at times difficult to put into practice, covering three core areas:

- The provision of a clear set of strategic objectives to the organisation.
- The identification and measurement of suitable metrics.
- The introduction of regular progress reviews.

'I find the executive level is looking more at operational efficiency, but methods for measuring this are not too sophisticated. Understanding what they sold, how they sold it, and whether the benefits are being delivered down the line – that is what's needed.'

Rod Baker, Owner, Professional Project and Programme Management Limited

The process starts through the development of, and commitment to, a clear vision and the translation of that vision into a coordinated strategic plan. But this in itself is not enough. CEOs looking to both create and proactively drive results must also work with their executive boards to develop a standardised project and portfolio governance system. This structure needs to incorporate reviews, decision-making criteria, and change management strategies tailored specifically for their organisational model – actions that need to be consistently synchronised with project delivery teams.

In addition, an effective governance framework is needed to demonstrate to the CEO the performance and progress of individual project delivery teams. Selecting appropriate metrics is in itself a challenge. Using too many metrics can be confusing, and a more proven approach is to select a few key indicators that fit with the company's objectives and focus attention on key deliverables. Such measurements, allied with easily accessible analytical information, also provide the basis for a formalised review process which is essential for helping organisations balance risk and reward across their portfolios, or to quickly rebalance in response to unforeseen events.

All projects are carried out under constraints – traditionally cost, quality, time and scope. Projects can finish either late, over budget or not within originally promised specifications. In other cases, in order to finish a project on time, overtime and use of subcontractors become necessary. "A key change in recent years has been the scale of projects and the pre-committed expenditure levels" says Dan Stover, Senior Vice President of Capital Projects and Operations at PetroSaudi. "Projects have much larger amounts of capital exposed, and in our industry a huge driver is that point at which you are generating revenues from these expenditures. If the gap between the schedule you project and what actually happens becomes large, the economic returns can change very quickly."

Accountability snapshot:

'Nothing less than shocking' – Sime Darby

The CEO of Sime Darby, a Malaysia-based multinational conglomerate, was asked to take a leave of absence prior to the expiry of his contract in 2010 following cost overruns in the group's energy and utilities division. Losses that impacted second-half earnings in 2010 to the tune of $306 million:

- $63.4 million from a Qatar Petroleum project.
- $50.5 million from the Maersk Oil Qatar project.
- $49.2 million from constructing vessels for the Maersk project.
- $142.7 million from cost overruns in the Bakun project.

When asked if there was a breakdown of risk management within the group, chairman Musa Hitam said "These are very long and complex technical projects, but we do acknowledge that there should have been better controls in place." The group has since made changes to its management structure to ensure better corporate governance is adhered to.

Kenanga Research, an equity research firm, responded to the 'extremely negative' financial results by stating in a report that: "The lack of controls in such a large government-linked company is nothing less than shocking."[4]

The challenge of accountability

The planning challenge

Translating the strategic plan into a defining series of operational activities is primarily an exercise in investment planning, and each fiscal year CEOs face difficult decisions about which capital projects to support. A chief concern is how to balance risk and cash-flow within the portfolio, and to identify the optimal ratio between small- and mid-sized projects that can be delivered faster and more efficiently with more extensive projects that carry with them longer development cycles and a heavier demand on resources.

'I don't see executives actively talking about risk, as it doesn't seem to me to be on their agenda. For me, their role should be very much about looking at the strategy, managing the strategy and looking at the balance of the investment.'

Ron Rosenhead, CEO of Project Agency

The task facing the CEO is to ensure the evaluation procedure for new projects is a collaborative affair that seeks input and expertise from across the business. In a recent report from the Economist Intelligence Unit[5], almost half of those surveyed considered data from multiple stakeholders, including financial modelling, environmental impact studies, and ROI projections, but despite this 89% were failing to deliver the expected ROI 90-100% of the time, with 5% claiming their projects face 'huge cost and time losses', or 'total project failure' (2%).

From the perspective of risk, investment planning also requires the executive board to anticipate any negative events that could occur across the project lifecycle, and to draw up robust response and contingency plans. Project teams may be responsible for modelling risk and analysing the cost and schedule impacts of mitigating them, but executives need to have confidence in the effectiveness and cost implication of each risk response plan – as the basis for reporting a 'risk-adjusted portfolio'.

The measurement challenge

Once a new project has been added to the portfolio, the CEO's role then turns to one of oversight. A key consideration is to ensure the strategy remains intimately aligned to execution and results. This requires a concentrated focus on delivering against the set plan, and the avoidance of any unexpected distractions. As CEO of Project Agency, Ron Rosenhead suggests, this is not always the case: "I was recently told a story which is fairly common; the strategy has been identified and put together, everybody's working on it, and then suddenly the CEO comes along and says 'I want this added in as I've just promised it to a client by the end of May'." Such behaviour can compromise the overall balance of the portfolio, as organisations cannot afford to tie up precious resources for a year on a project that could potentially return only a small investment while other higher value projects languish due to resource constraints.

Another key decision for any CEO is the type and frequency of information they expect to see on daily, weekly and monthly progress. Whatever their decision, they must ensure they have access to the measurements needed to drive the governance agenda, and to establish and maintain standards critical to project and programme success. For Andrew Brown, Head of Project Management at MBDA, this is essential. "Metrics need to be connected – i.e. you may be able to demonstrate that costs are being reduced, but this doesn't necessarily mean the risk exposure is also being reduced. They need to provide insight into the stability and rate of change in 'project performance baselines', because this will tell us the stability of projects underway. If the rate is big you know your risks are big, that uncertainty exists, and therefore a high likelihood that money will be misspent. Whereas the more stable the baseline, the greater the focus on the objectives and goals, and confidence that progress is occurring in the most effective way."

Rod Baker, owner of Professional Project and Programme Management Limited, agrees stating "the trouble is the cost and finance side of the business is not geared up to give you that sort of information. They can often be 6-8 weeks behind which means you can't relate cost to the important deliverables you have planned. This is a critical disconnect, and trying to bring them together can be a huge challenge."

The monitoring challenge

The irregular nature of these project risks ensures that few ever go exactly as predicted, and the most effective CEOs understand the value of holding review meetings to build accountability into their management routine. These meetings, their frequency governed by the complexity of the work schedule and rate of progress, provide the ideal forum for overcoming a major source of project failure – organisational alignment. This problem is particularly acute in organisations that breed a large percentage of projects not sanctioned by any member of the executive team, and is further complicated when these are not tracked correctly to see if they are in line with the strategy.

The purpose of each review meeting should be to unite teams around an ethos of continual improvement and collaboration, spanning both internal stakeholders and external project partners, as well as vertical and horizontal collaboration with information shared through various levels and across departments. The feedback generated should then be used to streamline processes, improve efficiencies, increase productivity, and speed project delivery with higher quality and at lower cost.

It is the opportunity to follow the maxim 'leave no person or project behind', with the combined output from each review providing the executive board with an objective view into the aggregated risk levels existing within the wider portfolio. As a result, the CEO is in a position to accurately report project confidence levels with regard to finish dates, costs, float, the internal rate of return and net present value. The role of the CEO within each meeting is therefore to ensure that decision making is grounded in fact. As Narayana Murthy, former CEO of Infosys once wryly observed: "In God we trust; everyone else brings data to the table."

Accountability snapshot:

Managing opportunities – Leighton Holdings

Leighton Holdings, Australia's largest construction company, recently promised to be more selective in taking on new projects and to keep a closer eye on potential risks, having informed the market of a profit downgrade of over $1 billion, from a $518 million full-year net profit to a $460 million net loss. CEO David Stewart, in the role for only eight months, has since been replaced by Hamish Tyrwhitt, who stated: "I am bringing more rigour and discipline to project selection and pricing. We are presented with many project opportunities – our task is to identify more clearly those which are in the group's best interests to pursue."

The company had made the announcements following concerns about its two major projects that have experienced difficulties, including the delays and cost blowouts associated with the $4.5 billion Brisbane airport link road, and writedowns of more than $755 million due to productivity disputes and union confrontations on a desalination plant in the state of Victoria. The announcement caused its parent company, Germany's Hochtief, to cut its own forecast in April 2011, the same day it announced the departure of its own CEO, Herbert Lütkestratkötter.[6]

Situational awareness

The boundary between strategic oversight and operational involvement remains undefined in many organisations, and these information requirements depend heavily on both the CEO's personal philosophy and the management structure in place. For executives who maintain a minimal degree of involvement in operational decisions – who are primarily interested in results and not in how they are generated – their information requirements centre on portfolio management, while the data needed to run the business is shared among second-tier executives.

For CEOs more involved in strategic decision making for most or all of their business units, more detailed information summaries are demanded, along with the analytical capabilities to drill down to identify underlying cause and effect. In this category would sit Alan Mulally, CEO of Ford Motor Company, who began to convene weekly meetings with his senior team soon after arriving in September 2006. Attendees were expected to bring up operational concerns and collaborate in solving them. When the head of Ford's operations in the Americas admitted that his group had a serious problem with defective parts, instead of being lambasted, he was applauded by Mulally, who exclaimed, "great visibility."[7] Instilling such practices within Ford has helped the company avoid the worst excesses of the global recession and, in 2011, report annual earnings that were the second most profitable in the automaker's history.[8]

'Traditionally, the risk process tended to be more about the market and future work rather than satisfying existing customers, which was almost taken as a given.'

Graham Cogswell, ex-CEO, Capita Symonds OpCo

With economic activity still depressed by the wider global downturn, a focus on project delivery is increasingly becoming the CEO's number one requirement. For example, when Naif Al Awadi, newly appointed CEO of the Kuwait-based Al Mazaya Holding, stated his plan for the company, project completion and delivery was top of the agenda: "Al Mazaya's plans for the current period can be summarised in five key points, the first of which is the execution and delivery of projects under construction according to the predetermined budget and schedule."[9] Likewise, when Malaysian oil giant Petronas named Shamsul Azhar Abbas as its new CEO, it was evident his performance would be measured by project success, particularly oil drilling from four huge Iraqi fields said to be the firm's largest ever mobilisation. Investors are keeping a close eye on developments to see if the project can hit a peak of 800,000 barrels by 2015. "Shamsul is the man to watch now," said a U.S. fund manager. "No seat warmer would be entrusted with squeezing resources to get the best of the Iraq project. He has to make things work."

'To be successful, the CEO needs a helicopter view of the business to know how it's performing at any given moment, across all relevant operational and financial parameters. This provides the necessary oversight to know where the portfolio is falling short.'

Ron Rosenhead, CEO of Project Agency

These developments place the emphasis firmly on visibility, as well as on the tools needed to provide a coordinated view of individual projects, covering both financial and operational metrics, across the extended portfolio. Enterprise project and portfolio management (EPPM) technologies are now the established platform for providing this level of awareness, drawing together the actionable intelligence CEO's need to both reduce the likelihood of any unexpected surprises, and to report with confidence that their strategic commitments will be met.

Accountability snapshot:

Resetting the schedule - Boeing Commercial Airplanes

September 2011 may have seen the first customer deliveries of Boeing's new 787 Dreamliner, but the announcement belies the fact that the much anticipated, next generation aircraft was delivered three years late. The development programme has been plagued by delays, and has already claimed a significant scalp, that of former CEO Scott Carson, who retired at the end of 2009: "My decision is tied to many factors, but perhaps the most important reason for me was resetting the schedule on the 787."

Problems began in September 2007 when Boeing postponed the Dreamliner's first flight until October of that year because of ongoing challenges with out-of-sequence production work, including parts shortages and systems integration activities. "The fundamental design and technologies of the 787 remain sound," Scott Carson said at the time. "However, we continue to be challenged by start-up issues in our factory and in our extended global supply chain."

The next major delay was a machinist strike, resulting in supply shortages and problems with assembly, but in December 2009 the first Dreamliner took to the air. However, this didn't mean Boeing's problems were over. In August 2010, National Aviation Co. of India, the Indian state-owned company that runs Air India, announced it was demanding compensation of $840 million from Boeing for delays in the 787 programme. Delays, the company said, that were hampering its growth plans.[10]

Exceeding expectations

A few years ago many organisations would have been thrilled if the majority of projects were delivered on time, on budget and within scope. Today, the competitive challenge and increasing demands from customers and shareholders alike are driving CEOs to look for a larger percentage of projects to be completed inside initial parameters, with a drastic reduction in cycle time using the same resources.

Success in this endeavour is directly tied to the level of stability within the strategic plan, because the less change that occurs, the less time spent re-inventing the same solutions, the more repeatable best practices can be instilled across the portfolio. As Graham Cogswell states, "From an execution perspective, it's a balance between costs, workloads and deliverability. It's about looking at inputs and outputs because any project can be delivered momentarily, but the Board need to ensure it does not involve huge resource cost that is simply not sustainable."

This also helps with risk. As Andrew Brown states, "it's one thing looking at the risk exposure, but you need to be able to compare this with risk run-outs to understand when individual risks are expected to end time-wise, where are we in that timeline, and when do we expect to see the risk contingency budget actually turning to profit."

'CEO's are now far more likely to get down into the detail and onto the shop floor for a more personal understanding. You see a lot more of them wanting to satisfy their gut feel and see for themselves the current progress, which is a big change."

Andrew Brown, Head of Project Management, MBDA

Such a commitment to exceeding expectations is already having a marked impact on the personality of some boardrooms, creating a more collaborative environment, with a common, shared focus on the portfolio. It is also changing the relationships between companies and their customers in favour of a more integrated partnership, where projects are actively managed by both parties. This also provides a reputational benefit which in itself becomes a self-fulfilling prophecy – as a company's reputation for collaborative delivery improves, more valued customers are attracted on the back of it, leading in due course to greater profits.

This change in emphasis is in part due to an evolution in CEO behaviour, with less concentration on external factors such as shareholder returns, towards a more internal focus on deliverables and profitability, where progress and costs are intimately linked to key stages in an overall programme. As Qadir Marikar, Head of Commercial Assurance at PWC comments, "A growing number of CEOs are saying that it's no longer just about top-line growth, it's about profitability and sustainability, which makes a risk based portfolio approach far more critical for balancing the business. Top line growth requires a different set of drivers. It's about taking more risk and stretching your business. Profitability is about choosing which projects to take, which is when it becomes part of the CEO's agenda. So some CEOs emphasise profitability and sustainability, whereas others may inadvertently bet the company on growth in emerging markets without necessarily understanding that they have loaded their portfolio with too much risk and volatility."

This is an evolution, but not a revolution, as the totality of learning needed is already within most organisations. Neither does it involve investing massive sums of money, rather it's about investing in capabilities that enhance knowledge capture, knowledge exchange and culture change. Knowledge capture is "what have we learnt?" Knowledge exchange is "what can we pass on?" Culture change is "are we able to learn from our mistakes?"

Summary

The evidence suggests that CEOs are becoming increasingly accountable not just for the quarterly and annual targets they must commit to in order to secure both their own and their company's short-term position – but also for the factors behind any variability in performance. This should come as no surprise as the cost of failure can be catastrophic, with the size of the repercussions rising in line with a project's scale and complexity. Such a trend is exposing the competency levels of CEOs to a more strenuous analysis, and as the decline in tenure rates suggest, many are struggling with these increased expectations.

This does not necessarily demand a change in skill sets for the top executive, rather a change in focus, and as recent appointments highlight, project delivery is fast becoming the number one priority for CEOs. To support this change in emphasis, the executive board needs to establish greater oversight into key operational and financial parameters, advanced insight into obstacles that have the potential to impact delivery schedules or budgets, and the ability to consolidate this view across the entire portfolio.

Allied to this is behavioural change, and the CEO's role in fostering a culture of accountability that permeates the entire organisation and ensures a robust approach to planning, measuring and monitoring is firmly in place. This is not a trivial job, since investment opportunities are numerous and organisations' arteries are clogged with too many non-strategic and poor performing projects. As a result, the work is simply not getting done quickly enough, with results that can be devastating to organisations experiencing increased competitive threats and growing customer demands.

The risk of failure is never going to go away – projects are simply becoming too complex and dependent upon too many interconnected relationships for this to happen. To counteract this performance volatility, it is vital for the CEO to cultivate the response flexibility needed to maintain the integrity of the overall strategic plan, and to avoid the allegation of 'failure to execute.'

'In terms of improving Board-level accountability, I think that there will be a distinction between early adopters and 'laggards', and the winners will be measured in terms of ROI and margin. Some companies are becoming quite enlightened as to how they manage their projects, particularly because increased competition often creates the temptation to take more risks than is wise.'

Qadir Marikar, Head of Commercial Assurance, PWC

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The**EPPM**Board

Project Portfolio Management: top line growth, bottom line transformation

The EPPM Board is a prestigious new international steering group from Oracle. It brings together senior figures from leading organisations to discuss the business critical role of Enterprise Project Portfolio Management (EPPM) and establish how the challenge can be better tackled from the top. In a world where executive accountability, even vulnerability, is magnified, how can the necessary high-level visibility and control be delivered? From Oracle's own perspective, facilitating these discussions is key to aligning our approach with real customer pain points and reinforcing our relationships with the world's leading decision makers.

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