

Leadership Imperatives Improve Project Management

By:
Dutch Holland, PhD. Holland & Davis, LLC
Pradeep Anand, Seeta Resources
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Introduction

If the geological and geophysical world were exclusively one of shear margins, azimuths, seismic velocity, rock physics, impedance and porosity, for example, an organization's operational functioning and issues such as Project Management would be of little or no consequence to geoscientists.

But, in the oil and gas industry at large, more geologists and geophysicists work within organizational structures than as sole independent consultants. Therefore, team concepts, intra-company working relationships, accomplishing corporate goals, and leadership-driven results are just as important as if the geoscientists worked at a discrete manufacturer, a retail chain, an insurance company or any other organization where collective objectives must be met.

For this reason, effective Project Management is vital to the geoscientific corporate community, yet it continues to sag under a high failure rate. Let's explore the problems, including active and delegative leadership; the new how-to Project Management Maturity Model (PMMM), why better practices are important to the upstream end of the business in general; and how to improve Project Management for a better return on capital investment by E&P decision-makers. At the root of the Project

Management issue is that organizations now content with "running the business" must "change the business" for future success.

Focus on Active Leadership to Change Business

For decades, although energy companies have managed capital projects, and wide-ranging projects of all descriptions for that



matter, independent analysis shows that the learning rate for applying gained knowledge to future projects is extremely low. Specifically, organizations are not managing projects any more successfully than previously. In fact, less than 5% of all projects actually meet project managers' key objectives of delivering a successful outcome on-time and on-budget.

The central problem breeding ineffective Project Management is that senior management seems to be using delegative rather than taking "hands on the throttle" leadership for important capital projects. Senior management has several layers of priorities, which are dictated by two variables. One variable is Style of Leadership - Active or Delegative. The second variable has two aspects: Running the Business (today's capital projects) and Changing the Business (performance of future capital projects).

A highly recommended way to improve Project Management, return on investment (ROI), and capital efficiencies is the Active Business Changing (ABC) Leadership model. Essentially, this states that senior executives should select the

three most important factors for current projects' success and an additional three key factors that must be put in place for Project Management performance to improve in the future. Having decoded these six imperatives, senior management must personally and aggressively take the lead and work in the project trenches to get all six imperatives done well. Active leadership means that daily executive priorities change to first checking the progress of "three plus three ABC" imperatives rather than first checking yesterday's financial reports.

Project Management Maturity Model

Whatever a project's size, capital deployment is a significant component, and three critical success factors are ingrained in successful capital deployment Project Management. One, project resources must be managed as an extended enterprise, not like a horse with blinders but taking all project aspects into account as with peripheral vision. Two, projects are not an either/or equation. Robust Program/Project Management, that comprehends both (not a choice) problems and opportunities, must be put into place. Three, Project Management is more than a one-time event. It is a critical work process that must be rigorously enhanced and continuously improved.

Central to improving Project Management performance is to view it in an organized, systematized way of understanding what it takes to achieve value realization in the daily operation-

-al world. Using this real-world data, a recently developed Project Management Maturity Model (PMMM) helps guide action planning in improving Project Management and enhancing its resulting value

This maturity model lets organizations see a clear, upward progression from Base level to Fully Optimized - to zero in on where they are in moving toward achieving a top performance level in Project Management. By including in the chart the means (process performance and technology support) to reach the top and the results delivered when they do, companies can better understand why they should (not could) move up by seeing the impact on project value.

Value Determination for each level

Considering the high failure rate of Project Management not just in the oil and gas industry, but across multiple industries, many organizations are clearly at the Base level, with substantial room for improvement. In other words, organizations with Base level Project Management virtually invent processes for each new project and no real corporate thread runs throughout; the entire process is subjective and one off.

While that may appear acceptable or possibly unavoidable in daily operations, the Fully Optimized level should raise scores of red flags about why this high-yield approach has not been implemented by organizations across the board.

Maturity Levels (I-V)	MEANS		RESULTS		Comments
	Process Performance	Technology Support	Quality/Predictability of Results	Value Determination	
V) Fully Optimized Project success rate is close to highest success rate	Stable PM Process are best in class	Processes automated and supported by expert systems	Almost complete certainty of results is achieved		There may be no commercial market for this level of performance
IV) Predictable Risk Ability to routinely reduce uncertainty and project-related risk	Statistically stable processes routinely measured against industry standard performance metrics	Automation and background performance of processes/tasks; automated decision support services	Reliability and predictability of results is significantly improved	Lower ROI on investments in data management accepted in exchange for reduced risks	This level may offer diminishing returns on investments; for many, it might be more cost effective to accept somewhat uncertain results and execute
III) Corporate Competency Capabilities are institutionalized within company; enabled by mature technology	Standard, consistent, statistically capable, measurable processes; standardized process performance metrics begin to evolve	Integrated technology designed to enable emerging best practice processes; technology suppliers are partners in defining how technology accomplishes best results	Good quality results within specified tolerances most of the time; poorest individual performers improve towards best performers; more leverage achieved on best performers	Measurable; able to recognize costs and benefits, perform cost-benefit analyses, maximize ROI; more good results faster and with fewer people	Evidence of co-evolution of best practice processes and advanced technology; deployment of standardized processes and technology across multiple locations to leverage investments (economies of scale)
II) Managed Standardized tasks and roles; introduction of advanced technology begins	Individuals develop and follow processes that work for them; processes not common among individuals or across locations	Unintegrated point solutions designed for specific tasks; individuals primary responsibility is to figure out how to integrate and use technology to accomplish results	Variable quality with some predictability; best individual performers put on business critical projects to reduce risk and improve results	Anecdotal; based on individual performers' capabilities and specific memorable events	Individuals' performance varies, but some may be highly effective. This level is effective with a small number of people in single location, managing small-moderate projects
I) Base Capable people and heroic efforts	No defined processes; individual performers may follow a different process each time	General purpose tools (i.e. Excel, Access) or none at all; data management is mainly personal function - not corporate	Corporation depends entirely on individuals; little or no corporate visibility into project management cost or performance; variable quality, low results predictability and repeatability	Subjective; gut feel for performance, costs and value received	Craftsman level of performance - prior to specialized technology and known best practices, only way to accomplish task

As the chart shows, this top level signifies that project success is close to the highest success rate, stable PM processes are best in class, processes are automated and supported by expert systems, and a virtual certainty of results is achieved.

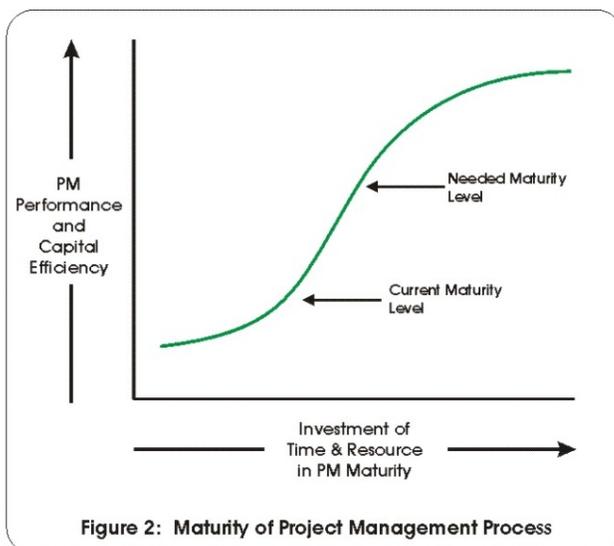
Maturity of the Project Management Process

When capital efficiencies are at stake, which is generally the case on a large scale in upstream oil and gas, most organizations should continually strive to move up in their Project Management capability. Otherwise, the organization simply will not realize the benefits of improved capital efficiency and that can be very costly.

Therefore, to achieve this goal, the focus should be three-fold. One, eliminate the idea that Project Management is an ad lib process, tackled anew as a series of one-time events. In other words, take a more systematic approach and define, refine and standardize Project Management work processes and skills. Two, implement the level of technological solution matching the PM work processes. And, three, do not allow process and technology to be too widely apart; keep them in balance.

Improving Project Management: The How-To

For an organization to improve - often dramatically - the performance of its Project Management process and organization, several specific steps must be followed. At the same time, the organization must ensure that it is building competencies that are necessary for enhancing its Project Management efficiency.



In Step 1, Process Design must be improved in three ways. The actual Project Management process must be documented, the actual process evolution must be documented (redlined), and the Project Management process must be re-designed from a blank page (blueprinted). In other words, Project Management cannot be handled on a spontaneous basis, but converted into a detailed process basis.

In Step 2, effective Project Management must be enabled with better technology, which does not mean, as is too often the case, simply treating the introduction of new technology as a "silver bullet" solution by itself. A match between process and technology must be ensured, then and only then is the technology implemented and integrated into the organization's daily operations as a complementary tool.

Step 3 is where the all the parts come together to ultimately reach a higher performance level: achieving full Project Management utilization. If that seems like a tall order, in fact it can be unless three actions are taken. Clear expectations for Project Management utilization must be set, personnel must be trained to the necessary competence, and there must be appropriately high

compensation to match successful project completion.

Project Management Performance

When organizations take the plunge, discard the status quo, and actually begin addressing Project Management improvement, they may have a tendency to view some of the terminology as being abstract, unproven or generally not workable. Nothing could be further from reality. For example, Program/Project Management was developed and highly fine-tuned in defense and construction industries. Contractor Management was both developed and, over decades, optimized in the aerospace industry.

Proven examples continue. Process Improvement has spread its wings over multiple industries for well over a decade in re-engineering, continuous improvement and Change Management. And Information Technology (IT) deployment goes far beyond a roomful of desktops and, instead, has been extensively practiced in more than a decade of big systems implementations across major industry groups.

The above multi-industry validation underscores the fact that improvement of an organization's Project Management process is scarcely a

subjective guessing game; it is a road-tested systematic framework to deliver "more bang for the buck" on capital deployment projects. At a time when organizations need every possible competitive edge, improving Project Management performance demonstrably translates into major efficiencies and substantial dollars.

Design and Execution Engines

a. Design Engine

However, if organizations are stuck in neutral (not advancing their Project Management maturity), what are the mechanics of actually making process improvement a reality? The solution involves the Design and Execution engines, and a common-sense approach called Red Zone Management (RZM).

Both engines are comprised of five actions each, letting no steps be omitted along the way.

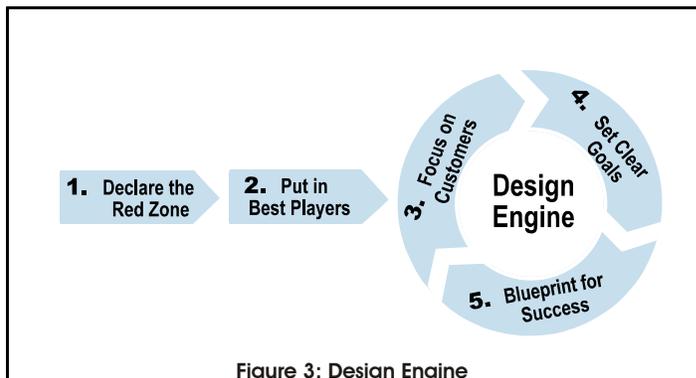


Figure 3: Design Engine

First, declare the Red Zone, as in football where the Red Zone is the last twenty yards on the way to a touchdown. Red Zones are encountered by management at critical points in an organization's life; they present both the opportunity for great gain and the real likelihood for great loss.

But, for opportunities to be exploited, management must tell the organization loud and clear that the project is in a Red Zone so that personnel know that special actions and commitment are required.

Second, the only way to consistently score in the Red Zone is with the first team, so the organization must use its best players. Although that may sound reasonable, the front-line team must meet tough criteria on such attributes as character and personal credibility, leadership, energy, commitment, experience and capability, knowledge of the business, and organizational position or company rank. For the toughest challenges in the Red Zone, call only on this team and make them directly accountable for success.

Third, focus on customers. Whether companies are looking to the future or fighting today's business fires, all too often they do not look beyond the impact on the organization. Correct this major oversight by remembering that the customer in the marketplace is the ultimate issue, not what happens internally. Without customer focus, the organization cannot gain value with a better market position and stay competitive. Even businesses that do not necessarily consider themselves customer-driven are, including upstream and downstream energy.

Fourth, set clear goals. By now, every Red Zone principle may appear obvious. However, the key to success does not revolve around re-inventing the wheel, but rather pulling together all these proven principles and not picking or choosing which ones may be more appealing and jettisoning the others.

Setting clear goals actually takes a fair amount of brainpower because, aside from black-and-white goals such as financial ones, clear goals help drive innovation and creativity. For example, an organization might want to increase market share. But, without planning to add customer value, the effort is doomed from the very outset.

The fifth, and final, Design engine principle mandates a blueprint for success. On a very bottom line basis, this is the last point before execution to halt a faulty game plan in its tracks. It's important to remember why a Red Zone maneuver will be executed: to achieve future gain while preventing future loss. And the only way that can be accomplished is by the organization's leadership "changing the business." In other words, there must be a blueprint for the project - including the Project Management process and systems that will be used and the organizational structure that will support and enable the project.

b. Execution Engine

With the project game plan in place, there must be systematic execution or all the planning generates little or no value.

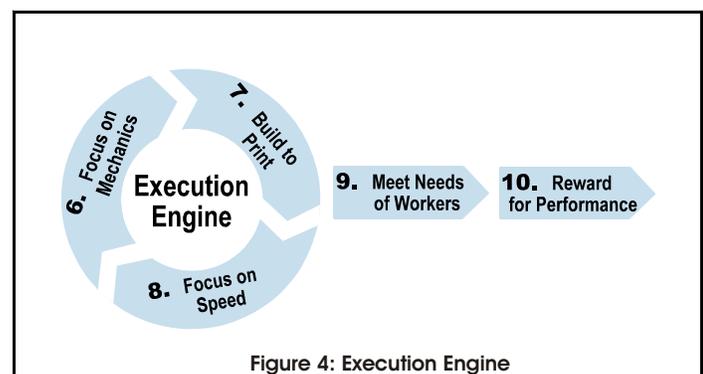


Figure 4: Execution Engine

First, focus on mechanics. In this context, that means altering an organization's mechanics toward the desired future not the present. Therefore, work processes, plant/equipment/tools, and performance systems must be altered to achieve project success and business gain.

Second, build to print. If that sounds like a structure under construction, for practical purposes it is. With the blueprint in place, intense management is required to get to project success. All the necessary build-out steps must be identified, proper resources must be readied, projects must be rigorously coordinated, risk management must be practiced, and the organization's energy must be kept balanced between the highs and lows.

Third, focus on speed. While speed in this case pointedly does not mean rushing and scattering important details in the wake, it does mean the quicker that Red Zone principles are accomplished, the quicker the big, desired organizational gain will materialize. Speed can also be a competitive advantage by getting ahead of other competitors that have not similarly moved toward the future.

Fourth, meet needs of project workers. Getting through the Red Zone is intense and can literally drain the energy of all those involved. Therefore, to keep everyone in the game, management must lead by example, workloads must be effectively managed, special needs must be budgeted for, and recognition and appreciation must be given throughout the organization working for a common goal.

And fifth, reward for performance. Obvious? Perhaps, but providing extra compensation is generally not the case. Many companies resist throwing certain financial balances and equities off kilter, or worry that some people will make more than they theoretically should, or that such incentives would be unsettling to the organization's rank and file, and countless other reasons. Yet, when normal business goals are met at the same time that Red Zone goals are being achieved, senior management must see that their extra effort was justly rewarded in an exceptional way. completion.

Bottom Line

To improve the Project Management process, active executive leadership is the key; delegating does not work. On today's projects, senior executives are working in the Red Zone, where they must personally execute a "change the

Business" initiative through highly visible Active Business Changing leadership.

That is accomplished by focusing on principles embodied in the Design and Execution engines that emphasize having a systematic game plan and following through in a specific, detailed manner. When this approach is taken, management will not only be positioned for future gain, they will actually begin to see current business value increase. And that situation makes sense on any company's balance sheet.

Meanwhile, Project Management fails 70% of the time, hundreds of millions are lost in the process, and the status quo virtually prevents any positive move up to the next maturity level. Leadership imperatives do improve Project Management -- when organizations make the timely decision to "change the business."



Dutch Holland, PhD, is Chairman of Houston-based Holland & Davis LLC (www.hdinc.com), a management consultant firm specializing in project performance across several industries.

Pradeep Anand is President of Seeta Resources (www.seeta.com), a Houston-based consulting firm focused on improving business performance in the oil and gas industry.