



THE INVESTOR, THE BOARD AND MAJOR PROJECTS

Seminar 144 held on 12th November 2008
at the Council Chamber, Savoy Place, London

SUMMARY

Major projects are inherently complex, long in gestation and often subject to scope change and expansion, political interest and external influences. With large and sophisticated management and corporate structures governing the oversight and outcomes, understanding the investor and project board requirements presents a major challenge for the project team.

All sectors engaged in major projects have an interest in how investors and project boards direct and control outcomes. Communication of objectives to the project team and reporting back on progress are vital components in achieving success. These relationships need to be managed in such a way as to benefit all three parties.

Within the public sector, client teams may not receive clear and consistent direction, project management teams often do not gain direct access to key decision makers, and delivery teams may never communicate with the client body.

Who should take control of this process? What happens when investors and the client or project board seem to have competing objectives? Should special purpose delivery companies be allowed to operate at a distance from their investment arms?

Chaired by Sir Alan Cockshaw, the seminar looked at the issues from a variety of perspectives. Speakers provided valuable lessons from research and studies into past mistakes, as well as important advice for future project teams tasked with achieving clear project objectives, and realising the business case, the operational requirements and return on investments.

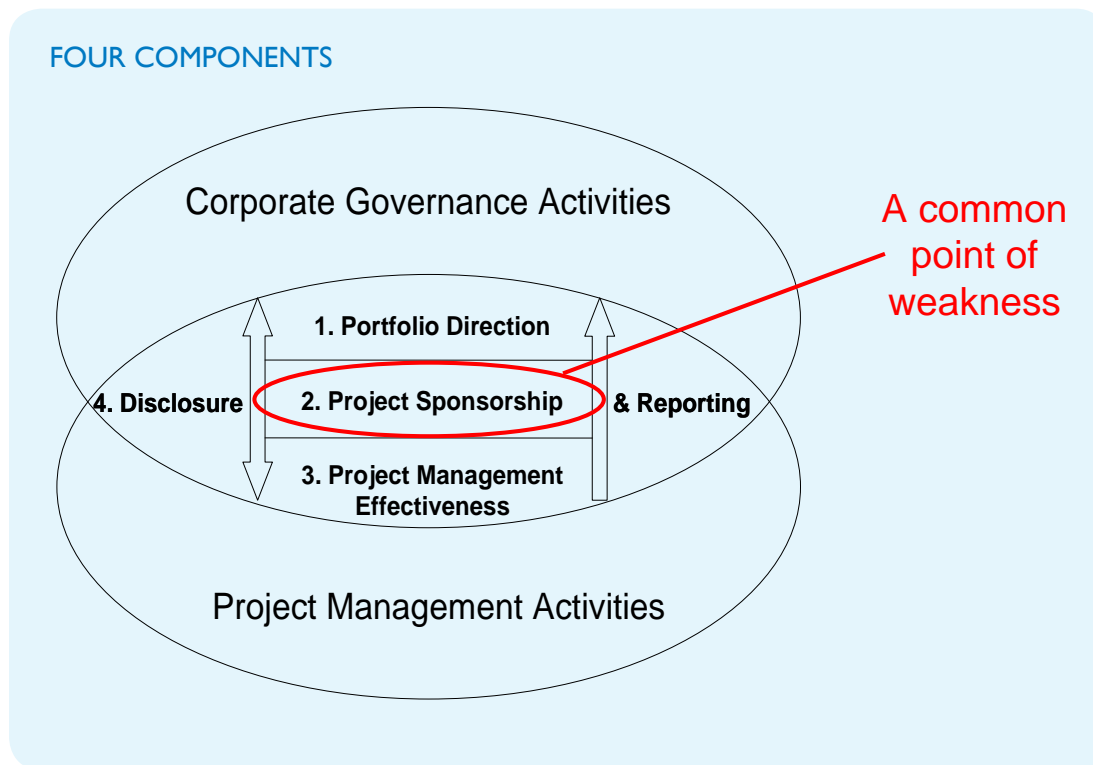
GOVERNANCE – ADDRESSING THE CAUSES OF MEGAPROJECT FAILURES

A specialist consultant in risk management and governance from HVR Consulting discussed the relationship between corporate governance and the governance of project management. Particular reference was made to megaprojects, which have a well-founded reputation for overspend and delay.

In 2004 a special interest committee of the Association of Project Management (APM) came up with the following definition: 'The governance of project management concerns those areas of corporate governance that are specifically related to project activities.'

For many years there has been written guidance on how to deliver projects and, more recently, on how to conduct corporate governance, but there has been little guidance on the implications of the interface between corporate governance and project management. This interface consists of four areas of activity, as outlined in the diagram below. At APM workshops, the consensus of opinion has been that project sponsorship is frequently the weak link.

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Possible causes of megaproject failure were outlined. It was noted that they all have a common source – weaknesses in project governance – which can combine to produce compound effects. The top ten causes include factors such as inappropriate rules of thumb for estimating contingency; risk analyses which produce optimistically biased forecasts; setting unrealistic targets, which can produce dysfunctions as a consequence of people pretending that a target is achievable; optimism bias; weak governance.

In general, the top ten causes concern decisions that are made or authorised at a level of management above the project manager and prior to the main project authorisation point. Hence these causes of megaproject failure are primarily governance issues, and require governance solutions.

The presentation looked at some of the factors which can make the difference between failure and success. It has been suggested that there are six essential requirements for project success:

- Clear objectives
- Focus on delivery of measurable benefits
- Clear roles and responsibilities
- Engagement with contractors and stakeholders at senior levels
- Robust plans with clear and simple milestones
- Risk management and the ability to escalate risk without fear of criticism

The [Office of Government Commerce](#) (OGC) plays a pivotal role in helping government departments achieve best value from their spending. This presentation looked at how the OGC sets out to achieve its objective of driving up the success rate of major projects, which are huge in scale and complexity.

The first key element involves the importance of effective reporting procedures. It was explained how the OGC issues a quarterly summary report to Ministers and officials on the health of the top 40 or 50 government projects. This report provides an overview of the Government's investment portfolio, and means that issues are brought into the open and any common themes are visible.

The second key element centres around the OGC's assurance regime, which involves two principal mechanisms: the Major Projects Review Group (MPRG) and the Gateway Review process. The [MPRG](#), the newest of the mechanisms, is a scrutiny panel for the largest of the major programmes, challenging projects on deliverability, affordability and value for money. Ten reviews have been carried out to date, and so far the feedback from those involved has been very positive.

[The Gateway Review](#) is the Government's primary tool for overall project and programme management assurance. The process involves examination of the progress and likelihood of successful delivery of programmes or projects at key decision points in their life cycle, and looks ahead to provide assurance that they can progress successfully to the next stage.

The client in the above procedure is the Senior Responsible Owner (SRO) – the person who has business accountability for successful delivery. The overwhelming view of the SROs of government projects and programmes is that the Gateway process is extremely helpful in significantly enhancing delivery confidence.

The OGC has recently initiated a third assurance mechanism entitled 'Starting Gate', which is carried out on a project before set-up. Currently being piloted, its aim is to increase the effectiveness of project initiation by helping senior managers identify the risks and challenges at an early stage.

THE ROLE OF THE NON-EXECUTIVE DIRECTOR

The main board of an organisation is the final approval forum for major decisions that have a financial impact on the business. Drawing on many years of experience in the private and public sectors, this presentation from a non-executive director of BT looked at the crucial role of non-executive members of the board in the decision making process and some of the challenges involved. It was noted that the term ‘independent director’ might be a better way of describing the role, since if things go wrong the non-executive director is as legally responsible as any executive director.

One of the major challenges centres on information. Non-executive directors are, by definition, detached from the day-to-day running of the company, which helps to preserve their independent viewpoint. However, it means that they have to rely on their experience and questioning of executives to arrive at their decisions.

Information about a business resembles an iceberg: there is much more below the surface than meets the eye above, so asking questions is vital, as is the ability to discern fact from fiction. It is important to remember that people tend to tell you the good news; you have to probe to find the bad news. Since there is limited opportunity in meetings to ask the questions that should be asked, much of the work must take place outside the boardroom – to do the job properly is time-consuming.

In a nutshell, non-executive directors should:

- Robustly question executives
- Allow sufficient time for deliberation
- Make views known
- Query financials
- Stay close to developments
- Trust executives

AN INVESTOR'S PERSPECTIVE

As a leading UK sponsor of privately financed infrastructure, this presentation from John Laing plc provided a private investor's perspective of how the company operates with public sector-led procurement of PFI and PPP projects. The company's strategy and business model were outlined, followed by a detailed look at the work winning process and some of the challenges faced.

Once a project is definitely in the offing a winning consortium is assembled to respond to the public sector procurement. Since bidding for large projects costs millions of pounds, the company is very selective about which projects are bid for: bid budgets are finite, there is a limited amount of money to invest, and the necessary staff resources are limited.

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Well documented internal processes are maintained that take projects through the bid cycle from opportunity identification to financial close. To ensure a consistent approach throughout the company, each stage entails a detailed procedure and involves learning lessons from past mistakes. The client needs to know that the proposal they receive has gone through due process and that it is a valuable document. The budget has to be controlled, because the further the company proceeds with the bid the faster the cost increases, and the necessary approvals from the parent company to give a bond or obtain letters of credit have to be obtained. All those processes must be in place and correctly recorded.

During the process it is essential to identify risk and decide what can be mitigated and what must be accepted. The necessary resources and risk management structure must be in place to deal with issues before they are manifested. If this is not done, risks arising during the bid can flow through to the operation process.

Recent events in the financial markets will affect the structure of publicly procured, privately financed infrastructure in the UK and overseas. With private finance in short supply, the current market conditions were analysed and their likely impact considered.

ALIGNING FINANCIAL INVESTMENTS – LESSONS FROM INTERNATIONAL PROJECTS

Project financing has grown increasingly complex over the last two decades. Major projects involve a number of separate participants, each with its own set of objectives and constraints. The success of a project depends on balancing the individual interests of the project players with the overall interests of the project itself.

The presentation from Taylor-DeJongh, an independent, specialist investment banking firm, examined projects and project finance, and considered the various different interests of the participants involved.

Large projects are typically set up by the creation of 'special purpose vehicles' (SPVs), to which sponsors provide equity and syndicate banks provide loans. The other main participants are government agencies, engineering, procurement and construction (EPC) contractors, off-takers and feedstock suppliers, equipment vendors, insurers and a number of other advisers. Setting up very large projects in developing countries typically requires a direct agreement with the host government.

The statement most commonly heard when talking about project finance is that the key to a successful project is the identification, mitigation and allocation of risks that could adversely affect the outcome. The presentation looked in detail at the various kinds of risk and their management, and risk allocation in relation to the various project participants, each of whom have their own risk profiles. For instance, equity holders may face reduced or delayed dividends, while lenders may face reduced or delayed debt service payments. The importance of creating an initial risk matrix was emphasised, identifying what could go wrong with the project and taking appropriate action, for instance by insuring against the risks.

The presentation finished with a short case study of the Baku-Tbilisi-Ceyhan (BTC) pipeline which runs across Turkey, Georgia and Azerbaijan.

The presentation from Insight Consultancy provided a people perspective on the relationships between a project organisation and the key project stakeholders, including the board and the investors. The presentation reflected on a series of insights into project performance and success from a key stakeholder perspective, and painted a picture of the implications of this for project managers. It also considered implications for the board and the project sponsors in both challenging and supporting project managers to become leaders in this environment.

The ethos of the structured and flexible *Insight* review method provides an in-depth means of capturing perceptions and perspectives related to confidence in project success. The method can be used to drill down to a sufficient depth to understand the root causes of problems, plus concerns, priorities and ideas for improvement.

Key insights arising from reviews conducted over the past 10 years were outlined:

- The need to adopt a broader view of project success criteria – a new model of project success
- Prioritisation gaps between stakeholders and project managers must be understood and managed
- Managing the different/opposing stakeholder views on the same project is vital, but complex
- The project manager must be aware of what makes the difference to stakeholder confidence
- Supporting project managers in focusing on customer understanding and empathy is vital, and should be encouraged and funded
- Project managers need to be challenged and supported to understand and ‘work with’ the stakeholders’ perspectives
- Project managers need to be challenged to lead, and not just to manage

Each of these insights was discussed and related to the action that needs to be taken, for instance by the project management community or the sponsors, boards and those who support and invest in projects.

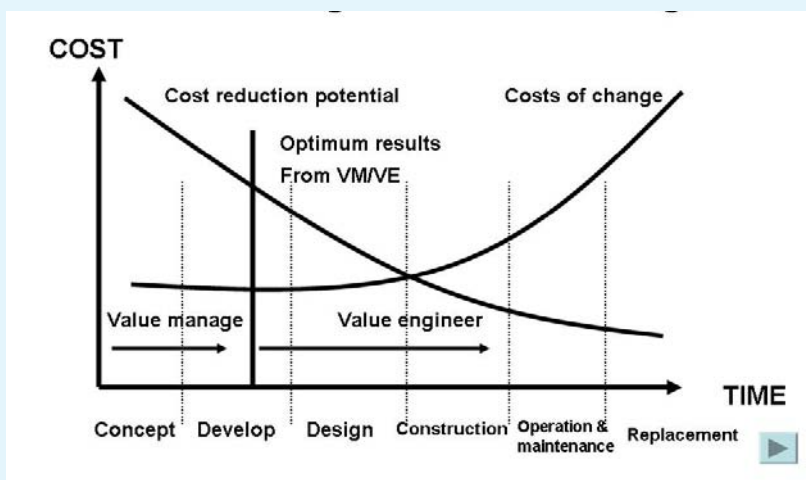
The essential points are that:

- Key stakeholder perspectives, priorities, concerns and expectations depend on many things, will frequently conflict and will change over time.
- All of this requires a new emphasis in project management, involving new skills and new information, and some changes in the emphasis of associated investment.

In summing up the day's events, the Chairman noted how often insufficient attention is paid to basic issues such as project definition, clear objectives and the focus on the delivery of measurable gain.

He also referred to the continuing relevance of a graph that he first used 25 years ago. This highlights the importance of investing time and money at the start of a project in order to save time and money at the end: the effort put in at the beginning pays dividends.

VALUE MANAGEMENT/VALUE ENGINEERING COST SAVINGS – COSTS OF CHANGE





PARTICIPATING ORGANISATIONS

Atkins plc
BBC Projects
BG Group
BT plc
CH2M Hill
CMS Cameron McKenna LLP
Cross London Rail Links Ltd
Davis Langdon LLP
DB Regio UK Ltd
Defence Estates
Department for Transport
EC Harris LLP
Ernst & Young LLP
First State Investments
Freshfields Bruckhaus Deringer LLP
Grant Thornton
Halcrow
Henley Business School, University of Reading
Highways Agency
HVR Consulting
IBM Business Consulting Services
Insight Consultancy
John Laing plc
KPMG LLP
London 2012 Programme
Major Projects Association
Mott MacDonald Group Ltd
Mouchel
Office of Government Commerce
PA Consulting Group
PricewaterhouseCoopers
QinetiQ
Raytheon Systems Limited
Risk Solutions
Scott Wilson Ltd
Serco Group plc
Shadbolt & Co LLP
Sir Robert McAlpine
Taylor-DeJongh
Taylor Woodrow Construction
Team Animation Ltd
The Nichols Group
Transport Scotland