Fixing a Project that is in Crisis

By Paul Day

Executive Summary

Supply chains are getting more complex and volatile, particularly for businesses working in the Fast Moving Consumer Goods (FMCG) and retail sectors. Money and resources allocated to projects within these environments are expected to be flexible and respond to change. This White Paper describes the way that this environment can cause a project to freefall into crisis. It also describes the best course of action that must be taken to have any chance of nurturing a floundering project back to health.

Usually the first sign of an impending project disaster is a vague concern that all is not well. Rumours of uncertainty within the project team, a spend profile that doesn't seem to correlate well with the published progress reports, feedback from suppliers that payments are delayed without due cause are just a few indicators. Projects facing impending doom are usually heralded by a sense that something is wrong rather than a clear and obvious cue.

Any project in administrative decline is usually stuck in an infinite loop. The project leader has agreed to, and sometimes initiated, a plan of attack that is flawed in its basic premise. Warning signs have been ignored along the way. Business changes force more scope concessions, further weakening the plan of attack and so the story goes. While this storyline is not confined to fast-paced manufacturing environments, it is more frequent in this environment due to the nature of key issues within a project disaster.

But First the Nature of Change

Fast-paced manufacturing businesses which view business change (both internally and externally) as a way of life are found in markets like the Fast Moving Consumer Goods industry. These markets demand agility and a fast reaction to the changing needs of the consumer and the market place. The very strength of these businesses however is usually the thing that most exposes them to projects getting out of control.

In more stable businesses the numbers of changes being managed by people, often at relatively junior levels, are fewer and therefore change management controls are often better regulated and enforced. Businesses where there are more changes, and where these changes are at the very core of a business's competitive advantage, find it harder to establish a cost effective infrastructure that controls the changes effectively.

By way of example, any food manufacturing business supplying the Fast Moving Consumer Goods manufacturer will be managing the following changes as just a short list (Note: this list is not exhaustive I have just selected three business activities – Process Development, Product Innovation & Conversion Cost Reduction – to illustrate the point);

Type of Change	Process Development		Product Innovation		Conversion Cost Reduction		
	Technology	Efficiency	Current Products	Disruptive	Logistics	Headcount	Losses
Machine							
Raw Material							
Raws Supplier							
Pack Graphics							
Pack Materials							
Process							
Recipe							
People							

Creeping Goal Post

Within this context, the nine to twelve month lead time required of a asset intensive project is an eternity. This is because so much is changing within this time frame; feedback from customers on new products, a competitive environment which is changing daily, supply channels changing with customer needs, etc. The general view in these types of businesses is that locking in a scope nine months out (a necessity particularly for projects with imported assets) compromises agility and, unfortunately for project managers, this is true. Therefore, faced with these business stressors, a project is often viewed as a large pot of money in which slight changes can be absorbed. Consequently, pressure mounts for the project manager to absorb additional work, without a renegotiation of resources or time.

This pressure takes three forms;

1. Creeping start and end points

   As soon as a large project gets approved it becomes implicated in a myriad of "opportunities" that are within twenty metres of the final project installation. Pressure for the project manager to include additional scope into the project starts to build. Problems, that weren't articulated and incorporated into the original project scope are now included.

2. Outcome/Expectation creep

   Large projects have the potential to be the biggest positive impact on a business's financial outcome for a year. This means that there are always a lot of expectations, particularly at senior management level, some spoken and some not spoken. One of the jobs for a strong project leader is to ensure that senior managers are not only kept abreast of project progress but also aware of what business impacts the project will achieve and what business impacts it won't achieve.

   This takes a lot of effort, time and political will and sometimes project teams just don't do this well and ultimately discover they have to fulfil expectations and deliver outcomes that weren't included in the original brief. However, the reality is that most senior managers take a very pragmatic view of this when they are given the opportunity to respond in a logical and timely way. Although leaving these trade-off discussions until the project is in crisis never serves anybody well.

3. Financial Creep

   Financial creep mainly occurs as a result of unforseen and unfavourable exchange rate movements. There are forward cover contracts that can be used to minimise exposure although these are generally of little help before project approval. These exposures are generally easy to explain but become unpalatable with the passage time. Project managers aren't currency experts and even the best get caught with currency problems long after they could have been identified.

Financial creep can also occur when suppliers claim unforeseen variations, claim additional scope or claim unforeseen costs (e.g. freight). This is generally a matter of project cost and supplier control but in the heat of final installation and commissioning there are many assumptions made by suppliers and project managers alike.

These pressures are often introduced at the planning stage of the project and the project manager will often accept them in good faith assuming that they will either come out of a designated contingency or there will be latitude for renegotiation into the future. However, the burdens created by these early concessions often don't become evident to the project manager until he gets further into the project. Cost pressures start to mount as the project team prepares for installation and design freeze.

The project manager soon finds that his ability to respond to unforeseen variations caused by regular design reviews becomes constrained because of the additional scope introduced early in the planning phase. The project manager feels the weight of his own reputation as additional scope tacitly agreed months ago now becomes a millstone around his neck. Consequently high risk tactics like delaying payments to suppliers, disputing payment, withholding invoices unnecessarily and taking short cuts with operational design start to creep into the project.

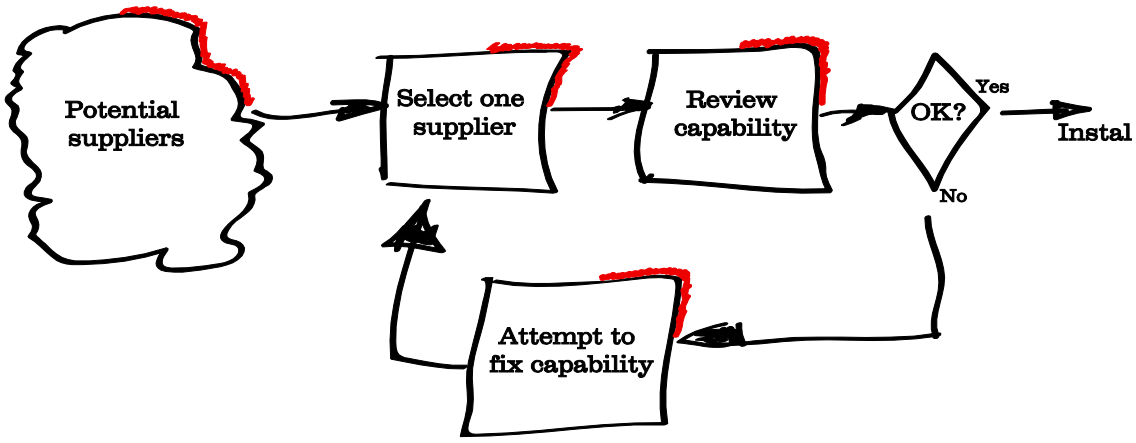
Supplier Power

The creeping goal posts, described above, can sound the death knell for a project but if the creep is small then changes may scrape through with relatively minor pain for the project manager. The harbingers of crisis however will general come from the supplier domain.

Time and cost pressures on projects will inevitably lead to short cuts. The most obvious place to start is supplier selection because equipment lead-times are almost always on the critical chain and equipment costs can comprise over 70% of the total project.

There are two forms of supplier selection and, few things in this world are assured but in this case, one form of selection is good and one form is bad;

- Bad Supplier Selection



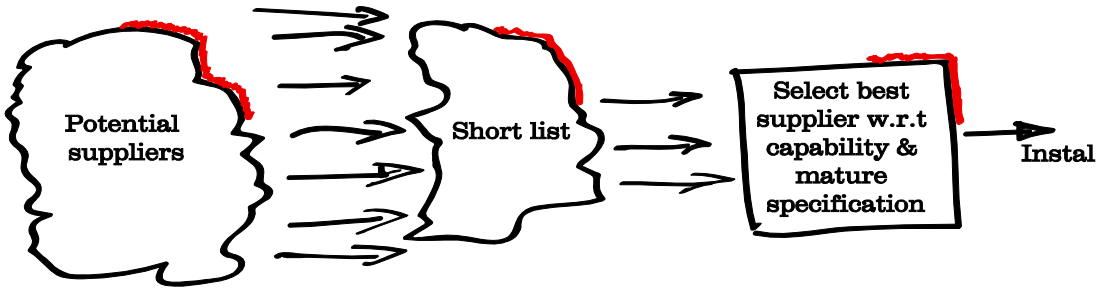
We call this method of supplier selection pick and screw. This is where only a rudimentary search of all suppliers capable of fulfilling a broad specification is completed. If a project has cost or time pressures then a supplier is selected based mainly on ..... cost or time. The supplier is locked in and then, as our understanding of the project becomes more robust, we start to engage in our own game of creeping-goal-post with the selected supplier. This is an attempt to realign the specification with a more comprehensive understanding of project outcomes.

Often the specification moves to place that is way outside the capability of the supplier. Warning comments are;

- "gosh this is a real challenge which we have never done before but we'll give it a go!!"
- "actually we have a prototype which we have been working on for some time, maybe we can dust off the drawings"
- "don't worry she'll be right mate"
- "look, I think we can organise a partnership with company x and still pull this off"
- "can you give us some slack on some of your performance criteria, we just don't see how anybody can deliver them"

These are all code for "there will be additional cost and time, we just don't know how much yet."

- Good Supplier Selection



This method of supplier selection relies on an iterative approach as the specification and awareness of supplier capabilities become more robust. It keeps a number of suppliers in the frame until key trade-offs have been understood with respect to capability. The process also helps technical resources within the business learn more about the application as supplier capability becomes better understood.

Like all good things this takes a bit of time up front but the investment pays dividends. Usually the net outcome by the time of installation in terms of cost and time is the same as pick and screw and yet the technical and business outcome during validation and handover is always much better.

Larger businesses can dedicate resources to the “pick and check” process before a project is even conceived knowing that strategic forecasts will necessitate certain equipment or service requirements into the future. This colour by numbers approach to purchases can be quite powerful if managed systematically and local resources buy-in to the centralised approach.

The Commercial kill Button

Probably the most concerning conversation a project manager can have is with a supplier who gives a bit of gossip. “Did you hear that company z is having financial problems? I heard that some of their suppliers are withdrawing credit.” If company z is supplying a key piece of equipment for a major project then we should go straight to Defcon 1!! All of the insolvencies start with a rumour. Unfortunately in these cases no-one wins and all that anybody can hope to achieve is damage control.

While supplier insolvencies are difficult, poor supplier relationships probably draw just as many resources and can have just as debilitating effect on a project. Quite often young technically based businesses constantly battle two demons; unmanageable growth and an inability to attract appropriately qualified staff. These issues create cost and time problems with associated relationship issues. On other occasions suppliers’ priorities just don’t line up with the project team. No matter how it happens poor supplier relationships can have a debilitating effect on the project and create a drag on momentum that is very hard to resurrect.

All Engines Stop!

Usually there is a glimmer of hope for most projects in distress, although the final outcome will only be determined by how swiftly a robust response takes place. The longer a project is allowed to fester and flounder then the more the problem becomes unfixable.

The first stop in fixing projects is to put a complete freeze on all funds. No matter how water tight contracts are, dollars always speak louder than words so it is better that you have as much of the cash as possible. Some would say this is something of a cynical view, but we prefer to see it as a reality. Continuing to let money flow out of a dysfunctional project only benefits a few and if some short term pain is taken, generally by larger suppliers that can absorb some cash flow constraint, then many others will benefit longer term.

When we say stop the flow of money, we mean this literally. It is not enough to stop writing purchase orders or to stop signing invoices. All payment channels must also stop. Accounts payable clerks should set aside all invoices in their in-trays and review ALL payments set to take place electronically. The area of the business that handles foreign exchange transactions must be advised so that forward cover contracts are held if possible (although this should be reviewed against the current market environment and impact of recent exchange rate variations).

The Approach

The reality of the situation in these cases is that people will be forced to run blind while the situation becomes more transparent. This is a time of uncertainty and stress for all involved. Senior managers must trust the people working on resurrecting the project and yet find a way of reassuring the rest of the business that all that can be done is being done. The project team will all be concerned about their jobs and to what extent they have caused the problem. The best place to hold on to some reassurance however is in the business case. If the project business case is/was robust and if the project is still in planning stage then there is still hope.

If the project is large enough, and if it hasn't already happened, the project must be reduced to manageable separable portions. Projects always have a natural division along physical lines and definition of these areas is usually a matter of consulting the existing project team.

A leader must then be assigned to each area and three performance indicators clearly established for each of area;

- Appropriateness of scope
- Reality of budget position
- Risks associated with key time milestones

The quest here is to deal with reality in an open, honest and respectful way. It is important at this stage that we do the simple stuff well and, as much as possible in the situation, force people to keep discussions simple. The team must be reminded that the challenge will be to relate the problem to senior management in an effective way. This will be the only way to get the project to a better place and we will not be able to do this if problems cannot be distilled to some basic decisions.

Once the base is established it is time to come up with options. There are only effectively three levers to pull in any project; scope, dollars and time. These three levers should be the basis on which all discussions regarding the project are held. In quite a number of projects in distress it is surprising how many can be fixed by focussing on scope. This is the place to start dialogue with senior management. If scope alternatives can be pitched that still deliver the business objectives, with the same time and dollars, then these are the most palatable options for all involved.

This is also a time of creativity and involvement with committed and focussed technical people. Jaded and cynical people must be removed from the project team quickly so as not to undermine the culture within the team. There is much creative work to be done and many uncomfortable, challenging discussions to be had with suppliers. This can only happen with motivated, talented individuals capable of maintaining strong relationships with suppliers and peers.

Turning the Titanic

Having established a clear picture of the project status and realigned the project in a structured and transparent way it is time to start managing the expectations of the broader business. This is like turning the titanic because projects create their own momentum and a course which is very hard to change. Political expectations and pressures have as great a bearing on the situation as do the key project indicators. This is a reality that must be considered and generally a reality that is necessary in fast paced business environments.

Healthy politics and networks at senior levels within an organisation help to facilitate fast decision making and break down functional silos. The extent to which this political chaos is healthy is usually a function of the organisations leadership at the General Manager level. This network of senior staff and influencers need to be taken into account when deciding how to communicate whatever course change is required for a project in distress.

It's not enough to simply create a presentation describing the issues and solutions with respect to a project in distress. For the best chance of success a lot of prework is required. By the time the project team is in a position to offer potential solutions it needs to be ready to implement a communication strategy. Usually the informal communication strategy is just as important as the one-off presentation. In fact the best one-off "solutions" presentation for a project in distress is one in which almost all the key stakeholders are already in agreement.

Potential solutions should always start with scope opportunities. Senior managers usually view projects from a broad perspective. Technical scope changes generally provide little interest to senior managers providing they can be argued within a broader business context. If a scope change achieves manageable business impact with palatable financial and time concessions then this approach will probably achieve the least organisational angst.

Large changes to business outcome including project investment cost, reduction in project return due to project delay or capability reduction will attract broader and potentially more robust debate and resistance. In these situations the communication strategy must be managed very tightly and systematically. Senior managers must not only accept the changes but endorse them. Ownership of the concessions must be personal and leave little scope for scapegoating into the future.

As a final word on fixing projects in crisis it is worth restating an extremely important point. If a project is in crisis then the damage it creates within an organisation is directly related to how long it is left to fester. The more decisive the action when the subtle clues of problems become evident then the higher the chance that the project can be recovered with minor business impact. Within technical asset based projects there are generally strong viable scope options but these are usually more available if progress payments to suppliers are yet to be made!