

The breakdown of trust and the implications for project success



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PRECIS:

Project success can be significantly improved when the anthropology of the Project Team (comprising the client, engineer, suppliers and contractors) is understood and actions are taken to develop the interactions that enable all team members to work in a collaborative manner. The power structure of the project team will shape the manner in which decisions are made, directly impacting how the Project develops.

Trust never sleeps and the behaviours that cause trust to be lost within a project team will incrementally impact the business case on which the development was approved. This impact manifests as inefficiency, delays and cost overruns that are rarely able to be recovered.



CONTEXT

Major capital developments (projects) are complicated undertakings and successful delivery relies on a significant number of individuals in the project team (comprising the client, the engineer, suppliers and contractor organisations) making decisions for the benefit of the project, when often these may conflict with the most advantageous business outcome for the individuals' respective firm.

Each decision (be it a change of paint specification, an increase in a pipe size or the addition of a commercial clause in a contract or a purchase order), made during the project will increase or decrease the capital cost, the schedule duration, the operating cost or business risk and each decision will often sub-optimize one of the project business drivers.

There is no perfect design or delivery approach so these decisions are often a preferential bias, and for larger international projects decisions are being made in different jurisdictions, countries, tax structures, with different duties, multiple languages and different time zones. What could possibly go wrong?

Statistically the risk of failure is high and when this execution risk is overlaid on petroleum field risk or ore body risk, political risk, environmental risk and community risk, perhaps it is the delusional who are prepared to develop a major capital project.

1st seed of project failure:

FEAR

Most individuals are just scared of making a poor decision or a mistake and thus the first seed of project failure is planted - "Fear".

HISTORICAL PERFORMANCE

No one should be surprised that the available public literature supports the position that most major capital projects fail in achieving their objectives of capital spend less than the approved budget, development to schedule, or ultimately operating within the approved opex range, thus failing the business case on which the project was approved.

Public literature on the details of failure is sparse (except for occasional book on mega failures) and the treatment of capital costs on balance sheets is often opaque with elements written down when investment failure becomes obvious.

Edward Morrow, founder of Independent Project Analysis (IPA) and author of Industrial Megaprojects suggests that 65% of projects with capital value greater than \$1bn fail to meet their business objective. Assuming a normal distribution of capability and competence within the project professionals undertaking these projects then it is better to be lucky than good as a lot of “good” individuals are on projects that fail to meet the business case as approved.

Interestingly I have personally had a number of conversations with engineers proud of the work achieved on their project, unaware of the frustration expressed by the Board on the poor business outcome of the project they had approved.

Forensic analysis into the root cause of failure is rarely undertaken and “lessons learnt” generally comprise simplistic views and motherhood statements.

2nd seed of project failure:

HUBRIS

As history indicates by the repeated project failures “lessons are generally not learnt” and the second seed of project failure is planted – “Hubris”.

CREATING SUCCESSFUL OUTCOMES

Organisations undertaking projects tend to focus on the building blocks of basic Project Management, namely a clear scope, a reasonable schedule and a budget with appropriate contingent allowances that actively reflects the scope, schedule and risk. Most projects have these building blocks and yet failure is regular so the cause lies elsewhere.

The skills required for a successful outcome are not just engineering, budgeting and scheduling, these are important however the skills required to improve successful outcomes are the “soft” skills of aligning, communicating, mentoring and coaching. These are often not understood or the leadership team does not have the capability in these skills.

During the recent China driven commodity boom, Australia embarked on a capital expenditure programme that was greater than any time in history aimed to deliver tonnes of iron ore and coal to port. A shortage of experienced project related professionals resulted in less experienced individuals being promoted to leadership and decision making roles on these capital projects.

With high commodity prices during this period every tonne had a margin and therefore the balance between capital and schedule skewed to prioritise schedule over all other project drivers. Accordingly, a large cadre of Australian project professionals spent 10 years in a development environment that was commercially unsustainable and this artificial experience is damaging in the current business cycle.

The role of the Project Leadership is not Project Management 101 (budget and schedule), it is to get a diverse group of individuals (clients, engineers, suppliers and contractors) to agree on a common set of objectives and move forward making “Best for Project” decisions.

3rd seed of project failure:

INEXPERIENCE

The role of Project Leadership is to get a diverse group of individuals to agree on common objectives and move forward making “Best for Project” decisions. The third seed of Project Failure - “Inexperience”.

WORKING AS A TEAM

Trust, the firm belief in the reliability, the truth or ability of someone or something is essential to get a diverse group of individuals on projects to agree on common objectives and move in the direction of making “Best for Projects” decisions.

Ricardo Semler in his celebrated book *Maverick*, released in 1993 challenged us all on trust when he revealed the ‘magic oil’ for his company’s success was that being trust. At Semco workers set their own hours, every employee knew what everyone else makes as a salary, executives set their own pay et al. Obviously a crazy approach but it put Semco back on their feet and onto a growth path by simply treating people like adults.

This trust issue (or lack of trust) is exacerbated by most processes that support projects. Contracts between parties executing projects have tended to become more adversarial in nature, even when the interests of both parties are reasonably common as in an EPCM (Engineering, Procurement, Construction Management) approach. Commercial teams take the position of assumed failure (lack of trust) and risk mitigation, rather than assumed success with the contract document to manage commercial issues. This arrangement immediately misaligns the project teams who are supposed to be working for a common objective and most will seek to protect their own business interests to the detriment of the project.

Since control is the premise on which most management is based, giving up control and trusting is harder than it sounds, and therein lies the issue for the project leadership.

4th seed of project failure:

LACK OF TRUST

Simply put, if we don’t trust an organisation then it is foolish to enter into a contract with them. We are sowing another seed of failure – “Lack of trust”.



I am reminded of the words of John Ruskin (1819-1900) when contemplating trust and a statement he made on price.

“It’s unwise to pay too much, but it’s unwise to pay too little. When you pay too much you lose a little money, that is all. When you pay too little, you sometimes lose everything, because the thing you bought was incapable of doing the thing you bought it to do. The common law of business balance prohibits paying a little and getting a lot. It can’t be done. If you deal with the lowest bidder, it’s well to add something for the risk you run. And if you do that you will have enough to pay for something better.”

I am not advocating that the lowest price is unacceptable, but the issue is recognising that care needs to be taken to understand what you have bought and take responsibility for your decision (both parties) and not to be a victim.

A recent Iron Ore project in Western Australia illustrated this supposition well with the “fall out” being Performance Securities being drawn and the parties in litigation. The cost of this behaviour is rippling through the industry with increasing cost of security for all participants.

DISCUSSION

Contemplating my industry (mining and metals) it's easy to imagine that the Project world is broken as the litany of overruns and failures are titanic. The industry adds contingency upon contingency as contracting parties assume the worst outcome, and rather than seek success we fear failure and act accordingly. We have sown the seeds of fear, hubris and inexperience and from that comes a failure of trust with the sub-optimal outcomes we observe.

There is a way forward but only if we overcome this lack of trust and let go of our management control, substituting leadership and guidance.

Projects need the building blocks of scope, schedule and budget, however if you really want to deliver the value that was the basis of project approval you need:

- To engage the right people and right companies and trust them!
- Create alignment with all parties (it's a process).
- Clear accountability with matching authority.
- Active coaching of team members
- Project Management 101 (scope, budget, schedule control); and
- To communicate, communicate, communicate.

For more information about steps to project success or topics in this white paper contact:

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