



White Paper 2012-06

No Surprises: the Recipe for Consistent Project Controls

Passed the burdle of having an accurate view of current costs (see the white paper 2012-05 “How to Be on Top of Your Costs: the Art of Mastering Commitments”), the next issue facing the project team is to have a firm grasp on the forecast to the project completion. The objective for the project leader is to make sure that the current knowledge of the situation is appropriately reflected in the cost forecast, so that there are “no surprises” due to uncontrolled areas that would have been overseen. While that sounds simple, the practice is a bit more complicated...

What does “no surprises” really mean?

Not only is today’s world increasingly variable and unpredictable. Projects are specific endeavours often pushing the limit of what has been done before; they entail a significant part of risk and opportunities. As such, a project’s outcome is less than certain. Still, some organizations do deliver consistent performance. In addition they are rarely taken by surprise by significant changes and events.

In this paper, “no surprises”, considered from management perspective, means:

- New knowledge of events or situations that might impact the project are quickly reflected in the estimate-at-completion, even if they will impact the project way down the road;
- No unforeseen surprises due to failure of project controls systems and processes;
- Small variances are dampened so as to avoid ‘pumping’ effects on the project results due to measurement inaccuracy or variability in progress.

We will now investigate those three dimensions.

Reflecting quickly new knowledge

The forecast of a project (cost, schedule) should always be based on the best knowledge available at the time. As the project moves forward, knowledge of the project itself and of its environment evolves. It is a primordial task to reflect this new knowledge in the cost and schedule forecast as soon as it is available.

From the planner or cost controller perspective, this requires knowing exactly the assumptions of the current forecast, and being proactive in looking around for new information and knowledge. This typically entails discussing and interviewing the key players on a regular basis, casually or more formally.

Once new knowledge is identified, the project controls team often needs to push for its consistent implementation in all the forecasting tools: planning, cost model, and if required, product specification for a change in scope. It is at this stage very important to check the consistency of its implementation across time, cost and scope.

During our consulting assignments we too often encounter situations where knowledge of upcoming events has changed significantly, but the project forecast has not. The main causes of this situation are:

- organizational: lack of communication between the project team and planner / cost controller due to an ill-conceived project organization;
- lack of time and focus: planner and cost controller are too involved in basic mandatory tasks (reporting, invoice checking, payments etc) and have no time to spend on the forecasting, which is a more difficult cognitive task requiring time for reflection;
- lack of knowledge and understanding of the planner and the cost controller with regard to the particular project business and its drivers.

It is sad to observe that too often project leaders do in effect squander the potential value added from project controls by not making sure that they have the time and the capability to do their main value-added task: the cognitive effort of translating the current knowledge into an improved forecast, ensure a consistency across the team as to the assumptions, and identify the possible stumbling blocks from the updated plan.

Avoiding failure of controls processes

Whether it is a good or a bad surprise, management does not want to hear about significant variances due to ill-application of project controls processes. It reflects badly on the organization’s capability to control its operations. To avoid this it is necessary to implement a comprehensive set of processes, supported by appropriate systems. This does not mean necessarily complex processes and systems – to be used, they need to be user friendly and straightforward. The key is in the consistency of their application and the discipline shown by the entire project team.

In the course of our assignments we observe that the main root causes of failures in this area are the following:

- lack of knowledge and understanding of the planner and the cost controller with regard to the particular project business and its drivers.
- Inconsistent usage of the controls processes, in particular regarding commitment control, and supported costs which are not directly within the responsibility of the project
- Poor maintenance of the cost model of the project in terms of traceability of the cost data.

While it would seem to be basic, organizations still do too often fail in the basic application of controls processes, creating havoc in their financials. Improving the organization maturity and the consistency of process application is key.

Dampening small variances

The most controversial subject is certainly the dampening of small variances. For financial people this is normally a no-no; the financials should reflect exactly the latest forecast. This stand is however a subject of discussion in the economic spheres, with some voices claiming that imposing for example, a current valuation of assets is a factor that tends to deepen crisis cycles significantly, in a sometimes completely artificial way. We suggest here that when establishing the forecast, while reflecting the main trends, the project leader should be weary not to create concern and additional work by reflecting too quickly small variations inherent to the work.

We know that due to natural variation occurring in all human activities, the different methods of extrapolating future performance from past and current performance are necessarily flawed at small scale, while useful in terms of trends and orders of magnitude. For example, Earned Value management tools can give an indication of the trends for forecast; however, used too much as per the book, they will lead to significant upsides and downsides of the final project estimate due to the inherent inaccuracy and irregularities of the physical progress measurement versus actual cost spent. This is in particular the case at the start of the project.

A significant cognitive work is necessary here for the project leader and the project controls team to sieve through the variances and identify those that effectively reflect a deep seated trend, from those that are merely a temporary artefact. Allowances should be used to dampen the effect of the latter. Allowances are legitimate as long as the amount of allowances kept in the project are transparent, measured and managed. A prudent approach to managing allowances will also enable the project to weather some upcoming storms without creating too much damage to the organization's financials.

What is then the recipe for success?

As we have noted in the three previous paragraphs, common themes came in a recurring manner:

- The importance of communication within the project team;
- The importance of allowing the project controls team to do their added value cognitive work.

Still too often we find that project controls are considered to be an interchangeable support function adding little value. Project leaders sometimes do not realize how, in the right conditions, a significant value and insight can be created by project controls if they are in a position to piece together the information about the project. That requires them to understand the drivers of the particular business, and have time to do this cognitive work. This is why a cost controller is not an accountant: contrary to the accountant, she understands the drivers of the business and she focuses on forecast (not on the past).

Ask yourself a simple question: did you send your cost controller on site once? If you did not, do it now. It will change dramatically the way your project will be controlled, forecast and reported.

Conclusion: a professional controls team, the second key to effective project controls

Project controls is a specific function and speciality and should be recognized as such. It involves specific systems and processes. It is not a back office of lowly considered people; it should involve high potentials to support project leadership in an appropriate manner.

The project controls personnel are often the only people looking ahead beyond the daily grind of the project activities. High on the mast they can indicate where are the shallows to the project leader, who is steering his ship through the unknowns. Like the watch on the mast, project controls needs to have a powerful lens. That's all it takes to avoid being wrecked on the shores of the forever lost projects.



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