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WHY PROJECT MANAGERS SHOULD REWARD BAD NEWS

By Kosuke Uchida

This is the second in a series of articles on large-capital-expenditure program management in the energy and infrastructure sectors. The first article was "Why Schedules for Large Projects Shouldn't Include Dates."

LARGE-CAPITAL-EXPENDITURE projects entail highly complex decision making that must account for the interdependencies among multiple frontline teams, contractors, and stakeholders. To make fast, forward-looking decisions in this complex environment, managers need both the good news and the bad news about a project's status. All too often, however, the bad news about delays and cost overruns does not reach the top decision makers clearly and quickly. Human nature is partly to blame; most of us would rather not give or get bad news.

In many cases, though, the fault lies with project governance. Poorly designed governance impedes the flow of bad news from the field to top management, and it may even incentivize frontline teams to stay silent about incipient problems.

We have seen many large projects fall victim to an organization structure that prevents top managers from getting bad news. Even worse, we have seen many companies amplify their problems by imposing more stringent controls that inundate managers with information and intimidate frontline teams. In an environment like this, an organization will struggle to attain the transparency it seeks.

Consider an entirely different solution: break the organizational boundaries, emphasize forward-looking reports, bring to bear top-notch expertise, and foster a culture that gives top managers the bad news they need in order to understand tradeoffs and solve problems efficiently. By rewarding bad news, managers can steer their organizations toward greater transparency and achieve a significant improvement in project performance.

What Makes Project Management So Challenging?

Large projects require the participation of

multiple functions, each of which may have a distinctive culture. Coordinating work in a cross-functional, multicultural environment is extremely complex, and this complexity makes it hard to manage tradeoffs and align on priorities. Also, the challenge of mastering new technologies can worsen the coordination problems. In many cases, frontline teams respond to inadequate central coordination by pursuing their own work plans—and by keeping bad news to themselves.

Managing Tradeoffs

Managing tradeoffs in decision making is especially difficult in a large project with complex objectives and multiple stakeholders. The complexity of programs makes it difficult to identify the tradeoffs among options. Even when tradeoffs have been clarified, organizations often lack a system to ensure that the appropriate organization layer is able to rapidly make decisions to manage them.

For example, in some projects, the program owner provides design specifications to a manufacturer and then requests changes. However, the owner may not fully understand the interdependencies among design requirements or how changes may affect procurement, construction costs, and schedules. If requested changes are few in number and minor, frontline teams typically accept all of them. But an accumulation of changes is certain to lead to budget overruns. The same is true for a major change. The best course of action in response to repeated or major design changes is to temporarily stop work until the new design is finalized. If the project continues without a finalized design, time-consuming rework will likely be required.

At one project, the owner requested a major design change but also said that the work should proceed without delay in order to meet an upcoming milestone. To make matters worse, the owner's requested change was not communicated to the frontline. Although the project reached the milestone, the construction company had to redo a considerable amount of work once the design was finalized. The need for rework led to even greater delays in the overall project schedule.

Aligning on Priorities

The priorities of the project management organization (PMO) may not match those of the business units implementing the project. Most notably, it is hard to develop a master schedule that is agreeable to all units and then to make adjustments when delays arise. (See "Why Schedules for Large Projects Shouldn't Include Dates," BCG article, June 2016.)

Because the business units have authority over personnel, the PMO's decisions, which reflect its priorities, often are not implemented. In one project, a unit general manager continued to supervise workers, even though he was not involved in decision making at the project level. Because the project manager had to take the general manager's feelings into account, central coordination and decision making became even more complicated. In some cases, the top managers responsible for coordinating decisions fall into the trap of prioritizing the areas in which they or the most influential stakeholders have the deepest expertise. For example, decisions may be optimized to suit the objectives of the manufacturing function, rather than those of the overall program.

Mastering Technology

The technological complexity of large-scale programs has increased markedly in recent years. Project managers often must make judgments on technological issues that are beyond the scope of their past experience or knowledge. In one typical situation, a project manager lacked the capabilities to use the latest software in the design and manufacturing phases. Additionally, the project manager significantly underestimated the volume and quality of resources required to apply the new technology, which led to major cost overruns and delays in project progress.

Managing the Consequences of Ineffective Coordination

The problems that result from the issues described above make project management even harder. For example, because

they lack authority to resolve the cross-functional issues that inevitably arise, frontline teams tend to optimize operations in their respective areas, and they tend not to communicate with other areas as freely as they could. As a result, the difficulties of coordinating work intensify.

At one large-scale construction project, separate teams were responsible for laying pipes and electricity lines. Initially, the teams succeeded in coordinating their efforts to meet daily milestones. However, the project started to fall behind schedule and conflicts arose between the teams as each sought to catch up to its goals. The failure to coordinate the work worsened the delay in meeting the milestones.

Inadequate central coordination also leads teams to set their own schedules. Project managers often coordinate schedules across business units without explaining to each unit the underlying dependencies that are the basis for the schedule. In such cases, units may make incorrect assumptions about the dependencies that affect their work, or they may not grasp the importance of strictly adhering to the coordinated schedule. Often, units assume that the prerequisites for their work will be completed much sooner than is actually the case.

Given the complex interdependencies in large projects, each unit is likely to be forced to delay its work because of a delay by another unit. When a unit repeatedly faces delays beyond its control, it may lose faith in the schedule and abandon the mindset that strict compliance is achievable. Even when a unit should accept responsibility for project delays, it may be tempted to assign blame elsewhere. In the worst cases, a unit might not make its best efforts to adhere to the schedule, such as by increasing resources, because it doubts that other units can adhere to it. More often than not, the problem underlying the delays must be solved in the next phase of the project.

Typical Responses Magnify the Problems

We have seen many companies respond to project management challenges by seeking to improve governance or by implementing turnaround plans. Unfortunately, these efforts often backfire.

Efforts to Strengthen Governance Impede Decision Making

The various organizational and procedural adjustments that companies employ to improve project oversight may actually hinder the flow of information needed for timely decisions.

Creating too many organization layers can stifle communication. To strengthen the governance of large-scale programs, some companies design an organization with many layers between the top managers and the frontline. By decreasing spans of control, such designs allow managers to focus their oversight efforts. However, in an organization with too many layers it is difficult to communicate information from top management to the field, and vice versa. At one project, the top management intended to convey strategy and priorities to the frontline, but the field staff often did not understand the information it received. The field staff, on the other hand, submitted a large number of reports to top management, which made it hard for the project managers to obtain an overall picture of what was happening on the frontline.

Stricter monitoring can suppress vital information. Management's efforts to impose stricter monitoring of the frontline often fail to yield insights that improve decision making. Many projects create documents—such as a master schedule, backward-looking reports, and official organization charts—that are largely ignored because they do not actually help in managing the project. On-site visits, another commonly used approach to enhance oversight, also often fall short of expectations. At one project, board members visited the site once a week to assess progress, even though a program director was supervising the work on a daily basis. Because the board members followed progress only over the short term, many issues remained unresolved. Moreover, to avoid having to discuss bad news during

the site visits, many frontline workers simply stopped providing accurate reports of progress. In such situations, executives are likely to make poorly informed decisions that ultimately delay progress rather than promote it.

Having too few organization layers can bring decision-making paralysis. Some projects try to address governance issues by restructuring the organization with fewer layers. However, removing layers means that each manager's span of control increases. At one project, 50 people attended the steering committee meeting, making it difficult to reach decisions. Another company engaged in a project reduced the number of organization layers in an effort to ensure swift decision making in the field. Instead, the managers became bottlenecks in the process, as each ended up needing to make more decisions than he or she had the capacity to consider promptly. Ultimately, the program reverted to an organization structure based on business units.

Turnaround Plans Fail to Make a Difference

Rather than address the root causes of project issues, some projects rely on a turnaround plan to get back on track. Often, such plans simply divide the outstanding tasks across the remaining days in the schedule and instruct frontline teams to, in effect, "do this in one day so we can catch up." One company revised its project's master schedule more than ten times over the course of a year. Even so, as the project reached the end of its timeline, managers had to allocate the work across the remaining days. The frontline teams were unable to make up time, and the management team failed to deliver the project on schedule.

Among the reasons that turnaround plans fail is the difficulty in accurately assessing the resources required to catch up to the schedule. To judge the resource requirements, managers must calmly and objectively look at both the remaining tasks and the frontline's capability level. One company whose project was reaching the end of its timeline found that it had no experience performing the remaining tasks on the schedule. Data was available to support decisions about the resources required to adhere to the schedule, but managers doubted the data's accuracy. As a result, they struggled to estimate the requirements for man-hours, time, and cost. The resources they brought to bear fell short of what was required.

Thinking Differently About Project Management

Applying more muscle to oversight and implementing quick fixes to get back on schedule are not effective approaches to large, complex projects. In BCG's experience, success requires a different way of thinking about project management, a way that helps build a culture that encourages early and fearless communication of bad news.

Break the Organizational Boundaries

An effective organization structure achieves the optimal balance between layers and spans of control. To strike this balance, give leaders in each area the authority to initiate cross-functional coordination and establish a command team with oversight of problem areas. Additionally, set up a board responsible for gaining clarity with respect to tradeoffs. Establish a system that requires all responsible parties, including top managers, to make objective decisions on the basis of a clear understanding of the tradeoffs. Define roles and responsibilities for each position, identify the skill requirements, and secure suitable talent, including hiring external talent as necessary.

Emphasize Forward-Looking Reports to Create Transparency

To gain more transparency about future tradeoffs, shift the emphasis from backward-looking to forward-looking reports. Request fewer details from managers about what has already happened. Ask managers to devote their time instead to summarizing the sequence of work required to complete the project and to forecasting their team's performance with respect to future milestones (for example, the

extent to which they will exceed, meet, or fall behind the schedule). Use the information to assess the remaining man-hours and identify any issues that could impede progress. Monitor KPIs to continually track progress in each area. It is also valuable to establish a war room in which decision makers can gather to rapidly respond to issues as they arise.

Apply the Right Expertise and Resources

Make sure that the right expertise is available to act on the insights gained by greater transparency. Most large-capex projects have insufficient program management expertise on the internal team and too few experts to address problems rapidly. Experience with innovative problem-solving techniques is essential for reacting to accidents and unexpected events that cannot be approached as routine problems. Programs that involve a new technology, a new partner, or a new supplier are certain to require an above-average level of resources. If a major issue occurs, immediately bring to bear significant resources to address it. A piecemeal approach to tackling the problem is likely to fail.

Embrace Bad News and Make the Tough Decisions

Support effective governance by instilling a culture that encourages the frontline to quickly share, rather than conceal, bad news. A key element of such a culture is a willingness among top managers to embrace bad news as an essential input to decision making. Indeed, instead of "blaming the messenger," managers should thank employees who report bad news and reward them for their efforts to promote transparency. The nature of the reward might be something as simple as acknowledgment in a group setting. At one company, in a meeting of both frontline personnel and managers, we witnessed the director of a large-capex program praise the courage of a frontline team member who had delivered bad news by calling for a round of applause.

Moreover, the culture should encourage managers to make tough decisions—including calling for a suspension of work—in response to bad news or inadequate information. For example, if design and engineering requirements have not been firmly established, managers should be willing to suspend procurement or manufacturing efforts until the prerequisites are in place. Without clarity on tradeoffs, resources are better spent assessing the current situation than continuing work. Managers only intensify a project's problems if they continually pour resources into the work before ensuring that the prerequisites are established.

Managing a large-capex project is entirely different from managing everyday business operations. These projects require the simultaneous and rapid deployment of a much greater number of resources and capabilities, and they make it much more challenging to coordinate functions and gain transparency into issues. Moreover, internal expertise is rarely sufficient to address the challenges.

To successfully run large projects, managers must understand their limitations and the consequences of inadequate oversight. The wrong decisions could waste enormous resources, potentially millions of dollars a day. In the planning stage, companies should carefully design a program structure that promotes well-informed decision making. If a program has already started, managers should understand the issues they are experiencing and immediately start taking all possible actions to address them. "Tell me the bad news first" should be the motto that guides the efforts of every project manager.

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