

The **EPPM** Board

Project Portfolio Management: top line growth, bottom line transformation

INVESTING IN THE UNKNOWN?

Five key challenges facing
global project delivery

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FOREWORD

Few organisations can resist the temptations offered by globalisation, and the growth opportunities in emerging markets continue to whet the appetites of many a corporate board. However, the reality is that most organisations are simply not structured to deliver the agility and adaptability demanded by globalised operations. By favouring a central HQ with independent ancillary bodies, large multinationals often find that their international presence does not readily translate into global perspectives or collaboration.

Hand-in-hand with this need for new market relationships is the drive for simplification. Excessive rules and bureaucracy, often introduced in the name of good risk management, are at odds with the dynamism and responsiveness demanded in today's interconnected business landscape. Risk must of course be managed, and globalisation has introduced an even broader array of risks to contend with – alongside a corresponding influx of data. If it cannot be coherently structured, risk will immobilise an organisation and lead to the biggest risk of all – putting them out of business.

A further challenge is the need to form and manage more sustainable supplier/partner relationships, as companies seek a more diverse range of capabilities to flourish on the world stage. This external evolution maps closely to internal developments, in particular the growth of specialist functions needed to cope with the growing complexity of international projects. For executives, this is a clear pointer to their future role, as integrators capable of synthesising a commercial offering from these divergent skill sets.

In the decade ahead, the nature of projects will be more intensely shaped by transformative forces – including economic, geopolitical, cultural and technological. Five of the biggest issues these generate are considered in this paper. As ever, no universal solution will emerge, and much depends upon the path chosen by the executive board – and the quality of information available. IT has a critical role to play, being both a key enabler of globalisation and the critical interface supporting interoperability between trading entities.

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GLOBAL CHALLENGE 1: A SHIFTING RISK PROFILE

In the last twelve months alone, the global risk landscape has shifted considerably, creating tensions and uncertainties that continue to exert a ripple effect on world markets. Individual risks can range from the macroeconomic hazards of inflation, interest rate and exchange rate fluctuations, to the continued threat of piracy on supply chains and protests against social inequality – and their causal relationships can be difficult to determine.

With globalised scale comes complexity as organisations attempt to navigate a demanding commercial, regulatory and governance environment that promises to test their risk management capabilities to the full. At the same time, the margin for error has become increasingly narrow, particularly on large projects that can be severely impacted by any unforeseen schedule delays or budgetary recalibrations.

Evolving global risks can be divided into two broad categories:

Steady shifts – changes to the international landscape across a broad spectrum of issues, including:

- The growing influence of rapid growth countries such as China, India and Brazil
- Economic risks ranging from major systemic failure of financial systems to price volatility

- Global governance failure brought about by weak institutions, agreements or networks
- Societal risks ranging from food and water shortages to rising labour action
- The geopolitical challenge of pervasive, entrenched corruption

Sudden shocks – rapid and unexpected changes to the global environment, including:

- The impact of military intervention by one nation state against another, for example a massive spike in oil prices
- Economic instability, such as with the Eurozone, that could quickly plunge the world back into financial crisis
- Acts of international terrorism
- Environmental disasters, ranging from extreme weather to geomagnetic storms
- Technology risks, including cyber attacks and critical systems failure

In response, risk profiles are changing as global operations, supply chains and transport networks become increasingly interconnected and interdependent. This expands the strategic nature of these risks, propelling them to the level of executive concern. Correspondingly, risk assessment procedures must also widen in scope to incorporate risks above the remit of project delivery teams that demand board level visibility.

This is of course on top of the standard risk assessment. Many organisations still have difficulty identifying or even ranking all potential risks prior to executing their strategic plans, especially when entering a new market. The emphasis today therefore is on 'proactive response', which is heavily linked to overall risk visibility. By raising the level of risk intelligence to the Board, organisations can maintain a keen eye on their total financial exposure and balance risk across the wider portfolio. Contingency budgets can also be consolidated and placed under executive control, with the organisation's full resources available to support mitigation strategies.

As risks become more strategic they tend to be characterised by greater levels of uncertainty, alongside a similar increase in their potential to impact on capital costs. This highlights the importance of a unified risk framework for helping identify individual risk categories, for example scope risks – but this is not enough on its own. Organisations also need the capability to perform scenario development to accurately model specific risks and calculate cost impacts. The results can then be used to quantify the level needed for an effective financial risk reserve.

Scaling scenario planning to the level of globalised operations is vital for gaining a truer picture of external factors, and for preparing adequate contingency plans. Ultimately, it's about asking the question; "what is an acceptable consequence?" With a better understanding of the investment environment and the actual risks faced by each project, whether steady shifts or sudden shocks, the board can then adjust their investment decisions to match their institution's level of risk tolerance.

BEST PRACTICE SNAPSHOT – RISK

- Widen the risk assessment scope to accommodate the global risk landscape
- Combine strategic risk intelligence when calculating total risk exposure
- Consolidate contingency budgets across the portfolio – under executive control
- Ensure scenario planning scales to assimilate all external factors

GLOBAL CHALLENGE 2: REGULATORY OBSTACLES

Multinational companies may have global aspirations, but trade policy remains a local affair. As geographical footprints are diversified, companies are forced to deal with an ever growing burden of bureaucratic and regulatory obligations. As a growing number of companies have already discovered, fast-changing local policies can have a dramatic impact on the profitability of cross-border investments. According to Ernst & Young's 2011-12 Tax Risk and Controversy survey, 78% of the world's largest companies claim they are already experiencing greater uncertainty around legislation – a figure that increases for those in rapid-growth markets.

It's not all bad news. Globalisation and international trade liberalisation initiatives have facilitated rapid growth in the value and volume of goods moving across borders. The conclusion of various rounds of multilateral trade negotiations and the implementation of preferential trade arrangements such as customs unions and free trade areas have also helped reduce tariff barriers. However, products and services not only face duties and taxes when they move across borders. They are also subject to other regulatory controls administered by national and state customs which combined form a patchwork quilt of rules that any globalisation strategy has to navigate.

Added to this is the incomplete state of international trade conventions. Not all nations belong to bodies such as the World Trade Organisation (WTO), Transports Internationaux Routiers (TIR); or a

trading block set up to smooth import and export procedures such as the Eurozone, North American Free Trade Agreement (NAFTA), or Mercosur. Instead, many maintain cumbersome, unstable tariffs and import-export procedures which can have a significant impact on project feasibility. Not only do these procedures impact capital and operational expenditures – they are also difficult to anticipate during the term of the project lifecycle.

EXAMPLES OF NATIONAL TRADE REGULATIONS INCLUDE:

- **China** – which has resorted to market-restricting measures on industrial raw materials such as export duties and quotas, with their decrease in rare earth exports already resulting in significant market shortages and steep price increases.
- **Brazil** – where access for foreign companies to the growing procurement market, already limited, is becoming even more difficult – a recent law introduced a 25% preference margin for local goods and services and restricted the procurement of items considered of strategic interest to national suppliers.
- **Russia** – which has recently introduced a number of protectionist policies, perpetuated through the consolidation of temporary tariff increases in the form of the Common External Tariff of Customs Union with Kazakhstan and Belarus, which entered into force in 2010¹.

Some obstacles are simply due to domestic anomalies in regulatory approach. These are perfectly legitimate, and simply reflect historical developments. However, in many cases, the differences such as double testing requirements and excessive documentation are used in a more systematic way with a view to favouring or protecting domestic production. Technical regulations and standards-related barriers also figure prominently on the list of market access concerns. Such barriers can have an important economic impact since, at the very least, they require the adjustment of products and production facilities to comply with differing requirements.

All of this contributes to the expense of trading across borders, particularly when cumbersome procedures and requirements or corruption and weak administrative capacity lead to unscheduled delays. Managing these risks and ensuring that obligations are met requires companies to have a blend of local, on-the-ground knowledge – often gained through outsourcing arrangements – and the ability to co-ordinate at a global level.

By adopting a global platform for managing the portfolio, regulatory barriers can be treated as another activity – and managed accordingly. What's important in regaining control of the activity is to break it down into its sub-components,

and to maintain visibility into the progress surrounding each step. The platform has to allow organisations to configure their workflows and scheduling to accommodate the specific, often complex, requirements and timelines surrounding particular regulatory processes, in order to minimise their impact on the overall timeline of the project or portfolio.

BEST PRACTICE SNAPSHOT – GLOBAL REGULATION

- Co-ordinate activities at a global level to enhance future planning cycles
- Manage regulatory obligations as distinct sub-components in the project lifecycle
- Maintain up-to-date visibility into the progress surrounding each step
- Configure workflows to accommodate the demands of specific regulations

GLOBAL CHALLENGE 3: CULTURAL DIFFERENCES

As John Tomlinson² author of *Globalisation and Culture* states: “cultural practices lie at the heart of globalisation”. This is inevitable given the increasingly multinational makeup of companies, with employees working in different time zones, languages and locations. Many organisations are still learning the best way to foster a multi-cultural team dynamic, and in effect are running ad hoc experiments in cross-cultural collaboration, without really considering the complexities in any systematic way.

The problem facing organisations is that culture can't simply be 'bolted on' to operational strategy. Instead, many are finding that it is an increasingly difficult proposition to globalise business operations and labour resources that are separated by thousands of miles, international time zones, as well as cultural and religious differences. This is the seed for cultural friction, which can manifest itself throughout the course of a project due to differences in 'professional cultures', as well as differences between locally institutionalised norms and internationally accepted standards.

Many commentators, particularly those living in the West, see globalisation as the triumph of the Anglo-Saxon business model of shareholder capitalism. This is an approach typified by a fixation on analysis and detail. Western managers typically adopt 'precision methods' and look for local optimums at the expense of global synthesis. The focus is often on short term solutions, not

long term objectives, with management closely connected to prescribed rules and laws.

In contrast, South East Asian project environments are based on consensus-building and cooperative decision-making approaches. Unlike Western methods, which focus on the performance of the individual in a matrix environment, Asian behaviours are more determined by power distribution, and reward systems based on age, rank, status, and seniority. In addition, personal associations and longstanding business relationships tend to override the consideration and application of externally applied methodologies.

Further, it has been said that 'Culture is Communication',³ with cultural differences frequently expressed through inconsistent methods of exchange. Communication, and a common understanding of project deliverables, is either a key reason for success or a key reason for failure across the portfolio – and both are closely related to cultural influences. In part, this is a challenge of spatial distance on the one hand and information, data and personal communication on the other.

The challenge for leaders is therefore to build and maintain a framework that accommodates different cultural values, beliefs and communication styles in order to develop high-performing cross-cultural teams. A valuable competence is the ability to facilitate the sharing of locally learned skills to

other areas of the world. This is the globalisation of best practice in which exceptions and rules constantly modify existing principles. It is also the reversal of the old strategy of 'think global, act local' towards 'think local, and then act global', where activities are decentralised but related information is centralised.

To drive this change the organisation itself needs to develop a new dimension to portfolio management, with systems and processes morphed and refined to ensure they are continually eliciting and accommodating best practice. An infrastructure that overcomes the issue of individual versus community, helping teams maintain their diversity, while at the same time achieving a unity of purpose. It also creates the potential for producing solutions that benefit from disparate viewpoints, novel inputs and quality, and in turn leads to a more engaged and productive workforce.

BEST PRACTICE SNAPSHOT – CULTURE

- Continually identify and collect local best practice for global dissemination
- Ensure IT is set up to facilitate consistent communication exchange
- Use local insights to refine the workflows and schedules for individual projects
- Support decentralised projects with a centralised pool of intelligence

²Tomlinson, J. 1999. Globalisation and Culture, University of Chicago Press

³Hall, E.T. and Hall, M.R. 1990, Understanding Cultural Differences. Intercultural Press: Yarmouth

GLOBAL CHALLENGE 4: RESOURCE CONSTRAINTS

From developing project management talent in Angola to identifying freight carrying capacity in Lahore, globalisation has presented organisations with a series of formidable resourcing challenges. It is an ongoing struggle for companies despite significant progress in the internationalising of their operations. However, where the problem is more acute, and where globalisation is a more recent and sudden phenomenon, is in rapid-growth markets. Human Resource strategies for companies in these regions in particular often lag behind their widening operations.

Building and executing an international talent framework is testing even the biggest players. In a recent Ernst & Young survey⁴, respondents identified talent management as the second most challenging function to manage globally. The dilemma of matching skilled professionals with available positions is not helped by the competition for local talent brought about by globalisation. The result is a skills shortage, typically of experienced managers in key functions that force companies to rely on expatriates, or to offer extensive educational programmes to ensure a fully trained workforce.

Once work begins on foreign soil, organisations can quickly encounter numerous but less obvious resourcing challenges. These can range from insufficient transport equipment to shortfalls in storage facilities and power availability. In these instances, it is becoming increasingly common for organisations to build the necessary infrastructure

around them – and to pay for them. Poor supply chains and underdeveloped infrastructure are huge obstacles to large projects. Companies attempting to execute projects in developing countries first have to think about building the roads, ports, railways, water supply, and transmission lines needed to make their investments operational. Failure to manage these risks quickly results in capital expenditure creep and time delays – and ultimately a higher project cost and a lower return on investment.

The resourcing conundrum is also a breeding ground for hidden costs. For example, when companies source materials from a supplier, they run the risk of taking on inherited duty costs, which can then become embedded in the overall cost to the company. However, the ability to select preferred suppliers is not always an option; developing countries often have few viable suppliers to offer, and commercial terms achieved in tenders may be less attractive than in markets with more competition.

What this all adds up to is an increased demand for effective planning processes, allied to dynamic resource management capabilities. The key for executives is to maintain a rational approach to project selection. In his book *Megaprojects and Risk*, Professor Bent Flyvbjerg⁵ concludes that cost overruns for multibillion-dollar infrastructure projects are due primarily to the fact that the project was underestimated to begin with – the dangers of ‘appraisal optimism’.

All the tools exist to enhance investment decisions, including financial modelling, environmental impact studies, market reports and ROI projections. The trick is to review this intelligence from a consolidated, global view. This is where technology is an invaluable enabler, with solutions such as Enterprise Project and Portfolio Management (EPPM) providing a framework for adopting this view, and for balancing the risks of individual projects across the portfolio. It is also a platform for mitigating resourcing risks by providing insight into organisational gaps and the best approach to filling them through pre-emptive partner/supplier engagement.

BEST PRACTICE SNAPSHOT – RESOURCE

- Adopt a global view of resource capability, location and availability
- Maintain a portfolio-wide skills framework to identify gaps versus demand
- Feed resource availability into the planning process
- Mitigate resource risks through pre-emptive supplier/partner engagement

⁴ The World is Bumpy – Globalisation and New Strategies for Growth, Ernst & Young, 2012

⁵ Megaprojects and Risk: An Anatomy of Ambition, Flyvbjerg, Bruzelius & Rothengatter, Cambridge University Press, 2003

GLOBAL CHALLENGE 5: PROBLEM FLEXIBILITY

Maintaining visibility across operations is another unique challenge of globalisation. Nowhere is this more pronounced than with value chains that form the backbone of international project delivery. While improvements to these systems have generally increased efficiency, their growing interdependence means that the cascading consequences of major systemic disruptions can be unpredictable and difficult to manage.

Organisations are constantly assessing their capability to respond quickly to unexpected disruptions. It is not an easy task – the interconnected nature of global supply chain and transport networks means project delivery is often reliant on thousands of independent suppliers and sub-contractors located in many countries. Therefore, risk information is primarily generated at the local level, which limits any one organisation's ability to fully address vulnerabilities on its own. These networks continue to evolve, creating the urgent need to address the existing state of operational visibility to support both long- and short-term strategic decision-making.

It is partly a challenge of cause and effect – large projects in difficult locations are prone to cost overruns. At the same time, in industries such as Oil and Gas, exploration has moved into more remote and hostile locations, requiring larger CAPEX budgets to deal with the logistics and economies of scale.

Localised intelligence also extends to political and diplomatic activities. The decision-making mechanisms of host governments are often unclear and can quickly lead to debilitating schedule delays. This helps explain why pure shareholder value creation is falling out of favour. In its place is a recognition that companies need to take into account the needs of a broader range of stakeholders. Nowhere is this more apparent than in rapid growth markets. Companies that invest in these economies must take into account the needs of a wide range of influential bodies, including government, local communities and the partners with whom they work.

A critical value is responsiveness, and the ability to maintain 'problem flexibility'. Visibility is the vital ingredient, as are the appropriate systems and processes needed to drive the two-way flow of information from the point of local project execution to the executive board. Importantly, this information needs to pass through a filter that allows executives to select the type and frequency of data required for review, to elevate any challenges to higher levels of abstraction, and to zoom in on any critical obstacles.

BEST PRACTICE SNAPSHOT – TRANSPARENCY

- Extend the planning phase to incorporate infrastructure assessment
- Map resource scheduling to accommodate regional transport networks
- Build robust contingency plans for value chain disruption
- Manage the flow of data to executives to support 'problem flexibility'



CONCLUSION

Globalisation has been instrumental in inhibiting predictability on large capital projects, which presents a serious challenge to decision making and operational control. The result has been a significant growth in the extent of associated risk. Scanning these risks reveals a common theme – they all require oversight at an organisational level above the delivery apparatus. When this elevated visibility is absent, strategic risks are frequently underestimated as their calculation is left to project teams and limited to the types of risk these individuals are permitted and able to control. In these instances governance models typically fail because they are not structured to encourage the disclosure of strategic risks.

At the same time, globalisation marches inexorably forward, as evidenced by its leading indicator – Foreign Direct Investment (FDI). In 2011, global FDI inflows increased 16%, surpassing the 2005–2007 pre-crisis level for the first time, despite ongoing economic turbulence. For developing countries, these flows reached \$748 billion – a rise of 21% over 2010. The attractiveness of these markets is well catalogued, offering low-cost labour and abundant raw materials, and it will come as no surprise to see them continuing to attract a larger share of capital expenditure projects.

Globalisation is a much more complex process than it seemed when the term was first coined more than a decade ago. Despite this, the interactions between customer and supplier, or between contractor and sub-contractor, now routinely occur on a global scale. The pressures this creates are best addressed at the executive level, supported by a centralised, decision-making platform that connects individual projects and long term portfolio strategy. As a result, EPPM technologies that enable a more integrated, top-down approach to managing projects and resources are becoming critical components in many corporate strategies.



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