NAC **Executive Insights**

Owner Readiness

Key Points

- Owner readiness is a primary contributor to the success of large complex programs.
- Owner readiness is separate and distinct from project readiness.
- Owner readiness with respect to an individual program and associated decision frameworks and processes begins with clearly articulated Strategic Business Objectives (SBOs) supported by a reinforcing strategy.
- Program objectives and criteria must be reflected in the program's scope and the embedded assumptions transparent and tracked. Articulation and integration of owner's philosophies across a wide range of areas is essential.
- Program planning and execution approach begins with completeness of baseline documents pre-sanction.

Introduction

Major projects often succeed or fail based on the readiness of the owner's organization to undertake those projects. In engaging with owners, it is clear there are certain elements of readiness which must be in place in order to promote project success. This Executive Insight looks at some of these elements and suggests that formal evaluation and scoring by owners may prove to be a useful tool to assess their progress in moving toward project execution.

The considerations described in this Executive Insight are separate and distinct from an assessment of the readiness of the project itself. This project development readiness assessment should be similarly conducted utilizing tools such as the Construction Industry Institute (CII) Project Development Readiness Index (PDRI). Owner's readiness described in this paper is designed to look more specifically at issues within the owner's organization, its processes, and the level of shared understanding.

Owner's readiness described in this paper is structured to consider major questions in the following areas:

- Owner readiness with respect to an individual program and associated decision frameworks and processes
- Program objectives and criteria
- Program planning and execution approach

We will look at each of these aspects in turn.

Owner Readiness with Respect to Program and Associated Frameworks

The number one source of program underperformance, particularly at the earliest stages, is the owner's failure to articulate and clearly communicate the strategic business objectives for the program. Several dimensions to this shortcoming include:

- Poorly defined or articulated vision, mission, and top-level objectives, and importantly, associated metrics of the owner's organization. As fundamental as it may seem, the assumption that "everyone knows" is just that, an assumption.
- Strategic Business Objectives of the program must be clearly spelled out and importantly mapped to the owner's top-level objectives. This mapping is paramount since it establishes a program's relevancy and importance in the owner's organization. Sometimes these SBOs may be referred to as program or project business objectives. Experience has shown that even clearly articulating these SBOs is not enough; they also must be continuously communicated.
- SBO Key Performance Indicators (KPIs) must be established and linked clearly and tightly to the owner's top-level objectives. This notion of cascading objectives is essential to program success. Owner organizations that have not clearly thought this through run the risk of competing, or even worse, contradictory objectives.

If clearly defined SBOs and clear and continuous communication are the first element of owner's readiness, then a well thought out, supported, and tracked strategy is second. The owner's strategy for program implementation must demonstrate strong linkage to SBOs and be directly focused on their achievement.

Strategy must be supported by transparent and substantiated top-level business assumptions. In organizations not sufficiently ready to undertake a major project, it is not unusual to see a lack of a shared understanding of the program's context. Specific assumptions and context defining factors that the owner's organization must be cognizant and comfortable with include those with respect to:

- Program demand related forecasts
- Factors related to program revenues
- Owner's financial condition
- Resources available to the program
- Competing programs and associated resource requirements and timing
- Assumed changes to law, regulation, or policy impacting owner and program and anticipated timing
- External environment
- Operating strategy and required life-cycle performance
- Owner's risk posture and philosophy

Large programs must do more than just be aware of the assumptions made in strategy development. They must track them throughout the program life cycle. One of the greatest challenges large, long duration programs face is "assumption migration." The owner's awareness of the assumptions made and the organization's focus on tracking their migration and, importantly, understanding the implications of their trajectories are essential elements of owner readiness.

Execution frameworks greatly impact program success. As part of readiness activities, the owner's organization must have a secure handle on several execution processes that include but are not limited to:

- Business model, scenarios, and relationship to program.

- Prerequisites for owner's executive approvals and linkage to a formal stage gate process, including clarity and comprehensiveness of stage gate requirements and processes; stage gate approvals, authorities granted, resource commitments and constraints; and an approvals matrix.
- Prerequisites for external approvals.
- External approval requirements, timing, and likelihood.
- External prerequisites linked to stage gates including regulatory approvals required, process clarity, and timing, including safety case requirements; and process for property acquisition.

Risk and opportunity identification, assessment, and management are key dimensions of an owner's readiness to undertake a major program. Owners must have identified major risks to the owner's business model as well as to program strategy and risk mitigation strategies. Importantly, the owner must have in place the ability to conduct this risk and opportunity identification, assessment, and management throughout the entire program period. Readiness is not just about an initial upfront system but rather must also include a systematic approach to maintain these assessments current and refresh them when circumstances change for program resilience. While there will be a natural tendency to focus on risks, well prepared owners are similarly focused on opportunity analysis.

The owner's organization and its acceptance of the roles in large program execution are key elements of program success The owner organization's capability and readiness to support the program and the various interfaces and delegated authorities with respect to the owner's program implementation organization are key to the readiness review. The owner's organization must have a clearly defined capability to provide oversight of program implementation by the owner's program organization. This is typically represented by a PMO (Project Management Office) for large projects or programs, but in any instance the owner must have an ability to assess their own program team's performance to ensure they are enabling the contractors engaged to implement the program are not duplicating efforts (man marking is a classic behavior) or erecting barriers to success (tendency to play "got cha").

The owner's organization must also demonstrate readiness to:

- Implement the stage gate process, consistent with the owner's own requirements and consistent with a program's demands. Approval time frames, gate expectations, and nature of obtained approvals at each gate must tie clearly into program execution strategies.
- Support management of demand for capital.
- Drive capital efficiency in projects as they advance through the stage gate process. Among various elements of owner readiness to be considered would be the early focus on construction realities, constraints, and opportunities that may be found in appropriate means and methods selection.
- Enhance project execution by providing a disciplined project development framework.
- Provide effective evaluation of alternatives, including consideration of life-cycle cost and performance evaluations. Significant life-cycle performance benefits can accrue from incorporation of operations & maintenance (O&M) considerations in the earliest stages of a program. Many programs suffer from later stage changes because of lack of an early focus in this regard.
- Influence acceptable risk frameworks commensurate with investments being undertaken and the risks program will face.
- Provide independent validation and verification.

Finally, owner readiness with respect to an individual program and associated decision frameworks must ensure that the:

- Capability of owner's technology platforms to support the program are established and functioning at a level consistent with the program's needs.
- Physical and cyber security requirements of owner and external organizations with requisite authorities are consistent with the program's risk profile and the sensitivity of data and communications involved.
- Required reports by owner on program progress can be efficiently provided to external stakeholders and that there is a plan to do so.
- Internal audit structure and controls are in place and associated budgeting and staffing requirements are recognized.
- Inspector general (IG) role, authorities, and resources are clearly defined with respect to program role and a plan exists to mobilize these resources in support of the program.

Program Objectives and Criteria

The second set of questions which must be addressed as part of assessing the readiness of the owner's organization to undertake a major program focus around program objectives and criteria. The SBOs, discussed earlier, must clearly map to program outcomes and Key Result Areas (KRAs). Project

Execution Plans (PEPs) must support top level strategy with cascading KPIs linked to program outcomes[1].

The program and its scope must be well defined with final and intermediate deliverables clearly delineated. These include the full range of stage gates (Stage Gate 0; Stage Gate 1 (Front End Loading or FEL 1); Stage Gate 2 (FEL 2); Stage Gate 3 (FEL 3)) as well as engineer-procure-construct (EPC) startup and commissioning, and O&M.

Additionally, the scope of supply and services, including associated responsibilities and accountabilities (RACI); program assumptions, uncertainties, tracking, and modification; applicable codes, standards and regulations; and design and operating margins, must all be clearly spelled out in detail.

One area of readiness often overlooked is the owner philosophies that influence how an owner shapes the program and the approach to execution and how overall program success is judged. Much like SBOs, the assumption that there is shared understanding, a common vocabulary, or agreement may be a leap of faith, which will result in less than optimal performance as the program advances. This articulation and integration of owner's philosophies must encompass a wide range of areas including:

- Asset flexibility, availability, reliability, and resiliency
- Environmental, health, safety, and sustainability
- Life-cycle performance characteristics
- Design
- Procurement
- Construction

[1] Key Result Area (KRA) can be described as the essential areas that requires excellent performance to obtain the favorable result. KRAs are qualitative. On the other hand, Key Performance Indicator (KPI) is a quantitative performance metric, used to ascertain how effectively the firm or project is performing.

- Operations
- Maintenance
- Renewal and end of life
- Stakeholder engagement and support of stakeholder objectives
- Risk management, retention, and transfer

Time and money encompass the final two areas to be considered when assessing owner readiness as it relates to program objectives and criteria. Program phasing and schedule, even at this early stage, must consider:

- Phasing and scheduling assumptions and precedence
- Constraint coupling
- Minimum operable segments and intermediate milestones
- Beneficial usage and substantial completion
- Final completion
- Schedule related risks and provisions and contingencies

The program's financial model and cost estimate must address model uncertainties and scenarios to be considered; quantitative uncertainties; risk frequency; and associated risk model. Risk assessment and management efforts should consider risk-linked consequences; "fat tail" risks; risk management strategies to be employed; and, importantly, retained risks.

Program Planning and Execution Approach

The third set of questions to be addressed as part of assessing the readiness of the owner's organization to undertake a major program focus around program planning and the execution approach.

The assessment of this third area must begin with the completeness of baseline documents pre-sanction. Specific baseline documents at this stage include scope, schedule, budget; a risk register prepared from the owner's perspective; an initial HSES (Health, Safety, Environmental, and Security) plan and associated procedures including the safety case and major hazards review; quality plan; and stakeholder management plan.

Some programs may require additional readiness elements, such as a startup and commissioning plan; O&M plan; and procurement plan. Where procurement is a critical element of program success, it may be necessary for this early stage procurement plan to address items such as long-lead equipment and materials; fabrication plan; vendor prequalification; procurement process, selection, and negotiation; contract standard terms and conditions; quality control and inspection; logistics plan; and requirements related to acceptance and warranty.

All programs must have a well-developed financial management plan linked clearly to the program scope and schedule. Any financial constraints, for example cash flow constraints, need to be clearly identified and factored into program execution.

Management plans and procedures should be in place to ensure the program gets off on the right foot. These plans required for adequate owner readiness typically include:

- Program management plan and procedures
- Design and interface management

- Supply chain management
- Construction management

Finally, plans and execution approaches must be enabled by appropriate organizational elements, carefully aligned and staffed with individuals with the commensurate competencies to achieve the strategic business objectives of the program. Considerations would include the actual program organization as well as the owner's program management oversight organization (PMO). Organizational plans should support required owner approvals and associated processes.

Required owner competencies should be defined, including the required level and timing (phasing) for requisite skill engagement. Where relevant, owner staff training, recruitment, and human resource organizations should be considered.

References

1. Owner's Readiness Index; PM World Journal; Vol. III, Issue 1 – January 2014

About the Author

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