

Project Management Institute (PMI)



Submission to the Productivity Commission Issues Paper
on Major Project Development Processes

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Project Management Institute

Submission to the Productivity Commission

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1. Executive Summary

The Productivity Commission has been asked to undertake an inquiry into major project development assessment and approvals (DAA) processes in Australia following the Business Council of Australia (BCA) identifying that inefficient and duplicative regulatory arrangements create unnecessary costs on businesses and consumers, and also government. Strong program management professionals are essential to effective management of DAA processes and stewardship of taxpayer funds, ensuring from beginning to end that disparate stakeholders are aligned, tensions between on-time delivery and market functionality are managed, and issues are escalated before they become roadblocks. However, challenges with program management are pervasive across all levels of government and can result in inefficiencies that can affect project budgets and timelines.

This report addresses some of the questions posed in the Productivity Commission's issues paper, including:

- The Commission's approach to benchmarking major project DAA processes, such as:
 - Relevant criteria for benchmarking evaluation;
 - International jurisdictions against which to benchmark; and
 - Information sources to consider.
- Key features of major project DAA processes, such as:
 - Features of preliminary approval processes;
 - Issues around predictability and delays in assessment processes and measures to address them;
 - The place for strategic planning; and
 - Improving openness and transparency, and therefore monitoring and effectiveness.
- Possible measures to improve the efficiency and effectiveness of processes, such as:
 - Ways to reduce duplication.

Project and program failure can have serious consequences. Studies by the Project Management Institute (PMI) have found that organisations risk on average \$140 million for every \$1 billion spent across the globe. However, research also shows that high-performing organisations that implement proven success measures mitigate risk by improving their project and program outcomes; 90 percent of their projects are meeting original goals and business intent (compared to 36% success rate for

low performing organisations), and they risk 14 times less than their low-performing counterparts, creating a significant value for investors in both the private and public sectors.

When organisations continually improve the execution of their projects and programs, they drive success. But when executives undervalue the benefit of effective project, program and portfolio management— that is, strategic initiative management—they put real money, and their futures, at risk.

In this complex environment, aligning with overall organisational strategy and understanding what it takes to become a high performer – completing 80 percent or more of projects on time, on budget and within goals – has the potential to improve an organisation's outcomes. PMI has found that organisations looking to become high performers are significantly more likely to focus on three key factors:

1. **Talent management.** High-performing organisations provide consistent, continuous training and development for project managers to enhance organisational success. They are significantly more likely than low performers to provide a defined career path for project managers, a process to develop project management competency and training on the use of project management tools and techniques.
2. **Standardisation.** Standardisation leads to an efficient use of resources, which allows more time and resources to focus on leading, innovating and delivering products and services— and ultimately leads to a competitive advantage. High performing organisations are almost three times more likely than low-performing organisations (36 percent vs. 13 percent) to use standardised practices throughout the organisation, and have better project outcomes as a result.
3. **Strategic Alignment.** High-performing organisations are at least four times more likely than low-performing organisations to have achieved maturity in their project management practices. PMI's research clearly shows that more mature project, program and portfolio management practices lead to better project performance. Organisations with successful project management practices, integrated benefits realisation processes, and aligned portfolio management capabilities along with high organisational agility all have significantly better project outcomes than their counterparts who are less advanced.

A government-wide approach to project management could develop the leadership skills and talent to properly assess, approve and deliver complex portfolio of costly projects, which will in turn shape the standardisation and strategic alignment necessary to improving efficiency of regulatory arrangements around DAA processes. PMI suggests that this would be achieved most effectively under the auspices of a Central Project Management Office (CPMO) and a network of Project Management Offices operating under agreed standards.

2. Introduction

2.1 About PMI

Project Management Institute (PMI) is the world's largest project management membership association, with more than 650,000 active members and credential holders in 187 countries. We were founded in 1969 as a not-for-profit organisation and our headquarters is in Newtown Square, Pennsylvania USA. PMI seeks to advance the project management profession through globally recognised standards and certifications, collaborative communities, an extensive research program, and professional development opportunities. PMI also supports 259 local chapters including six chapters in Australia: Melbourne, Canberra, Adelaide, Queensland, Sydney and Western Australia. There are more than 14,000 PMI members and credential holders in Australia alone.

PMI's products and services range from world-class standards for project, program and portfolio management to six professional credentials, including their globally accepted Project Management Professional (PMP®). The PMP recognises demonstrated knowledge and skill in project management, and holders of the PMP credential are respected around the world. Governments have utilised it on an international basis to drive efficiencies within their organisations.

PMI is also a global leader in project management research. Since 1997, over \$18 million has been invested in research working with universities across North America, Europe, Africa, and Australia. PMI's research informs the practice of project management and its real-world application.

PMI also helps organisations around the world to share project management best practice through its Global Executive Council, which engages a community of multinational businesses and government organisations in endorsing the value of project management. This counts amongst its members Rio Tinto, Hewlett-Packard, KPMG International, IBM Global Business, Microsoft and Price Waterhouse Coopers. The US Department of Energy and NASA are also members.

PMI's guiding principles are enshrined in PMI's *A Guide to the Project Management Body of Knowledge (PMBOK® Guide)*. The *PMBOK® Guide* is a project management standard used by leading organisations and governments across the globe, and typifies an effective approach to advancing the practice, science and profession of project management. It is currently in its fifth edition and, including previous editions and official translations, there are nearly four million copies in circulation.

2.2 About the inquiry

The Australian Government has requested that the Productivity Commission undertake a study to benchmark Australia's major project development assessment and approvals (DAA) processes against international best practice in order to make recommendations to improve Australia's DAA processes. The Commission has been asked to consider the extent to which development assessment processes across all levels of government affect the costs incurred by business, deliver good regulatory outcomes for the public and provide appropriate transparency and certainty to facilitate business investment. Terms of Reference for study were released in December 2012.

Specifically, the Commission has been asked to:

1. examine the regulatory objectives and key features of Australia's major project development assessment processes at all levels of government, including the interactions between levels of government, the role of facilitation, the capacities and resources of the institutions involved and significant variations between jurisdictions
2. examine the regulatory objectives and key features of comparable international systems with respect to major project development assessment processes
3. identify critical elements of development assessment processes and compare these to assess the extent to which different decision-making approaches in Australian jurisdictions and alternative investment destinations overseas (including other federations) have a material impact on costs, timeliness, transparency, certainty and regulatory outcomes
4. examine the strategic planning context for major project approvals in Australia and in comparable international systems including for example, the pursuit of urban and regional development policies, or broader strategic resource development plans)
5. identify best practice and against this benchmark evaluate jurisdictional approaches, such as one-stop shops and statutory timeframes, to make recommendations to improve Australia's processes, both within and between jurisdictions, by reducing duplication, removing unnecessary complexity and regulation, and eliminating unnecessary costs or unnecessarily lengthy timeframes for approvals processes
6. assess mechanisms for 'scaling' regulatory requirements relative to project size and the expected benefits against the potential environmental, social, economic and other impacts
7. compare the efficiency and effectiveness with which Australian approvals processes achieve the protection of social, economic, heritage, cultural and environmental assets compared with comparable international systems.

The Commission then released an Issues Paper on Major Project Development Assessment Processes to assist individuals and organisations to prepare submissions to the Commissioned Study.

2.3 Purpose of PMI's submission

PMI seeks to assist the Productivity Commission with its response to two specific terms of reference as prescribed by the Federal Government:

3. identify critical elements of development assessment processes and compare these to assess the extent to which different decision-making approaches in Australian jurisdictions and alternative investment destinations overseas (including other federations) have a material impact on costs, timeliness, transparency, certainty and regulatory outcomes; and

5. identify best practice and against this benchmark evaluate jurisdictional approaches, such as one-stop shops and statutory timeframes, to make recommendations to improve Australia's processes, both within and between jurisdictions, by reducing duplication, removing unnecessary complexity and regulation, and eliminating unnecessary costs or unnecessarily lengthy timeframes for approvals processes.

PMI has undertaken to address some of the specific areas of interest outlined in the Issues Paper, including the approach to benchmarking, some of the mechanisms used in major DAA processes, impacts of the current arrangements and possible measures to improve the processes.

PMI appreciates the opportunity to make this submission and has included recommendations that may improve Australia's DAA processes.

PMI would be delighted to assist the Commission in any way in the future and provide further material as required.

Yours sincerely,

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3. Issues and discussion

3.1 The Commission's approach to benchmarking major project DAA processes

Relevant criteria for evaluation

The assessment criteria for benchmarking DAA processes proposed by the Productivity Commission are as follows:

- Clear, justifiable regulatory objectives;
- Consistency with other regulations;
- Cost-effectiveness;
- Proportionate and flexible regulatory requirements;
- Clear and predictable processes;
- Open and transparent processes;
- Appropriate opportunities for public participation and review of decisions;
- **Clarity in roles and responsibilities;**
- **Accountable decision-makers;**
- **Appropriately skilled and resourced institutions;**
- Regulatory outcomes consistent with objectives; and
- Regular review and evaluation.

PMI supports the criteria identified by the Commission, and views them as an appropriate list of considerations required to establish a standard for major project approval processes. Outlined below is information to support the need for some specific criteria about which PMI has relevant knowledge. PMI agrees that **increased Clarity of roles and responsibilities**, coupled with **accountable decision-makers** equipped with clear lines of reporting and authority, are key to the success of any major project. PMI's ongoing industry research repeatedly finds that managing appropriate project talent is a common attribute of successful organisations.

Appropriately skilled and resourced institutions are vital to the management of complex projects and programs and portfolios. Increased competency in project and program management results in improved project delivery through improved communication, flexibility, collaboration and stakeholder engagement.

PMI believes that well-trained, certified project management professionals deliver a competitive advantage to organisations and government institutions by delivering increased efficiencies, organisational alignment, stakeholder satisfaction and improved decision making – all critical to the development approval process. As such, it is necessary to have workforce policies that value and develop dedicated and skilled portfolio, program and project managers.

Appropriately skilled people operating within an effective project management framework make for accountable decision makers. This has been identified in the most recent Australian Public Service (APS) Leadership and Core Skills Strategy, which outlines the need for “project, program and risk management in a complex environment” for decision-making and judgement.

Although the APS has highlighted project management as a core leadership skill, it is unable to mandate the use of qualified project managers. PMI encourages the Productivity Commission to consider recommendations that would mandate a standardised approach to Project Assessment development and management across government.

PMI suggests addressing these criteria through the establishment of centralised Project Management Offices (PMOs) to oversee the strategic implementation and processes of major projects.

A Project Management Office (PMO) is a group or department within a business, agency or enterprise that defines and maintains standards for project management within the organisation. The PMO standardises and mandates proven frameworks for the execution of projects.

The PMO is the source of documentation, guidance and metrics on the practice of project development, assessment, management and execution.

Traditional PMOs base project management principles on a number of industry-standard methodologies including the Project Management Book Of Knowledge (PMBOK Guide), now in its fifth edition.

PMI would also like to recommend the appointment of a Commonwealth Chief Project Manager to build and nurture an inter-governmental project management culture essential to the successful delivery of the Australian Government’s Nation Building Agenda.

International jurisdictions against which to benchmark

As a global leader in project and program management practice, frameworks, assessment and credentials, PMI has undertaken relevant projects in a number of national jurisdictions, which provide lessons and standards against which aspects of the Australian DAA process can be benchmarked. Specific examples can be found in recent PMI work in the USA, India and Canada.

USA

In early 2010, PMI designed and executed a study of “successful” U.S. Federal Government programs to uncover thematic “success factors” and delve into the specific practices that support

these factors. In all, the study collected information from forty different programs across a wide variety of government agencies, spanning the information technology (software design and systems implementations), to construction and engineering (from a single facility build out to large infrastructure projects), to the creation of new public policies and departmental procedures. While some programs had a timeline of less than a year and a budget of around \$1 million, others spanned over five years and had a budget of billions of dollars.

Program managers from a wide variety of different government sectors shared their insights on “success factors” and best practices for this study. What we learned is that there are, most certainly, pockets of excellence in program management in the U.S. Federal Government and that, where these exist, programs are meeting today’s challenges. We found that those responsible for successful programs have built upon a foundation of technical expertise, adding on more intangible success factors, such as a culture of communication, agility, superior stakeholder engagement, and active executive support. A ripple effect of increased team morale and better inter-departmental collaboration then creates a self-perpetuating cycle of success, with one respondent identifying that “senior management is now bearing the fruits of the project management labour. Projects are now back on track, which is resulting in significant cost savings.”¹

India

India is currently one of the most attractive destinations for Foreign Direct Investment, which is supporting significant economic growth in the country. Adequate and quality infrastructure is key to supporting this growth. There are currently more than 550 major projects underway in India across key sectors such as transport and energy. India’s growth story over the next five years will depend heavily on the effective management of the infrastructure agenda, particularly the successful and timely completion of major projects.

Project management practices in India differ not only on the basis of size and complexity of a project, but also across different sectors, companies, and forms of ownership (e.g. private vs. public private partnerships (PPPs)). Time and cost overruns are the norm rather than the exception for most large projects in contemporary India, and PMI’s analysis reveals that these overruns are often attributable to the lack of effective project management practices.

The key issues identified in India are the inaccurate identification of risks and the treatment of project management as an intuitive process with little need for formal training. There is also a need to address the central coordination of projects – managing multiple stakeholders for large infrastructure projects requires effective coordination between central agencies, the states and implementing agencies.

PMI has recommended an urgent paradigm shift in the way projects are managed to through an effective and structured adoption of project management practices are the rule rather than the exception. See details of the implementation plan in the attached approach paper by PMI and the Federation of Indian Chambers of Commerce and Industry (FICCI).

¹ 2010, “*Program Management 2010: A Study of Program Management in the U.S. Federal Government*”.

Canada

In 2005, the Canadian Treasury Board Secretariat (CTBS) launched a review into the project management across the Canadian Public Service. The review was launched in response to the perception of five major deficiencies within the project management policy environment of that time, including unclear accountabilities; prescriptive; inflexible; cost-focused; and outdated.

As part of the review, the CTBS consulted with trusted and authorities partners in the field, including PMI. Resulting from this review, the CTBS implemented policies and standards to guide project management, including around organisational standards for project management capacity and standards for project complexity and risk. Over the five years in which the policies and standards have been in place, the CTBS has found a number of results and benefits, including:

- Treasury Board and its Secretariat enables departments to develop and manage their projects more effectively and with more flexibility;
- Treasury Board oversight is tailored and risk-based (i.e. no longer one-size-fits-all);
- Fewer project submissions seeking Treasury Board approval;
- Balancing of departmental capacity and project portfolio; and
- Standardised assessment tools applied throughout the Government of Canada.

Information sources to consider

Through our position as the world's largest project management membership association, and our connections with governments, public-sector agencies and leading corporations, PMI may offer a large library of relevant information and data that the Commission may like to draw on while undertaking this study.

PMI has previously operated as a partner and information source in the consideration of improving government systems. Recently, PMI was asked to ally with the United State Government Efficiency Caucus, a grouping with national politicians examining efficiencies in the private sector, and how these may contribute to reducing the deficit.

To pursue these goals, the caucus has leaned heavily on the experience and sector expertise of PMI, including direct engagement with President and CEO Mark Langley, and resources such as the latest edition of the "*Pulse of the Profession*." For the caucus, PMI provides a vast information source, with the most up-to-date experience drawn from the private sector, both in America and abroad.

PMI also invests heavily in academic research, spending over \$18 million since 1997 analysing the effective use of project and program management. These projects provide qualitative and quantitative data that is invaluable to identifying the effects of implementing project management frameworks in both the private and public sector.

PMI also produces the annual "*Pulse of the Profession*" study, which examines project management trends in the public and private sectors and is the project management industry's annual global

benchmark for organisational project, program, and portfolio management. The 2013 *Pulse of the Profession* is attached to this submission for reference.

PMI can also provide a number of case studies to illustrate the application of project management frameworks, in addition to institutional knowledge. Some of this library of knowledge is accessible through the PMI website, while further resources can be made available through PMI directly.

3.2 Key features of major project DAA processes

Issues around predictability and delays in assessment processes and measures to address them

One of the main issues for predictability is standardisation. A standardised approach to project management is key to efficiency in delivering government programmes and projects. PMI's own research illustrates that using standardised practices will see an average of 74% of projects meeting their goals and intent. When not using standardised practices, only 58% of projects meet their goals. There is also a significant difference in the amount of money put at risk.

Most government reform efforts focus on one of two things – putting systems in place to review and evaluate programs that have problems or regrouping existing administrative agencies to meet new demands. While both have value, both focus on “after the fact” solutions that seek to prevent bad problems from continuing. Neither focuses on preventing problems in the first place. Just as a focus on prevention in the health care realm can minimise or eliminate expensive health care treatments, so too does a focus on efficiency and standards minimise or eliminate bigger waste, fraud or abuse problems, which lead to a lack of predictability in government approval processes.

There is a wide range of ways to make processes more efficient, but the core principles must include the following:

- Ensuring personnel have the skill sets to manage programs and projects in a manner that prevents problems from occurring;
- A high-level culture of support for efficiency at executive departmental and political levels; and
- Increasing the value of efficiency by creating job classifications, e.g. Project Managers, that are part of a career path.

PMI's “Pulse of the Profession” has, over a number of years, consistently demonstrated an array of factors that contribute to the predictability and timeliness of project delivery. For example, the 2012 edition of “Pulse of the Profession” identified that organisations with highly mature Project Management Offices (PMOs) delivered 67% of projects on time, 68% of projects on budget and 73% of projects that met original goals and business intent. In contrast, organisations with low maturity in their PMO delivered only 39%, 44% and 53% respectively. (See “*Figure 3 – Project outcomes by maturity level*”).

While these figures are correlations, and do not imply causation, PMI argues that developing a highly mature PMO is one method to improve the predictability of the DAA process while meeting all necessary regulatory objectives. While PMI acknowledges the difficulty in mandating the level of maturity of a PMO, given that maturity is tied to experience and on-job growth, such benchmarks could be set to guide DAA process and possible oversight by relevant agencies or stakeholders.

Reported Organizational Project Management Maturity Level		% of on-time projects	% of on-budget projects	% of projects meeting original goals and business intent
		High	67%	68%
Medium		55%	58%	67%
Low		39%	44%	53%

Figure 3: Project outcomes by maturity level.

The importance of a highly mature PMO, and possible benchmarks guiding DAA processes are reinforced by figures surrounding the failure of projects. When major projects fail, an average of one third of the project’s budget is lost. Taken with the analysis that shows that on average 36% of projects do not meet their original goals and business intent, organisations are putting at risk twelve cents for every dollar spent on projects. Therefore, just over \$120,000 is at risk for every \$1 million spent on projects (Figure 5: Estimated dollars at risk (in USD) per project by success rate and project size).

% of projects meeting original goals and business intent	"Project Dollars at Risk"		
	75%	\$85,000	\$2,125,000
70%	\$100,000	\$2,500,000	\$5,000,000
64% (Study average)	\$120,000	\$3,000,000	\$6,000,000
	\$1 million	\$25 million	\$50 million

Project Size

Figure 5: Estimated dollars at risk (in USD) per project by success rate and project size.

The place for Strategic Planning

Strategic project planning provides organisations with a strategic competency that enables them to deliver expected benefits and value through effective planning and risk mitigation.

Tight economic conditions will continue to force the issue of good project portfolio planning and management. Selection of the right projects and resourcing those projects for success will be seen as critical to the efficient achievement of an organisation’s strategy. Research conducted with senior project management leaders on PMI’s Global Executive Council found that the most important skill for managing today’s complex projects and programs is the ability to align the team to the vision of

the project and design the project's organisational structure to align people and project objectives. This more strategic view of the project helps maintain a focus on the intended benefit the project was meant to deliver. Likewise, the portfolio managers who responded to our survey on The Standard for Portfolio Management rated value capture/benefits realisation as the topic they were most interested in learning more about after strategic management.

3.3 Possible measures to improve the efficiency and effectiveness of processes

Ways to reduce duplication

A clear framework underpinned by global standards and overseen by qualified and experienced project and program managers are key to reducing duplication in DAA processes, thereby eliminating unnecessary costs and delays.

Standardised project management, by its nature, enables transparency and accountability. PMI's research has found that around the world, only one-third of projects deliver the expected results at the outset. PMI has found that dramatic improvements are possible. The most successful organisations have learned that employing project management techniques and creating a culture focused on project management is vital to achieving business success.

Standards are crucial to the project management profession because they ensure that a basic project management framework, lexicon and process are applied consistently. PMI's research has found that organisations using standard practices, along with formal training programs for project managers, perform the best and see the greatest value from project management. In fact, the research showed high-performing organisations that use standards and support certification and training use up to 90% of their project budgets efficiently, whereas low performers put at risk nearly 70% of their budgets.

PMI has previously undertaken a three year study into the value of project management that identified three primary benefits from the effective implementation of standardized project management: improved business results, increased organisational learning, and improved communication. These benefits drive competitive advantage and deliver value for organisations that incorporate standardised project management practices.

4. Conclusion

PMI's global research has consistently shown that organisations looking to become high performers are significantly more likely to focus on three key factors:

1. **Talent management.** High-performing organisations provide consistent, continuous training and development for project managers to enhance organisational success. They are significantly more likely than low performers to provide a defined career path for project managers, a process to develop project management competency and training on the use of project management tools and techniques.
2. **Standardisation.** Standardisation leads to an efficient use of resources, which allows more time and resources to focus on leading, innovating and delivering products and services—and ultimately leads to a competitive advantage. High performing organisations are almost three times more likely than low-performing organisations (36 vs. 13 percent) to use standardised practices throughout the organisation, and have better project outcomes as a result.
3. **Strategic Alignment.** High-performing organisations are at least four times more likely than low-performing organisations to have achieved maturity in their project management practices. The Pulse data show clearly that more mature project, programme and portfolio management practices lead to better project performance. Organisations with successful project management practices, integrated benefits realisation processes, and aligned portfolio management capabilities along with high organisational agility all have significantly better project outcomes than their counterparts who are less advanced.

If the Australian Government seeks a quick route to real improvement in DAA processes, it may wish to consider a government wide-approach to standardised project management that could develop the leadership skills and talent to properly assess, approve and deliver complex portfolio of costly projects. PMI suggests that this would be achieved most effectively under the auspices of a Central Project Management Office (CPMO) and a network of PMO's operating under agreed standards.

5. Recommendations

- A Chief Project Manager in government to oversee portfolio, program and project management in order to facilitate effective strategic planning and streamline development approval processes.
- The requirement that qualified Program and Project Managers be assigned to manage development approval programs and projects.
- Establish of Project Management Offices across government agencies
- Capability and Skills development of workforce
- Intergovernmental community of practice to share learnings and improve collaboration on major project planning and delivery