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Don't be afraid to cancel a project, do it professionally!



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Springboard for Discussions

Article

Project Failure

Its costs, the potential equivalent, the responsibility for the loss

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abstract

The project cancellation is assessed as an important potential decision-making situation. The purpose of the description is to capture the characteristics, requirements, responsibilities and consequences of the decision-making situation. The background for technological projects serves as a reference frame.

Introduction

The cancellation of projects is one of the most challenging tasks in the life cycle of projects. The decision yet during the planned project duration, can come by recommendation of project managers and project team members. or by recommendation and decision of a review group, steering group, gatekeeper or client / project sponsor / entrepreneur.

Reasons for the cancelation

In spite of strategic attractiveness of the topic and enough existing capital, the reasons for the cancellation of the project are, as a rule, if the expected interim targets of the project were not achieved (target-actual comparison) and at present time

- a. There is no longer any hope of achieving the anticipated project results in the planned framework by means of a plan B as a fall back position
- b. There is no longer a willingness by the client to continue with a new solution concept, with revised plan and cost framework and with the given project team.

The project balance

The project costs incurred up to this point are, at first glance, monetary losses. They stand opposite

- a. Savings by the remaining budget of the project
- b. The gain in experience that the tracked concept and the planned project path have not led to success, as well as discoveries/patents (IP- intellectual property)
- c. A potential return of investment by granting licenses on the basis of patents or their sale

The costs are the risk premium of the hoped-for project success. In the case of research projects, the cost of the entrance ticket in the "Discovery Game".



The equivalent value in the form of knowledge must be recorded and assessed by a systematic debriefing of the project participants for the company and made available for future projects in a database.

The most important thing to estimate is the experience potential of the knowledge bearers. They represent the necessary start ramp for other similar projects.

If these do not take place in the same company, and the "IP" does not experience any marketable appreciation, the knowledge providers are often a welcome prey to technology competitors or aspirants to start their own company.

Project management

Successful project management stands and falls with the clarifiable framework conditions before conceptualization. These framework conditions (magical triangle) include, in essence, the content of the project objectives (if necessary, requirements specifications), the time horizon and the project budget. Added are the current information, the possibilities of progress control and the potential exploitation of the project results.

In addition to the purely commercial exploitation of the project results, the internal participation or attribution to success and failure must not be underestimated. Envy, disapproval, lack of appreciation, and misunderstood competition and division thinking have already killed many a project which, objectively speaking, had real opportunities.

As long as the project management team and the project team are not responsible for the delay of the existing knowledge, there is no misconduct at the reporting level in the project work.

If, on the other hand, the project manager informs the core team member insufficiently and does not have any metrics to measure the success rate, he or she is responsible for the control deficit.¹⁾ The success factors had not been elaborated enough and thus can not be subjected to intersubjective control.

Intersubjective progress checks in the project team as well as in the surrounding project organization are a very important support in the evaluation of project results

- professional, e.g. through an experienced and decisive review board
- strategically, through an evaluating and decisive steering committee

Only if the information status for the critical decision variables is transparent, it can be negotiated argumentatively, whether countermeasures such as e.g. the deployment by a task force would still have a successful impact.

For a professional cancellation decision, therefore, measurable objectives, the actual deviations, the probable trend and countermeasures, as well as your prospects for success must be available.

Dealing with project risks

Risky projects involve unpredictable pitfalls and barriers, as well as uncertainties regarding feasible and ambitious solutions, so that in the worst case, failures must be taken into account by the project sponsor. These risks must be defined before and during the concept and planning work and must be monitored and reported by the project manager during the realization.

Milestones are an appropriate means of checking the feasibility of the project and the success opportunities during the project.



In contract research, therefore, it has proven its worth to define and agree upon project termination criteria and milestones. However, it is often a long way from the discovery of a technological effect to the realization in economic yields of a new product. It is precisely for this reason that the experience of failures helps to be able to check later risks earlier. It is therefore necessary to distinguish between exploration, development and investment projects or phases. In the above-mentioned order, usually, the complexity decreases, the information increases, the definition of cost types increases, and the scope for alternative solutions decrease. Accordingly, the risk in the construction of industrial plants for market-ready products is lower than if a new project requires the development of new technology, product and production facilities.

Too early topics

If the professional hope is not completely buried in a technical solution and one was too early regarding the necessary infrastructure, when embedded in a research organization, a project topic can be reset in various ways. For example, under the care of a senior scientist, who then assumes the technical responsibility for resubmission and new project start. The discontinued project topic is then, e.g. in the creative scope of the senior scientist or his colleagues.

The courage for terminating the project

A lot of courage is needed, to recommend the termination and to decide. Project managers and core team members are expected to be confronted with the stigma of the project break-up or failure. This may influence the future career path.

An entrepreneur or the organization may have seen the hope of the future in the project and put a lot of money into the hand. And now the hope-bearer falls into a niche product through the disappointing project results and the associated smaller market potential. The disappointment is then very large and can lead to a complete technological exit for companies.

(E.g., Apple, aborting the Newton PDA development by Steve Jobs)

This often has very unpleasant organizational consequences for the parties involved in major corporate projects, and it is also a source of fears, since in this case the entire company area may be dissolved and sold.

However, the situation can also be positively driven by the sale, when the company is absorbed by a company that understands technology, product and business, and whose capital and experience makes the technological breakthrough and successful market launch.

The positive internal sale of the project termination must therefore be strategically prepared and communicated. Internally, this means to negotiate and enforce clear ground rules for the information transfer in the core team against the functional organizational hierarchy. This is especially the case when employees are involved in several research labs worldwide. It is no fun for the project manager to come to the cafeteria of his location at lunch being confronted with the surprising message:

"Do you already know that your project has died?" Critical project results which spread around inside the organization, before it has reached the project leader at all and before the core team members had been able to analyze the consequences of this laboratory results.



The reorganization and renovation of the project as an alternative

For example, the customer's market behavior is misjudged, or if the expectations of key customers suddenly show serious changes, which can not be achieved with the solutions pursued, the project can be terminated prematurely. This is not a cancellation, but a premature conclusion, in which all parties can protect the face. A succession project with a reorganized project team, equipped with past experience, but new project strength, can then achieve the renewed project goals more effectively, efficiently and with fewer conflicts. In municipal large-scale projects, often, a point of no return is reached, when certain investment sums are exceeded. The investment sum has grown to a critical, system-relevant size and with the tax receipts behind, the behavior now is only "eyes to and through!" In contrast to the project cancellation, renovation strategy is pursued. Negative it is, when there is a constant stream of stakeholders, redevelopers and project managers, which are coming and going. The image of the tough crisis manager, who takes drastic measures where the outline and order were lost, is often positively occupied. But only if real project progress and final success become visible in the short term.

At the Berlin airport, although an investment project, no opening date is currently being announced (March 2017) after a six-year delay (planned for 2010). Similar to the toll project, a fiasco in project policy and organization.

The responsibility of the loss

The entrepreneur is responsible for the monetary losses of risky projects. The losses are part of the entrepreneurial risk of these projects. They are the monetary cost of the profit opportunities. In addition to monetary costs, e.g. social and psychological costs could arise. Risky projects therefore require risk capital.

The entrepreneur must be able to afford these risks. Otherwise, they feed on his fortune. In order to increase assets over risky projects, the balance of the portfolio of risk projects must be positive.

The asset valuation of his risk portfolio is existential for the entrepreneur! Because a major goal of an entrepreneur is to increase its risk capital and its assets through innovative projects.

Comprehensible reporting for entrepreneurs

Successful entrepreneurial behavior in the project consists in recognizing the knowledge acquisition and project progress, whether the hopes placed in a project can be fulfilled. The delegation of responsibility to a project manager is, to a certain extent, the transfer of entrepreneurial responsibility.

In this responsibility the learning progress in the project has to be comprehensibly prepared for the management level. Managers and entrepreneurs do not want to fight through scientific files. Concretely visible project results from experiments (in the form of target / target comparisons) are more convincing for quick decisions than highly scientific presentations for the scientific community.

It must be "entrepreneurial tangible" at decision-making milestones, whether the progress in the project leads

- a. To the planned success,
- b. To cancel the project or



c. To the revised project plan with project continuation.

These considerations show the importance of adequate reporting and monitoring of progress for all stakeholders, in particular for the entrepreneur. The cancelation of the project must be based on comprehensible criteria and be recorded so that future successors / generations can understand the decision and understand the company situation.

The risk portfolio

On the other hand, it is also clear that risky projects can be borne only in a portfolio that generates a balance or surplus through another sequence of projects. Therefore, project controlling and risk management is essential for comprehensive portfolios.

Risk management in the technological research process

In the case of high-risk research activities, large companies today often withdraw from research (eg pharmaceutical). Either the topics are still fundamentally oriented, then it is too early for industrial research. Or it is for the large companies are more profitable to carry the risk by young start-up companies, which are funded through third-party funds and take over such startup companies in the foreseeable success.

In the area of venture capital and new business of these companies, portfolios for attractive takeover candidates are then carefully composed on future corporate markets.

1) Qualitative metrics such as traffic light charts or quantitative, such as the milestone trend analysis are examples for appropriate reporting tools.

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