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White paper

Stopping projects early



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'Project culling': an essential process in portfolio management

In an environment of retrenchment we are beginning to see much tighter controls on the approval of major spend projects. However, stopping projects which are addressing yesterday's problems may be even more important than not starting those projects designed to address today's.

Project culling is an essential part of the portfolio management process. The challenge is to ensure it is systematically and beneficially applied. Recent work by CITI has focused on the need for a project 'culling' process which maintains the linkage to the normal portfolio decision-making processes while taking into account the 'termination risks', i.e. the risks associated with stopping the project and realising the benefits from stopping the project.

Stopping a project poorly is a 'double whammy' hit on portfolio performance. Not only are the planned project benefits lost or reduced, but cost savings anticipated from the termination are not realised. In a recent analysis of a three large portfolios which had undergone a 'torrid' cut-back exercise, we found that over 30% of curtailed project activities were continuing under the portfolio radar. In these cases the project office was reporting the projects as finished while effort, directly trackable back to the project, was still being applied in the organisation.

In deciding which projects to cull, we must therefore also consider whether we can be successful in turning off the effort and expenditure being applied to the project. If the focus of the culling is on reduction in costs; then can CAPEX costs **really** be avoided? If the focus is on release of resources; then how quickly and effectively will these resources **really** be redeployed?



Without a process for determining and following through the termination of projects, 'project culling' becomes a subjective, political and tactical process which encourages 'dog eat dog' behaviours between project staff and undermines any attempts to implement strategic portfolio planning.

Assessing the benefits of terminating projects

Assessing termination benefits requires the same discipline as assessing benefits during the creation of business cases. We must understand the nature of the desired benefits, whether the termination benefits are achievable and what are the chances they will be achieved in practice - the benefit risks. The impacts upon the organisation in terms of reduced costs and organisational impacts should be modelled and then tracked and followed through to ensure that benefit realisation does occur.

One useful feature about assessing termination-of-project benefits is that for most the impacts and benefits are common across them and can be modelled and tracked relatively easily.¹

We have listed the common benefits and impacts associated with early termination of a project below. It is helpful to differentiate between the termination benefits realised through the reduction in the number of projects in the portfolio, and the specific avoidance of costs that a specific project may provide on early termination.

Table 1: Potential benefit areas: Reducing projects numbers within the portfolio

<p>Cost avoidance (portfolio wide)</p>	<p>Reduction in headcount: Project managers Project support staff Technical resources Reduction in recruitment for project needs Reduction in time spent by : Sponsor and project board resources PMs Business project related resources PSO reporting Quality assurance effort – health checks etc</p>
<p>Cost avoidance (project by project)</p>	<p>Capital and resource costs: Project predicted costs avoided</p>
<p>Strategic alignment</p>	<p>Projects within the portfolio better aligned with current business imperatives Resources better aligned with current business imperatives</p>

¹ There may be many reasons for terminating a single project or a group of projects within a portfolio. Single projects may, for example, be stopped because the solution is wrong, or the predicted return no longer meets the overall success criteria. Groups of project in a portfolio may be terminated in light of changing strategic priorities and/or to improve throughput across the total portfolio. Here, we focus on the perceived need to reduce expenditure and effort – the most common (if implicit) reaction to demands to retrench or cut back.

The risks – over claiming benefits

The most common error when assessing benefits is the over-claiming of cost avoidance. All claims of avoided cost need to be challenged to ensure that they can genuinely be realised. Each action to be taken must be made explicit and accountability for it accepted. The overall accountability for benefit realisation from early project termination lies firmly with the portfolio manager whose responsibility is the long term health and future success of the portfolio. In the example below we have taken one source of benefits and examined each of the factors that influenced how well it was realised.

Example 1: The removal of project manager and project staff costs

1. Where there is a one-to-one relationship between releasing the project manager and culling the project they are working on the situation is relatively simple. There is, however, a small catch - it takes time to close down a project. The close-down plan should be drawn up by the outgoing project manager and challenged by somebody who has no vested interest in prolonging the project to ensure that an appropriate plan of action has been defined.
2. Who should execute the close-out is debateable. While the current project manager is best positioned in terms of continuity and understanding of the project outcomes, they are also more susceptible to scope creep of the close-out deliverables. As is discussed later on in this paper, the further along the project lifecycle, the more of a risk this becomes and the more we should consider the possibility of passing the project to another project manager to manage the close-out.
3. How quickly can the costs associated with project staff in a culled project be returned to the bottom line? If the members of the project team are to be 'redeployed' there is no cost avoidance, only cost transfer – and the benefit (if indeed there is any at all) will need to be found from some other source. If individuals, whether permanent or contract, are genuinely to be removed from the company there are HR and legal requirements that may delay the onset of benefit and may result in delaying the culling.
4. In practice, letting people go is difficult and even stressful to manage and it is often those people easiest to remove who are released first, regardless of whether they are involved in the culled projects. This results in undesired side-effects:
 - Additional unplanned effort is required to transfer staff, skills and knowledge
 - Re-prioritisation of existing projects to 'make room' for the project close down activities
 - Projects other than those identified for culling gradually fail due to lack of appropriate management attention

The risks associated with the above are particularly apparent in organisations which rely heavily on contract staff to deliver their most complex business critical projects (rather than growing internal experts). In this situation the business may actually find it impossible to realise the termination benefits – faced on the one side with lengthy and potentially costly removal of permanent staff and the other with the business risks associated with moving critical projects to less capable staff.

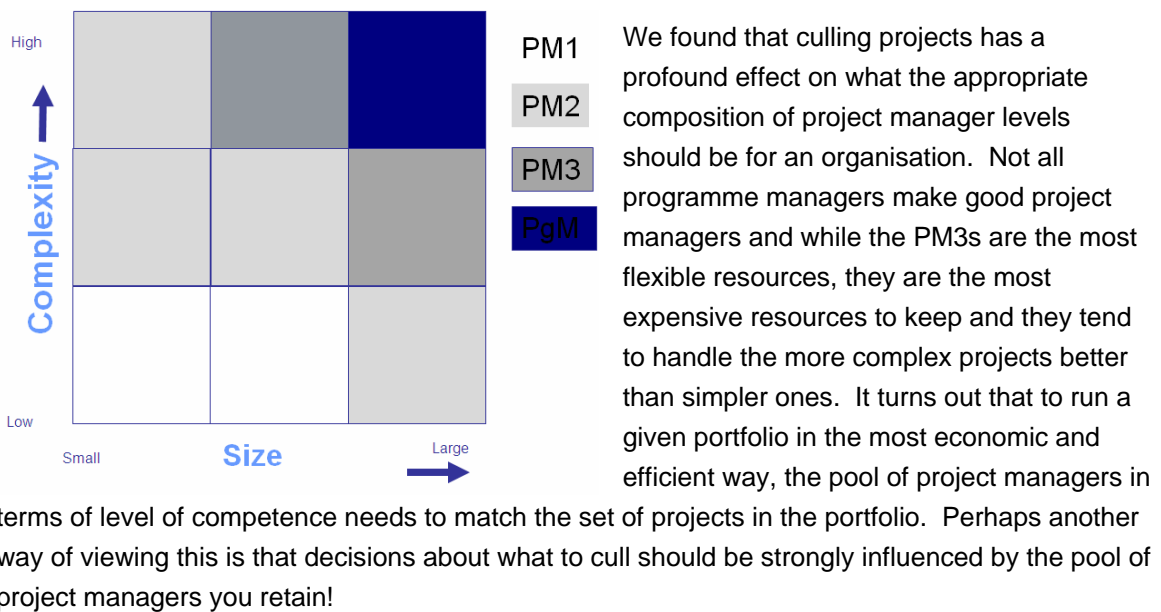
One unexpected and surprising result of the culling process can be spare capacity. Culling projects may leave a project manager only partially free, as they are often managing more than one project. Project managers are not instantly and easily interchangeable as different projects make different

demands on skills and experience. Thus, sometimes, with the difficulties of redistribution of projects, the numbers just don't add up.

Take a portfolio of 80 projects with are currently being managed by 30 project managers. This means that on average each project manager is running 2-3 projects.² But it turns out that not all project managers are the same and not all projects make the same capability demands on the project manager. It is demonstrably wrong to assume that by reducing portfolio costs (typically headcount) by 10% will result in reducing the effective output by 10% - it will have a considerably greater impact than that, maybe as high as 17-18% reduction.

In a recent survey, CITI used its portfolio resource capability profiling model, which analyses the impact of project size and complexity on resourcing portfolios. The output from the model describes the portfolio in terms of a 3x3 matrix - size versus complexity - and assumes four levels of competence within the programme and project management community. This is in line with the IPMA definition of levels of project manager (with PM1 being a junior PM and PM3 representing a senior PM) and PgM representing a programme manager.

Fig 1: Project categorisation model indicating type of PM needed



Clearly, a balance between what is desirable and what is doable has to be struck, which is where the CITI portfolio tool gives its most valuable insights.

Whether the culling process involves cutting projects across the board or cutting PMs, realistic targets must be set for the termination benefits and the expected outcomes from the portfolio must be re-assessed and re-baselined. Too often it is anticipated that the culling will take place without any

² In a survey conducted by CITI we found that on average project managers were running 3 projects. This figure differed with the level of capability of the project manager and was impacted both by the size and complexity of the projects and the stage of the life-cycle of the projects being managed.

negative consequences on the remaining throughput of the portfolio. This sets unrealistic expectations which are likely to work against any genuine attempts to reduce and cut back projects.

The risks – not stopping the project

“In a recent analysis of a three large portfolios which had undergone a ‘torrid’ cut-back exercise, we found that over 30% of curtailed project activities were continuing under the portfolio radar. In these cases the project office was reporting the projects as finished, while effort, directly trackable back to the project, was still being applied in the organisation.”

So why don't these projects stop? Stopping a project is more like applying the brakes to a very large oil tanker than stopping a video recorder.

Any project which is out of dock (i.e. past initiation) will be accelerating - engaging resources and stakeholder attention. Project activities have to be stepped down in a controlled fashion, else the collateral damage may cause degradation in unexpected ways and places.

Redirecting a tanker to a different port is not simply a case of changing the direction of the ship. Port authority approvals must be obtained; loading contracts changed; maritime services informed...a formidable list which makes such options costly and risky to implement. Projects within a portfolio are interlinked by the resources they use, the impacts upon the business and even the outputs they deliver - a problem considerably more complex in a programme. While this complexity is likely to cause the types of delays described in the previous section, it also contributes to the psychological pressure on the project team to “just finish this” before stopping.

There are thus two forces at work: the first is the inertia of any moving body, the second is more subtle, more psychological and was caught so aptly by Magnus Magnusson in his bye line “I've started, so I'll finish...”

This phenomenon is well documented in the field of organisational and human decision-making as a concept known as “escalation of commitment” (Straw, 1976). Even in the face of obvious and clear negative consequences, decision-makers maintain or increase resource commitment and risk further losses.

Originally analysed as the impact of sunk costs on decision making, it has strong resonance in project-based management actions. Indeed it is regarded as political commonsense that once you have spent a lot of money you really shouldn't give up (Arkes & Blumer, 1985).

“To terminate a project in which \$1.1 billion has been invested represents an unconscionable mishandling of taxpayers dollars” Senator Denton, 1984



Stopping a supertanker: it takes 14 minutes and three kilometres once you decide to alter course or speed, before the manoeuvre is complete.

The fear of throwing away sunk costs in Government is so institutionalised that it became a target for manipulation. You can see the ‘Magnus Magnusson thinking’ in this quotation from a nuclear industry executive on how to proceed on the nuclear energy programme.

“When it comes down to it, no one with any sense would abort a \$2.5 billion construction project. And, by extension, no administration would abort a \$200 billion investment in nuclear energy. So the trick for the industry is to get more new plants under construction without the anti-nuclear movement knowing about it. By the time they get around to demonstrating and challenging the licence, we’ll have a million tons of steel and concrete in the ground, and no one in their right mind [sic] will stop us.” (Dowie, in Arkes & Blumer, 1985).

The feeling that we have invested too much to quit is psychologically compelling but is not necessarily rational. There are a myriad examples of projects, particularly Government ones, where in the face of diminishing returns, the economically rational decision has been overturned by the desire (unsupported by any historical evidence) to recover *something* from the investment.

In recent years, research has turned to the impact of the **project stage** on escalation of commitment. (Boehne and Paese, 2000) Here it was found that project participants were unduly affected, not by sunk costs, but by the project’s closeness to completion. In fact, when the project is close to being finished, project participants often recommend completing the project even when it is clearly economically unwise to do so.

The escalation of commitment has an impact in the context of decision-making around whether to terminate a project. It also explains the determination to continue with project activities even when the project has been ‘terminated’. Escalation of commitment manifests itself by enlisting senior commitment to undermine the termination order; slowness in actioning close-out activities; the continuation of project activities in ‘secret’ or under the portfolio radar; or simply blatant continuation of the project activity in the belief that the problem will go away or be moved to somebody else’s project.

He & Mittal (2007) have taken this work further to look at what impact commitment levels change over the project life-cycle. They distinguish two factors – the desire for further information and the desire to complete. In the early stages there is a strong need to know more about the project characteristics, to

more fully understand the projects implications in turns of cost and overall ROI.

This predominates decision making and promotes high commitment levels. As the project progress this need is gradually satisfied, but is then supplemented by an increasing commitment to bring closure to tasks at hand, which strengthens significantly as the project moves closer to completion.

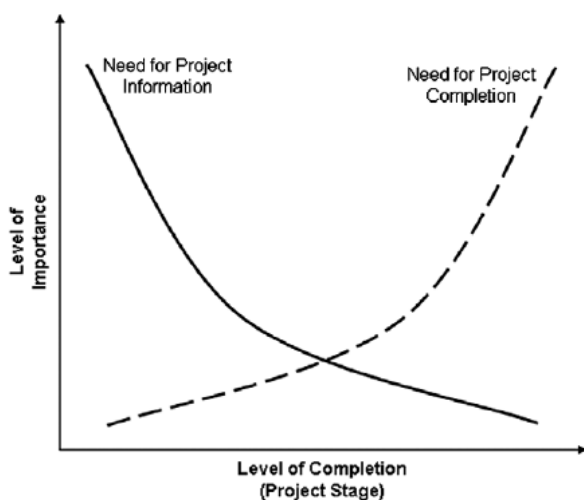


Fig. 1. The influence of need for project information and need for project completion at different stages in the project.

In the table below we have mapped these factors to the four stage project life-cycle. There you can see how the stage of the project affects the level of renegade behaviour which might be predicted, and we have listed actions that have proved effective when needing to reduce the commitment levels and allow projects to be stopped – for good.

Table 2: Termination risks at the different stages of the life cycle

Stage	Renegade behaviours	Management actions
Initiate	<p>The initiator of the project (typically the business or sponsor) will feel that the project has not been adequately understood and that further work is required before it can be considered a candidate for termination. They may feel that the amount of effort to gather this information is low and demand that the work be continued until at least the planning stage. While projects at this stage may be considered easy candidates for termination (they typically will not have created the inertial momentum of projects at later stages in the life-cycle), they may require careful political handling. The sponsor may question the decision making process which resulted in their project being selected and this may result in significant and insidious management effort required to justify the decision.</p>	<ul style="list-style-type: none"> • Involve the affected sponsors early on in the decision making process. • Sell the case - seek out ways to illustrate how the portfolio is supporting the sponsor's business unit in other ways. • Consider the option of postponing rather than terminating the project – is this a feasible option and how might it occur?
Plan	<p>At this stage commitment levels are likely to be at their lowest. The excitement of initiation has passed, the plans have been drawn up and the resources identified, but not yet committed. To many stakeholders this will feel like a natural breakpoint for the project. There may be expectations that the project will be re-started at a later date.</p>	<ul style="list-style-type: none"> • Stop all activities quickly and decisively before any commitment to resource are made. • Include an evaluation of the case for future work in the close-out activities. • Where the case is not strong – ensure that the project is removed from future evaluations and 'officially' taken off the project lists.
Execute	<p>By this stage there is both inertia and commitment to complete. Multiple stakeholders will have expectation of the project and the termination may be regarded a failure to deliver. For some stakeholder (e.g. business users) the termination will be seen as a 'relief' and there will be the temptation to seize the opportunity to shed their work-load as quickly as possible with little regard to ensuring the preservation of any residual benefits which could be salvaged. For others, the project is their primary home (and in the case of contractors – a main source of income) and they will use every opportunity available to delay the close out.</p>	<ul style="list-style-type: none"> • Define a close-out plan. Identify each stakeholder and take them through the close-out process and let them 'grieve'. • Ensure that communications go out as quickly as possible to deflect any early loss of committed resources required for the close-out. • Identify and communicate the 'salvage' benefits clearly - what we have already gained from the project. • If possible, identify what can still be gained by the commitment of

		<p>operational take-up of the products in their current state.</p> <ul style="list-style-type: none"> • Set and keep to tight deadlines for close-out activities – clearly demonstrate the commitment to close-out activities even in the face of ‘reasonable’ requests for “a little more time’ to ‘just finish this’.
Close out	<p>Closing the project in close-out stage seems an unlikely eventuality. The way this is likely to manifest itself is that pressure will be put on projects in this stage to curtail any of the normal close-out processes.</p>	<p>Discussed in the following section.</p>

How to stop a project

The project close-out stage is generally estimated at around 3-7% of the total expenditure on a project. This small percentage is mirrored by the very small amount written on it. In a recent literature review of articles in the academic project press we found no articles in the last five years majoring in this area. Turner’s Handbook of Project Management (Turner, 1999) does devote a whole chapter to project close-out, but at just nine pages in length, it is the shortest chapter in the book! Apart from exhortations to do it, and to do it properly, there is little valuable guidance on what’s important at this stage. Even PRINCE2™, the market leader in project method, merely states that “Every project should come to a controlled close”, and lists nine administrative activities, none of which address the fundamental purpose of a close-out.

Discussions of project close-out usually focus on the organisational benefits from managing knowledge and lessons learned back into the project profession (see Cooke-Davis 2005) and the fundamental requirement to ensure that the transfer into the operational environment occurs. The literature largely ignores the necessity of ensuring that the outputs from the project are handed over to their new ‘owners’ in such a way that they result in the desired beneficial outcomes, and ensuring that the stakeholders and team members are debriefed, both technically and emotionally,.

And these last two goals are even more important on a project which has been thrown into early termination. The increased pressure to walk away as early as possible, attempting to disassociate from what will be perceived as a ‘failed’ project, and the desire to become engaged in something valued, all work towards abbreviating the close-out process.

Project termination does not, however, necessarily result in a shorter or abbreviated close out stage. The prolonging of the close-out is a natural consequence of the types of risks described in the previous section, in particular the consequence of the escalation of commitment found in later stages of projects. In a survey of projects reviewed by CITI, the elapsed time from the termination point to when all resources were released and stakeholders were adequately informed of close-down varied by project stage as follows:

Initiation stage: 1-2% of total elapsed time spent on the project

Planning stage: 2-10% of total elapsed time spent on the project

Execution stage: 5-25% of total elapsed time spent on the project

Close-out: no data available

There is a clear case that in early termination the need is for an extended close-out process to support the salvaging of residual value from the project – see the mini case example. This is evident from our figures for any project which is beyond its initiation stage.

Mini case: ... *The project was stopped after 6 months with another 3 months left to run. It was felt that what had been delivered so far was good enough. But we then had to persuade the stakeholders of this. They just took the fact that the project had been stopped as an indicator that the products were unusable. A communication plan was developed but it took 1 month of hard communication work to really get people signed up to using the new processes.*

Making the difference

The need to cull projects within a portfolio is not a transient problem brought on us by the need to retrench. It is a natural consequence of running portfolios with changing and competing priorities. The culling processes must be made an integral part of the portfolio management process with clear and understood accountabilities into the Portfolio management structure.

To terminate projects successfully, we must address the technical and the human and political factors, involved in bringing it to a controlled and satisfactory conclusion. Closing out a project must, most crucially, involve the management of the close down of the commitment levels of all stakeholders. Without this the project is likely to suffer a prolonged, ineffective and potentially costly death – most likely as not to be reborn out of the ashes at some later date.

Project close-out, as is culling, is a management decision. It is not a technical response to a project finishing all its planned activities. After project selection/initiation, it is senior management's most important contribution to the success of its project investments – whether they are completed or culled – so it is an interesting question as to why this process still maintains its position as one of the least cared for members of the project life cycle.

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Further information about the Author

Louise Worsley

Louise has been a consultant in project management for 15 years. As the design authority for CITI she provides the link between academic research in project management and its practical application. As a project consultant she is involved in providing support and advice to organisations on how to obtain best value from portfolio, programme and project management practices.

Louise has a particular interest in the profiling of project managers – having been involved with this since joining CITI in 1994. She has profiled, job-shadowed and coached more than 500 project managers and gained real insights into what makes good project managers great. She is a part-time lecturer at The University of Cape Town and is currently working in South Africa, looking at how the identification of potential can be used to support the development of future generations of project managers.

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Further information about CITI Limited

CITI focuses on the application of 'best practice' project and programme management tools and techniques. For nearly 20 years we have researched, practised and taught project and programme management to many of the leading organisations in the UK.

Based in Newport Pagnell, Buckinghamshire, our project and programme consultants are dedicated and passionate about developing project and programme management excellence.

In addition to our permanent consultants, we employ the services of a large pool of associates who are profiled, developed and accredited to the exacting standards of CITI professional project managers. These individuals manage complex projects and programmes for organisations that seek a level of professionalism and predictability that comes with professionally trained project managers. Acting as role models, they lead by example, showing how the professional project manager behaves and leaves a lasting legacy in terms of attitude and outcome.