KPMG
cutting through complexity

PROJECT ADVISORY

Stakeholder management and communication

Leadership Series 3

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About the Leadership Series

KPMG's Project Advisory Leadership Series is targeted towards owners of major capital programmes, but its content is applicable to all entities or stakeholders involved with major projects. The intent of the Project Leadership Series is to describe a framework for managing and controlling large capital projects based on the experience of our project professionals. Together with our simplified framework, we offer a sound approach to answer the questions most frequently asked by project owners.

Introduction

Stakeholder management and communication is critical to the successful completion of capital projects. Connecting with the right people and satisfying stakeholder demands throughout the planning and execution phases can significantly affect the perception of a projects utility. This is true for the direct users and employees of the project, for the community in which the project is located and for the project owner.

Stakeholder management and communication can be complex and time consuming. Depending on the specific issues impacting your project (i.e. regulatory scrutiny, environmental concerns, local contracting opportunities, joint venture profitability) the successful management of stakeholder interest ensures that stakeholders:

» Have a voice.
» Participate in the management process.
» Contribute to the overall success of the project.

This installment of the KPMG Project Advisory Leadership Series discusses key elements of stakeholder management and project communication. The key stakeholders are identified, along with their responsibilities to the project, and we provide guidance on how to communicate effectively through tailored project reports. An outline for developing a monthly status report for formal record reporting is also presented.

1. Stakeholder identification responsibilities

What committees, boards or oversight groups should you have in place?

The appropriate level of stakeholder governance and oversight depends on many factors including the size of the project, its complexity, its financing, the number of participants etc. A large capital project with high visibility and multiple funding sources in the public sector will need more oversight than a smaller capital project for a private firm. In either case, a well balanced project governance structure includes several layers of management control. Multiple layers of management control allow for the escalation of stakeholder issues to the appropriate level of governance for appropriate risk mitigation and decision making.

For example, stakeholder governance oversight for a large transmission project may involve an entity's Board of Directors, the Executive Committee, the Capital Projects Review Committee and its Project Sponsor.

Board of Directors

The Board of Directors monitors an entity's largest capital projects, especially those with a high financial and reputational risk. The purpose of the Boards continued involvement is to remain informed and consulted about proposed management decisions and actions that may increase the risk of the project or result in significant cost growth.

Executive Committee

The Executive Committee approves and monitors large capital projects over a certain value threshold and those with high financial and reputational risk. The Executive Committee controls spending on projects in accordance with the entity's approved delegation of authority matrix and remains informed and consulted about proposed Project Management Team decisions and actions.

Project Board

The Project Board is responsible for ensuring that corporate policies and procedures especially stage gate approvals, fund authorisation and change management procedures are followed for all capital projects. The Project Board reviews project execution plans, estimates, schedules and risks for large capital projects over a certain value threshold and recommends spending approval in accordance with the entities stage gate approval process.

The Project Board collects and reviews project metrics on a monthly basis and challenges the data supplied by project teams before it is packaged for review by the Executive Committee.

Project Sponsor

The Project Sponsor is responsible for the overall technical and financial performance of the project and for the alignment of the project with the entity's overall business strategy. The Project Sponsor shepherds the project through corporate channels and is the point of contact for resolving stakeholder issues and complaints. The Project Sponsor and Project Director participate in Project Board meetings and present project information and updated to the Project Board.

Project Director

The Project Director manages the day-to-day function of the project team and is responsible for project administration, scope management, cost and schedule controls, quality assurance, project safety, risk and contingency management, stakeholder identification and communication, project reporting, document control and other assigned functions.

How do I identify other stakeholders?

Stakeholder identification occurs early in the planning stage through the project management teams understanding of the political, social, technological and historical context. For example, the Eurotunnel Project was the product of two previous failed attempts (in 1855 and 1973). Political will between the United Kingdom and France, improvements in tunnel boring technology, greater demand from business and the public to move freight and passengers across the English Channel and a myriad of other factors resulted in a third and final attempt and the successful opening of the Eurotunnel system in 1994.

Stakeholders can be both internal and external to the projects owner organisation. Internal stakeholders are those in the 'chain of command' for developing and approving the expenditure of project funds as identified in the section above. Engineers, consultants, construction contractors, equipment vendors, labour organisations, community watchdog groups, regulatory and public inspection agencies, utility companies, operators, users and others all compose the external stakeholder category. Stakeholders have one or more of the following interest in the project:

Approval: Whoever approves the development and use of a project is a stakeholder.

Financial: Whoever pays for the cost of a project is a stakeholder.

Resources: Whoever provides resources (e.g. labour, equipment, materials, and facilities) is a stakeholder.

Users: Whoever receives or utilises a project upon completion is a stakeholder.

Key stakeholders include the board, committees and oversight groups. In addition stakeholders may include:

- Corporate environmental, health and safety coordinator
- Finance
- Legal
- Procurement
- Human Resources
- Internal Audit
- Operations
- Other regulatory agencies
- Community outreach and public relations
- Industry outreach
- Contractors, vendors and suppliers.

TIP 01:

For major projects, especially regulated projects, there will be intense scrutiny from many project stakeholders on the current status of the project. This is why it is important to establish the reporting requirements during the planning phase so that key project information is available when needed by project stakeholders. It is also important to ensure that information is accurate and consistent so that regulators are not provided different or conflicting information. This may not be evident during the project but may become a problem if there is a project issue or challenge.

2. Stakeholder reporting

How do I know what is really going on, what the key risks are, and what specific actions I need to take?

It is particularly challenging for the project management team to custom tailor project reports and communication that specifically meet the needs of all possible stakeholders. Equally challenging is the project management team's role in efficiently managing stakeholder feedback and incorporating stakeholder inputs into the project management framework.

Once the project stakeholders are identified, it is the Project Director's responsibility, with assistance from the project management team, to develop communication plans that are specific to each stakeholder.

Collaborating with project participants and key stakeholders, the project management team will develop project performance measures based on stakeholder needs and expectations. Each tailored communication plan should address the following topics:

» Key interests, concerns and information needs.

» Specific events and occurrences to report.

» Level of involvement.

» Frequency of communication.

» Communication format.

To keep stakeholders informed the project management team must implement the various communication plans and reporting protocols. Dashboards, narrative reports, emails, websites, webcams and other forms of communication can be used to track the performance of a capital project. Dashboards are reporting tools that consolidate and arrange numbers and metrics on a single screen. Key elements of the dashboard should provide a comparison of the actual project results in relation to the project plan including:

» Percent of project completed.

» Percent of project budget expended.

» Progress on key project milestones.

» Contract status information.

» Revenue and expenditure activity.

» Funding commitments.

Other dashboard or stakeholder reports may include risk reports and look ahead schedules. Risk reports include a risk register that is updated on a regular basis or a combination of risk mapping, risk analysis and meeting minutes that discuss risk issues, trends and other risk related information. Look-ahead schedules are extracted from the master schedule to communicate the upcoming activities or milestones within a specified look-ahead period to ensure the resource and material planning occurs before the planned start date of the scheduled activities.

High profile projects often require more extensive reporting of activity compared to more routine capital projects. Meaningful reports should communicate straightforward project information provided on a regular basis. At a minimum, project reporting – especially for the internal stakeholders – should include updating information in the following areas:

Scope management: The process of approving designs, directing change orders, approving change order requests, reviewing submittals, responding to requests for information etc. The project management team works together with architects, engineers, long lead item vendors, contractors and sub-contractors to control the scope of the project. If a scope change is needed, the project management team must follow the prescribed process for reviewing and authorising changes before they are carried out.

Schedule management: The process of planning project activities, predicting the timing of future activities and progress reporting. It serves as the basis for monitoring and controlling project activities to meet the interim completion milestones and the final project completion date. The critical path method is a technique used to develop and track progress. Typically, progress against the critical path and against near critical path is reported to stakeholders on a weekly, bi-weekly or monthly basis.

Cost and financial management: Involves the reporting of period and cumulative project cost information, as well as forecasting project costs into the future based on cost trends and indicators. A common technique used to monitor project cost is Earned Value Management (EVM). EVM uses both schedule and cost inputs to compare the actual performance of a project against planned performance.

Environmental Health & Safety (EH&S): Depending on the size and scope of a project, either the owner or the contractor will be responsible for establishing the EH&S standards for a project. If the contractor is responsible, then it will develop a detailed safety plan that includes worker training on the safety and health hazards that are applicable to the type of work being performed. The contractor must have a formal EH&S management system in place to report it's EH&S statistics on the project.

Risk management: Risk management is the process of identifying, analysing, mitigating and monitoring project risks. Risk management helps to ensure that project managers and Project Sponsors make informed decisions regarding project risk. The key tools and techniques that are used to monitor project risk include risk mapping, risk registers and risk dashboard reports.

During the course of a major capital project, stakeholders receive progress reports from the project management team. These reports may be distributed daily, weekly, monthly or on an ad-hoc basis. The target audience and frequency of progress reporting will vary based on stakeholder needs. To make progress reports more meaningful, progress reports are tailored to specific audiences.

Typically the audiences will include senior management, the Project Sponsor, and local community representatives. Senior management must be able to understand and monitor 'big picture' progress and focus on cost, schedule, high level risks and strategic project objectives. The Project Sponsor will need to have more details about project performance and be briefed on issues such as technology, permitting progress, schedule delays, cost trends, claim issues and safety. Community representatives need status reports that communicate project milestones and major events. Project milestones may include completion of the projects design, outages or planned closure of roads and highways, environmental impacts, local hiring and community outreach.

More important than the routine dissemination of project information is the need for the project team to reach out to the stakeholders and to keep them engaged in the project. Stakeholder engagement should be seen as a critical success element on all projects. Stakeholders have a vested interest in project outcomes, and they can often enhance the positive benefits of a project and limit its negative impacts. Stakeholder engagement should be seen as an opportunity to both clarify project objectives through stakeholder challenges and gain fresh insight on project issues and challenges.

How do I make sense of all the data that comes out of the project?

Managing the massive amount of data generated by a large capital project can be a daunting task for the project management team. Capital projects may have hundreds or thousands of assets along with construction drawings, specifications, design instructions, contracts, subcontracts, vendor agreements, schedules, quality inspection records, cost audits, progress reports, operations and maintenance manuals and other project records. Construction owners that have policies, procedures, systems and controls in place to capture and manage this flow of information are better able to communicate effectively with stakeholders and reduce information-related risks.

Companies may consider utilising a capital planning and project management software solution that can deliver strong cost and schedule controls combined with automated cash flow analysis and reporting capabilities. When establishing a data system specifically for capital projects, the following factors should be considered:

» The appropriate technological solution for project accounting, scheduling, and reporting positional roles including access, input and editing privileges for system users who will be charged with complying, analysing and reporting financial and management information.

» The process for controlling and managing project changes.

» Accountability and data integrity within the financial management system.

» Data accuracy, particularly in the case where there are interfaces between separate information systems such as geographic information systems, project management systems and financial systems.

» Triggers and protocols for identifying and addressing project cost overruns.

TIP 02:

High profile projects have brought attention to the difficulty of maintaining records that accurately reflect the configuration, maintenance and operating limits of facilities exposing companies to:

» Fines/penalties.

» Political backlash.

» Increased regulation.

» Lost revenue.

Increased capital investment requirements

It is important for companies to have an integrated approach for records management that addresses information/document management not only during construction but also throughout the lifecycle of design – construction – operations – maintenance.

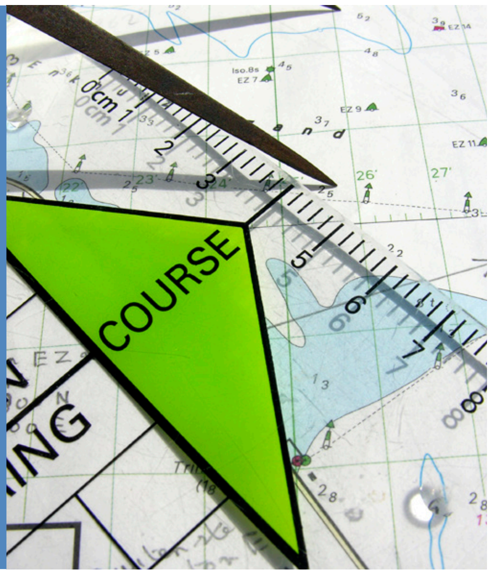
This approach should help:

» Improve public safety and awareness.

» Comply with regulatory requirements.

» Enhance risk mitigation for aging infrastructure and minimise property damage.

» Establish standard records management throughout the lifecycle.



What documents do I need to collect and summarise each month and retain as a 'record copy' for monitoring, compliance and risk management purposes?

Determining the format of the monthly progress report and deciding what supporting documents are needed for monitoring, compliance and risk management purposes is also a significant challenge for the project management team. The monthly project report is the main tool for communicating progress, issues, concerns, financial status, earned value and other key information about the project. Much of the information in the monthly progress report is summarised from raw data and lower level project records. For example, the overall percentage of completion compared to the projects baseline plan is derived from numerous cost, schedule and resource records along with observations made by the project team in the field.

Though the monthly progress report is used by multiple stakeholders, only sections of the report may be relevant to their specific interests. Therefore, it is important to indicate to stakeholders where additional compilations or raw data can be found. This is particularly important for reporting safety incidents, environmental spills, archaeological finds, testing and inspection records, and other data required to be maintained by regulatory agencies. The monthly project report should be developed as a structured document containing meaningful information to answer most stakeholders' questions at a high level.

Similar to organisations monthly close process for financial data, the project team must also complete a monthly close process to preserve and link important information about the overall status of the project. The information will be used by accountants, auditors and other stakeholders to track progress and discern data trends for management reporting and action. The objective is to compile a monthly project report organised by subject matter and containing complete and accurate information. The reporting format must be consistent from one month to the next and must not contain ambiguous or conflicting information coming from different parts of the project. Typical monthly project reports contain the following sections:

Executive summary: Summarises overall progress for the current period and identifies both positive and negative project results in key management areas.

EHS statistics: Summarises any lost time accidents during the current period and any project related environmental or health concerns.

Progress: Provides a high level overview of key milestones and project dates.

Scope management: Provides an update in changes to the project scope.

Schedule performance: Provides an update on actual project performance compared to scheduled milestones and completion dates.

Budget/Cost performance: Provides a summary of the initial project budget, actual costs, approved adjustments, contingence balance and expected financial project costs.

Risk analysis/Contingency management: Provides insight into the risks associated with the project, their significance and the proposed mitigation plans. Summary progress statement and certification by the project manager.

Appendices: Which should contain the submittals log, request for information log, change orders, schedule reports, estimate at completion variance report, risk matrix, claims log, non-conformance reports, major equipment log, progress photos and organisational charts.

CONCLUSION

Stakeholders are essential to the successful planning and execution of all projects. Stakeholders are a valuable source of knowledge and problem solving and their participation and involvement on large capital projects is to be welcomed and expected. Stakeholders' are a diverse set of individuals and groups with differing agendas; however stakeholder management is complex and time consuming.

Whether a project owner is in the preliminary stages of a project development or just starting the execution phase, stakeholder identification, communication, feedback and reporting are important processes to implement for project success. Project owners that communicate effectively with their stakeholders are better able to manage expectations and deal with the many issues and risks that affect large capital projects.

About KPMG Project Advisory

KPMG's Project Advisory services are objective, professional approaches to managing the many risks associated with major change: risks that involve complexity, technology, governance, selection and management of vendors and partners, implementation of solutions and acceptance of change throughout the organisation.

KPMG applies leading concepts and practices, supported by:

- Experienced practitioners
- Recognised best practices
- Effective tools and templates
- International standards
- Built-in knowledge transfer

Project Advisory Services can assist organisations to generate significant cost savings by minimising poor selection decisions, costly overruns, misalignment with business needs, poor quality deliverables and failed projects.

Our Project Advisory services include

INDEPENDENT QUALITY ASSURANCE (IQA)

Is your project or programme on track? Are the key risks and issues being effectively managed and addressed?

Independent Quality Assurance is KPMG's approach to providing objective, practical and open feedback to senior executives, independently assessing project status, risks and issues. Advice is provided by experienced staff who are not part of the delivery team.

PORTFOLIO, PROGRAMME AND PROJECT MANAGEMENT (P3M) PRACTICES

P3M provides services for the purpose of designing or evaluating portfolio, programme, or project management practices. The objective is to assist in implementing or improving P3M practices to reduce project costs, increase project success and create an organisational P3M support environment which is valued by internal and external stakeholders alike.

LARGE PROJECT AND PROGRAMME MANAGEMENT ASSISTANCE

This cornerstone service of KPMG's Advisory practice is designed to address the full lifecycle of a project or programme, providing an integrated approach to managing large initiatives – the result: significant efficiencies and enhanced outcomes. The methodology incorporates concepts from well-known risk, benefits, project and quality management disciplines to help companies achieve the results they expect during every phase of a large project or programme.

PROJECT RISK ASSESSMENT AND MONITORING

These services provide a highly focused, activity-based approach to project risk management. They provide management with an objective and independent assessment of the risks associated with a business initiative, programme or project, and evaluate the effectiveness of planned or implemented controls to mitigate the risks.

BENEFITS MANAGEMENT AND REALISATION ADVISORY

KPMG professionals help you identify the measurable business changes that you will to see at the successful completion of your project and to tie these into an effective Benefits Management and Realisation strategy which can be referenced in your Business Case. Even for projects where outcomes are "enabling" or "intangible", our Project Advisory team will be able to assist with the identification of proxy indicators and benefit relationships to support the approval of your Business Case and its successful delivery.

PORTFOLIO MANAGEMENT

Effective portfolio management helps large organisations make sound decisions by prioritising the deployment of scarce resources to change initiatives and maximising their value to help achieve the organisation's strategy. Organisations operate in increasingly dynamic environments, which often make it a struggle to satisfy fluid business requirements.

KPMG's Portfolio Management (PfM) Advisory and Assistance services help organisations to develop appropriate processes and capabilities to achieve this aim. We provide practical guidance for conducting capability development, maturity assessments and performance reviews. Our methodology provides a flexible, comprehensive approach that can help our clients achieve their goals.

PROGRAMME MANAGEMENT OFFICE ASSISTANCE

Programme Management Office Assistance is intended to help our clients develop the processes to support a Programme Management Office. We assist with the development of a client's programme office processes and facilitate communication across client leadership to help make sure that enterprise programme initiatives are aligned with the organisation's business strategies. The focus of the PMO is to increase project visibility across client leadership in order to help achieve strategic programme performance.

PROJECT ADVISORY

Our practitioners know that successful projects are the result of clear vision, careful planning, and meticulous execution.

Bottom line: Project Advisory services drive speed and effectiveness of change within your organisation by reducing costs and increasing success.

Leadership Series

Please look for further important topics covered by our Project Advisory Leadership Series in the coming months:

» Budgeting, estimating and contingency management.

» Governance and project controls.

» Monitoring capital projects and what to do if one is in trouble.

» Project delivery strategy.

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