

Maximizing strategic value from megaprojects: The influence of information-feed on decision-making by the project manager

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Abstract

Large projects are notorious for erosion of value during execution. Decisions made by project managers have a significant impact on the strategic value of the asset delivered, and those decisions depend on the information feed on which they are based. This study uses theories of organizational behavior, decision-making and program management to investigate the impact of information feed used by project managers on the strategic value delivered by mega projects in the oil and gas industry. A global survey of 69 managers of mega-projects was conducted. Results showed that information feed to project managers significantly influences the strategic value created by megaprojects. Also some moderating effects of contextual factors on this relationship were found. The contextual factors that influenced project manager decision-making relate to what they perceived to be Senior Management drivers for their projects. However the hypothesized moderating influence of project manager experience on decision-making was not found—an interesting observation. It was found that the extent to which project managers feel in control should influence the scope and quality of information-feed that should be sought. Four risk areas were observed as significant to long-term value creation from megaprojects: government relations; host community relations; contract management and procurement; and the influence of multi-location execution.

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1. Introduction

Megaprojects are programs that integrate strategically-aligned projects into one very large project (Miller and Lessard, 2000; Jaafari, 2004), and are used by the oil and gas industry to deliver key strategic assets. In recent years, most of the large oil and gas companies have been re-investing much of their annual profits

(up to 90% in some cases) as capital expenditure, (Royal Dutch Shell, 2008; ExxonMobil, 2007; BP, 2007). Megaprojects typically do not leave the socio-economic life of communities impacted by their implementation. The financial and social stakes on megaprojects are so large they can endanger the survival of corporations and threaten the economic stability of the countries involved (Miller and Lessard, 2000).

The performance of megaprojects in the oil and gas industry has seen little improvement over the last decade (Merrow, 1988; Merrow, 2003; Fayek et al., 2006). Underperformance includes substantial shortfalls in benefits such as financial performance of the delivered assets, social acceptability, regulatory compatibility, and future business opportunities (Merrow, 1988; Merrow, 2003; Miller and Lessard, 2000; Fayek et al., 2006). The seeds of this underperformance are often sown early in the execution phase, yet not much can be found in

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literature on this phase of megaprojects (Miller and Lessard, 2000; Grun, 2004).

Organizational behavior theory suggests that the ability of a person within an organization to influence its strategic direction is a function of the amount of resource allocation he or she controls (Brower and Gilbert, 2007), and not necessarily his or her seniority. The managers of megaprojects can be responsible for the allocation of between \$0.3 billion to \$20 billion. The ability of these senior project managers to influence corporate strategic direction should not be underestimated. Failure of just one project can potentially wipe out the entire annual profit of an oil and gas conglomerate. The strategic performances of businesses are underpinned by decisions, and the cost of poor decisions can be high. This study aims to draw attention to how the decision-making of project managers during project execution can impact on the long-term strategic goals of corporations. Two research questions are addressed:

- which factors of information-feed supporting project managers’ decision impact the strategic value delivered by megaprojects for the sponsoring organization the most?
- how can the decision framework of the managers of megaprojects be enhanced?

Information is critical as an input into the decision process. A positive correlation has been established between business performance and decision-making practice (Thomas et al., 1993; Mackie et al., 2007), and since a program is a temporary organization, a correlation between program performance and decision practices should be expected (Thiry, 2004). Flyvbjerg (2007) has observed that the main challenges of megaprojects is inadequate, unreliable or misleading information; and conflicts between decision making, policy and planning.

The perspective of this research is from the view point of the project manager, with focus on how decisions made by the project manager during execution impact on the strategic value delivered by the megaproject to the sponsoring organization. Fig. 1 illustrates the typical project delivery process followed by most oil and gas corporations. The process is decision-based, but heavily biased towards the project front-end where the most value is created. The execution phase activities and deliverables enable the realization of value, and is where projects managers take the lead.

In the next section we consider the nature of megaprojects, and then decision-making on megaprojects and we introduce the hypotheses. We then describe the research methodology and results of the study. We conclude by discussing the implications of the study.

1.1. Theoretical framework and hypotheses

1.1.1. Megaprojects and the program management paradigm

A megaprojects is a special case of a program, and as such is a set of multiple, but related projects directed towards common strategic and business objectives; which generates benefits beyond those that would have been generated had the projects been done individually (Office of Government Commerce, 2007; Project Management Institute, 2006, 2008). This is the nature of oil and gas megaprojects, which are essentially programs that integrate strategically aligned, commercially viable and logistically combinable projects under a single management umbrella. They usually cost over \$1 billion, involve high uncertainty, comprise intangible benefits and promise attractive long-term outcomes (Miller and Lessard, 2000; Flyvbjerg et al., 2003). Compared to traditional projects, they have long project and product life-cycles, are significantly less predictable in terms of time and

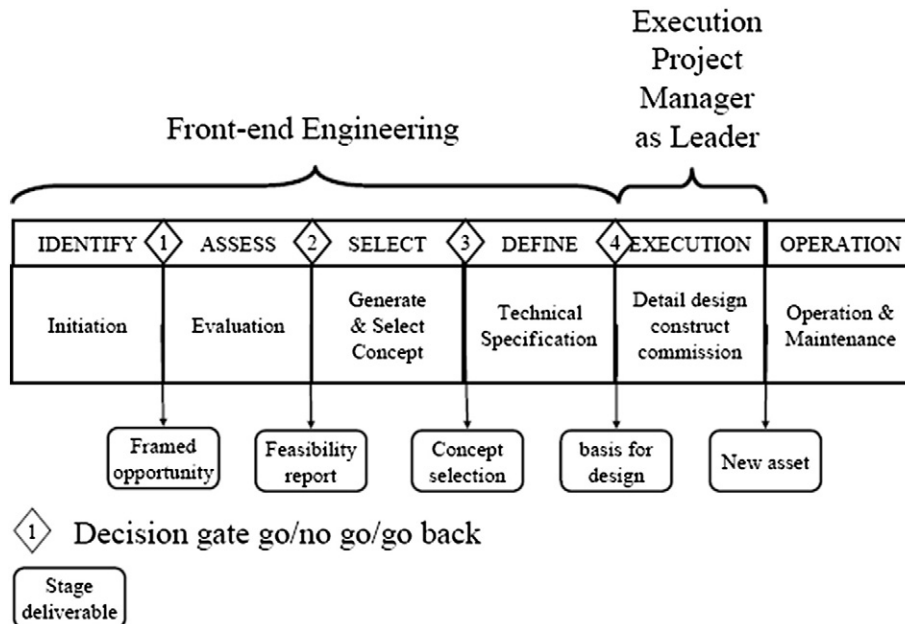


Fig. 1. Opportunity and project realization process in the oil and gas industry.

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