

Midocean University

College of Management

Department of Project Management



**The Effect of Using Descope Methodology on Contraction Projects by Contractors to Close Out
Project with Maximizing Profitability**

Prepared by:

Mohammad Ali Albazzaz 232001141

Supervised by:

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Abstract

This research highlights the challenges contractors face in construction projects due to delays in obtaining valid quotes from stakeholders or misestimates during the bidding and estimation stage.

- **Multiple Stakeholders:** Construction projects involve numerous stakeholders impacting materials and services based on project and client needs.
- **Delays in Quote Validity:** Extended technical clarifications and negotiations often exceed the validity period of external stakeholder quotes, causing issues for contractors.
- **Impact on Project Budget:** Contractors estimate budgets based on initial quotes, but delays can lead to cost discrepancies when the project transitions from estimation to execution.
- **Solutions and Potential Consequences:**
 - **Variation Orders:** Requesting client approval for increased costs due to changes in external quotes can be challenging.
 - **Descoping:** Removing project elements to stay within budget may harm client relationships and project scope.

Introduction

Most of construction projects in various sectors, number of stakeholders are involved either related to materials or services which are depends on project and end user or client requirements. Usually, during bid or estimation stage contractors are building their proposal technically and commercially according to outsource stakeholder's offers.

As is known, one of main points in techno-commercial quotations is the offer validity, which is the period between offer submission by contractors to PO or order placement by client is subject to multiple technical clarifications and commercial negotiations, which is mostly exceeding the validity of external stakeholders' offers. Such delay might affect contractors with holding estimated budget from vendors, suppliers, or any service provider.

The main concern will be highlighted once PO or order placed by client to contractor and the project shifted from contractor's estimation team to project team to start project execution and revalidate the project budget and scope of work. The Issue will be with the estimated budget against materials or services that fixed by estimation team and to move forward with external service providers procurement process initiating project cash flow and scope of work.

Project team will face challenges to maintain same budgeted costs with external service providers or even with internal team manhours, most likely project team will force client to accept variation order against increase of external service provider offers or flagging unclear scope of work which will be difficult approach. Descoping could be a solution to avoid conflict with client or end user and to maintain project profit or even to increase it, as well as to ensure sustainability of the relationship with client or end user, descope method will secure contractor from activities that not estimated which might be out of contractor's business core or inability to bear its cost.

Research Problem

Our research problem is that project closure of construction projects by contractors that affected negatively due to unclear scope of work, wrong estimation of manpower or services, and increase in materials cost by manufacturers. While maintaining relationship with client and controlling or mitigating project planned cost, or even maximizing project profit.

Contractors may approach descoping method also due to change in their business expertise or difficulties to negotiate a change order with client. Overall, contractor must close out projects smoothly especially with major client or end user without effecting the relationship and be in huge loss. Descoping project tasks isn't always a bad thing sometimes it's the trick to meet your objectives. Therefore, what is the process for descoping project's activities and degrade project impact?

The Importance and Objectives of The Research

Our research consolidated in project closure process, which is last process in project management process groups according PMBOK 6 edition figure 1 illustrate the interrelationship of project components and closure process in project life cycle, most of organizations that operate upon projects facing challenges during project closing process. Following are objectives of the research:

- To study closing process solutions for smooth project closure and avoiding any impact.
- To identify the impact of descope construction projects on contactors financially and organization market position.
- Formulating descope decision for securing project budget and avoiding legal conflict.

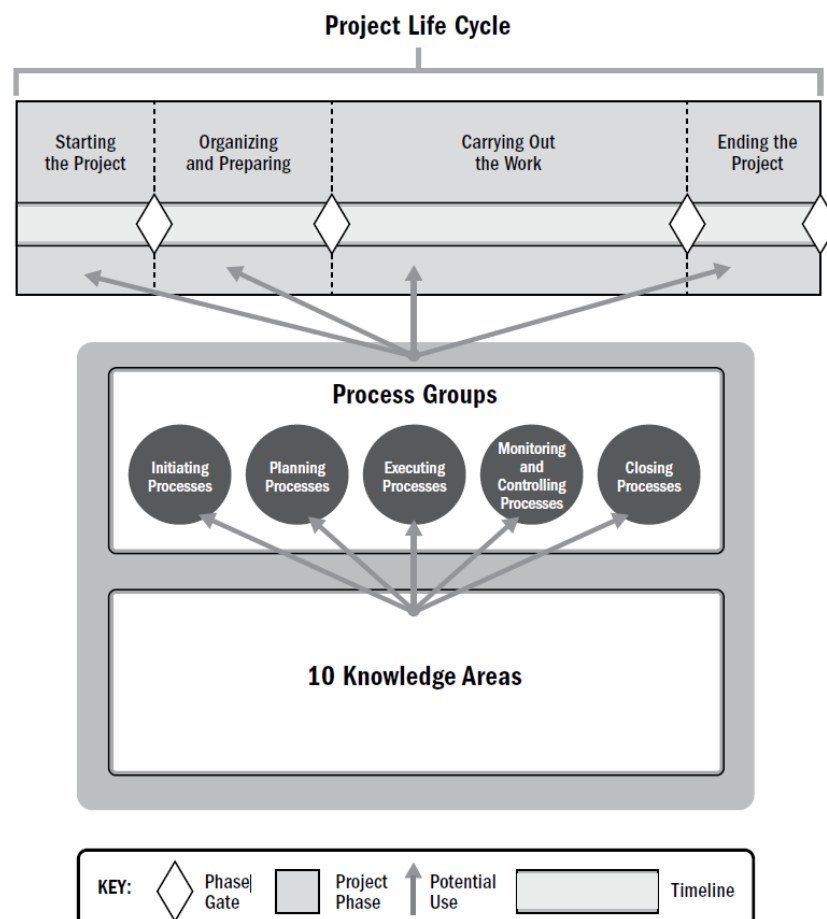


Figure 1 : Interrelationship of PMBOK® Guide Key Components in Projects.

Research Hypotheses

Project's outcomes are set of deliverables which formulate objectives of the project, and project's milestones which is target of contractor to achieve it to maintain project cash flow or objectives. Therefore, the significant relationship between project deliverables and milestones must be addressed during bid stage or commercial negotiations between client and contractor.

We focused on our research that project's milestones alignment or breakdown does not match with project deliverables due to servals reasons like wining the project without proper estimation of the project's tasks time or cost. Descoping project tasks could be a solution for contractor to avoid bearing unplanned cost or time of the project's activities or to benefit of project contract gaps furthermore, taking a chance of contract clauses breached by client.

The relationship between contract payment terms, project's deliverables, and project's milestones must be addressed during estimation stage which is the contractor responsibility to ensure it align with project resources and risks that may appear while executing project activities, as figure 2 illustrate that project payment terms, milestones, and deliverables are overlaps and its breakdown over project life cycle could control project cash flow positively and smooth execution process.

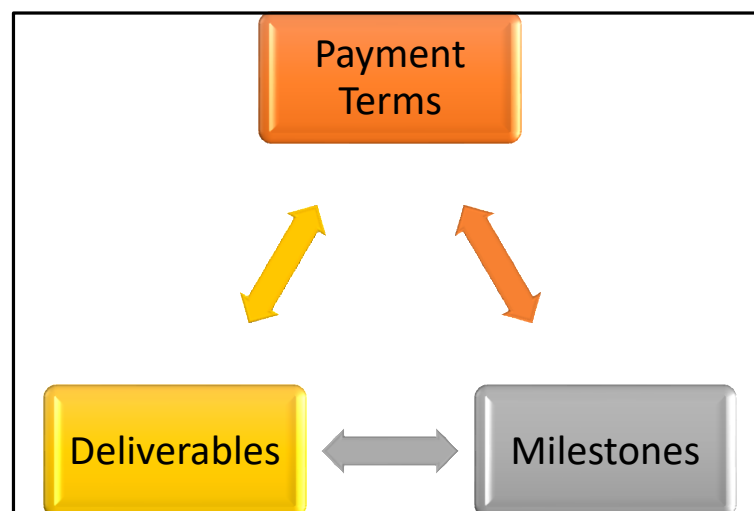


Figure 2 : Relationship of Project Payment Terms, Milestone, and Deliverables.

Literature Review

When a project falls behind schedule due to poor estimates or missed deadlines by a client, saving money can be a challenge. Descoping tasks can be a way to get back on track and meet your organization or project objectives. This can help ensure your projects are closed out efficiently and contribute to your business direction. According to Lauren Maffeo analyst at Gartner, descoping typically occurs after the initial planning and scoping stages are complete. These earlier phases establish the project's milestones and the estimated time and cost needed for each task. The need to de-scope usually arises during the project execution phase or after achieving 60% to 80% of project progress.

Multiple milestones that match with project deliverables for the construction projects play huge role to boost contractor execution and alignment with project owner objectives for closure stage, considering the right estimation of task time, cost, or resources. Descoping tasks after 60% - 80% progress might affect contractors with blacklist and their contribution again with client for new bids, as such approach will hurt client objectives from the project. Lauren Maffeo formulates following steps to descope project tasks:

- 1- **Analyze the task:** before we descope a task, let's take a close look at how it affects the project's goals and deadlines.
- 2- **Align user needs with the task's goal:** after analysing the task, explain how taking it out will actually make things better for the client.
- 3- **Use idea management to learn if the task is high-priority:** if you can explain your de-scoping request in relation to what management and client want, you will make a much stronger case.
- 4- **Confirm the level of effort vs. stakeholder value:** even if the task isn't crucial for stakeholders, we need to consider how much work it would save our team by descoping it.
- 5- **Ask your project team for feedback:** we can't just descope features on a whim. Getting the project team and key decision-makers in a room to talk about it is a must and understand descoping effects.
- 6- **Own the final outcome:** while team input is crucial, the final call rests with you. Carefully weigh all the information, including your initial assessment, before deciding to descope the task.
- 7- **Write all the details down:** communicate descoping tasks formally with client and stakeholders.

Research Methodology & Study Tools

Our research employed a mixed-methods approach, combining researcher expertise with data collected from a survey. This survey evaluated the general understanding of descope methods as applied to project tasks.

According to researcher experience, descope project's tasks helps in maintaining the relationship with client and maximize project's profit. Descope idea developed after analysing two major risks in one of the projects as threat and opportunity, the threat was miscalculation of resource costs at the bidding stage could be considered a contractor fault, potentially leading to a situation where a change order becomes necessary to complete the project within budget. However, client rejection of a change order due to the initial misestimate would be normal practice which bounded in the project contract. Therefore, duty of the project manager to look for an opportunity to avoid impact and formulate a solution to move forward with project closure. After several reviewing of project scope, a lacuna founded as chance which is force client either to accept change order as per contractor new estimate or to consent the descope mothed, usual its contractor want to descope due to the requirements of expertise which missed during biding stage or time and cost behind it to perform the remaining activities.

Based on a survey, project managers identified in average 23% of handled projects with wrong resources estimation which has a discrepancy between estimated and actual resource requirements during project execution. The current focus on winning projects, even with potentially inaccurate estimates, seems to be prevalent across many organizations. This practice can negatively impact project progress, resource allocation, and adherence to budget. Ultimately, this misalignment can lead to conflicts between business needs and client expectations. One potential solution to mitigate the impact and preserve the client relationship is to descope certain project activities. However, it's important to acknowledge that a common perception, based on a survey, descopeing is limited to removing only a small portion of the project scope of work or activities.

Effective descopeing requires a thorough review of the project's Statement of Work (SOW) to identify potential areas where the scope can be reduced. This analysis should consider opportunities to address gaps in the current scope and optimize project deliverables and milestones within the agreed-upon contract timeframe.

Research Limits & Recommendation

This study focuses on construction projects with fixed deliverables, contractors typically align these deliverables with payment schedules, establishing project milestones in the process. Due to the nature of construction projects, which may involve ongoing service requirements like warranties or maintenance activities, project owners frequently retain a portion of the final payment until a period exceeding the agreed project timeframe has elapsed. While this practice aims to guarantee the achievement of the project's objectives, it can have a detrimental financial impact on contractors.

Therefore, the challenge that contractor face during estimation with client commercially and they must dispute for is the alignment of payment terms with project deliverables enable to execute project scope smoothly. Most of contractors' experience in construction or EPC projects that its deliverables breakdown into design process with multiples transmittals then materials delivery followed by planned construction activities.

So, the key for descope any of these activities in case the project's tasks delayed or impacted due to reasons caused from project stakeholders can be formulated as follow:

- Study and review the activities that planned for descope and its impact to project objectives.
- Analyse descope activities in term of time and closing the project.
- Assess threats behind forcing project owner to close the project with partial executed scope of work and maintaining the relationship.
- Calculate descoped activities cost and price as per contract payment terms.
- Formulate change order of planned activities to be descope considering limited time frame and resources required to close out the project.
- Communicate the proposal with management for internal approval.
- Escalate officially the two proposals to client, which usual will ended with rejection of the change order.

As conclusion, client will be forced to accept the idea of descope the remaining tasks, since the project duration exceeded the contractual timeline. While this approach necessitates transitioning to a more formal legal communication style between both parties, the contractor's primary focus remains on delivering the project within contractual timeframe which breached by project owner.

Reference List

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