

Program Initiation

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Lecture 4



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Program and Portfolio Management

Program initiation is a process where a program's foundation is laid, and the beginnings of its scope are framed and defined. And, although the Project Management Institute (PMI®) states that the Initiating Process Group “defines and authorizes the program or a project within a program, and produces the program benefits statement” (PMI®, 2008b, p. 40), the reality of initiating a program, the thing that gets it going, occurs way before this point.

the reality of initiating a program, the thing that gets it going, occurs way before this point. Before organizations are going to commit the “what” of a program, i.e., providing resources for defining, authorizing, and generating benefits statements, organizations will want to know the “why’s” of a program. Specifically, “Why is this program necessary?,” “Why is this work a priority?,” “Why should I take risks on this opportunity?,” etc.

Before we can begin to learn what is necessary to initiate a program, it is necessary to have an understanding of what a program is. Is a program simply a really big project? Is it a bunch of projects cleverly managed by one very skilled project manager? Many programs may be extremely large. Programs may often be expensive and can contain multiple complex projects. But, despite the many myths on what it is or is not, a program is really much more precise.

A program is a strategic method of managing two or more related, but temporary, endeavors. Each endeavor typically creates a unique product, service, or result (PMI®, 2008a, p. 5), and is integrated with the other endeavor(s), to bring about a common outcome or collective capability that would not have been otherwise available from managing the efforts individually. Moreover, the relationship among the endeavors must be more than that of a common client, seller, technology, or resource.

Program endeavors are commonly known as the program's components. Components not only consist of the individual projects residing under the program but can also include future ongoing operations, other programs, and the program's infrastructure. Most of the components in a program are created after the program is initiated; however, it is not uncommon for programs to inherit existing components and resources.

When this occurs, it is important to remember that the program also inherits all of the associated risks, costs, and other “baggage” that the component previously had. In addition, each and every component must be initiated, integrated, planned, executed, controlled, transitioned, and closed at the program level, if overall success is to be achieved. And, to end successfully, a program, and all of its components, must be initiated successfully.

While identifying what a program is may be the application of pseudo-scientific and, perhaps financial principles, initiating and managing your program is an art that will take great finesse, rigor, skill, and experience. To make a simple analogy, just because you have the carpentry skills to build a piano does not mean in the least you will have the talent and ability to play it; likewise with programs. Just because you can identify what a program is or that one needs to be created, does not mean in the least you will have the talent and ability to initiate and lead it effectively.

Project managers should beware! Project management skills, though required, are never enough to successfully handle programs, which are distinct from projects in both their complexity and purpose. And generally speaking, for reasons to be discussed later in this chapter, project managers may not always make good program managers.

Too often, companies are quick to say that they do not have, or need, for that matter, program management. They often think, albeit incorrectly, that program management is merely an advanced level for the project manager to reach. And, relying on success with the smaller, “everyday” type projects familiar to one’s organization, complex mega-projects (or huge infrastructure modifications, for example, usually are termed projects, but may be better suited if managed as a program) and/or programs that infrequently arise often turn out benefits late and are over budget.

Caution: program managers require special skills!

There are many skills necessary to be a successful program manager, and, many of these skills, though similar in name and principle, are distinct from the project manager's skills. Consequently, not all project managers make good program managers.

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First, program managers must fully understand the organization's project management methodology. They should have had a successful track record of managing projects, and it should be second nature to them. Building upon this elementary foundation, however, is the concept that programs, unlike projects, change often. Consequently, change is an expected and planned part of the program manager's daily routine. This change, occurring naturally, is difficult for senior management to grasp and understand.

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Most companies want certainty and consistency; they do not have the processes, and often the patience, in place to deal with change that should be an expected part of the execution of complex mega-projects and programs. Consequently, communication is a crucial part of program management.

And, while both project and program management require excellent communications and leadership skills, the program manager's skills in these areas usually function within some form of political arena.

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The most common political venues are at an organization's senior management or Board of Directors (e.g. for resources) and at the city, state, and federal government levels for permits, funding, zoning, exemptions, etc.

Do not accidentally immediately jump into planning or executing!

Deadlines for the project, the demand of the sales and business teams, the past experiences you have as a project or program manager all contribute to one key fact—it is easy to get trapped into doing planning and executing tasks before you get through initiation!

The planning process is designed to generate specific deliverables. The Program Management Plan, including its subsidiary plans, for example, is the primary output of the planning process.

Executing on the other hand is all about executing this plan. Unfortunately, many effective program and project managers get confused. They think that the program management plan is all about the planning phase. In reality, just because the planning phase solidifies the steps necessary to complete the program management plan, i.e., it must be completed before you can execute your program, a significant amount of the information needed for the plan is gathered during the initiating phase.

Because programs are large, they are often very expensive. Unlike projects, programs usually require a significant financial commitment up front whereas the capital returns usually occur much later. On a mega-project, for example, millions of dollars may be spent investigating the feasibility of the program only to learn that the program is infeasible.

Because of this fact alone, a repeatable process to investigate programs should be in place. This process will help manage expectations when you have to tell your executive committee or governance board that you spent an exuberant amount of money only to have to recommend that the program be discontinued.

Once you have estimated what your initiation effort is going to cost your organization, your stakeholders love the deliverables you are going to produce, and the timeframe you are going to produce them within, what are the next steps? First, you will have to focus on estimating the total costs for the program, which includes the initiation effort costs, and how you are going to pay for them.

However, an estimate is a guess, albeit an educated guess, but a guess nonetheless. Unless you have a crystal ball, no one knows what the final cost of a program will be until the end of the program. And while this may seem elementary or obvious, what it means to the program or mega-project may not be well understood within your organization.

During program initiation, the estimate is a range of collective component and program costs bounded by some upper and lower limit. This range is determined by the level of scope definition and the understanding of the risks, known at that time, to the program. The Association for the Advancement of Cost Engineering (AACE) defines different estimate class ranges.

These ranges are outside the scope of this chapter, and too often companies use this information incorrectly. They target a particular class that they believe suits their needs rather than letting the definition of the scope dictate the class of the estimate.

For example, a company can close a deal with $\pm 10\%$ of costs versus $\pm 50\%$ so they want a Class 3 estimate, in which low is 10% to -20% , and high is $+10\%$ to $+30\%$ and 10%–40% scope definition (AACE, 2011). The error in this logic is that the Class 3 estimate also requires that the scope definition be 10–40% known, with 40% necessary to achieve the tighter ends of the range.

Rarely is 40% of the scope known when initiating a program. This leads to the paradox in most organizations: companies need to know what a program is going to cost to make deals and get financing. How can they do so with a range of numbers?

The correct way for organizations to handle this problem is to place contingency and management reserve on the estimates to address the unknowns. The contingency is based upon a mathematical model, which predicts the probability that a particular risk will occur. Collectively these risks are integrated together to arrive at a range (S-curve) of numbers where the project will turnout.

The base estimate has an accuracy defined by the scope definition, and then there is a contingency that is calculated based upon the probability of risk occurrence; e.g., Monte Carlo simulation. In this manner senior management can now select a number that has a high probability that can be achieved.

Once costs are estimated, the next step is to determine how to pay for your program. Bonds, stock, financing, joint ventures, capital reserve, etc. are all valid methods. The method, however, is not as important as the framework. Once the method is in place solidified by a valid agreement, it is important to determine the terms of your financial framework and how it affects every area of your program.

The financial framework could affect your reporting, your cash flow, schedule, governance, software, etc. The most important takeaway is to integrate your financial plans into your overall program charter and preliminary program management plan so you can present your findings to your governance committee or Board of Directors for approval!

Reference

Program Management: A Life Cycle Approach
by Ginger Levin, PMP, PgMP

Chapter 5