

Rewarding Good Project Management in Italy

By Dick Cowan, PMP

(Dick Cowan, a former Sacramento Valley Chapter officer is on a two-year assignment in Italy for his employer, O'Brien Kreitzberg. He has offered to be the Chapter's overseas correspondent.)

The PMI Guide to the PMBOK tells us that successful *Integration of projects* requires that both *the work of the project*, including its final product, and *product producing processes and the management of the project* be fully considered in the project's planning, and the products of planning such as schedules, budgets, reports, quality control plans, product specifications and drawings, and contracts.

While the U.S. Navy in Italy has long experience in achieving the *work of their design and construction projects*—delivering facilities for Navy ships, planes, and people—the people leading the Navy's construction efforts there have been dissatisfied with the *management of the projects*. The Navy has learned to design and specify high quality Italian materials and equipment for the completed facilities. But choose whatever one might blame, cultural or language differences between America and Italy, or Italian methods of contracting, it is safe to say that too many of the Navy's Italian construction projects have suffered from:

- Late completion, sometimes very late completion
- Late purchases of key materials and equipment, late manufacturing and delivery of these key items
- Poor scheduling of work, poor forecasts of completion dates
- Poor starts to construction projects, letting good weather months go by, then starting in the poor weather
- Poor control of subcontractors by the prime contractor, and an attitude of tolerance of poor performance subcontractors
- Disregard for inconvenience to adjacent traffic, buildings, and pedestrians
- Quality problems corrected only at the punch list completion of the facility, delaying use and occupancy.

But for the construction of a new combined elementary and high school at the Aviano Air Base in Northern Italy, the Navy took some steps to increase their odds of a successful project. The \$22 million facility will occupy on a site within the existing community area of the base, with existing buildings and, possibly, some unknown utilities and underground obstructions. The site is closely

surrounded by the base grocery store, shopping mall, post office, and other facilities with lots of automobile and foot traffic.

First, the Navy awarded an early, separate contract for the demolition of existing facilities and preparation of the site. This contract was completed prior to the main building contractor mobilizing, and the anticipated differing site condition costs and delays were handled with a much smaller contractor with lower site overhead costs.

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Second, a separate entrance for construction traffic and workers was designed into the site, which is then a separated "island" in the base. This separated construction traffic from other traffic, and saved the expense and delay of gate guards checking identification for passengers in every vehicle. (Aviano is where the U.S. launches planes enforcing the no fly zone in Kosovo; security is serious business.)

Third, the contract for the school building construction specified the project management steps the contractor must take. O'Brien Kreitzberg drafted this specification for the Navy. Particular attention is required to the planning and scheduling requirements. The specification detailed the scheduling software, the number of activities, types of activities, time for submission and approval of the schedule, monthly update and reporting requirements, and the use of the schedule as the only contract progress payment mechanism. In recognition that CPM scheduling is not common in Italy, the specification calls for the contractor to hire an outside facilitator to conduct a one week scheduling session attended by major subcontractors, the Navy, and the contractor's management, site superintendent, and project manager.

Finally, though, the contract called for payment of incentives of up to a million dollars based upon the contractor's success in managing the project. In the Federal Acquisition Regulations, this style of incentive is called an "award fee," and has several useful features. The contract sets up six milestone dates, and a maximum award fee for each milestone. The specific requirements for each milestone are defined, as are the evaluation criteria, or success factors by which a four-member award fee board will measure the degree of contractor success in meeting the requirements. The board may award all, or part, or none of the award fee for each milestone. Their decisions cannot be appealed by the contractor. To ensure the contractor has every opportunity to win the award fee, a monthly review meeting tells him the boards' view of his efforts so far.

To a degree, the board's decision is subjective, and this is important, because it drives the contractor to develop a partnering, helpful attitude toward issues that all parties know will arise. A good award fee plan uses requirements, milestones, and evaluation criteria aimed at solving the anticipated problems and challenges of the project.

Here are some of the parts of the award fee plan set out in the school contract:

Milestones

By September 10, 1998, approval by the Navy of the contractor 90 day start up CPM, site safety plan, foundation shop drawings, QC plan, register of all submittals the contractor will prepare, and environmental safety plan. Note how this addresses slow start, slow material and equipment purchasing, and safety of adjacent traffic and people.

By March 1, 1999, submittal and approval of all submittals. This is at the 30% time line of the contract.

By May 30, 2000, substantial completion to allow move in. This is one month prior to contract required completion, at which point normal liquidated damages would be assessed.

Evaluation Criteria

Professional team relations

Contractor staffing levels adequate

Contractor QC team catches rework items before Navy QA team

Subcontractors well managed

Cost effective solutions to technical problems proposed

Scheduled utility outages last only as long as scheduled

Noise, dust, and debris minimized

Impact on schedule of any needed change orders is minimized.

Note how these criteria address the expected problems of the project.

Also interesting is the fact that an award fee of up to a million dollars might double what a contractor fee might be on a project like this (say, 5%). The bid results showed that the competing bidders treated the project as a very attractive opportunity. The winning bid was \$2.8 million below the budget.

So, consider an incentive program like the award fee for contracts for the next project you have with special challenges. Incentives may not only overcome these challenges, but may actually lower the cost, improve the schedule, and build the team relations you really need and can enjoy.