

THE DEBATE ON INTERNAL PMO & PROFESSIONAL SERVICES

From inside the enterprise, Human Capital, Legal and Program Management departments are continuing to build internal capability in the hopes of reducing their dependence on external firms. In this issue, we will evaluate both sides of this topic and uncover where the real benefits lie of each approach.

The results may surprise you.

A Blue Paper by

Mathews Michaels

We are accountable to you

Summer 2011

How did we get here? We asked 50 Executives.

When you pay for services, you expect the provider to deliver value derived from expert knowledge and relevant experience from the beginning of a project to completion.

Frequently (or routinely), we see large, external consulting houses that provide experienced knowledgeable people...the first week, they then begin to substitute in their recent hires, or even contractors, for the duration of the project. In other instances, we see internal project management offices (we'll use the term IPMO) that were set up to provide efficient and effective project delivery, however these IPMOs actually provide output of lesser quality, and often at a higher overall cost than the external model the IPMO was set up to replace.

If this is your perception of the risk and/or reality of project management and staffing,
you're not alone.

As detailed in the document, our survey of decision makers in organizations such as yours will ring true with you and your peers.

If you would like us to look at a particular topic, or provide feedback on our Blue Paper, do let us know.

After all, we are building success together.

Thank You,



Bradley J. Geddes, Managing Partner

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The Beginning

“Y2K was a zillion years ago, but we are still paying for it.”

Chief Information Officer, Telecommunications

The trend to control the debauchery that was Y2K began shortly after the invoices began to arrive.

At that moment, in boardrooms and offices around the globe, executives gasped at the out-of-control spending for so-called *experts* to assist with what was described as a “one-time event”.

While being focused on growth, key executives didn’t see what was coming, nor did their subordinates. Not only did the need for more and more people for “this one time project” detonate the typical project cycle, but it in fact led to project delays and staggering cost overruns.

One of the reasons this occurred was that many of the executives from large enterprise organizations (Banking, Defense, Transportation, and Heavy Manufacturing) realized that they were all “doing the same thing at the same time” which led to a shortage of capable experts to assist when this challenge faced them. They vowed never to let this happen again.

What they didn’t know was that Y2K was just the beginning.



*This brief contains information gathered from **50** of our largest clients in Financial Services, Telecommunications, Mining, Oil & Gas and Manufacturing.*



The Creation

“Sarbanes Oxley was an event that audit firms dream about, but we knew more about Basel than they did.”

Audit Committee Executive Member

When the dust finally settled, organizations began to look at ways to manage issues internally. The standoff on who would control this was a classic example of sandbox rivalry. In one corner you had the business units looking to ensure their budgets were not pillaged the way they were during “The K”. Opposite them were internal groups lobbying for a more “managed” approach to the ongoing demand for Program (crisis) Management.

If there was a “Big Bang” on the perceived need for an Internal Program Management Office (**IPMO**), nothing could be more relevant than the challenges facing the financial services community with the Basel II Accord.

Formed by regulators, Basel II was mainly an internal housekeeping issue where the rules were laid out and largely understood by the experts inside these large financial institutions. However, the execution was beyond the current capacity of these companies.

Try as they might, the Big 8 firms could not gain the stranglehold on the financial institutions in the way they did through SOX. Why?

Simply put, the financial institutions had learned the truth about running large sensitive programs: the big 8 firms could not match the internal knowledge of the client. Clients finally realized that:

Experience is the Key; not “the Brand”.

The downside was that building such a capability eliminated the external candidness and cachet of so called credibility that external firms provide.

This is where it begins to get messy.

The Bright Idea – Or Not

“Our client.”

Brown money, corporate slang for moving money back and forth through an enterprise, wherein cost centers peel off valuable funding to create false successes, has become a serious issue among large institutions and for banking in particular. Not only is the end user not getting value for their money but this practice mainly operates with little oversight or accountability for the labour pool who is doing the actual work. What does this mean for the client?

It means you can't fire an IPMO when the job doesn't get done.

Initially, the intent was to eliminate a layer of cost (the vendor margin) and bring the accountability in-house where, in theory, oversight could ensure that the initiative was on-track. Sadly, this has proven not to be the case.

In fact, it has increased costs and brought greater risk to the project.

Instead of developing homegrown capability, and realizing the benefit of lower costs by removing the reliance on outside firms, the groups providing such “services” have basically replicated a staffing shop model (where freelance contractors perform sensitive work with little or no oversight) and in fact **ADDED** a margin on top of the staffing shop fee.

“In one word, I can describe the issue with IPMOs and that's Politics.”

Bank EVP

On a daily basis, and repeated hundreds of times a year, these internal groups broker freelance external contractors to the enterprise (their only client) for brown money.

Instead of using a flow through **OpEx** model where 100% of the “client” budget is used to attract the very best contractor for the money (simply ask an EA to perform the task of calling a staffing shop), the IPMO instead uses a **CapEx** model & stands in the middle between the staffing shops they use and the departments desperate for help (charging fees **EACH TIME** they act).

In a typical scenario, here is how it works:

IPMO Contractor Breakdown - Single Hire (multiply for each role)

Assumptions - \$100/hour budget @ 2000 annual hours.

Assumed "Client" Budget		Assumed Annual Cost (@2,000 hours)	
Hourly	\$100	Annual	\$200,000
- Less staffing shop fee	\$ 30	- Less staffing shop fee	\$ 60,000
- Less IPMO fee	\$ 20	- Less IPMO fee	\$ 40,000
Actual labour value	\$ 50	Actual labour value	\$100,000

Bottom line:

If this were a real example, moving from a CapEx to an OpEx model would enable this employer to eliminate the individual \$20/hour IPMO fee and therefore yield an INCREASE in labour value on each hire of at least,



Or, you can call in the "big guns"

The Alternative

“Call in the Big Guns.”

Yes it's true. We all like to think of large multinationals as having the answer to our problems. In the past there is every indication that it was the case. A client needs serious capability; they intend to pay for capability at their “beck & call”.

Today, however, things have changed.

A recent survey of the Global Top 50 Professional Services Firms by **Stormsearch** www.stormscape.com/inspiration/website-lists/consulting-firms, uncovered the truth about who actually performs the work after the partner makes the pitch.

According to this study, the average age of a Top 50 Professional Services firm employee is a mere 30 years old.

Ironically, according to our own client base the decision to bring in a multinational was based on a **need for experience**.

The question is why? We asked our clients to answer the following questions based on these criteria (and included IPMO) in the context of:

• • •
*The average
 age of an
 employee from
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• • •

Value

Satisfaction

Decision Process

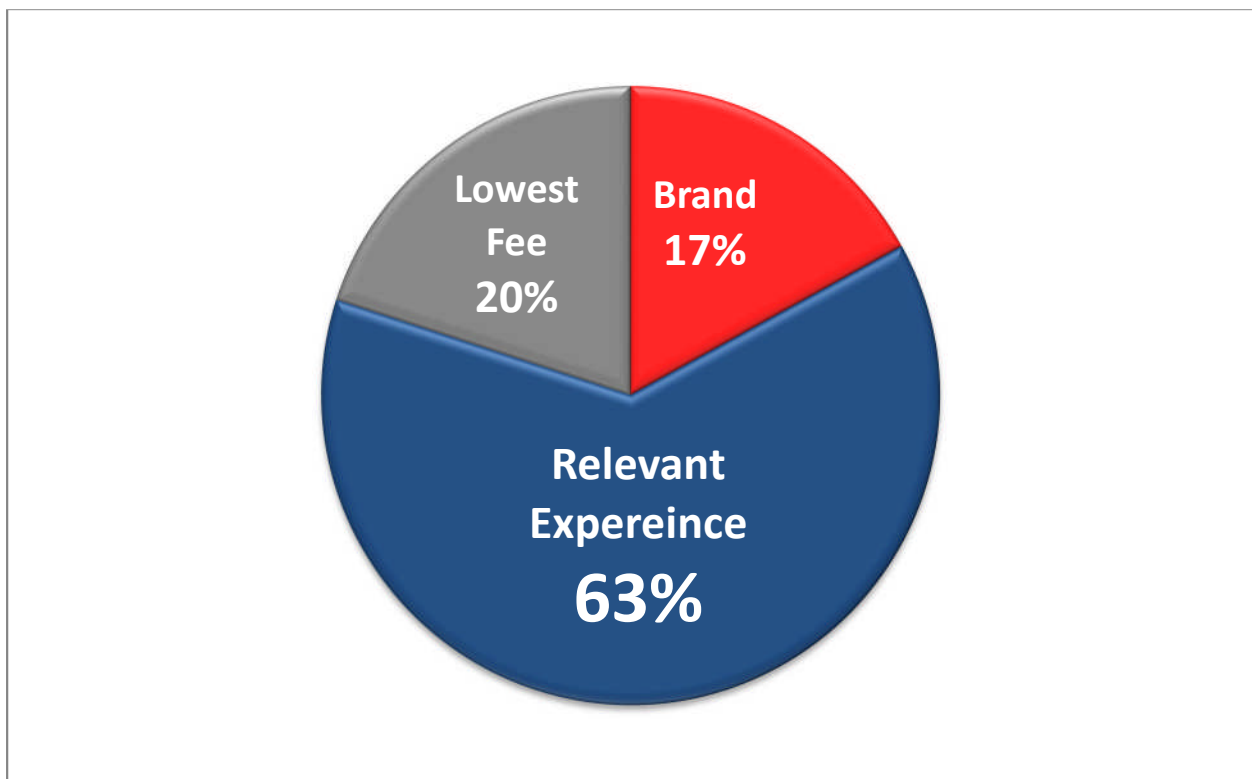
The Got'em Need'em

Question 1 – Value

Rank in order of priority or preference the following:

- a) Brand Name b) Lowest Fee c) Relevant Experience

The Result – Experience wins the day, thankfully



When talking to key clients, it quickly became obvious that the need to get the job done is more important than the business card or fee.

What was shocking was that in this case **BRAND WAS LEAST IMPORTANT.**

But there was more to this story once more questions were asked.

Question 2 – Satisfaction

Can you list the top 5 ways you measure success when using IPMOs or Firms?

The Result – Experience

The biggest reason executives venture outside for expertise is to have a measurable and accountable entity provide a professional and complete picture of the result.

In fact what is the biggest disappointment when executive place their faith in using firms and IPMOs is the overall lack of communication.

Some of the biggest concerns leaders expressed when “rolling up” a program were the usual issues you would imagine.

In order, satisfaction with a project team was defined by:

- 1) Knowledge/Experience**
- 2) Accountability**
- 3) Communication**
- 4) On Time/Budget**
- 5) Knowledge Transfer**

“Many of us at this level no longer hope for satisfaction or real completion, just coping.”

Chief Auditor

*While it's true that issues such as knowledge transfer, preparedness and budget were important, **Accountability** was close to the front of the list when measuring success.*

Question 3 – Decision Process

What was the driving force behind the decision to hire a particular firm?

- a) **Personal Preference** b) **Subordinate Influence** c) **Past Experience**

The Result – Subordinate Influence

As we already knew, most decisions related to “which firm to choose” are 1-3 layers below the actual sign-off layer.

In most cases, the common disconnect between hiring “big guns” and their actual experience on site, is not noticed by the executive providing the sign-off.

In fact:

92%

of executives we questioned, trust subordinates in making choices about professional services firms. They do this **WITHOUT** knowing if their **priority of hiring experience** is maintained for the “boots on the ground” phase of the project.

“We hire brand when we need a sign-off. We hire experience when we need to get it done. These are very different things to me.”

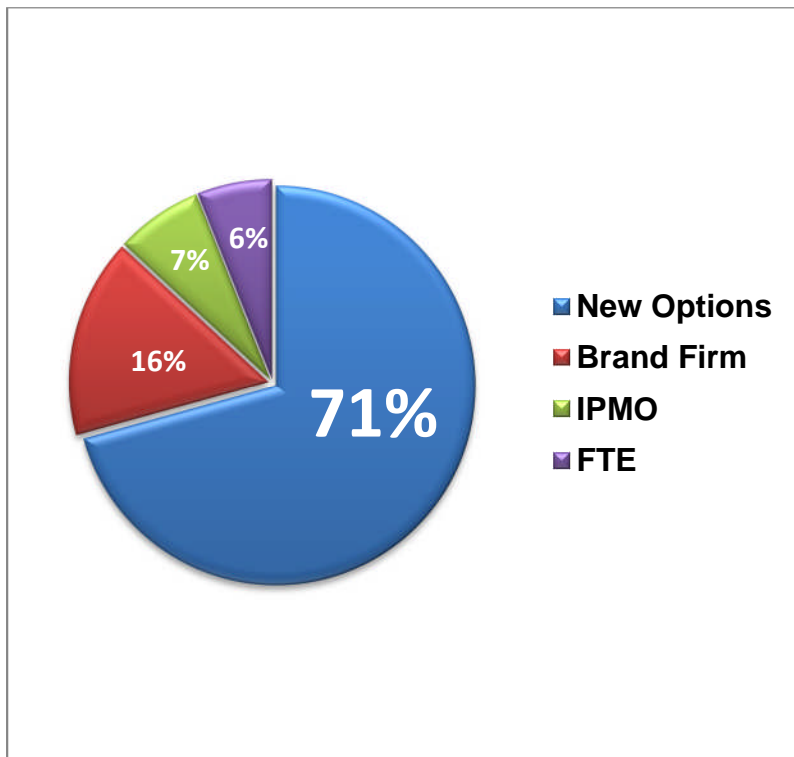
International Mining CFO

Question 4 – Gott’em Need’em

When next entering into a large or sensitive program, would you choose a brand firm, default to the IPMO or personally look at new options?

“If I could do it all over again? That’s an easy question. I would look for the best of both worlds. I want relevant experience and accountability from an external firm, at the lower cost of an IPMO.”

Steering Committee Member



71%
of executives we questioned believe they now look at options more carefully and seek the combination suited to their needs.

What now? Simply put, **change starts with you.**

Starting From Scratch

Our clients have started to **re-think** and **start over**. Here are a few things we have helped them, to exercise greater control over their projects:

The Top 5

IPMO

- 1) Insisted that the IPMO (EPMO, PMO) be staffed on a flow-through OpEx model
- 2) Empowered line managers by giving them direct access to resumes
- 3) Held back 5% of the fee to ensure smooth knowledge transfer and departure
- 4) Ensured they pay in the top quartile of the peer group
- 5) Fellow executives share & trade talent as projects moved through their lifecycle

Professional Services Firms

- 1) Set MINIMUM relevant experience levels of at least 5 years for all hands-on staff
- 2) Eliminated all additional fees beyond the hourly billing
- 3) Held firms to budget on fixed price contracts
- 4) Introduced dual (i.e. Business & I.T. group) approvals on hourly billing
- 5) Set policies forbidding events and travel not related directly to a particular project (i.e., junkets, golf, etc.)

Today, they have the control they want.

And finally, a Goodie

As you have guessed, we compiled a number of quotes through this exercise. We saved the best for last:

*“When the head of my Program came to me with the first invoice, we could not believe the firm we hired had the nerve to charge us a **10% administration fee**. Later, we uncovered that that fee was basically the wage of the consultant, leaving the other **90% for margin**. I fired them within an hour, **saved 10%** on my project, and slept really well that night.”*

Senior Vice President, Telecom

From all of us at Mathews Michaels, best success.