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## Professional Services Automation Four Breakthrough Methods to Accelerate ROI

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## >> Introduction

### Purpose

The purpose of this white paper is to explore the potential of Professional Services Automation (PSA) as a catalyst for business transformation that happens to pack a powerful return on investment (ROI).

This document will probe deeper into **"Four Breakthrough Methods to Accelerate ROI."** The emphasis will be on the interaction between mid-level managers and executives, and how they jointly address the challenges of resource and project optimization.

To keep this from becoming an academic exercise, the discovery process will take place within a fictional midsized Professional Services Organization (PSO). Please note that this PSO is completely fictitious, and any resemblance to actual companies or individuals is purely coincidental. However, the events themselves are based on the real-life experiences of Pcubed, as one of the world's largest providers of full-service project and portfolio management solutions.

Using a business scenario should make it easier to understand the motivation and drivers of key players within a company as they begin to realize the full potential of PSA, but from different management perspectives.

As the storyline proceeds, you will see how PSA helps to transform a well-intended, but under-performing services provider into one that dramatically improves bottom-line performance when it comes to cost reduction, profitability and customer satisfaction. The four PSA breakthroughs are summarized as:

- 1. Mandate for Accelerated ROI**
- 2. Optimization of Resources**
- 3. "Projectizing" the Organization**
- 4. Executive Sponsorship and the Road to Service Agility**

### Definition of the PSA Marketplace

While no single, widely accepted definition exists for PSA, the descriptions below should help to create a context for the events described in this article:

- >> **PSA enables service-oriented organizations to improve the efficiency, profitability and customer satisfaction of services delivered... and adapt more quickly to market changes.**
- >> **At an even more basic level, PSA can be thought of as putting the right people and skills in the right place at the right time... in order to deliver a valued and profitable service.**
- >> **As for its essential components, PSA generally involves the integration of resource, project and knowledge management with time and expense, project accounting, financials, reporting and analytics. Expanded to its fullest potential, PSA can also include customer and partner relationship management, opportunity management, and engagement management.**

## Background Information

As a market concept, PSA is still in its relative infancy. During the 1980's, manufacturing and other product-based organizations turned to Enterprise Resource Planning (ERP) solutions to improve their back-office efficiency. This was followed by a host of other enterprise-enabling solutions aimed at improving efficiency, costs and profitability such as Customer Relationship Management (CRM), Supply Chain Management (SCM), etc.

Over time, the attention shifted to service-based organizations that focus more on resources and service delivery, than the creation of "widgets." As a largely untapped market, the concept of Professional Services Organizations (PSO)—external service providers—attracted the attention of established software vendors. The term Professional Services Automation (PSA) was coined as a way to integrate the overall service management life cycle. In 2001, a number of large ERP vendors pursued the PSO market as a way to expand market penetration. In 2002 Microsoft announced its entry into the PSA market space. Meanwhile, several "pure play" vendors arose that developed applications aimed specifically at PSA functionality.

Not surprisingly, this assortment of vendors and messages led to some market confusion about what PSA presents and what modules are required. The one thing that rises above any confusion is a certainty that PSA will evolve to a concept that can transform both external and internal service providers alike. Already, new names are being coined to reflect this higher evolution. Some are calling it Services Process Optimization or Enterprise Services Automation, and others believe it is destined to become Project Portfolio Management. But for the purposes of this white paper, the focus will remain on PSA, and we will leave the "name game" to someone else to decide.

Without a doubt, PSA has all the appearances of becoming a fast-growth market. Annual revenues associated with PSA deployments are now closing in on the \$1 billion mark, and may even surpass \$10 billion within the next five years. This type of critical mass should help boost the confidence of borderline organizations that have held off on making a decision until now... a key factor being the current economy. The prospect of strong ROI and near-term payback are the major catalysts that should make the buy decision much easier. This white paper intends to explore many of these decision points using a storyline that should be familiar to both managers and executives, alike.

## >> Responding to Unprecedented Change

The backdrop for this article is a hypothetical, midsized services organization that rises to challenge of a tough economy, and the transformation made possible through a well-thought-out PSA solution. You are now invited to a front row seat as the storyline unfolds...

Having gone through a period of rapid growth during the mid 1990's, this services-based company clearly had its eye on becoming an industry leader. From the very beginning the CEO's vision was to hire the best available talent, and give them the personal freedom to make decisions in the field that would not only satisfy, but absolutely delight the customer.

The employees were highly motivated, and everyone put in long, hard hours because they would all reap the rewards of market leadership. Everything seemed on track until a series of unprecedented changes rocked the economy. In rapid succession came the collapse of the .com era, the 9-11 tragedy, and the threat of scandal surrounding some of the country's most prestigious companies.

With the economy reeling, client sales began to drop, but internal expenses remained high because of a deep bias against bureaucracy that went all the way up to the CEO. Unprepared for a sudden slowdown, the organization had little choice but to initiate several rounds of deep cost cutting. Before long, internal budgets were slashed; partners and suppliers had made major concessions, and no one was hired to replace staff attrition. The budget may have been balanced, but there was little margin for error.

### Trying to Regain Forward Momentum

As the market began to stabilize, the company was holding its own, but profits remained thin, and the infrastructure was trimmed to the point of becoming anemic. Having weathered the worst of the storm, the CEO felt it was time to begin retaking the offensive. The challenge he raised to everyone in the organization was: **"What can we do to make ourselves more efficient and profitable, while preserving our corporate culture, and staying at least one step ahead of our competitors?"**

Not surprisingly, the responses were all over the map. Taking this very seriously, the CEO forms a cross-functional task force to sort through the comments and summarize the results. In order of priority, he is presented the following list:

- >> **We love our freedom and creativity, but things seem to be out-of-control... we need "some" kind of structure so we can actually do what we're capable of doing.**
- >> **Our customers love us as people, but don't seem to feel the same way about our company and the services we deliver.**
- >> **We've had some serious setbacks with both client and internal initiatives, but we never seem to learn from our mistakes.**
- >> **We all deal with status reports, but no one has any real confidence in the data. Does anyone really know what's going on? This one surprises the CEO, because both staff and managers came to the same conclusion, but from very different perspectives.**

### Status Quo Is No Longer an Option

After more than a few restless nights, the CEO pulls his management team together and announces that it is time for a change. Eventually, the economy will recover, but the winners will be those that hit the ground running from the very start. **"We cannot afford to wait for things to get better, if we expect to outpace the competition and regain our momentum,"** declares the CEO.

He then outlines the criteria for moving the company forward, and he's expecting everyone to give 100% effort in making it happen. He still didn't have the final answer, but whatever strategy is chosen must come from the following mandate:

- >> **Whatever we invest in, it must have a strong ROI and a near-term payback. Given our current financial position, we simply cannot wait for three years or more to recoup our investment.**
- >> **Our people alone cannot take us into the future. I want something that makes our people better, including their talents and skills... and that improvement has to be measurable. I'm tired of "flying blind" when it comes to setting business priorities based on data that has little credibility.**
- >> **While we strive to make our people more productive, I will not bury them under a mountain of process. The quality of services we deliver means nothing, if it isn't backed by the energy and motivation of our people. This is not negotiable.**
- >> **Finally, I do not want a piecemeal solution. We are not going to buy any vendor product because it scored highest on a technical feature checklist. If we're going to buy something, it needs to be mainstream, easy to use, and affordable. And we need to make sure it can handle our company's needs for the foreseeable future... at least until we're out of the woods.**

## Pursuing Available Options

The CEO was the first to admit that their "homegrown" financial system has been stretched to the limit, and cannot support future growth. Purchasing a financial ERP system would address a number of the CEO mandates, but it would not necessarily improve people or service delivery performance other than more accurately tracking financial data. It's part of the answer, but not the complete answer.

A Customer Relationship Management (CRM) application would improve how people work together to deliver better, more profitable client services, but it still addresses only part of the bigger picture.

At this point, a new person enters into the storyline who is a mid-level manager known as Susan. Over the past several years, Susan has earned a reputation as the "go to" person, who routinely manages the best service delivery teams. On occasion, she has also been tapped to support some of the more critical internal initiatives, often sponsored by the IT Department. Taking a deep breath, she approaches the CEO and says, **"What if we shifted our thinking about service delivery, and began looking at them as "projects," but not just individual projects... a collection of highly interrelated projects?"**

## Coming to Grips with Corporate Culture

After a moment of awkward silence, the CEO tells Susan that the idea is intriguing, but how does it relate to the core mandate? Susan begins to explain that her key to success as a services delivery manager was a natural instinct for knowing when things were about to go bad. Many of her client engagements could easily have failed, if it weren't for the last-minute heroics of herself and her team. Less experienced team leaders often suffered a worse fate.

It so happens that Susan was one of the few managers to use formal project management (PM) scheduling software. Her peers were more comfortable using Excel spreadsheets to track people, cost and progress. Although she didn't make it widely known, Susan had also joined the Project Management Institute (PMI) and earned her Project Management Professional (PMP) certification. Although it pained her somewhat, she did not want close association with a small group of people who were considered "fanatics" about project management processes. Evangelizing is a good thing, but not when it drives away people who are turned off by "all or nothing" rhetoric.

Wanting to explore all viable options, the CEO had Susan make a presentation during his executive staff meeting. After explaining the benefits of an effective PM strategy, Susan could tell that the executives were losing interest. Managing "projects" makes a lot of sense at the operations level, but had little to do with running the business at the executive level. Sensing a likely defeat, Susan made one last recommendation. Although she did not know all the details, she had been researching Professional Services Automation, and its potential for delivering a strong ROI through resource and project optimization.

Talking mainly to the CFO, she says, **"What if our organization was able to standardize all of its service deliverables using proven, mainstream tools, and then seamlessly integrated PM software with a Project Accounting system that could accurately track resource utilization, time and costs across all major projects."** As a final gesture, she adds, **"And what if we could not only track billable and non-billable hours, but also the best possible allocation of our people based on availability and skills?"**

Having given it her best shot, Susan turns to leave the room. The CEO stops her in mid-stride with a simple observation, **"For the sake of our company and our clients, I think we need to look into this option."**

***This last-minute reprieve would soon trigger a sequence of events that no one could have envisioned, including Susan.***

## >> Breakthrough #1: Mandate for Accelerated ROI

Things began to happen very quickly. The CEO requested more information about PSA solutions in general, especially regarding ROI potential. He asked the CFO to look into Project Accounting software and its ability to track resource utilization, cost, revenue and profitability across both external and internal service-driven projects. Susan was tasked to better understand project management tools, integration, and support of PM process. All of the original mandates were kept intact, and a follow-up meeting was scheduled for three weeks later.

### Building a Foundation for Return on Investment

Being a relatively young field, PSA success stories were not overly abundant. Most of the known deployments fell into one of two categories: small to mid-sized service organizations that were flexible enough to implement enterprise solutions using a single PSA vendor product or suite of products, and (2) larger organizations that implemented PSA within specific departments or groups. In either case, at least half of the adopting organizations were geared to support internal services. As a tribute to the growing popularity of PSA, the number of internally focused users could reach up to 70% of the total PSA market. This trend made a convincing argument for targeting both external and internal services within the PSO organization.

While other people began building a business case for resource and project optimization, the CFO's primary concern was documenting the potential for accelerated ROI. Without compelling evidence for near-term payback, the CEO would not be able to justify the investment given the current economy and thin profit margins. After researching PSA, vendor performance, and available client case studies, the CFO summarized his findings:

- >> **At the top of the list was the finding that many PSA deployments have been able to realize an annualized ROI that often exceeds 90%, which is quite impressive.**
- >> **Even more encouraging is the potential for near-term payback, which for many PSA deployments has occurred within six months. However, this should be tempered with the realization that true business transformation may take one to three years to address and overcome internal cultural issues. To the CFO, the first point was the only one that really counts.**
- >> **Another important factor was the reports of increased resource utilization that can average between 2% and 5% with consulting-like services often approaching 10%. A number of PSA clients believed that they could have recouped their investment with even a 1% improvement in resource efficiency.**

Since project management is an integral part of any PSA solution, the CFO also decided to look into ROI from that perspective. For one thing, project management has been around longer than PSA, so finding measurable benefits proved to be less challenging. The following information was included in his ROI report:

- >> **PMI research into PM best practices has shown that the speed to market in large, "projectized" organizations can be reduced by as much as 60%, while reducing development costs, and improving quality.**
- >> **Market research analysis has consistently shown that more than half of all projects are seriously challenged, over budget and schedule, and fail to meet stakeholder expectations.**
- >> **The project failure rate consistently falls within the 20% to 30% range, mainly due to poor project management practices. A compilation of market research studies shows the following performance trends, especially as they relate to technology-enabled projects: project cost overruns vs. original estimate (140% to 180%); project schedule overruns (160% to 200%); and project feature retention (60% to 85%). In the real world, these findings can vary significantly depending on size of the organization and type of projects. [For Example: A cost overrun of 150% on a \$100,000 project would result in a final cost of \$150,000.]**

While additional research was available, the CEO saw enough to be convinced that his mandate for accelerated ROI was well within reach. What he now wanted was a realistic game plan that would ensure both resource and project optimization. Too often the promise of ROI slips away because management failed to assess the true business and resource requirements of a "technical" solution. This sets the stage for the next series of breakthroughs.

## >> Breakthrough #2: Optimization of Resources

The CEO knew from past experiences that getting the most out of its people resources would be a serious challenge. On one hand, the CFO was attracted to the financial side of the PSA equation. Being able to accurately track time and expense of all people across all projects, including billable and non-billable hours, was a powerful incentive. This would not only lead to greater resource efficiency and utilization, but opens the possibility of forecasting cost, revenue and even profit down to the project level. Trying to balance the allocation of limited resources, time and funding has always been difficult in the past.

On the other hand, this approach would require that everyone in the organization fill out time sheets on a regular basis... with no exceptions. That cuts deeply into the cultural taboo of restricting individual freedom and creativity. After long, hard deliberation, the CEO was convinced that he could win over the support of staff and managers alike, if they understood that this was vital for the financial stability of the organization. With improved financial performance comes the prospect of larger bonuses and salary increases. In the long run, employees only needed to know why the time sheets were necessary.

### Beyond Traditional Resource Management

Project management has long been associated with delivering projects on time and within budget. Since people-related costs often lead to at least 75% of total project expenses, the tracking of resource utilization only makes sense. Unfortunately, many organizations are not very adept at coming up with original baseline estimates of project time and cost. As a result, trying to forecast the remaining time and budget to complete a project becomes more guesswork than science.

One of the benefits of PSA is the focus on skills-based resource management across multiple projects. This added dimension takes the emphasis off of individual headcount, and looks at the bigger picture. You want to know not only how many resources are supporting any given project, but also what kind of skills are being allocated across multiple, related projects. As a by-product, you can also find what skills are still available to staff new or proposed projects. There is a profound difference between "best available" and "best fit" when it comes to project resources.

### Prevent Over-allocation of Your Best Resources

From past encounters, Susan knows the value of having the right people on the right projects. On highly successful projects, you almost always find two key players: (1) the project manager, who keeps everything on track by anticipating problems before they happen, and (2) the all-important Subject Matter Expert (SME). An SME is someone whose knowledge transcends that of his or her peers, and can make or break a project. These people are almost always in high demand, and crafty managers tend to hoard these resources as if they were worth their weight in gold.

Unfortunately, SMEs often find themselves seriously over-booked because everyone wants a piece of their time. The net result goes down one of three paths: (1) the SME doesn't stay in one place long enough to do their magic; (2) strategic projects that lack the clout to snare an SME may spiral out of control, or (3) the SME eventually burns out, and accepts an offer from another company willing to pay handsomely for that unique talent. A good PSA solution not only tracks your best skilled people, but can also do "what if" scenarios about assigning them to other priority initiatives.

### Project Collaboration Takes on New Meaning

Optimizing individual people can only take an organization so far. Effective collaboration tools can dramatically improve knowledge sharing within and across projects. What was once limited to email and chat rooms, collaboration tools are quickly moving into the mainstream of corporate strategy. In building her business case for resource optimization, Susan noted the following advantages of a PSA solution:

**>> Project Team Assignments and Task Reporting.** As PM tools continue to evolve, not every team member needs (or should have) access to the total project scheduling plan. Today, web-based technologies allow team members to only view the work they need to accomplish, and report on daily or weekly progress back to the project manager. This not only limits information overload, but also significantly reduces the overall cost of PM software, IT support, user training, and redundant data entry.

>> **Automatic Email Alerts and Notifications.** If you can establish a threshold on any kind of project metric or event, you can, in theory, program an automatic email notification to any stakeholder who has a vested interest in that situation. For example, if you have put a 15% threshold on cost and budget performance, the system can send an automatic early warning alert to the project manager and sponsor.

>> **Web-based Repositories for Project Documents.** In the past, Susan often had up to 100 or more project documents sitting in her computer's hard drive. Great for her, but essentially useless to anyone else. Through PSA, web sites can be easily created for individual projects that capture all documents worth sharing: charters, project plans, issues, risks, status reports, reference documents, etc. Any authorized person, including clients, sponsors, executives and partners, can access these documents using keyword searches.

There are numerous other examples of how web-based and document management technologies can revolutionize project collaboration, but this should help in exploring the many possibilities. A final point worth noting is the idea of creating standard customer satisfaction surveys. The trick is to keep it simple (no more than five to 10 questions, and update the survey at various points in the project life cycle. Quickly respond to trends, and include the survey metrics in formal "lessons learned" at the end of the project.

***Having established the boundaries for ROI and resource optimization, the attention is now turned to investigating the proposed role and benefits of PM within the organization.***

## >> Breakthrough #3: "Projectizing" the Organization

On any busy street corner you may find an evangelist declaring that all work should be project work. Much of this evangelism can be credited to the Project Management Institute (PMI). As the leading global professional association in project management, PMI has witnessed extraordinary growth over the past decade. Today, there are more than 100,000 PMI members worldwide in 125 countries, and its Project Management Professional (PMP) certification program has earned ISO 9001 status and international acceptance as an industry standard for PM excellence.

With that said, not everyone has accepted the notion that service-intensive organizations by their very nature are project-intensive. Similar to the company being profiled in this white paper, PM support is often strongest at the grassroots level, and the full potential of PSA simply cannot be realized at that level. Susan was firmly convinced of that truth. Her challenge is convincing her peers and senior management that PM needs to become a core competency across the entire organization.

Even the CEO, who was leaning heavily toward supporting PSA, struggled when it came to elevating PM as a core competency. To break down resistance at the executive and mid-management levels, the CEO wanted something tangible... something compelling enough that it could not be ignored. And the CEO had no idea what that might be. For Susan, this was about to become a defining moment in her career, when all the pieces began coming together.

### The Key to Understanding PM Competency

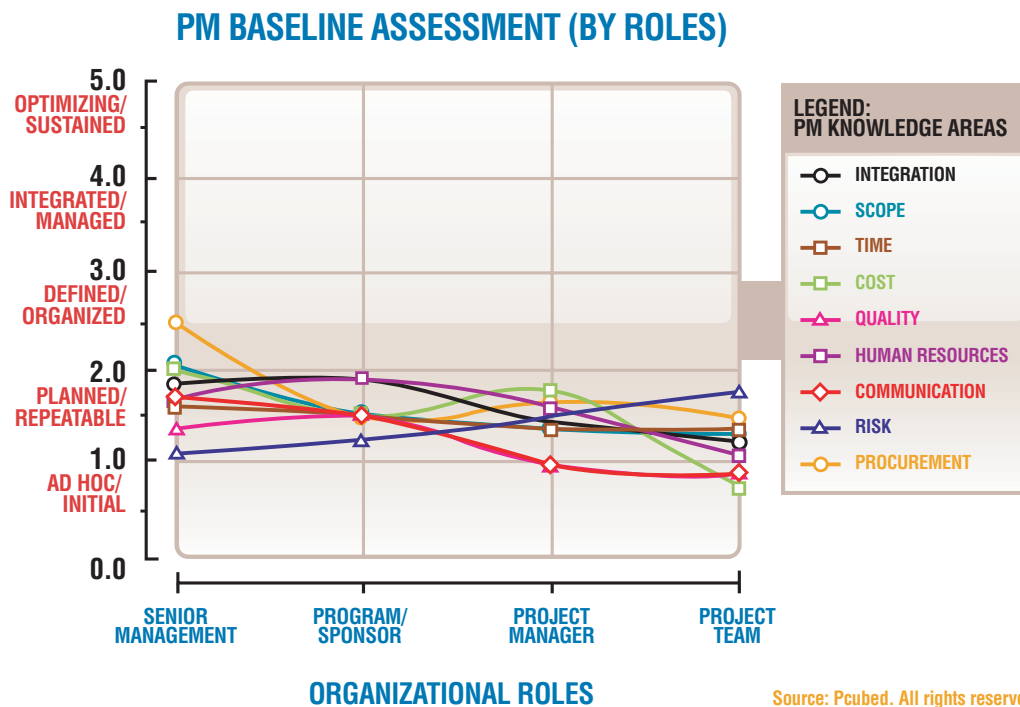
Susan recalled reading about PM Maturity Assessments, and using them to benchmark the organization's overall PM capability. She found a qualified PM consulting firm that agreed to conduct an Assessment using a standardized survey. What sold the CEO was the reliance on known standards that would give him the credibility he was seeking:

- >> **Adherence to a De Facto CMM Framework.** Back in the early 1990's, the Software Engineering Institute (SEI) and Carnegie Mellon University developed a Capability Maturity Model (CMM) for measuring software development competency. This model provides a wealth of information about each of the five CMM levels, and what is required to move from one stage to another. Numerous other disciplines have since adopted this framework, including the field of project management. Although some variation exists, the five levels (from lowest to highest) are commonly known as: (1) Ad hoc/Initial; (2) Planned/Repeatable; (3) Defined/Organized; (4) Integrated/Managed, and (5) Optimized/Sustained.
- >> **Alignment with PMI's PMBOK® Nine Knowledge Areas.** PMI's Project Management Body of Knowledge (PMBOK®) Guide is a globally recognized standard for PM professionals and has been approved by the American National Standards Institute (ANSI). The nine knowledge areas advocated by this guide offer a proven framework for understanding the depth and breadth of project management. They include: Integration, scope, time, cost, quality, human resources, communication, risk, and procurement.
- >> **Alignment with PMI's Project Management Life Cycle.** Another widely accepted PMI standard is the Project Management Life Cycle, which includes five primary phases: Initiating, Planning, Executing, Controlling, and Closing. Again, there is substantial documentation available on what occurs within each phase, and the relationship that exists between phases.

### Conducting a PM Maturity Assessment

A series of interviews were planned that would survey four levels of the organization: Senior Management, Program/Sponsors, Project Managers, and Project Team Members. Based on the standards mentioned above, all survey results were then summarized and displayed in a graphical format that could be easily evaluated. The consulting firm then presented these findings to the CEO and his direct reports, while Susan facilitated the meeting. What they learned, played a key role in mobilizing support for PSA across the organization:

- >> **The Organization Is Firmly Entrenched at CMM Level 1.** Since CMM Level 1 is the lowest level of PM maturity, this was initially distressing to hear. The wake-up call came when they realized that the vast majority of all organizations (estimated at 75% or higher) share the same distinction of being at Level 1. Note: What complicates this picture are the number of organizations, who "believe" they have already achieved Level 2 or 3... and are making flawed business decisions based on that assumption. On a positive note, the CEO and his team gained valuable insights into the impact that higher PM maturity levels can have on the enterprise as a whole. As a final deliverable, the consulting firm provided specific action steps that would help the organization move from a Level 1 to Level 2 maturity.



**Figure 1.0: PM Maturity Assessment.**

This graphic shows the distribution of survey results at different levels of the organization, based on a standard CMM model and PMI PMBOK's® Nine Knowledge Areas.

- >> **Perception vs. Reality.** Another surprise that came out of the PM assessment was the perception gaps that existed between the different levels of management. Senior managers tended to be more optimistic about specific PM skills, but the reality of life at the project team level left little room for false optimism. The biggest lesson learned was that executives were making key business decisions based on less-than-accurate perceptions about project performance. Closing that gap in critical areas such as people, communication, and risk management became a top priority for the CEO.
- >> **An Unbreakable Rule.** Improving PM maturity comes with its own golden rule. No matter how much money, time and training is invested, you cannot leapfrog CMM levels. A Level 1 organization cannot aspire to become a Level 3 paler without first adapting its culture, people and process to a Level 2 mentality. Learning to walk before you run is always the best policy, especially when carrying scissors. Fewer people get hurt, including yourself.

## A Holistic Approach to PM Process

The hallmark of PM Level 2 maturity is planned and repeatable project performance. Individual heroics and working harder can only take you so far. By now, the CEO admits the need for more uniform process, but he is adamant about one condition. **"I will mandate process for the good of our company and clients,"** he declares, **"but only if it helps to empower our people, and not stifle them."**

After a number of brainstorming sessions, Susan came up with a bold plan that broke away from conventional wisdom about PM processes. At first, the process advocates felt her plan did not go far enough, while the process-adverse skeptics felt it clearly went too far. Drawing courage from the CEO's support, Susan unveiled a "big picture" plan for process improvement. The key components of the plan are outlined below:

- >> **The 80/20 Rule of PM Process Adoption.** Since PM scheduling tools and processes were not consistently used in the past, Susan recommended a handful of core PM processes that would have the greatest near-term impact without overloading the project teams. As project team bandwidth and maturity improved, more detailed process could be introduced. The core processes were identified as: (1) standard project status reports targeted specifically to executives and program/project managers; (2) issues tracking with a formal

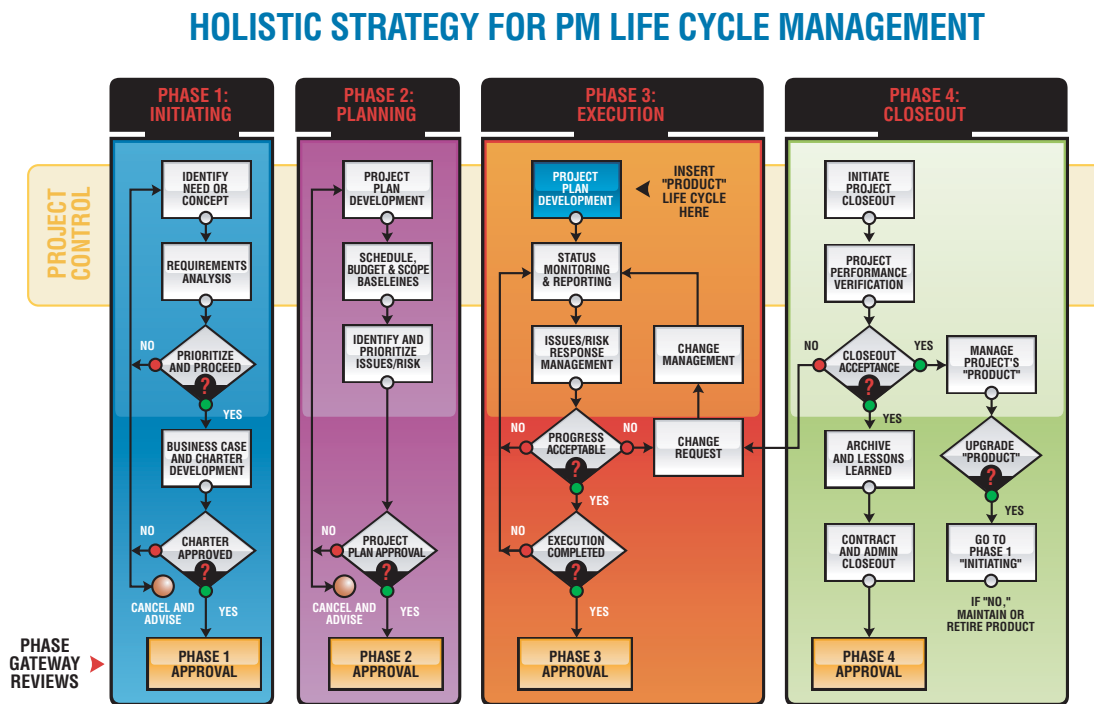
escalation process for serious, unresolved issues; (3) risk tracking with approved contingency plan outlines for all high probability/high severity project risks; and (4) formal change control linked to project schedule and budget baselines.

**Note:** The fourth process mentioned above had significant implications. First, project managers would have to be trained how to create realistic budget and schedule baselines early in the PM life cycle that would become the measuring stick for variances throughout the remainder of the project. Consistent tracking of time and cost variances trigger many of the analytics used to support executive decision-making. If this process fails, there is a direct impact on PSA benefits and the ability to document accelerated ROI.

>> **Management of the PM (Service) Life Cycle.** This strategy took a little more imagination, because it was really aimed at the collective role of project managers, sponsors and senior management. Rather than micro-managing process at the project level, the emphasis would shift to formal gateway reviews and approvals at the end of each PM life cycle phase. The core processes mentioned earlier would be embedded in this holistic model. Project sponsors would then be held "accountable" for approving each gateway, before project managers could aggressively move to the next phase. (Note: This acknowledges that managing PM life cycle phases tend to be an iterative process with some overlap expected.)

Rather than having project teams memorize process manuals, everyone in the organization, including management, would become familiar with this "big picture" model (see Figure 2.0). While this may appear deceptively simple on the surface, there are many business implications involved:

▮▮ This model can be embedded as a standard template in all future project schedules (as part of the Work Breakdown Structure or WBS). Each gateway approval becomes a major project milestone that can be tracked and analyzed at any level of the organization (e.g., how many projects are more than 20% behind schedule at the end of Planning Phase, or how many projects were proactively cancelled early vs. late in the life cycle when significant resources/budget have already been spent... and why?).



**Figure 2.0: Standardized PM Life Cycle.**

This life cycle model aligns closely with PM best practices, while providing the flexibility to support virtually any type of services-intensive project.

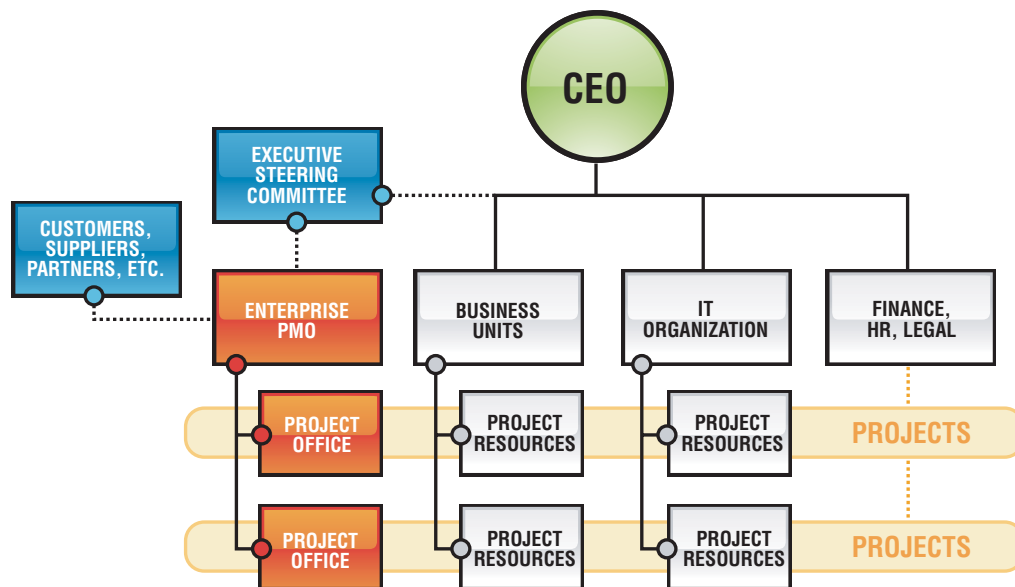
▮▮ Not all projects are created equal, including the final end deliverable (whether it be a billable client service or an internal support service). The process that focuses on creation of the end deliverable is typically referred to as the "Product" (or Service) Life Cycle.

For enterprise-wide consistency, all projects use the PM Life Cycle umbrella (Initiating, Planning, Executing, and Closing). A standardized "Product" Life Cycle can then be inserted into the start of the "Execution" phase. Again, the implications cannot be understated. Adherence to proven PM process is not only built into every project schedule, but its effectiveness is also validated as part of the Gateway Management reviews that are conducted by project sponsors. The CEO was also convinced that there were probably no more than half a dozen or so primary "Product" Life Cycle models that would support virtually all proposed projects (e.g., systems development, Six Sigma or other quality-driven models, industry-specific models, etc.).

- ▶▶ This macro strategy should also lend visibility to project management as a core competency across the organization. At the same time, PSA tools will support the roll-up and drill-down of project, resource and financial data at any level of the enterprise. A gateway management structure can even extend that analysis down to the PM life cycle level and beyond. This degree of visibility to performance and financial data was unimaginable in the past. As an added benefit, the performance trends within and across projects can be used to pinpoint where additional staff training may be required. In all the above actions, the goal is to become more proactive, and quickly respond to early warning alerts as they arise.

## A "Projectized" Organizational Model

Now that the key components are falling into place, the last major point of business was to decide what kind of organizational structure would help to ensure accelerated and prolonged ROI. As discussed earlier, one of the principle goals of PSA is resource optimization across multiple projects. What the CEO and Susan were now brainstorming is the future organizational model that would deliver performance results without adding a new layer of unwanted bureaucracy.



**Figure 3.0: A "Projectized" Organizational Model.**

This diagram shows how a "project" mindset can be embedded in the corporate culture, including strong executive sponsorship.

After reviewing and discarding a number of options, they finally settled on a design that was aimed more at the needs of executives than the day-to-day management of projects. Once again, the business implications were fairly profound. The idea centered on the creation of an Enterprise Program Management Office (PMO), and one or more smaller Project Offices that supported specific areas within the organization. Overall PSA objectives were used to guide the roles and responsibilities, but the key factors involved:

### >> Enterprise PMO

The primary mandate of this small, but experienced group of professionals (no more than three to five people) would be to facilitate and help executives make timely, accurate decisions. This includes the alignment of all service-related projects with corporate business objectives. The PMO's role is almost entirely proactive with the mandate to stay one step ahead of project trends and executive needs. Key responsibilities would include the following:

- ▶▶ The PMO establishes project standards, including performance thresholds linked to project schedules, budgets, scope, and resource allocation. Once these thresholds were established, attention would shift to early warning signs of trouble that thresholds were about to be breached.
- ▶▶ The PMO ensures the timeliness, accuracy and integrity of executive-level reports that summarized project performance metrics. Should any given trend pose a threat to key business objectives, the PMO would prepare a list of available options so that busy executives could quickly zero in on a preferred course of action.
- ▶▶ Close attention will also be given to resource optimization across the organization. This includes resource bottlenecks, a shortage of critical resource skills, and the over-allocation of subject matter experts. PSA tools would be used to perform "what if" scenarios in reallocating key resources based on business priorities, and evaluating training needs to meet forecasted project requirements.
- ▶▶ The PMO manages the formal escalation of serious issues that could not be resolved by project/program managers or sponsors. On a regularly scheduled basis, these issues would be prioritized and presented to an executive steering committee for timely response. Most importantly, the PMO would provide a limited number of proposed actions with enough detail that the executives could focus on a definitive response, rather than an open-ended discussion of what should be considered.
- ▶▶ Serious project risks should also be regularly addressed at the executive level, including the review and timely approval of proposed contingency plans. The PMO would be responsible for proposing well-defined options, so that executives could focus on the implications of what will take place should the threat actually occur.
- ▶▶ There are many other options and possible responsibilities for an Enterprise PMO, including the training agenda for PM "best practices" and mentoring of project managers and sponsors. Additionally, the PMO can serve as an effective bridge to external project stakeholders, including customers, partners, suppliers, regulatory agencies and any other outside entity that has a vested interest in the success (or potential failure) of service delivery.

## >> Project Offices

While the Enterprise PMO focuses on executive and enterprise-level needs, the Project Office (usually not more than two to four people) has a more hands-on, operational focus. It oversees the timeliness and accuracy of project status reports within its domain, but leaves much of the interpretation to the Enterprise PMO. The Project Office makes sure that the performance and quality standards advocated by the Enterprise PMO are effectively deployed in the field, and often assists in the actual training and mentoring of project managers and team members. In general, the Project Office can provide an ideal grooming ground for high-potential project managers, who can benefit from the experience of rising one step beyond the tactical demands of daily project management.

***Having worked through much of the planning for resource and project optimization, the final breakthrough is now ready to be addressed: the all-important role of executive sponsorship in achieving the desired financial and business benefits of a PSA solution.***

## >> Breakthrough #4: Executive Sponsorship and the Road to Service Agility

The storyline used in this white paper had the CEO playing a central role from the very beginning of a PSA strategy. In the real world, any number of executives could have stepped forward to serve as the champion, but one thing is clear... without executive backing you realize cost reductions and process efficiencies, but business transformation and accelerated ROI are far less certain. Keep in mind the ultimate goal of PSA is to measurably improve costs, profitability and customer loyalty. What you get in return is service agility and the ability to respond quickly to market changes, whether it involves the economy, disruptive technologies, competition, global events or internal obstacles. The CEO in this white paper did many of the right things for the right reasons. He demanded strong financial return on investment... he wanted to preserve a people-oriented culture... he was willing to mandate consistent process, but only if it benefited the people, organization and the end customer... and he was willing to drive organizational change as part of the business transformation. Finally, he was receptive to the insights and experience of a mid-level manager like Susan. Most of the breakthroughs discussed came as a result of collaboration between executives and managers. Neither one could have attained the final results on their own.

While introducing a game-changing strategy such as PSA can take a lot of energy, sustaining the commitment over time becomes the real challenge. Below are some recommendations that can help to ensure a steady ROI and continuous improvement over the years.

### Importance of an Executive Steering Committee

PSA strives to improve resource utilization and performance across multiple projects. In effect, PSA looks to manage a portfolio of service-oriented projects, whether they are external or internally driven. Clearly, that becomes the responsibility of senior executives, and the best vehicle for making this happen is an executive steering committee. Examples of key roles include:

- >> **Identification, selection and prioritization projects based on alignment with current business objectives.**
- >> **Acting as the third and highest tier of a project issues escalation process, as well as the review and approval of contingency plans for serious risks. Many projects fail (or never live up to expectations) because the burden of responding to issues and risks were never lifted from the shoulders of the project manager. On a related topic, one of the underlying reasons for flawed ERP implementations is that executives often have a "blind spot" in being willing to recognize, accept, and plan for known risks.**
- >> **Based on trending and analysis from the Enterprise PMO, executives should routinely evaluate the health of the project portfolio. Possible actions include: maintain, rescue, accelerate, consolidate, de-prioritize, or even kill projects. Criteria for proactively terminating projects can be: conflicting, redundant, out-of-control, or irrelevant projects that no longer support business priorities.**

### Other Benefits from Executive Support

Beyond what was described in this document, executive sponsorship can lead to other important, but less obvious benefits that deserve mentioning:

- >> **The staffing of a PMO and possibly one or more Project Offices requires additional headcount beyond the current organization. From a justification viewpoint, the resource efficiencies that are realized across all projects should easily compensate for any added costs.**
- >> **More progressive organizations have already been looking at PMOs and Project Offices as a formal grooming ground for future management. Understanding the inner workings of projects and services can add a dimension of professionalism often lost when bright young people are promoted solely on performance and initiative. Taken to the extreme, a savvy CEO might even mandate a six-month tour of duty on the Enterprise PMO as a condition for reaching the most senior management positions. This could have a profound impact on the organization's culture over time.**
- >> **PSO organizations that want to really push the envelope have created a new executive position known as the Chief Program Officer (CPO). Such a move would elevate the visibility of an Enterprise PMO as an equal among the CFO, CIO, COO, etc. The CPO would chair the executive steering committee, and guarantee a strong top-down chain of command from the PMO to Project Offices, programs and individual projects. This structure would also be a key enabler for true enterprise project portfolio management.**

## >> Conclusion

This white paper was designed to explore the potential of Professional Services Automation (PSA)... or whatever name is being used to describe its capabilities. While the organization and people depicted in the storyline are strictly fictional, the events themselves were shaped by Pcubed's field experiences as a global provider of project and portfolio management solutions. As they say, sometimes fact is stranger than fiction. One of the goals in preparing this document was to challenge conventional thinking and help organizations realize that simply purchasing software will never solve a business problem or lead to business transformation.

While PSA strives to move beyond individual heroics at the project level, it often takes the heroic efforts of a few highly motivated people to drive change through an organization. However, if you can get past the political, technical and cultural barriers, the potential rewards of PSA can be extraordinary. Accelerated ROI is possible because it touches on the very lifeblood of a services-based organization. Once put in motion the following chain reaction can eventually become self-sustaining, but only if executive sponsorship remains strong:

- >> **Optimization of skilled resources is the foundation of successful projects.**
- >> **Optimization of multiple, related projects leads to successful service delivery.**
- >> **A projectized organization ensures the delivery of valued and profitable services.**

## Taking the Next Step

If you agree that PSA deserves to be more fully explored within your own organization, there are several near-term steps that can be taken:

- >> **Investigate standardizing on one mainstream project management tool. PSA is driven by visibility into the organization, and you can only get consistent performance data if you use the right tools.**
- >> **Conduct a PM Maturity Assessment to better understand your organization's PM competency. You will probably need outside assistance from a PM consulting-like firm for several reasons: neutrality; proven knowledge of PM and assessment tools; analysis of survey results, and valid recommendations for improvement.**
- >> **Consider a high-level evaluation of your project portfolio of services. Hint: Identifying what should even be included in the portfolio may be a bigger challenge than you think. You will need a standard set of criteria for evaluating each project, and a game plan for evaluating the results. This can be an eye-opening experience.**
- >> **Evaluate technology and infrastructure requirements for a PSA solution. A couple of factors to consider: leverage your existing IT investment wherever possible; ease of integration; ease of use; user training; IT support requirements.**

## For Additional Information

If you would like to know more about pursuing PSA or taking next-step actions within your own organization, please refer to the contact information shown below.

### Microsoft Business Solutions

<http://www.microsoft.com/BusinessSolutions/PSorgs>



### Pcubed

<http://www.pcubed.com>

## About the Author

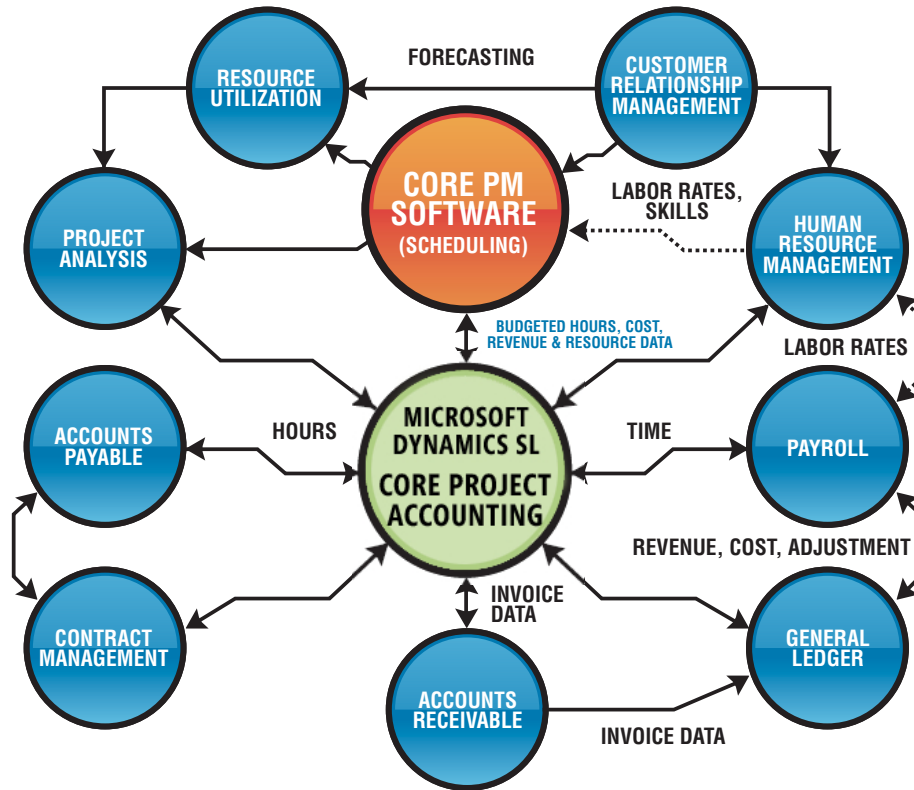


**Allen Chapel** is a certified Project Management Professional (PMP) with more than 20 years of experience in systems integration and PM consulting, marketing, and operational strategy. Since joining Pcubed in 1998, Allen has served as a Senior Solutions Consultant, advising client sponsors on enterprise project and portfolio management solutions. Mr. Chapel also provides strategic market planning for Pcubed, and its role as an Enterprise Premier Solutions Partner for Microsoft Project. Other recent Microsoft Webcasts featuring Mr. Chapel, include: "Where It All Comes Together: The Business Value of Enterprise Project Management (January 2003)."

## >> Attachment A: High Level PSA Systems Overview

The diagram shown below takes a generic look at PSA without trying to include every possible variation. Some vendors promote a single application, while others offer multiple modules or rely on third-party modules to handle specific functionality. Once again, this diagram is for reference and educational purposes only.

### HIGH LEVEL PSA RELATIONSHIP MAP



**Figure 4.0: PSA Relationship Map.**

This provides a high-level summary of key PSA components.

## >> Attachment B: Essential PSA Business Benefits

This list represents a high level summary of business benefits that can be realized from an effective PSA implementation.

### 1. Cost Reduction

Typically, this shows up at the top of the list for service organizations looking to implement PSA solutions. Much of these reductions come from automating core business processes, improved invoicing, reduced administrative costs, and better resource time and expense tracking. The ability to minimize unnecessary costs during difficult economic times is not just an ROI issue, but also one of market survival.

### 2. Revenue and Profitability

This also routinely shows up at the top of the list for investing in PSA solutions. These benefits largely result from more effective resource utilization, which creates the best alignment of people and skills with service delivery, leading to customer satisfaction and repeat business. Some organizations have already reported annualized ROI of 90% or more on PSA deployments. In fact, payback can often occur within six months depending on the size and complexity of PSA deployment.

### 3. Visibility into the Organization

More timely and accurate access to resource and project data can significantly improve executive decision-making (e.g., prioritization of strategic services, projects, resources, and funding). Improved visibility also enables operational and project managers to optimize resources, while improving on-time and on-budget delivery. For many clients, this factor proves more rewarding than originally anticipated.

### 4. Increased Resource Utilization

Simply having an effective time and expense capture of resource usage can deliver significant benefits. Moving from "best fit" to "best available" use of resources is where PSA solutions help to create real business value. Better alignment of people and skills to billable (and non-billable) "projects" can often result in improved resource utilization averaging 2% to 5% with consulting services achieving upwards of 10%.

### 5. Process Improvement Across the Service Life Cycle

In highly "projectized" organizations, market research has shown that time to market can be reduced by as much as 50% or more, while reducing development costs and improving quality. Many of these benefits come from the tighter integration of project-related planning, scheduling and invoicing.

### 6. Greater Customer Satisfaction and Loyalty

Improved efficiencies and productivity have little meaning if the end customer is unhappy. Maintaining service quality and effective client collaboration throughout the service life cycle ultimately lead to customer loyalty and repeat business – the hallmarks of a successful services organization. Ongoing measurement of client satisfaction should be built into any PSA strategy.

### 7. Reduced Billing Cycle Time

Service organizations can significantly lower financing costs through reduced billing cycle times. A well-conceived PSA solution can automatically calculate resource time and expense and allocate them to real-time project schedules and client invoicing. Streamlining this process contributes directly to bottom-line ROI results.

### 8. Minimize Revenue Leakage

A surprising amount of revenue can be lost through "revenue leakage," which focuses on the errors, incomplete or lost paperwork that results when manual entry or separate systems are required to invoice clients for services. This includes accurate invoicing for all time expended on a service-related project; invoice or chargeback for services delivered; and invoices for equipment or material used on a project.

### 9. Leverage Technology Standards

Providing an end-to-end PSA solution that supports both internal and externally focused services can benefit greatly from an integrated IT architecture. This includes systems that easily share data for tracking and in-depth analysis throughout the services management life cycle. Purchasing "best of breed" PSA modules that are not designed to support transparency of data sharing can lead to increased IT support, maintenance and product upgrade costs.

### 10. Overall Service Agility

Last, but not least. By combining resource and project management optimization with improved executive decision-making, service organizations can focus on continuous process improvement and adapting more quickly to market changes. Service agility may not be easily measured in terms of ROI, but it plays a critical role in market positioning and responsiveness to change.



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### **Microsoft Business Solutions**

One Lone Tree Road  
Fargo, ND 58104-3911  
E-Mail: [mgpinfo@microsoft.com](mailto:mgpinfo@microsoft.com)  
Phone: (888) 477-7989  
Fax: (701) 281-6868

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